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Agenda

Governance and Audit Committee

Date: Thursday, 26 January 2023

Time: 5.00 pm

Venue: Council Chambers- Hybrid Meeting

To: Mr. G.Chapman, (Chair), Mr D. Reed (Deputy Chair), Dr N. Barry, Councillors R Mogford, J Jordan, S Cocks, J. Harris and G. Horton.

Item		Wards Affected
1	Apologies for Absence	
2	Declarations of Interest	
3	Minutes of the Last Meeting *(Pages 3 - 16)*	
4	Call In the Director of Environment & Sustainability and Head of Service re the PTU Taxi Contracts resulting in a Second Unsatisfactory Opinion *(Pages 17 - 40)*	
5	Update on Call in of Director of Social Services and Head of Service re the internal Audit of Adoption Allowances resulting in a Second Unsatisfactory Opinion- October Committee 2022 Verbal Update from the Chief Internal Auditor	
6	Corporate Risk Register (Quarter 2) *(Pages 41 - 86)*	
7	Audit Wales and Regulatory Bodies 6-month update *(Pages 87 - 144)*	
8	Internal Audit Plan - Progress (Quarter 3) *(Pages 145 - 162)*	
9	Waiving of Contract Standing Orders: Quarterly report reviewing Urgent decisions or Waiving Contract SOs (Quarter 3, October to December) *(Pages 163 - 184)*	
10	Draft Capital & Treasury Management Strategy *(Pages 185 - 246)*	
11	Statement of Accounts 2021-22 *(Pages 247 - 418)*	

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Date of Issue: Thursday, 19 January 2023

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

12 Audit of Financial Statements Report 2021/22 *(Pages 419 - 462)*

13 Draft Work Programme *(Pages 463 - 466)*

14 Date of Next Meeting
30 March 2023 at 5pm

NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Draft Minutes

Governance and Audit Committee

Date: 27 October 2022

Time: 5:00pm

Venue: Council Chambers- Hybrid Meeting

Present: Mr G. Chapman (Chair), Dr. N. Barry, Mr D. Reed.
Councillors J. Jordan, G. Horton, R. Mogford and S. Cocks

In attendance: Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Jan Furtek (Audit Manager), Gareth Lucey (Audit Wales), Paul Flint (Performance & Risk Business Partner), Tracy McKim (Head of People, Policy and Transformation), Janice Dent (Policy and Partnership Manager), Robert Green (Assistant Head of Finance), Rhys Cornwall (Strategic Director – Transformation & Corporate Centre), Sally-Ann Jenkins (Strategic Director – Social Services), Natalie Poyner (Head of Children Services)

Anne Jenkins (Governance Team Leader), Pamela Tasker (Governance Support Officer)

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1. Apologies for Absence

None received.

2. Declarations of Interest
None received.

3. Minutes of the last meeting: 29 September 2022

Item 8, page 15 under resolution 2, the Deputy Chair considered that the Minutes did not reflect the meeting in terms of the wording of the resolution. The Chair clarified that the Minutes only referred to the Head of Service being invited to attend the meeting and did not include that the Strategic Director: Social Services was also invited.

The minutes were accepted subject to the above.

Dr Barry referred importance of keeping the Action Timetable as a rolling item on the Agenda and considered that the request for the Ombudsman's letter regarding the Complaints, compliments and comments report was not recorded, and that more information was requested on Equalities data omitted. As a point of accuracy, these recommendations were recorded in the Action Timetable shared as part of the agenda pack for the meeting under Point 4.7 and Point 4.10.

The Strategic Director for Transformation and Corporate referred to the distinction between actions, and recommendations made by the Committee under their terms of reference. The Strategic Director confirmed that there would be some administrative housekeeping before the next meeting to reflect this and tidy up the notes of proceedings. Continuing on, the

recommendations that the Committee would like to make to officers presenting reports would be recorded.

4. Call In the Strategic Director of Social Services and Head of Service re the Internal Audit of Adoption Allowances resulting in Second Unsatisfactory Opinion

The Chief Internal Officer introduced the report to committee members.

Following two consecutive *Unsatisfactory* Internal Audit opinions, the Strategic Director for Social Services and the Head of Service responsible for Adoption Allowances were invited to the Governance and Audit Committee to provide assurances that appropriate improvements within service provisions and the control environment were in place. Initially improvements had been implemented, however, subsequently Internal Audit were made aware that no service was being provided for a period of time.

The Strategic Director for Social Services advised the committee that they were aware of the challenges faced by social services and therefore called upon the Audit Team to undertake this audit.

The Strategic Director also wanted to assure the Committee that no child or adoptive family suffered during this period and that adoption allowances had been provided for a small number of children.

There was a series of actions were being put in place to address the issues and build resilience within the team for the future, to ensure that a greater number of staff were able to undertake the tasks.

Finally, the Strategic Director assured the committee that all applications for this year had been progressed within the timeframe.

The Head of Children Services advised that there was a newly appointed service manager with experience in the area, who was drawing together an all-encompassing policy. The Head of Children Services felt that audit would be satisfied with the process in place.should another audit take place.

<u>Comments of Committee:</u>

Chair considered that members should not focus on the circumstances of the past, but should address how to move this agenda forward and confirm actions taken by the service area to resolve these issues.

Dr Barry referred to delayed responses that occurred the absence of a finance officer and principal officer, and queried whether a response be provided by another officer. The Strategic Director confirmed that the delay was caused by the absence of those specific officers, both of whom were off for a substantial period due to ill health. Learning from this, there needed to be a wider pool of staff who were trained and would have the confidence to carry out the assessments effectively. Further resilience would be created with other finance officers within social services who could pick up the task should they face similar issues in the future.

Dr Barry asked if it was complicated completing the financial assessments, and was there a recorded set of step by step instructions in place to help officers navigate this. The Strategic Director advised that there were many complex layers to completing the financial assessments that would be too complex for step by step instruction, and some of the

challenge came from the small number of claims during a year which does not give much opportunity for officers to learn through experiencing the repetition of the process.

Councillor Horton asked the audit team if they had confidence in the Social Services team meeting requirements, should there be a re-audit of the service area. The Chief Internal Auditor that he thought that Social Services would meet the requirements, and a re-check would confirm what had been put in place to demonstrate good practice.

D Reed asked was there a danger that those people receiving an allowance during this period were overpaid. The Strategic Director advised that some people would have been overpaid, however these numbers were small. On balance, this was a preferred option than permitting anyone to suffer detriment. Similarly, the Strategic Director also advised that the small number of overpayment would not be recovered from those that had received it, as the fault laid with the service area and not those that received the overpayment.

Councillor Mogford asked what the timescale for next audit of Social Services would be. The Chief Internal Auditor advised that this had already commenced, and a further audit would by completed by Quarter 3 2022/23. This was unusual because of the twice over unsatisfactory outcomes of audits, but there is constant communication with relevant staff who aretaking this issue seriously. The follow up audit would be reported back to the committee.

Cllr Cocks asked if the Strategic Director could give the committee a sense of proportion in relation to individuals applying for allowances and the sums of money awarded. The Strategic Director advised that allowances varied dependent on the needs of the child and as a result ranged widely. As examples, an adoption allowance could be paid for only one year for one child rather than a longer period, childcare might be a factor, or could fund additional lessons or activities to meet a child's needs.

Councillor Cocks asked whether there were any HR management issues in relation to those members of staff who were on long term sick. The Strategic Director advised that the HR comments were in relation to the report process not the individuals involved,, therefore HR would not comment on the report. In terms of the wider issue regarding why the issues with processing were not picked up, the Head of Children Services confirmed that this was during covid and covid related illnesses affecting staff and workloads. This presented unique challenges, hence why the processing issue went under the radar to some extent.

Councillor Cocks confirmed that he raised the issue out of concern for staff welfare rather than performance. The Strategic Director thanked Cllr Cocks for raising this and felt that overall, staff were struggling during that period of time in terms of capacity and support due to the nature of the pandemic. Cllr Cocks observed that that this had not been brought to the Cabinet Member's attention as an issue, and the Strategic Director advised that this was one of the learning outcomes that would be put right in future.

Councillor Horton asked whether there was a figure attached to the total over payments. The Strategic Director confirmed that whilst this was a very small amount of money they could not provide the exact number from memory so this would be confirmed as a follow-up to the meeting.

The Chair was assured that the Strategic Director had taken this matter very seriously. There was a new service manager in place and new staff to build resilience within the team. There was no one waiting for any money, as all applications had been processed. There were transferrable skills within the wider team that would also help with creating more resilience. Also, lessons had been learned and any outstanding items would be addressed in the documented action plan.

Finally, the Chair mentioned that if the audit was to be completed by the end of December 2022, a brief update to committee to find out how the audit was going would be welcomed at the next meeting.

The Chief Internal Auditor confirmed that his team would work towards providing an interim report to the committee by January 2023.

The chair thanked the Strategic Director and Head of Childrens Services for attending the meeting.

Resolved:
That
- Members of the Governance and Audit Committee accepted the explanations and assurances of the Strategic Director and the Head of Service, which will be confirmed via the follow up internal audit
- An Interim update report would also be available in January 2023.

5. Annual Corporate Wellbeing Self-Assessment Report 2021/22

The Head of People, Policy and Transformation presented the report. The Local Government and Elections (Wales) Act 2021 required local authorities in Wales to undertake a Self-Assessment of its governance and performance.

Newport City Council had integrated its Annual Report with its annual Well-being Report to provide an overview on the effectiveness of the Council's Governance and Performance arrangements to deliver its Corporate Plan and services. The Council's Self-Assessment requirements had also considered the findings and assessments completed in other statutory annual reports.

The role of the Council's Governance and Audit Committee was to ensure that the self-assessment had been completed in accordance with the Act; review the draft report with its considerations and actions; and propose recommendations as applicable.

The Strategic Director for Transformation and Corporate reminded the Committee to put forward their recommendations as these would go to Cabinet in November.

<u>Comments from Committee:</u>

The Chair raised the following questions:
When considering wellbeing objective 1 t'o improve skills in education and employment opportunities', the strategic recovery steps refer to improving school's attainment, however there was no further detail in the document which referred to attainment.
Regarding Item 7 under this objective 'to improve school attendance, reduce exclusions and improve safeguarding and wellbeing'; attendance in school had fallen, but there were no actions in the document confirming responsibility and how this would be addressed.
The Chair also considered that there was a lot of narrative but little outcome; and if the seven key objectives mattered, they should be addressed. The Chair questioned whether the report trying to cover too much in terms of projects included and lost focus as a result.

The Head of People, Policy and Transformation advised that the report was trying to do all the things mentioned, however the report was being presented to develop this approach further. There were and older objectives that were out of time and it was a complex year to be reporting because of the pandemic. The Head of People, Policy and Transformation

confirmed that having different sets of reports presented another set of problems therefore a blended report was created to satisfy all requirements.

Councillor Horton echoed the Head of Service comments and mentioned that was discussed at Performance Scrutiny Committee for Partnerships earlier that week, and it was a juggling act to cover all required aspects with the right balance of information.

The Head of Service suggested looking at producing an overview of the report, pulling out the salient parts for the Committee.
Dr Barry considered that try to marry the Corporate Plan with the wellbeing objectives and self-assessment may not work as there was a lot of narrative but not enough about qualitative outcomes. Dr Barry also felt that the report needed to be easy to read as it was a public document. There needed to be a relationship between the corporate objectives and wellbeing objectives and there was not enough data in the report regarding this.
Dr Barry also mentioned that as Newport was a multi-cultural city, the report underplayed the issues of equality and how the demographics of Newport City Council employees related to the demographics of the community.

The Head of People, Performance and Transformation agreed that the demographic make-up of the Council workforce was not in this report, however it was fully detailed in the Annual Strategic Equalities Report. This was part of the challenge of producing the over-arching self-assessment report for the first time, as much of the detail underpinning the highlights in the report had been covered and addressed in more detail at other stages int the governance framework; Scrutiny Committee, for example, in this case.

D Reed considered there was a challenge in getting the balance right for this style of report, in terms of the promotion of a positive narrative and ensuring that there is objective self-assessment. D Reed queried the format of the report and whether there needed to be more detail included. The Head of Service advised that this approach to self-assessment was new to the council and it was recognised that there was more work to do in this respect.

Councillor Cocks felt that the report was an excellent document to find out what was taking place in the council and projects being undertaken. Whilst the report promoted economic growth, as an example, it did not say how this was being progressed in terms of measures.

Councillor Cocks also referred to equality, and referenced the excellent work being done in tackling inequality but there was no evidence on whether this was achieving the intended outcomes. The Head of People, Policy and Transformation appreciated that the councillor was referring to the Strategic Equalities Annual Report, and there had already been some discussion on that report during Partnership Scrutiny about making outcomes clearer which would be taken forward by the member/officer group in place supporting this. Equalities is one of the core values within the council and there are staff groups working on equality measures, for example, the participatory budget scheme which was supported all communities and reduced inequality. The Head of Service raised the issue of duplication of the underpinning reports in the self-assessment report, however, if the report does not clarify the strength of achievements in this area, then this would be made clearer.

Councillor Harris referred to page 57 where it mentioned that there were 15 new start-up companies, within Newport and asked whether this was due to covid. The Head of Service advised that this was this was covered in the report, the pandemic meant that the discretionary support funding was delayed.

The Strategic Director advised that the information was extracts from the service areas and that a response would be provided by the relevant service areas.

D Reed mentioned that the report was a live document and that deadlines regarding some completion projects dates had already passed, and queried whether these deadlines had been met. The Head of Service confirmed that whilst the report reflected information up until the end of March, updates on relevant projects could be provided.

The Chair stated that a foreword from the Leader and the Chief Executive would benefit the report. The Chair also commented that the hyper-links included in the report were not helpful for those that did not have a computer.

The Chair summarised that committee members felt there was confusion about merging the three plans together in the report. If the aim of the report was self-assessment by the authority, then additional information of data, measures and key outcomes were needed to support quantified self-evaluation. The Chair felt the report needed more information on the starting point the Council was at before the programmes and projects were actioned, and where the Council is now as a result, as well as the actions for the future to progress further.

The Chair understood that this was the first document of this kind and this would evolve. The Chair hoped that the constructive debate of the Committee would support the development of the report.

The Head of People, Policy and Transformation thanked the Chair and mentioned the positive feedback received from trade unions and other stakeholders on the report and that the Committee's comments would be captured for consideration by Cabinet.

The Strategic Director for Transformation and Corporate reiterated that this was the first year this report was completed, within a challenging timescale, and thanked the committee for its comments.

Resolved:
The Governance an Audit Committee received an overview of the Council's Corporate Annual Report 2021/22 and made the following recommendations for consideration by Cabinet.

1. Committee recommended a review of the format of the report
2. The Committee recommended that more detailed analysis and self-evaluation is added to the report to increase the quality of the analysis. If possible, this should be added before finalisation. If not, it should be included within the next future annual self-assessments.
3. The Committee considered that actions should be developed further to include measurable actions that quantify progress made.
4. The Committee recommended that conclusions are based on an assessment of what had not worked, as well as what had been successful. This would provide a balance to the evaluative aspects of the report.
5. The report would benefit from a clearer link between the Corporate Plan and Well-being Objectives, and the outcomes being achieved.

6. Treasury Management Report 2022/23

The Assistant Head of Finance presented the report to the Committee.

In line with the agreed Treasury Management Strategy, the Council continued to be both a short-term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicated that, in the future, temporary borrowing may be required to fund normal day-to-day cash flow activities and longer-term borrowing would increase to fund commitments in the current capital programme, as well as the impact of reduced capacity for

‘internal borrowing’. However, symptomatic of the extraordinary funding received in the previous year, the Council was anticipated to remain a net investor of funds in the short term (£50m at end of September), and this continued to cause an unusual variance and noncompliance against the performance indicator that monitors exposure to interest rate changes.

Up to end of September 2022, the Council’s net borrowing was £140.6m, a decrease of £1.5m on 31 March 2022 levels. The liability benchmark graph in the report broadly suggested the Council would need to borrow in the next year.

Comments of committee:

Dr Barry mentioned that it was a good paper, which gave confidence in the treasury management of the authority and it was good to see that the net borrowing had decreased. Dr Barry queried how secure the returns were on loans to developers at £10.6M, bearing in mind that other similar developers had folded recently. The Assistant Head of Service advised that the £10M was spread across a number of developers as secured loans which provides a level of assurity. Whilst there can ultimately be no guarantee that the loan would be repaid, the Council could be satisfied that the security was in place.

Secondly, Dr Barry remarked that borrowing was at £140.6M, and the maximum was £141.9M; does this mean that with a borrowing headroom of £2.391M the Council would exceed the maximum figure, and how did it relate to the head room regarding Table 4, page 119 within the report. The Assistant Head of Finance advised that there were two limits that are standards in terms of indicators. One was called the authorised limit and was the absolute maximum borrowing at any single point, in addition there is the operational boundary which is effectively the cap in terms of borrowing in relation to funding the capital programme. However, on a day to day basis, the Council may also need to undertake short term borrowing to manage cash flow requirements. In terms of borrowing head room, the council had accounted for this cash flow borrowing in the capital programme, but this would not be attributed to a particular programme of development.

Councillor Jordan asked how much of the grant money the council was currently holding, and where it would go to, if not used. The Assistant Head of Finance was not able to provide a figure, but could provide this to the committee. The Assistant Head of Finance explained that grants always come with terms and conditions, for example a final timescale during which the funding would need to be used.

Councillor Mogford referred to the return on investments and queried what the Council’s stance was regarding ethical investments. The Assistant Head of Finance advised that this query was becoming more common. The Assistant Head of Finance clarified that the Council were not investing in any Russian schemes, and that there are Treasury Advisors who support assessment of schemes so that decisions concerning investment are informed. The Council’s climate change targets, we ensure that these were ethical as well as pension investments. In this particular period, Welsh Government disseminated funds at the end of one financial year, effectively to displace Council funds that had already been committed to spend. This allowed the Council to use the original earmarked funds in the following financial year for the purposes intended by the grant. Theoretically, if grant funding was not spent within the timescales set in the terms and conditions, then we would have to pay it back.

Councillor Horton mentioned that there was a lot of information within the document and people may struggle to understand the context, would it therefore be possible to have it simplified to make clear to members and break the information down into simpler terms. The Assistant Head of Finance referred to the summary section of the report which contains the

salient points, but would take it on board these comments and see what further could be drawn out of the report.

Councillor Cocks referred to page 108 which stated that further internal borrowing had diminished and sought clarification on how this would impact on the Council. The Assistant Head of Finance mentioned that those reserves would be used for their intended purpose, as per their planned purposes.. Should internal borrowing capacity be diminished, then external borrowing would need to be considered. Clearly there are other factors to consider with external borrowing, for example, interest rates. Some of the existing loans were taken out in the 1990s when interest rates were very high. Therefore, it may be cheaper to take out a newer loan as interest rates compared far more favourably by comparison. This needs to be monitored carefully and planned for as far as possible.

Cllr Mogford asked, as a point of clarification, were the reserves ringfenced. The Assistant Head of Finance advised that the were general reserves and there were also ear marked reserves for specific purposes, for example, civil parking/road infrastructure could only be used for highways.

D Reed referred to the comments of the chief financial officer: *I have the delegation authority to borrow as needed to manage cash-flows and manage Treasury activity risk*. If this power was used, would it be reported back to the Committee. The Assistant advised that because it was a delegated authority it would be reported in the following year.

The Chair echoed Councillor Horton's point regarding the complexity of Treasury Management, and the need to simplify the concepts to increase broader understanding, and thanked the committee members for their comments.

Resolved:
The report was noted by the Governance and Audit Committee on treasury management activities during the first half year period of 2022-23 and the Governance and Audit Committee was offered an opportunity to provide feedback on this situation in the subsequent report to Cabinet/Council.

7. Internal Audit – Progress Against Audit Plan 2022/23 Quarter 2 (Q2)

The Chief Internal Auditor presented the report to the Committee.

The report identified that the Internal Audit Section was making progress against the 2022/23 audit plan and internal performance indicators.

Site visits to establishments have resumed.

The Internal Audit Plan was based on 1073 audit days.

The follow up audit of the Passenger Transport Unit (PTU) Taxi Contracts resulted in a second consecutive *Unsatisfactory* audit opinion.

Paragraph 12 within the report highlighted the performance of the staff for Quarter 2, 2022/23. This was also detailed in Appendix A, along with the audit opinions.

<u>Comments of committee:</u>

Dr Barry referred to paragraph eight of the report, and queried whether there was any lack of corporation between service managers and staff that prevented completion of the previous

year's audit. Dr Barry went on to ask whether there were any themes coming from audit reports that leadership would need to be addressing. The Chief Internal Auditor advised that in relation to the first question, the comment in the report was intended to make the committee aware that audit was a complex process, but generally co-operation is good between the audit team and service manager. With regards to the second point, The Chief Internal Auditor stated that whilst there are standard controls expected across services, the cyclical nature of audits and timescales involved meant it was tricky to identify cross-cutting themes, but would take on board comments.

D Reed referred to mandatory financial training in paragraph 20, and how this is monitored. The Chief Internal Auditor would like to think it was mandatory for managers and encouraged people to attend. Staff are required to book themselves onto the training, with oversight from their manager. The Chief Internal Auditor said that monitoring could be developed further. The Audit team also makes sure that staff comply with policy, but most training is monitored at local level. However, referring back to the query regarding themes, mandatory training was picked up as a common theme and communicated to HR.

The Strategic Director for Transformation and Corporate confirmed that the Council had invested in tools to support better take-up and monitoring of mandatory training, for example meta compliance training. This is new and being rolled out to staff.

The Chair suggested that mandatory training should be monitored more effectively as this issue has also arisen in previous meetings and reports.

The Chair mentioned that in relation to the audit on Passenger Transport Unit, the report stated that there were no critical issues identified, however, taxi's were operating on behalf council using unlicensed drivers to transport vulnerable young people. The Chair queried what therefore was the threshold for a critical issue, considering the background of this report. The Chief Internal Auditor advised that definitions for critical, significant and moderate was noted in the report but was subjective, based on evidence at the time of audit. There was an understanding of what these terms meant across the authority and the impact it could have corporately.

The Chair was concerned that if an unlicensed taxi driver picked up a vulnerable person and there was a subsequent issue or incident, this represented a significant risk to the Council. The Chair felt the committee needed to call in the Strategic Director and Head of Service on this basis.

Dr Barry echoed the comments of the Chair and considered that there were simple administrative tasks that were not being completed.

Councillor Mogford also agreed with the above comments and queried what the Council's liability would be in event of any such issues. Cllr Mogford queried whether the audits would be critical and objective in determining the criticality of findings in the audit. The Chief Internal Auditor assured the councillor that there was no bias during these audit investigations.

The Chair queried the view of Education and Social Services in terms of their corporate responsibilities. The Strategic Director for Transformation and Corporate confirmed that those Heads of Service would be invited to provide a written statement from their stand point.

Councillor Horton commented on whether there is a potential link between the taxi company referred to in the audit and standards of taxi services in general if this company had been selected for this contract. The Chair also asked if the contracted taxi company using

unlicensed drivers was still being used by the Council or if they had they been suspended. The Chair felt these were key questions to address in the next meeting.

Councillor Mogford queried whether there should be another channel or process before this information was discussed at Governance and Audit Committee, for example, was this also being brought to the attention of Directors or the Licensing Committee, as part of a robust process .

The Strategic Director clarified that the role of the Governance and Audit Committee was to provide assurance that the Strategic Director and Head of Service was taking appropriate action in response to their audit assessment. In this case, there wasn't significant progress between the first and second audit which is why the Committee is considering this as part of the due process. The role of the committee is to challenge the pace, activity and actions to undertaken to ensure the safeguards were in place. The Director provided assurance that there are other processes and measures in place that address issues, but in this instance the follow-up Audit report highlighted that actions were not being completed at a satisfactory pace which is why this has been brought back to committee. In response to Councillor Mogford, the documentation regarding this would be in the operational service plan and this is performance reviewed on a regular basis. The Audit report is another documented process that highlighted what was going wrong with the system. This additional process ensure an independent internal audit that was undertaken is now being discussed in a public meeting. This was an example of how we should operate and demonstrates that the audit process is working properly.

For point of clarification, Dr Barry asked if the Strategic Director would be aware of what was happening within the service area in light of an audit report. The Chief Internal Auditor would raise this at draft report level with the service manager, then the Head of Service and Strategic Director. All reports were evidence based, should they be challenged by service manager.

Councillor Cocks commented that it did show that the system worked, the Audit team had picked this up and it was raised at committee.

The Chair asked if very little had changed as an outcome the next committee could a recommendation be made to refer the matter to Scrutiny Committee.

Resolved:
That the Governance and Audit Committee

1. Resolved to call in the Strategic Director for Environment and Sustainability and Head of City Services in relation to the second unsatisfactory audit opinion for the Passenger Transport Unit (PTU) Taxi Contracts
2. To aid the Committee's assessment of the level of risk associated with this audit opinion, request a written submission from the Strategic Director for Social Services and Chief Education Officer on the service impacts as a result of the issues raised within the audit report
3. Following the call in at the next meeting, consider referring any performance issues to the relevant Scrutiny Committee

8. Work Programme

The purpose of a forward work programme was to help ensure Members achieve organisation and focus on the undertaking of enquiries through the Governance and Audit Committee function. The report presented the current work programme to the Committee for

information and detailed the items due to be considered at the Committee's next two meetings.

Resolved:
That the Governance and Audit Committee

- To add to the Work Programme the call in the Strategic Director and Head of Service in January to discuss the Unsatisfactory audit opinion in relation to the PTU contract.
- That an Interim Report on an update on Social Services be added to the Work Programme for January 2023.

Governance and Audit Committee Recommendations: 27 October 2022

Recommendation	For information
Item 4: **Call In the Strategic Director of Social Services and Head of Service re the Internal Audit of Adoption Allowances resulting in Second Unsatisfactory Opinion** 1. Provide Councillor Horton with the exact sum of money spent in relation to overpayment. 2. Provide the G&A Committee with an interim update report for January's Committee. This would be added to the Work Programme.	 S Jenkins A Wathan/P Tasker
Agenda Item 5: **Annual Corporate Wellbeing Self-Assessment Report 2021/22** 1. Provide confirmation on whether the small amount (15) of business start ups in Newport was due to Covid. (TMcK answered yes, but RC said he would obtain info from relevant service area) – TBC 2. Provide update/incorporate on completed projects within during the timescale of the annual report	 R Cornwall (tbc) T McKim
Agenda Item 6: **Treasury Management Report** 1. To provide Councillor Jordan with the sum of grant money that the Council was holding. 2. Simpler more comprehensive format of the report.	 R Green R Green

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Report

Governance & Audit Committee

Part 1

Date: 26 January 2023

Subject **Unsatisfactory Audit Opinion**
Governance & Audit Committee Call In
Passenger Transport Unit (PTU) – Taxi Contracts Follow Up

Purpose For Members of the Council's Governance & Audit Committee to:

i) Consider the explanations and assurances provided by the Strategic Director and the Head of Service responsible for Passenger Transport Unit (PTU) – Taxi Contracts that improvements have been made in service provision following 2 consecutive Unsatisfactory audit opinions.

Author Andrew Wathan Chief Internal Auditor

Ward General

Summary Following 2 consecutive ***Unsatisfactory*** Internal Audit opinions, the Strategic Director and the Head of Service responsible for Passenger Transport Unit (PTU) – Taxi Contracts have been invited into Governance & Audit Committee to provide assurances that appropriate improvements within service provisions and the control environment have been made.

Proposal That Members of the Governance and Audit Committee

i) accept the explanations and assurances of the Strategic Director and the Head of Service, which will be confirmed via the second follow up internal audit

or

ii) don't accept the explanations and assurances provided and escalate concerns to the Chief Executive and Executive Board.

Action by Governance & Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People, Policy & Transformation

Signed

Background

Original Report	1st Follow up audit	2nd Follow up audit due
Unsatisfactory	Unsatisfactory	
Final issued February 2020	Draft issued June 2022 Not finalised January 2023	Q1 2023/24

1. The Public Sector Internal Auditing Standards requires the Chief Internal Auditor to present a formal annual report to the Governance & Audit Committee which includes audit opinions issued and to disclose any qualifications to the overall opinion.

2. The Strategic Director and the Head of Service responsible for Passenger Transport Unit (PTU) – Taxi Contracts have been invited into Governance & Audit Committee to:

   a) Explain why there were weaknesses in control
   b) Provide assurances on the progress of the implementation of the agreed management action taken to demonstrate improvement in the control environment
   c) Include a timeline as appropriate

3. The original Internal Audit (IA) review of Passenger Transport Unit (PTU) -Taxi Contracts was undertaken as part of the 2019/20 IA Plan. Although the draft report was issued in August 2019, due to ongoing discussions with the Team Manager PTU, the final report was not issued until February 2020, with an ***Unsatisfactory*** audit opinion.

4. The follow up audit was included within the 2021/22 IA Plan; the audit brief was agreed by service management in February 2022. Audit work was undertaken between February and May 2022 with a draft report issued to the Team Manager PTU and the Senior Strategy Manager in June 2022. The follow up audit opinion was ***Unsatisfactory***, as most of the original weaknesses identified in the report had not been addressed and management had not taken sufficient action to address those issues.

5. The main weaknesses identified from the follow up audit are shown at Appendix 1. The action plan showing management comments and progress to date (January 2023) is shown at Appendix 2.

6. Management comments for the follow up audit were initially received in August 2022. In the main the Team Manager PTU either didn't accept the weaknesses identified from the audit, blamed other services for the lack of action, said some contracts were too difficult to input onto his system, said other systems were in place for managing key records, couldn't take action as he didn't have sufficient staff resources, said checks had been carried out but failed to provide the relevant evidence, said the audit was misleading, didn't have time to raise purchase orders in advance or said staff had attended training when evidence showed they hadn't.

7. With regard key documents being held on another system or spreadsheet or further evidence to support action taken to address the original weakness, the auditor requested this information but it was not forthcoming. The matter was therefore escalated by IA through Senior Management to the Executive Board and the Strategic Director in order that further evidence of action taken be provided and to obtain assurance that action would be taken to address the weaknesses identified.

8. Concerns were reported into the Governance & Audit Committee October 2022 meeting outlining the key issues identified from the follow up audit of the PTU – Taxi Contracts.

9. Due to ongoing discussions with senior and service management this report is still in draft status and has not yet been finalised. Further management comments from the Head of Service were received in January 2023; the revised action plan noted at Appendix 2 has been updated to reflect these comments and have replaced the Team Manager PTU's original comments. These were more constructive than the original comments provided and will help to finalise the report. These comments now accept the weaknesses identified from the follow up audit review and in most cases state that appropriate action has subsequently been taken to address the concerns.

10. The Summary of Weaknesses, the Action Plan and categorisation of weaknesses reflects the audit work undertaken during the follow up review prior to key officers not being in work.

Original Weakness Rating	No. of Original Weaknesses	No. of New Weaknesses	No. of Weaknesses Fully Implemented	No. of Outstanding Weaknesses
Critical	0	0	n/a	n/a
Significant	20	1	5	10
Moderate	6	Not tested	Not tested	5

The original review identified 20 weaknesses considered to be of a significant nature. A review of these identified that at the time of the audit testing:

- 5 had been fully implemented (1 of which further action is required and 1 of which requires ongoing monitoring),
- 12 had been partially implemented, and
- 3 had not been implemented.

Of the 15 weaknesses which had been partially or not implemented, our audit identified 10 of these outstanding to be of a *significant* nature and 5 were *moderate* weaknesses.

There was also a new weakness rated as significant identified as part of the audit findings.

Financial Summary

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

Risks

12. If management action is not taken to improve the control environment and increase service delivery resilience, service users may not receive an efficient and effective service, the number of complaints may increase and could lead to reputational damage.

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?
Poor internal controls could impact on effective and efficient service delivery, increase in complaints from service users and negative impact on reputation	M	M	The Strategic Director has agreed a way forward to support service delivery. Internal Audit will undertake a further follow up audit within 6 months to verify that agreed action has been taken to improve service delivery.	Strategic Director

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

13. 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

14. This is a factual progress report and therefore there are no specific options to be considered; there are no decisions to be made further to the proposals noted above.

15. Members of the Governance & Audit Committee are asked to either accept the assurances from the Strategic Director and Head of Service or refer their concerns onto the Chief Executive.

Preferred Option and Why

16. Members of the Governance & Audit Committee to decide.

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

18. There are no specific legal issues arising from the report. As part of its role in monitoring the effectiveness of the Council's systems of internal control and financial management,

Governance & Audit Committee oversee the implementation and outcomes of the internal audit programme and, where necessary, can review and make recommendations regarding unsatisfactory audit reports. The Committee can seek assurances on the adequacy of responses to internal audit advice, findings and recommendations and will monitor implementation and compliance with agreed action plans. In this case, there have been consecutive unsatisfactory audits in relation to the administration of the Passenger Transport Unit (PTU) – Taxi Contracts and the relevant Head of Service and Strategic Director have been invited to attend the meeting to explain the situation and outline the management action that will be taken to address the issues concerned. If the Governance & Audit Committee are not satisfied with the management responses and there are considered to be residual risks in terms of the Passenger Transport Unit (PTU) – Taxi Contracts processes, then the Committee can escalate those concerns through to the Chief executive and the Executive Board. As these unsatisfactory audit reports relate to operational management issues, then it is not considered appropriate for any concerns to be escalated through the Cabinet or Cabinet Member as they do not involve strategic policy issues.

Comments of Head of People, Policy and Transformation

19. 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.

Local issues

20. N/A

Scrutiny Committees

21. N/A

Equalities Impact Assessment and the Equalities Act 2010

22. 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.

23. All audits are undertaken in a non-discriminatory manner and key equalities issues identified under the scope of the audits will be identified as part of the audit reports and management discussions. As this is a report on the call-in relating to audit opinions there is no requirement for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

24. N/A

Wellbeing of Future Generations (Wales) Act 2015

25. 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 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 Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

Consultation

26. N/A

Background Papers

27. 2021/22 Approved Internal Audit Plan.

Appendix 1

SUMMARY OF OUTSTANDING WEAKNESSES June 2022

The tables below summarise the outstanding individual weaknesses identified during the follow up review.

RATING	DESCRIPTION	TOTAL IDENTIFIED DURING REVIEW
CRITICAL	Major risk to the system.	0
SIGNIFICANT	Unacceptable risk.	11
MODERATE	Risk partially mitigated but should still be addressed.	5

Ref.	CRITICAL
	No critical weaknesses were identified during this follow-up audit.

Ref.	SIGNIFICANT
1.01	The CTX system did not record all contracts / taxi usage across the Authority. Multiple and inconsistent records were used to monitor the various contracts.
1.02	The CTX database was not fully up-to-date with accurate operator licences and insurances. Dates of birth were missing for some drivers which resulted in the system reporting the driver was underage.
1.03	There were expired DBS checks and training for drivers and escorts recorded on the CTX database.
2.10	Taxi escorts were not required to submit any form of photo identification along with their DBS check.
2.11	Adequate driving licence checks were not undertaken prior to the award of contracts to ensure that drivers were appropriate.
2.11 (New)	A taxi company with previous offences relating to unlicenced drivers was operating on contract work. The DBS and driving licence checks for the contracted driver was not updated / renewed (as this was a historical arrangement) and there was no reference to the offences and consideration of the contract continuation on the CTX system.
2.12	Purchase orders were not always raised in advance of the first taxi journey taking place and did not record the agreed journey cost. Purchase order justification box did not reference the ITT number to highlight market testing undertaken.

Ref.	SIGNIFICANT
2.14	The monitoring system in place for Social Services / Corporate taxi contract arrangements required improvement. Key information was not recorded.
2.16	The details of the taxi driver / escorts were not always provided to the schools / social worker making the booking.
3.07	Employees within the PTU team have not attended Information Security training and the required Financial Regulations refresher training.
3.08	Absence recording in iTrent was not always input correctly and in a timely manner. Return to work discussions were not always recorded in the iTrent system.

Ref.	MODERATE
2.08	Taxi request forms were not always authorised by an appropriate officer in line with the requirements as set out on the form.
2.09	Copies of DBS certificates were sometimes uploaded onto eTender Wales.
2.13	Invoices received from taxi companies did not always contain adequate information.
3.06	Quality assurance checks had not been undertaken for the taxi contracts. The Taxi Licensing team required an updated school's contract list in order to assist with the undertaking of checks.
3.09	The formal agreement in place between Newport City Council and Monmouthshire County Council had yet to be strengthened with the development of a job description and job specification as indicated. The stated period of the original agreement had passed and should be considered for review.

Appendix 2

Extract of Agreed Action Plan June 2022 / update of current progress January 2023 - Passenger Transport Unit (PTU) – Taxi Contracts Follow Up

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness (June 2022)	Further Management Action to Address Outstanding Weakness (January 2023)	By Who	By When
1.01	**Original Weakness:** The CTX system was not being used to its maximum potential and was not used to record all contracts / taxi usage across the Authority. *(Significant)* **Agreed Management Action:** It is not a viable option currently to put Social Services or Corporate Services contracts onto CTX due to the nature of them as they change regularly, are generally short term and to do this we would require more resources which we do not have a budget for. We are developing a more robust budget spreadsheet to be able to forecast spend for social services. We will speak with Shaunsoft [suppliers of CTX] to see if there is a social services module that would be able to keep the information in a different way without it being admin intensive. **Implementation Date:** March 2020	**Not Implemented** **Findings:** The Team Manager – Passenger Transport Unit confirmed that the system continued to be operated as per the methods observed during the original audit review, frequent changes to Social Services contracts made it difficult to maintain contract information in the CTX system. Budget spreadsheets were provided which were used to ensure monthly payments are recorded. However, a review of the Social Services spreadsheet indicated that it was maintained retrospectively following the receipt of invoices. It was also noted that the document did not include information such as contract references and duration to allow the contracts to be monitored effectively. The SRS team indicated that there were plans to update CTX to cloud based software during the 2022/23 financial year. The Senior Passenger Transport Officer advised that this would allow the software to be updated	The long-term solution to this weakness is the uploading of CTX to the cloud with additional features that will facilitate expeditious updating of files, especially when routes /times/ destinations change sometimes daily. SRS have now completed this upgrade (5/12/22) Staffing Staff resource has been deployed to ensure this weakness is addressed. Records are now uploaded onto the new system, with more robust recording of contract data demonstrated as follows: Although Social Services often do not know how long a contract will be required for, requisition forms received from Social Services will have the estimated duration that transport will be required, which will enable an estimated cost and duration to be recorded when the contract is awarded.	PTU Team Manager (RC) / SRS PTU Team Manager (RC)	Implemented Implemented

		to a more recent version and would include improved features. **Outstanding Weakness:** The CTX system did not record all contracts / taxi usage across the Authority. Multiple and inconsistent records were used to monitor the various contracts. *(Significant)*	This will be updated where the actual duration of the contract differs from the original estimate when confirmed by Social Services. Although contracts are recorded under purchase order number within the PTU, which is sufficient for monitoring by the team, a separate numbering system has been implemented on the cloud-based system to address this weakness.		
1.02	**Original Weakness:** The CTX database was not fully up-to-date with accurate operator, vehicle or driver details. Sufficient information was not available to support the drivers used on specific contracts. *(Significant)* **Agreed Management Action:** An agency member of staff has been employed to go through the data on CTX to ensure it is accurate and all required information is held. **Implementation Date:** March 2020	**Partially Implemented** **Findings:** A sample of 5 operators selected for testing, identified 4 operators where the Public Liability and Employer Liability policies had expired. There was also 1 with a noted expired Operator's Licence, however the Auditor was able to verify this was in place using the public register of licenses available on the Authority's website. An overall review of the 40 operators noted on CTX identified the following: • 14 (35%) Operator Licenses had expired, • 28 (70%) Public Liability Insurance checks had expired,	The long-term solution to this weakness is the uploading of CTX to the cloud with additional features that will facilitate expeditious updating of files and enable a proactive response by staff by automatically flagging upcoming expirations. SRS have now completed this upgrade (5/12/22) Additional staff resource has been deployed to ensure this weakness is addressed. Expiry of documents is a daily occurrence due to the numbers of contracts and has been extremely difficult to resource. Staffing levels within the PTU have been evaluated to ensure services can be maintained and a business	PTU Team Manager (RC) / SRS	Implemented

		• 31 (78%) Employers Liability Insurance checks had expired. A review of a sample of operators confirmed that vehicles, drivers and passenger assistants were recorded against each operator. A review of the current driver records identified 3 drivers aged 11 (96 inappropriately aged drivers identified in the original review). The Senior Passenger Transport Officer advised this occurred where a driver did not have a date of birth recorded on the system. **Outstanding Weakness:** The CTX database was not fully up-to-date with accurate operator licences and insurances. Dates of birth were missing for some drivers which resulted in the system reporting the driver was underage. *(Significant)*	case prepared for additional permanent resource. Current levels of expired documents have been reduced to normal operational levels. Missing dates of birth for drivers which resulted in automatic system default dates being entered have all been addressed.	PTU Team Manager (RC) PTU Team Manager (RC)	Implemented Implemented
1.03	**Original Weakness:** There was a high proportion of incorrect information and expired DBS checks for drivers and escorts recorded on the CTX database. *(Significant)*	**Partially Implemented** **Findings:** A review of the CTX database highlighted that there were now considerably less drivers (currently 309 down from 942 during the original review) and escorts recorded (currently 211	The long-term solution to this weakness is the uploading of CTX to the cloud with additional features that will facilitate expeditious updating of files and enable a proactive response by staff by automatically flagging upcoming expirations.		

	Agreed Management Action: We are cleansing the system to remove any unused drivers. We will send out reports to operators to identify any out of date information and will update this onto the CTX system accordingly to ensure staff that are being used have in date information and checks. Training records have now been updated and added to the CTX database. **Implementation Date:** March 2020	from 309 during the original review) demonstrating there had been some work undertaken to update the records. The following was found; • 71 / 309 (18%) of drivers recorded on CTX had an expired DBS check. 22 of these were over 6 months overdue with expiry dates ranging back to February 2021 and 1 entry expired May 2012. [date of audit Mar 2022] • 126 / 309 (32%) of drivers were recorded as having expired training. 101 of these were over a year overdue with expiry dates noted back to 2011. • 49 / 211 (23%) of escorts recorded on CTX had an expired DBS check. 28 of these were over 6 months overdue with expiry dates ranging back to February 2021. 66 / 211 (31%) of escorts were recorded as having expired training. 36 of these were over a year overdue with expiry dates noted back to 2012. **Outstanding Weakness:** There were expired DBS checks and training for drivers and escorts recorded on the CTX database.	SRS have now completed this upgrade (5/12/22) All documents are now consistently updated on CTX and have been reduced to normal weekly operational levels. Escort & Driver training is completed, and the data base updated as training is completed.	SRS / PTU Team Manager (RC) Licencing Team / PTU Team Manager (RC)	Implemented Implemented Implemented

		(Significant)			
2.10	**Original Weakness:** Taxi escorts were not required to submit any form of photo identification along with their DBS check. *(Significant)* **Agreed Management Action:** We will look at how this could be achieved by having photos from escorts and then printing ID badges. **Implementation Date:** September 2020	**Not Implemented** **Findings:** It was confirmed with the Team Manager – Passenger Transport Unit that no progress had been made against this weakness. They advised that the Covid-19 pandemic had prevented this process from being developed due to working from home and social distancing practices which limited access to the Civic Centre and other bases. Audit were able to confirm that a similar process of verifying photo IDs had continued to operate by the Licensing Team within the Authority despite the pandemic. The Senior Passenger Transport Officer advised that this would be progressed in 2022/23 as working practices and attendance at the Civic Centre resumed. **Outstanding Weakness:** Taxi escorts were not required to submit any form of photo identification along with their DBS check. *(Significant)*	The issuing of escort identification badges has been rolled out as part of the escort training sessions with the Licencing team, with photographs being obtained as part of the session.	Licencing Team / PTU Team Manager (RC)	Implemented

2.11	**Original Weakness:** Taxi contracts were awarded despite not all the required information / supporting documents being submitted to support the tender submission. *(Significant)* **Agreed Management Action:** We would not award a contract without the information. I have asked for the DPS to be changed as it is not practical for an operator to submit multiples of documents when we already hold records of them. MOT checks are now undertaken on the .gov website by us prior to award. We will ensure these checks are documented. In terms of the driving licence checks, we are currently looking at a system used in other Local Authorities (including MCC), which allows real time checks to be completed by scanning the licences. This system would also automatically alert us to any issues for our known drivers. Further discussion on this will be held with Fleet Management and the Head of Service. **Implementation Date:**	**Partially Implemented** **Findings:** Adequate driving licence checks were not being carried out for drivers carrying out the contract work. It was noted that during the COVID-19 19 pandemic the PTU had purchased a Davis Licence check system to be able to undertake automated checks of driving licences but advised they had been unable to utilise or operate the system due to COVID-19 restrictions. It was noted that the team could have checked driving licences using a share code process (as operated by the Insurances and Licencing Teams during the pandemic) but had not done so. It was evident that in the main other required documentation was provided as requested in the tender specification. An exception was observed for itt_86424 where the driver and escorts were changed from those originally stated and no supporting documentation was provided. For the contract tenders sampled, MOT checks were documented on the CTX system or a copy of the MOT pass	Additional staff resource will be deployed and fully trained on the Davis System to ensure best use of available systems. In the interim, all driver licence checks are being undertaken and recorded both at point of contract award and on expiration. Full utilisation of the Davis system will be achieved following training of key staff. Fxxxxxxx Ltd continue to hold an operator's licence and currently undertake contracts for both Caerphilly CBC and Newport. The operator has two current contracts with Newport, with both contracts fully compliant and all documents fully checked. The unlicenced driver raised in the audit did not work on current Newport City Council contracts. The offences identified within the Caerphilly CBC contract (prior to 2019) would not be sufficient to exclude this operator from tendering for Newport contracts as the operator licence was not revoked. The drivers on current contracts are fully compliant. As per the recommendation, a note has been placed against this	PTU Team Manager (RC) PTU Team Manager (RC)	Implemented Mid February 2023 Implemented

	March 2020 / September 2020	certificate was held on the eTender Wales system. The sample selected for testing also identified an historical taxi contract in place (prior to the use of eTender Wales) awarded to Fxxxxxxx Ltd. Checks should have been undertaken on a regular basis and recorded via the CTX system however, the driving licence check had not been documented since November 2019 and the DBS check was last documented in December 2018 and outstanding at the time of the audit testing (April 2022). It was noted that in August 2019 the driver had been found guilty of offences relating to the operation of their taxi company by Caerphilly CBC which had not been acknowledged on the CTX system despite the team being aware. The contract continued to operate during this period. **Outstanding Weakness:** Adequate driving licence checks were not undertaken prior to the award of contracts to ensure that drivers were appropriate. **New Weakness:** A taxi company with previous offences relating to unlicenced drivers was operating on contract work. The DBS and driving licence check for the contracted	operators file, acknowledging the offence.	PTU Team Manager (RC)	

		driver was not updated / renewed (as this was a historical arrangement) and there was no reference to the offences and consideration of the contract continuation on the CTX system. *(Significant)*			
2.12	**Original Weakness:** Purchase orders were not always raised in advance of the first taxi journey taking place. Full justification for the taxi booking and evidence of the use of the DPS or further market testing being undertaken was not available / recorded. *(Significant)* **Agreed Management Action:** This is not always practical or possible with social services contracts as they are ad hoc and we have to wait for their officers to approve them. They are always raised in time for the invoices to come in. We will look to improve the timescales but they may not all get done before the contract starts due to the short timescales that some requests are made under. **Further Audit Comment:** It is noted that due to emergency arrangements some requests may come into	**Not Implemented** **Findings:** A review of the i-Proc system highlighted that for all orders examined, these were raised retrospectively following the first taxi journey being undertaken. There were also instances observed where the date the order was raised was later than the date of the first corresponding invoice from the operator. It was also noted that the PO detail did not include the agreed price, which would be useful information to remind the supplier of the contract price and the budget holder of the commitment per journey when authorising. The requisitions (justification box) did not record the unique ITT reference numbers or titles used on the DPS database to allow a cross check to take place to the system. This detail would help identify historical booking arrangements that precede the DPS and provide an audit trail.	We will endeavour to raise purchase orders in a timely manner and ensure the journey cost is recorded. The team will now record the ITT number within the requisition justification box confirming the requisition had been tendered via e-Tender Wales.	PTU Team Manager (RC)	Implemented / Ongoing

	the team at short notice, however, a purchase order should be raised as soon as possible thereafter. We use the justification box to ensure that the approver knows what social worker asked for the transport and initials of who it is for. The team will now record the ITT number within the justification box confirming the requisition had been tendered via e-Tender Wales. **Implementation Date:** January 2020	**Outstanding Weakness:** Purchase orders were not always raised in advance of the first taxi journey taking place and did not record the agreed journey cost. Purchase order justification box did not reference the ITT number to highlight market testing undertaken. *(Significant)*			
2.14	**Original Weakness:** There was no monitoring system in place detailing Social Services / Corporate taxi contract arrangements. Consequently there was currently no way of identifying outstanding taxi costs (per contract) at the end of the financial year. *(Significant)* **Agreed Management Action:** We have put in place a new spreadsheet to enable us to forecast spend in place of the current spreadsheet. We do not hold the budget for these contracts (unlike Education Contracts). We do not get asked for the	**Partially Implemented** **Findings:** The spreadsheet in place for recording social service contracts did not include the unique contract reference, ITT number, start date or end date of contract. The spreadsheet was completed retrospectively with the details from the invoices received and passed for payment. The document operated like a recurring payments spreadsheet but without the contract details, it would not highlight the value / number of invoices still outstanding on the contract for the current financial year / contract period.	Social Services spreadsheet updated to meet the requirements of the audit. The inconsistency of process between Educational and Social Services is due to the way transport is procured by the two service areas. Educational are fixed transport contracts which can easily be quantified and managed per term by the unit. The unpredictable and often urgent need for Social Services transport and frequent daily changes of times/ routes/ destinations, present challenges for the unit. However, team resource has been deployed and, together with	PTU Team Manager (RC)	Implemented

	information although we will now keep this and we will inform the social services accounts team when requested. **Implementation Date:** Completed	It was noted that there continued to be an inconsistency of processes within the PTU team between education and social service contract monitoring. **Outstanding Weakness:** The monitoring system in place for Social Services / Corporate taxi contract arrangements required improvement. Key information was not recorded. *(Significant)*	improved notifications / authorisations from Social Services this weakness has been addressed.	PTU Team Manager (RC)	Implemented
2.16	**Original Weakness:** Information regarding taxi drivers and escorts provided to Schools / NCC establishments was not sufficient. *(Significant)* **Agreed Management Action:** The team will be reminded that the names of drivers and escorts need to be provided to the social worker / School who book the transport. As per weakness ref 2.10, we will investigate the issuing of photo ID cards to escorts. **Implementation Date:** November 2019 September 2020	**Partially Implemented** **Findings:** The notification of driver and escort details provided to the schools and social workers regarding taxi bookings was inconsistent. Examples of notifications to schools provided by the Team showed that a detailed document was shared with Maes Ebbw School including driver and escort details. However, notification to other educational establishments referenced new journeys and changes to driver but did not include any further detail that would allow the school to ensure the child was travelling with the correct driver. Where a taxi was arranged via social services the requesting officer was notified of the	Driver, escort and operator information is now provided in the same detail to all schools. The social worker who books the transport will also continue to receive the information when transport is confirmed.	PTU Team Manager (RC)	Implemented

		company undertaking the contract but not always the details of the driver. It was also confirmed with the Senior Passenger Transport Officer that it was up to the requesting officer to then share this information with any NCC schools or relevant establishments. **Outstanding Weakness:** The details of the taxi driver / escorts were not always provided to the schools / social worker making the booking. *(Significant)*			
3.07	**Original Weakness:** Staff within the PTU have not attended Information Security Training and have not attended Financial Regulations training for more than 10 years. *(Significant)* **Agreed Management Action:** Staff have been booked on courses for Financial Regulations and Contract Standing Orders as well as the PTU Manager. We are also booking Information Security training for all the staff. The Transport Surveyor (DW) is also booking risk assessment	**Partially Implemented** **Findings:** Information Security and Financial Regulations training had been undertaken by some of the employees within the Passenger Transport Team. The following exceptions were observed; • 3 employees from the original review have not attended Information Security training, • 2 employees from the original review and 1 new employee have not attended Financial Regulations training,	The following training has been completed for all staff: Information Security Training – 12/01/23 Financial Regulations – 10/01/23	PTU Team Manager (RC) / Newport City Council Internal Training Provider	Implemented

	and health and safety refresher courses. **Implementation Date:** March 2020	• 2 fixed term employees had not attended Financial Regulations and 1 of these has not attended Information Security training, **Outstanding Weakness:** Employees within the PTU team have not attended Information Security training and the required Financial Regulations refresher training. *(Significant)*			
3.08	**Original Weakness:** A sickness absence was identified which had not been input onto the iTrent HR & Payroll System and a Return to Work Discussion form was not completed. The PTU Manager did not have access to iTrent Manager Self Service. *(Significant)* **Agreed Management Action:** The PTU Manager did not have access to iTrent but this has now been rectified. All sickness returns and return to work forms were sent by internal mail to HR/Payroll previously. **Implementation Date:**	**Partially Implemented** **Findings:** iTrent Manager Self Service access was now available to the Team Manager – Passenger Transport Unit and Senior Passenger Transport Officers. A review of the iTrent system identified that instances of sickness absence had been recorded. However, during the initial meetings of the follow up review the Team Manager – Passenger Transport Unit indicated there were a number of sickness absences affecting the resources of the team. A review of iTrent evidenced that these absences had not been recorded. The Senior Passenger Transport Officer had expressed there had	Absence recording and return to work interviews are up to date and are now undertaken in a timely manner.	PTU Team Manager (RC)	Implemented

	Completed	been issues with the level of access to the system and absences were completed retrospectively once access was resolved. It was noted that an absence referenced during December 2021 for employee 150540 had not been input into the system as of March 2022. This was raised with the Senior Passenger Transport Officer on the 17/03/22. For the absences recorded it was also noted that a Return to Work discussion had not been documented for employee 120209 for an absence ending in January 2021. Issues were also identified regarding a maternity leave absence (December 2021) which had not been input. This was raised with the Team Manager – Passenger Transport Unit and rectified. **Outstanding Weakness:** Absence recording in iTrent was not always input correctly and in a timely manner. Return to work discussions were not always recorded in the iTrent system. *(Significant)*			

NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Report

Governance and Audit Committee

Part 1

Date: 26 January 2023

Subject **Quarter 2 22/23 Corporate Risk Register Update**

Purpose To present an update of the Corporate Risk Register for the end of quarter 2 (1st July to 30th September 2022).

Author Head of People, Policy and Transformation

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 two, there were 14 risks recorded in the Corporate Risk Register that are considered to have a significant impact on the achievement of the Council's objectives and legal obligations.

Overall, there are 8 Severe risks (risk scores 15 to 25); 6 Major risks (risk scores 7 to 14); that are outlined in the report. In comparison to the quarter one Corporate risk register, there were no new and/or escalated risks, and two risks were closed. Three risks increased in risk score; one risk had decreased in risk score; with the remaining 10 risks remaining the same score. No risks were escalated or de-escalated in quarter one.

As set out in the Council's Risk Management Policy, Cabinet reviews the Corporate Risk Register on a quarterly basis ensuring procedures are in place to monitor the management of significant risks. The Register is likely to change following the approval of the new Corporate Plan and priorities for service delivery.

Proposal The Governance and 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:

- Executive Board
- Corporate Management Team

Signed

Background

The Well-being of Future Generations (Wales) Act 2015 requires Newport City Council to set Well-being Objectives in its Corporate Plan. As a public body, Newport Council is also responsible for delivering services (statutory and non-statutory) to residents, businesses, and visitors across Newport. We will inherently encounter opportunities and risks that may prevent, disrupt, impact or enhance the delivery of the Council services and achieve the objectives in the Corporate Plan. How the Council responds and manages these opportunities and risks is important to ensure resources are being used efficiently and effectively to maximise value for money and to minimise and/or prevent the risk impacting services, communities, and citizens in Newport.

The Council's Risk Management Policy provides an overview of the Council's approach and its appetite for managing opportunities and risk. To provide assurance on the Council's Risk Management approach, the Corporate Risk Register provides assurance on the most significant risks that the Council was managing in the last quarter.

Officers across the Council regularly manage risk in the course of their duties whether this is health and safety risks, civil contingencies including Covid-19, safeguarding risks to children, young people, adults and carers or risks to assets, buildings, and Council employees. The relevant service area(s) and professional disciplines will be assessing and managing these risks as required and reporting these through their own reporting mechanisms. In accordance with the Council's Risk Management Policy, any new, escalated / de-escalated, and closed risks in the Corporate Risk Register are presented to the Council's Executive Board for decision.

Corporate Plan 2022-27 and Council Re-structure

In Quarter 3 (October to December 2022), Newport Council has agreed and its new Corporate Plan 2022-27. To support the new Corporate Plan, the Council's 11 service areas will have new service plans to deliver the Council's Well-being Objectives and strategic priorities.

Service areas have been reviewing and re-assessing their risk registers (Corporate / Service Risks). As part of this re-assessment, service areas are considering the impact which these risks will have on the achievement of the new Corporate Plan and delivery of statutory services, as well as considering other internal and external factors such as cost of living / inflationary pressures, the Council's Medium Term Financial Plan, and demand on services. As part of the Council's risk management process, all Corporate Risks (existing, new and those proposed to close) have been reviewed agreed by the Council's Executive Board (Chief Executive and three Directors).

In preparation of these changes and reporting the attached Risk Register (see Appendix 3) has been updated. The Corporate Risk Register and Service Risks will be reported in the Quarter 3 Risk Report in February and March 2023 to Cabinet and Governance and Audit Committee respectively.

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 are 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.

Newport City Council - Quarter 2 22/23 Risk Update

Appendix three of the report, provides an overview of the Council's overall risks reported at the end of quarter two. This includes corporate and service area risks across the Council's service areas. In summary, the Council had 44 risks of which:

Total Risks at Quarter 2	Risk Scores Increased since Q1	Risk Scores Decreased since Q1	No Change since Q1	New Risks Since Q1	Closed Risks Since Q1	Escalated Risks*1	De-escalated Risks*2
42	5	4	33	0	2	0	0

Newport City Council Quarter 2 Corporate Risk Register Summary

At the end of quarter two, the Council's Corporate Risk Register included 14 of the 42 risks that are considered to pose the most risk to the delivery of Council services and achievement of its strategic priorities. The 14 Corporate Risks consisted of:

- 8 Severe risks (15 to 25)
- 6 Major Risks (7 to 14)

In comparison to the quarter one Corporate risk register, there were no new and/or escalated risks, and two risks were closed. Three risks increased in risk score; one risk had decreased in risk score; with the remaining 10 risks remaining the same score. No risks were escalated or de-escalated in quarter two.

Change in direction of risk score (Quarter Two)

Risk	Lead Cabinet Member	Lead Directorate / Service Area	Q1 Risk Score	Q2 Risk Score	Commentary
R3 - Pressure on the delivery of Children Services	Cabinet Members for Social Services.	Social Services / Children Services	**20**	**25**	The risk score has increased in the last quarter as the service has had to put in place measures to manage the increase volume of referrals into the safeguarding hub. We have also seen an increase in staff sickness and we continue to struggle with recruitment. We are currently working as a whole service to ensure that the most vulnerable and at risk are prioritised and Red Amber Green (RAG) rating of other cases open to statutory services is underway.
R4 - Balancing the Council's Medium-Term budget	Leader of the Council / Cabinet	Transformation & Corporate / Finance	**12**	**20**	In line with the comments from the previous quarter, a significant budget gap is forecasted. Therefore, the Council will need to look at significant service area savings.
R9 – Information & Cyber Security	Cabinet Member for Organisational Transformation	Transformation & Corporate / People, Policy & Transformation	**16**	**12**	Whilst the potential impact remains the same as previously, it is believed that the mitigation measures in place are such that the likelihood is less than previously, despite international tensions due to war in Ukraine. Existing governance is documented in the council's information risk management policy including the Information Governance Group and the Annual Information Risk Report. An Annual IT Health Check is carried out in line with requirements of the Public Services Network (PSN). Regular hardware and software updates are carried out by the IT Service. Technical controls are in place including the use of endpoint protection, firewalls, encryption, backups, security certificates, mobile device management etc. Physical security measures are in place to prevent inappropriate access and a data centre move to a more resilient data centre has commenced. The council's IT Service, the Shared Resource Service (SRS), has a security function complementing council staff as well as security embedded in various roles. The council has processes for out of hours incidents including the SRS.
R10 - Schools Finance / Cost Pressures	Deputy Leader & Cabinet Member for Education & Early Years	Chief Executive / Education Services	**9**	**12**	This situation remains very fragile, and following confirmation of the pay award. Education service and schools are working with Finance to support and identify schools who may be likely to end the year with a deficit position. Systems and

Risk	Lead Cabinet Member	Lead Directorate / Service Area	Q1 Risk Score	Q2 Risk Score	Commentary
					processes for early identification of potential difficulties continue to be refined and will be used to mitigate any issues likely to arise.

See also Appendix 2 and 3.

Quarter 2 Closed Risk

At the end of Quarter 2, two risks, Covid-19 Pandemic Outbreak and Post EU Transition was agreed by Executive Board to close.

Risk	Cabinet Member	Directorate / Service Area	Q1 Risk Score	Q2 Risk Score	Target Risk Score	Commentary
COVID-19 Pandemic Outbreak	Leader of the Council /Cabinet	Transformation & Corporate / People, Policy & Transformation	**12**	**6**	**6**	While Covid remains a risk, the arrangements for monitoring and managing this risk are undertaken as part of business as usual activities through ongoing HR, health & safety and civil contingency processes. Additionally, the Council's Gold emergency arrangements have also been stood down to reflect this position. Therefore, the risk score has been reduced to reflect this position. Following consideration by the Executive Board, it has been agreed for this risk to close at the end of quarter 2.
Post EU Transition	Leader of the Council / Cabinet	Transformation & Corporate / People, Policy & Transformation	**12**	**6**	**10**	The Post EU Transition arrangements are largely outside of the control of Newport City Council at UK Government and Welsh Government levels. Newport Council alongside other local authorities as part of the Welsh Local Government Association are managing and responding to changes to post EU arrangements as they arise. The Council's Community Cohesion team are continuing to support EU Citizens living in Newport as part of ongoing community cohesion activities, providing advice and guidance as required by those impacted by legislation. In consideration of these arrangements, the risk score has decreased to reflect this position and following consideration by the Executive Board, it has been agreed for this risk to close at the end of Quarter 2.

Appendix 1 - Quarter 2 Corporate Risk Heat Map and Risk Profile
Appendix 2 – Quarter 2 NCC Service Area Risk Summary.
Appendix 3 – Newport Council's Quarter 2 Corporate Risk Register (Attached separately).

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
Service Plans 2021/22

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 itself. 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.

It is outlined in the report that there are three risks that have increased in score, all of which could have a financial impact. Two of these are directly linked to the current and medium-term financial situation and are largely the product of high inflation and demand for services. The first of these (the ability to balance the Council's medium term budget) has increased significantly in a short space of time due to the rapidly changing financial context and is set out in detail within a recent budget report to Cabinet. The schools finance risk will need close attention heading into 2023/24 once the impact of the 2023/24 Council revenue budget is understood at an individual school level.

In addition, the risk in relation to Children's Services has the potential to have a significant financial impact. Some of this impact is reflected within the Council's Medium Term Financial Plan (MTFP) and draft 2023/24 budget. However, should the demand for services continue to increase, there is the potential for it to add further pressure to the financial outlook. Therefore, it will be important that the risk continues to be monitored for its financial impact and any such impact reported in the regular monitoring reports and

reflected in the MTFP, if appropriate. The same principle applies to any other risk that potentially has a financial impact.

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. The identification of corporate risks within the risk register and monitoring the effectiveness of the mitigation measures are matters for Cabinet. However, Governance & Audit Committee are responsible for reviewing and assessing the Council's risk management, internal control and corporate governance arrangements. The report confirms that there have been no significant changes in the risk profile during the first quarter of this financial year, as compared with the final quarter of last year, with no additional risks being added to the corporate risk register and no risks being de-escalated back to the service areas. For the most part, the individual risk scores have also remained the same, with only 1 risk scores being increased and 1 being decreased. The risk register will need to be updated in due course to reflect the new Corporate Plan and the new service areas.

Comments of Head of People, Policy and Transformation

Effective monitoring and reporting against the Council's Corporate Risk Register is essential in minimising and preventing the likelihood and impact of risks against our objectives. The Council's risk management is a key area in the implementation of the Well-being of Future Generations Act (Wales) 2015.

The recent changes made to our risk management processes and system will ensure officers at all levels of the organisation have greater control and oversight of their risks taking the necessary action to mitigate their impact and escalate where necessary to senior management.

Scrutiny Committees

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

Equalities Impact Assessment

For this report, a full Fairness and Equality Impact Assessment is not required to be undertaken. This is because this report is not seeking any strategic decisions or policy changes, with its purpose being to update Governance and Audit Committee on the current risk register and risk management process of the Council.

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 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.

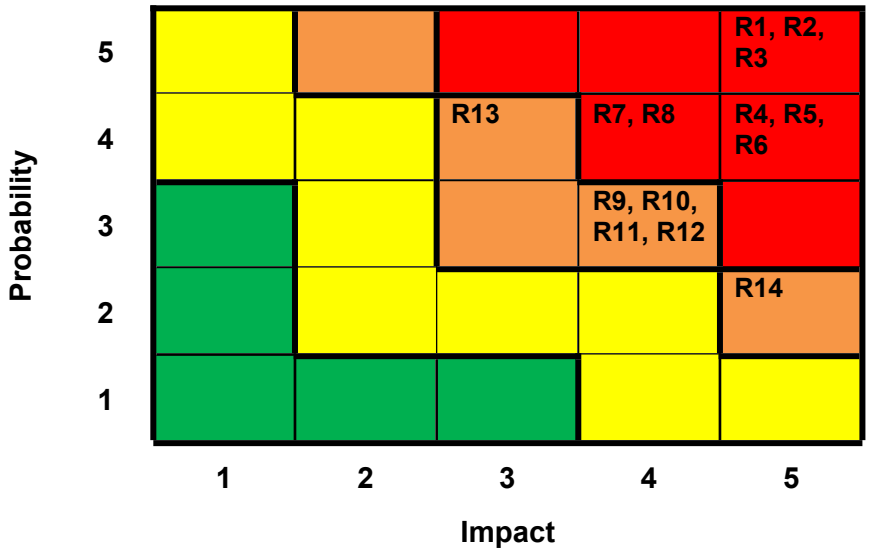
Consultation

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

Background Papers
Risk Management Policy 2020-22
Q1 Risk Report September 2022

Dated: 12th January 2023

Appendix 1 - Quarter 2 2022/23 Corporate Risk Heat Map



Corporate Risk Heat Map Key (Quarter 2 2022/23)	
R1 - Stability of Social Services Providers	**R8 -** Newport Council's Property Estate
R2 - Pressure on Adult & Community Services	**R9 –** Information & Cyber Security
R3 - Pressure on the delivery of Children Services	**R10 -** Schools Finance / Cost Pressures
R4 - Balancing the Council's Medium-Term budget	**R11 -** Demand for ALN and SEN support
R5 - Highways Network	**R12 -** Educational Out of County Placements
R6 - Pressure on Housing and Homelessness Service	**R13 -** Climate Change
R7 - Ash Die Back Disease	**R14 -** City Centre Security and Safety

Risk Score Profile between Quarter 3 2021/22 and Quarter 2 2022/23

Risk Reference	Risk	Lead Cabinet Member(s)	Lead Directorate / Service Area	Risk Score Quarter 3 2021/22	Risk Score Quarter 4 2021/22	Risk Score Quarter 1 2022/23	(Current) Quarter 2 2022/23	Target Risk Score (at Q2 22/23)
R1	**Stability of Social Services Providers**	Cabinet Members for Social Services	Social Services / Adult Services	**25**	**25**	**25**	**25**	**6**
R2	**Pressure on Adult & Community Services**	Cabinet Members for Social Services	Social Services / Adult Services	**25**	**25**	**25**	**25**	**10**
R3	**Pressure on the delivery of Children Services**	Cabinet Members for Social Services	Social Services / Children Services	**20**	**20**	**20**	**25**	**6**
R4	**Balancing the Council's Medium-Term budget**	Leader of the Council / Cabinet	Transformation & Corporate / Finance	**9**	**9**	**12**	**20**	**10**
R5	**Highways Network**	Cabinet Member for Infrastructure & Assets	Environment & Sustainability / Infrastructure	**20**	**20**	**20**	**20**	**15**
R6	**Pressure on Housing and Homelessness Service**	Cabinet Member for Strategic Planning, Regulation & Housing	Environment & Sustainability / Housing & Communities	**16**	**20**	**20**	**20**	**6**
R7	**Ash Die Back Disease**	Cabinet Member for Climate Change & biodiversity	Environment & Sustainability / Environment & Public Protection	**16**	**16**	**16**	**16**	**6**
R8	**Newport Council's Property Estate**	Cabinet Member for Infrastructure & Assets	Transformation & Corporate / People, Policy & Transformation	**16**	**16**	**16**	**16**	**9**

Risk Reference	Risk	Lead Cabinet Member(s)	Lead Directorate / Service Area	Risk Score Quarter 3 2021/22	Risk Score Quarter 4 2021/22	Risk Score Quarter 1 2022/23	(Current) Quarter 2 2022/23	Target Risk Score (at Q2 22/23)
R9	**Information & Cyber Security**	Cabinet Member for Organisational Transformation	Transformation & Corporate / People, Policy & Transformation	**16**	**16**	**16**	**12**	**10**
R10	**Schools Finance / Cost Pressures**	Deputy Leader & Cabinet Member for Education & Early Years	Chief Executive / Education Services	**12**	**9**	**9**	**12**	**6**
R11	**Demand for ALN and SEN support**	Deputy Leader & Cabinet Member for Education & Early Years	Chief Executive / Education Services	**16**	**12**	**12**	**12**	**6**
R12	**Educational Out of County Placements**	Deputy Leader & Cabinet Member for Education & Early Years	Chief Executive / Education Services	**12**	**12**	**12**	**12**	**4**
R13	**Welsh Government's Net Carbon Zero target by 2030 (formally Climate Change Risk)**	Cabinet Member for Climate Change & Biodiversity	Environment & Sustainability / Environment & Public Protection	**12**	**12**	**12**	**12**	**10**
R14	**City Centre Security and Safety**	Cabinet Member for Infrastructure & Assets	Environment & Sustainability / Infrastructure	**10**	**10**	**10**	**10**	**8**

Appendix 2 – Quarter 2 NCC Service Area Risk Summary

Service Area	Directorate	Total Q2 Risks	Risk Scores Increased since Q1	Risk Scores Decreased since Q1	No Change since Q1	New Risks Since Q1	Closed Risks Since Q1	Escalated Risks*1	De-escalated Risks*2
Adult & Community Service	Social Services	3	0	0	3	0	0	0	0
Children & Young People Service	Social Services	3	1	1	1	0	0	0	0
Infrastructure	Environmental & Sustainability	5	0	0	5	0	0	0	0
Education	Chief Executive	7	1	1	5	0	0	0	0
Environment & Public Protection	Environmental & Sustainability	5	0	0	5	0	0	0	0
Finance	Transformation & Corporate	5	2	0	3	0	0	0	0
Housing & Communities	Environmental & Sustainability	2	0	0	2	0	0	0	0
Law & Standards	Transformation & Corporate	1	1	0	0	0	0	0	0
People, Policy and Transformation	Transformation & Corporate	8	0	2	6	0	2	0	0
Prevention & Inclusion*3	Social Services	0	0	0	0	0	0	0	0
Regeneration & Economic Development	Chief Executive	3	0	0	3	0	0	0	0
Total		**42**	**5**	**4**	**33**	**0**	**2**	**0**	**0**

***1 – Escalated Risks** – Risks that have been escalated from Service area risk registers to Corporate Risk Register
***2 – De-escalated Risks** – Risks that have been de-escalated from Corporate Risk Register to service area risk register
***3** – **Prevention & Inclusion** – This is a newly created service area and no risks were transferred from other service area. P&I are developing their service plan and risk register. This will be updated for Quarter 3.

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

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 strategic objective /	Loss and/or intermittent disruption of a service between 2-3 days.	**Corporate / Project** Unplanned and/or additional	Significant legislative breach resulting in investigation. (Linked to Financial	Major reversible injury to staff, student or member of	Adverse local publicity / local public opinion including social media.	Project status is 1 to 6 months over from anticipated implementation date.

Score	Description	Impact Measures						
		Strategic / Policy	**Operational / Business Continuity**	**Financial**	**Governance / Legal / Regulatory**	**Health & Safety**	**Reputational**	**Project Delivery / Savings / Benefits**
		Service Plan objective.		expenditure disturbance. Capital = £0.25M - £0.5M Revenue = £0.25M to £0.5M Revenue = £0.25M to £0.5M	/ Reputational Impacts)	public. Not life threatening. (Linked to Financial / Reputational Impacts)	Statutory prosecution of a non-serious nature.	There is significant reduction on delivery of benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational impacts.
	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.	**Corporate / Project** 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.	**Corporate / Project** Unplanned and/or additional expenditure disturbance. Capital < £100k	No reprimand, sanction or legal action.	Some superficial injuries. (Linked to Financial / Reputational Impacts)	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 benefits / savings

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

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.

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NEWPORT
CITY COUNCIL
CYNGOR DINAS
CASNEWYDD

Corporate Risk Register

2022/23 Quarter 2 Update

Ash Die Back Disease

Risk Overview	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.
Parent Service(s)	Environment & Public Protection (sv)
Lead Cabinet Member(s)	Cabinet Member for Climate Change & Bio-diversity

16

Inherent Risk Score

6

Target Risk Score

Existing Arrangements to Manage Risk

Governance	• Monthly and quarterly updates on the management of the Ash Dieback across Newport are provided by the Countryside Management team, this gets reported to the Head of Service and Cabinet Member via regular briefing meetings. • The risk has been added to the risk register and is updated on a quarterly basis, with information presented to Scrutiny Committee as part of the performance review system in place.
Internal Controls & Processes	• Environment & Public Protection has a cyclical inspection regime for all council owned trees and is able to identify, risk assess and remove trees that have Ash Dieback. • This does not include management of third party trees. However we will undertake awareness raising to assist people in dealing with this and to help protect the public. • NCC also has an emergency response protocol to deal with tree failures from third party land. • The Council is aware following a recent independent assessment – known as the i-tree report, the authority needs to improve its tree coverage across the city to assist with drainage, biodiversity and air quality functions and new initiatives to replace trees will need to be undertaken. • Due to the losses of Ash trees the Authority is implementing a significant tree replacement programme following the ash removal works.
Other Arrangements	• NCC Countryside Management team and Tree team use specialist Arboriculture consultants who survey NCC land holdings and identify specimens with the disease at any of the four progressive stages. • The team will risk assess the urgency of the work at a particular site based on its location, proximity to the public or property and the stage of the disease.

Direction of Risk

	DoR	Comment
Ash Die Back Disease	➡	Scale of work remains the same as major works will not begin until the Autumn.

Action Description	Period	Value
To undertake works removing diseased Ash trees that are owned by NCC.	Sep 2022	★

Balancing the Council's Medium Term Budget

Risk Overview	To meet the Council's requirement of reducing the gap between Council spend and Budget allocation over the next 3-5 years
Parent Service(s)	Finance (sv)
Lead Cabinet Member(s)	Leader of the Council & Cabinet Member for Economic Growth & Investment

16

Inherent Risk Score

10

Target Risk Score

20

Balancing the Council's Medium Term Budget

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• Finance reported to key strategic boards on monthly basis e.g. Executive Board, Directorate Management Boards, Corporate Management Team, Service Area Management teams. • Finance updates reported to Cabinet on revenue and capital position. • Corporate Governance and Council Constitution sets roles and responsibilities of financial management.
Internal Controls & Processes	• Monthly finance (revenue and capital) forecasting of budgets to identify budget pressures and savings. • Finance Business Partners supporting budget holders / senior managers. • Budget setting process with senior officers / budget holders. Includes consultation with public and other key stakeholders.
Other Arrangements	• Regulatory / Audit Wales review of Council finances. • Internal Audit reviews of finance and financial controls. • Local authority network and reporting to Society of Welsh Treasurers and Welsh Government.

Direction of Risk

	DoR	Comment
Balancing the Council's Medium Term Budget		In line with the comments from the previous quarter, a significant budget gap is forecasted. Therefore, the Council will need to look at significant service area savings.

Action Description	Period	Value
Accountancy team to review corporate (non-service area) budgets and resources for any opportunities to identify savings or alternative approaches of utilising resources e.g. earmarked reserves.	Sep 2022	★
As a member of the Society of Welsh Treasurers, via Welsh Local Government Association, budget challenges, issues and pressures are escalated to Welsh Government, particularly the need for additional funding. Regular surveys of member local authorities to allow for comparisons of assumptions being made e.g. future pay awards.	Sep 2022	★
Deliver weekly budget meetings with the Council's Executive Board.	Sep 2022	★
Finance (Accountancy Business Partner teams) to support and review service area savings plans and business cases.	Sep 2022	★
Finance service area business partners to robustly review service area financial monitoring positions with the aim of identifying emerging issues that could impact upon the medium term outlook.	Sep 2022	●
Finance undertake challenge reviews of finance pressures submitted by service areas and to support service areas to reduce, remove and/or identify alternative approaches to address funding requirements.	Sep 2022	★
Procurement to support service area contract managers to review and challenge inflationary increases to contract arrangements to ensure value for money for the Council.	Sep 2022	★
Through Finance networks, we will regularly discuss with neighbouring and similar authorities regarding the finance assumptions being made in their budget planning, to ensure that NCC does not under/overstate inflationary pressures or omit potential solutions.	Sep 2022	★

City Centre Security & Safety

Risk Overview	Minimise the risks and disruption to people and businesses due major incidents or deliberate acts that pose hazards to people and business and can result in structural damage; damage/disruption to infrastructure and utilities; impacts on business continuity, reputation, and the economy, in both the city centre and affected surrounding areas.
Parent Service(s)	Infrastructure (sv)
Lead Cabinet Member(s)	Cabinet Member for Infrastructure & Assets

20

Inherent Risk Score

8

Target Risk Score

10

City Centre Security & Safety

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• The Protect Duty Act is currently going through Parliament, which will create a statutory duty for Counter Terrorism preparedness to be undertaken across all City Centres across the UK. • Newport City Council along with the Wales Extremism Counter Terrorism Unit (WECTU), Heddlu Gwent Police and other emergency services have formed the Newport City Council Protectiveness Security and Preparedness Groups (PSPGs), chaired, and led by NCC. • A key role of PSPGs will be the multi-agency assessment of current risk and vulnerabilities, and provision of effective mitigation in a proportionate manner. PSPGs will also ensure responsibilities under the new Protect Duty are discharged.
Internal Controls & Processes	• Included in the NCC Infrastructure Service Area Plan is the objective to ensure Newport City Council is meeting its requirements under the Civil Contingencies Act, by developing and having in place effective governance and control arrangements to identify, prepare and respond to events in Newport. • Supporting this objective, the Council has a well-established and integrated Corporate Emergency Management Plan, which outlines arrangements which are intended to assist the co-ordination of the Authority's response to any actual, or threated incident, or emergency, while maintaining normal services as far as possible. • The plan provides a flexible framework of procedures to enable a quick, effective and appropriate response to mitigate the effects of an incident or emergency that may have an impact on the Council's response. • The Council's Emergency Management Structure provides a framework of integrated emergency management to ensure co-ordination within the Council and with external agencies. The structure enables the Council to respond at an operational, tactical and strategic level. • At a strategic level in any incident a Gold Duty Officer (Chief Executive, Strategic Director, Head of Service) will be available to decide on what actions to take. Via the Civil Contingencies Duty Officer systems, the Council also provides a 365 24/7 incident response. • Consideration to be given to incorporating structured and strategic conversations about security and counter terrorism into pre application stage of major developments.
Other Arrangements	• Through the duties of the Civil Contingencies Act 2004, that Council also works in partnership with key responding agencies, including the emergency services, to ensure a timely and effective multi agency response to incidents. Multi Agency Plans and Procedures are developed via the Gwent Local Resilience Forum. • Due to significant recent major incidents across the UK (Manchester Arena Bombing) the Council with its partners review any recommendations resulting from inquiries to ensure that where necessary appropriate learning is integrated into existing plans and procedures.

Direction of Risk

	DoR	Comment
City Centre Security & Safety	➡	No Change to the risk for Quarter 2.

Action Description	Period	Value
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.	Sep 2022	
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.	Sep 2022	

Demand for ALN and SEN support

Risk Overview	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.
Parent Service(s)	Education Services (sv)
Lead Cabinet Member(s)	Deputy Leader & Cabinet Member for Education & Early Years

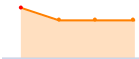
20

Inherent Risk Score

6

Target Risk Score

12



Demand for ALN and SEN support

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• Schools Forum review and agree funding formulas and funding arrangements for school • Schools Forum Finance sub-group. • ALN Panel scrutinise pupil information to identify if a specialist placement is needed as part of their statutory duty.
Internal Controls & Processes	• ALN Implementation finance subgroup review and discuss a number of funding formula models and agree on the most appropriate to be presented firstly to the Schools forum Finance Sub-Group and if in agreement will be presented at Schools Forum for ratification. • ALN Panel scrutinise pupil information to identify if a specialist placement is needed as part of their statutory duty. • Specific OOC ALN Officer responsible for monitoring OOC provision and where possible look for local alternative provision.
Other Arrangements	• Newport LA has commissioned 14 places at Catch 22 a primary age Social, Emotional, Behaviour Difficulties Independent Education Provider to reduce the risk of pupils requiring OOC placements.

Direction of Risk

	DoR	Comment
Demand for ALN and SEN support	➡	The new ALN funding formula agreed by School's Forum was implemented for 2022-23 financial year. An ALN Implementation meeting was held in September for Primary Head Teacher representatives and secondary representatives to feedback on the impact of the change of formula. The consensus of the group was that the change had been positive and allowed schools to be more flexible to the needs of their pupils. They agreed for the formula to continue into next financial year.

Action Description	Period	Value
(Estyn Rec 5) Ensure that Welsh Medium (WM) provision is established to support pupils with Additional Learning Needs	Sep 2022	★

Educational Out of County Placements

Risk Overview	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.
Parent Service(s)	Education Services (sv)
Lead Cabinet Member(s)	Deputy Leader & Cabinet Member for Education & Early Years

20

Inherent Risk Score

4

Target Risk Score

12

Educational Out of County Placements

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• ALN Panel scrutinise pupil information to identify if a specialist placement is needed as part of their statutory duty. • Procurement and Head of Service approval needed for OOC placements.
Internal Controls & Processes	• ALN Panel scrutinise pupil information to identify if a specialist placement is needed as part of their statutory duty. • Monthly budget monitoring and review of cost of planned OOC placements • Procurement and Head of Service approval needed for OOC placements. • Specific OOC ALN Officer responsible for monitoring OOC provision and where possible look for local alternative provision.
Other Arrangements	• Newport LA has commissioned 14 places at Catch 22 a primary age Social, Emotional, Behaviour Difficulties Independent Education Provider to reduce the risk of pupils requiring OOC placements.

Direction of Risk

	DoR	Comment
Educational Out of County Placements	➡	The summer term saw an increase in the number of pupils requiring specialist Out of County (OOC) provisions. The number rose from 83 OOC placements to 94 in the summer however that has further increased to 101 placements. This is primarily linked to the lack of local Independent specialist SEBD providers. The LA will re-tender for the secondary SEBD provision contract early next year with a view to retain as many placements locally.

New Risk Mitigation Action Plan to be implemented from Quarter 3.

Highways Network / Infrastructure

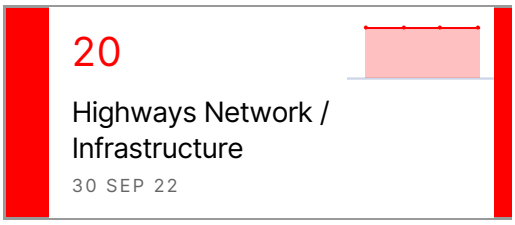
Risk Overview	Failure to recognise current levels of under investment in the whole life of the city's highway network assets in the medium to long term will continue to compound existing maintenance backlog figures.
Parent Service(s)	Infrastructure (sv)
Lead Cabinet Member(s)	Cabinet Member for Infrastructure & Assets

20

Inherent Risk Score

15

Target Risk Score



Existing Arrangements to Manage Risk

Governance	Highway Asset Management Plan • A quinquennial Highway Asset Management Plan (HAMP) is produced by City Services, which was last refreshed in 2019. It seeks to document the activities, processes, and information to support strategic investment decisions and long-term maintenance planning. • It provides information on the assets we have responsibility for, monitors how they are performing, documents their depreciation and confirms levels of funding required to mitigate the demands placed upon them. Highway Annual Status and Options Report • The highway Annual Status and Options report is a product of the HAMP that records the condition of the assets and seeks to identify and prioritise the funding need. • The report sets out the status of our assets in terms of extent, value and condition and presents the projected outcome of identified investment options. Highway Maintenance Manual • The Highway Maintenance Manual documents how the council manages the city's highway maintenance. It sets out how, as highway authority, it discharges its duties and the management of user risk.
Internal Controls & Processes	• To ensure the asset condition, maintenance requirement and its associated risk to the highway user is understood, the service area undertakes the following internal controls and processes: Reactive Safety Inspections • These are inspections undertaken in response to stakeholder notification of potential maintenance defects Routine Inspections • This is a regime of planned safety inspections designed to identify defects that have the potential to cause harm to users and defects that require repair in order to prevent escalation of deterioration and increased (avoidable) maintenance needs. Condition Surveys • These are both visual and specialist road condition "machine based" surveys, that record the condition of components of the asset to enable a programme of renewal/replacement to be prepared
Other Arrangements	• The Highway Asset Management Plan projects an anticipated annual capital investment of £500k and an anticipated £1.86m revenue investment through to the end of the current plan in 2023/24.

Direction of Risk

	DoR	Comment
Highways Network / Infrastructure	➡	No change to this risk rating

Executive Board have accepted no further Risk Mitigation can be undertaken to manage the risk. Ongoing assurance provided through internal / external audit reviews and regular risk assessments through Directorate / Service Area.

Information and Cyber Security

Risk Overview	Management and security of the Council's data to protect from being accessed and processed inappropriately. This includes preventing inappropriate access, loss, theft, and malicious attacks to maintain business continuity and integrity of our data.
Parent Service(s)	People, Policy & Transformation (sv)
Lead Cabinet Member(s)	▪ Cabinet Member for Infrastructure & Assets ▪ Deputy Leader & Cabinet Member for Education & Early Years

20

Inherent Risk Score

10

Target Risk Score

Existing Arrangements to Manage Risk

Governance	• Existing governance is documented in the council's information risk management policy. This includes internal groups such as the Information Governance Group chaired by the Director – Transformation and Corporate and the Data Protection Group. It also includes roles of Senior Information Risk Owner (SIRO), Data Protection Officer (DPO), the Information Management team and a designated Cabinet Member with this strategic responsibility. • The Annual Information Risk Report is formally reviewed by Overview Scrutiny Management Committee and Cabinet Member – Organisational Transformation. • Existing Organisation / Service Area management structure to report and escalate issues to senior officers. Also could be a Programme / Project Board, Task & Finish Group or other governance group which are aware and have oversight of the risk.
Internal Controls & Processes	• An Annual IT Health Check is carried out in line with requirements of the Public Services Network (PSN). Regular hardware and software updates are carried out by the IT Service. • Technical controls are in place including the use of endpoint protection, firewalls, encryption, backups, security certificates, mobile device management etc. • Physical security measures are in place to prevent inappropriate access. • Data Protection Impact Assessments (DPIA's) are carried out and an Information Risk Register is managed. • The council's IT Service, the Shared Resource Service (SRS), has a security function complementing council staff as well as security embedded in various roles. • The council has processes for out of hours incidents including the SRS.
Other Arrangements	• Audit Wales conducts independent reviews including on cyber security. The council is a member of the Warning and Reporting Point (WARP). • Shared Resource Service is responsible for the Council's management of systems and processes.

Direction of Risk

	DoR	Comment
Information and Cyber Security	↓	Whilst the potential impact remains the same as previously, it is believed that the mitigation measures in place are such that the likelihood is less than previously, despite international tensions due to war in Ukraine. Existing governance is documented in the council's information risk management policy including the Information Governance Group and the Annual Information Risk Report. An Annual IT Health Check is carried out in line with requirements of the Public Services Network (PSN). Regular hardware and software updates are carried out by the IT Service. The council's IT Service, the Shared Resource Service (SRS), has a security function complementing council staff as well as security embedded in various roles. The council has processes for out of hours incidents including the SRS.

Action Description	Period	Value
Development of a new Digital Strategy that supports the future direction of IT services and infrastructure of the Council.	Sep 2022	★
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.	Sep 2022	✔

Newport Council's Property Estate

Risk Overview	NCC has a significant property estate covering over 170 operational buildings (circa) such as the Civic Centre, Telford Depot, and its school estate 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.
Parent Service(s)	▪ People, Policy & Transformation (sv) ▪ Education Services (sv) ▪ Finance (sv)
Lead Cabinet Member(s)	Cabinet Member for Infrastructure & Assets

16

Inherent Risk Score

9

Target Risk Score

Existing Arrangements to Manage Risk

Governance	• The Council's Capital Strategy Asset Management Group is responsible for the monitoring, delivery and reporting of the Council's Assets. This is represented by senior officers from the Council and representatives from the Council's Property Services partner, Newport Norse. • The Schools' / Social Services estate is also overseen by the People Capital Group which also includes representatives from the Council's Property Services partner, Norse Norse and Council representatives.
Internal Controls & Processes	• Newport Council has contract arrangement with Newport Norse who oversee the management and maintenance of the Council's estate. Service Areas are responsible for the building assets which they use across the Council's estate. • Newport Norse are responsible for undertaking regular building condition assessments to ensure that they meet necessary legislative and building regulations. The assessments completed by Newport Norse are risk assessed and reported through the Council's governance groups. Maintenance work completed on the Council's estate is prioritised based upon risk including any reactionary / immediate work that has to be completed. • School's estate is devolved to schools and managed through their arrangement with Newport Norse and the Corporate Landlord Policy establishes responsibilities also.
Other Arrangements	• Newport Council has a maintenance budget of £1.5m in its capital programme. However, it is estimated that the Council should be spending £8.5m pa. The Council has a contract arrangement with Newport Norse to oversee and manage the estate portfolio (including schools)

Direction of Risk

	DoR	Comment
Newport Council's Property Estate	➡	There have been no significant changes to the estate that would warrant a change in the risk score, but more and more issues are beginning to present. The state of the estate is down to its age and level of investment. The Council are working towards deciding upon a method and approach of asset rationalisation and targeted investment to reduce this risk score.

Action Description	Period	Value
A programme of estate rationalisation to see which properties and assets are of strategic value to the Council and those that can be designated for alternative use.	Sep 2022	★
Adherence to the Corporate Landlord Policy and ensuring that all Premises Managers are accountable and responsible.	Sep 2022	✓
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.	Sep 2022	●

Pressure on Adult Services

Risk Overview	There is increasing 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.
Parent Service(s)	Adult Services (sv)
Lead Cabinet Member(s)	Cabinet Member for Social Services

20

Inherent Risk Score

10

Target Risk Score

Existing Arrangements to Manage Risk

Governance	• Newport Council has a new structure with a Director of Social Services and three service areas to deliver Social Services. • There are regular Directorate and Service Area meetings held to monitor and report the delivery of Adult Services. • At a regional level the Council is part of the Regional Partnership Board which oversees the delivery of social services across Gwent. • A Population Needs Assessment has been undertaken for Gwent in relation to the forecasting of demand and provision of services across Newport and Gwent.
Internal Controls & Processes	• NCC Adult Services has various mechanisms to monitor and report on the delivery of its services through financial and non-financial performance measures. • Regular reports and updates are provided through Directorate, Service and Team management levels in the organisation.
Other Arrangements	• The delivery of Adult Services is subject to External Regulatory review through Care Inspectorate Wales. • Internal Audit provide assurance in relation to the delivery of Adult Services.

Direction of Risk

	DoR	Comment
Pressure on Adult Services	➡	The ability to source domiciliary care packages is compromised by poor capacity. Recruitment and retention of staff continues to be an issue. Packages are being sourced and placements are being progressed but the pace is slow and there are people having to wait for care and accept times that do not necessarily suit their needs. We are working closely with providers to ensure we are able to effectively target resources. Within Social Services the number and complexity of referrals places considerable pressure on the whole workforce. This is increasing the likelihood of delays in initial responses, assessments and reviews.

Action Description	Period	Value
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.	Sep 2022	●
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.	Sep 2022	★
To improve the support available for young people with learning disabilities to transition from Children Services into Adults Services. ·	Sep 2022	★

Pressure on Housing & Homelessness Services

Risk Overview	Increased pressures being faced by the Council's housing service as result of new legislative requirements, lack of affordable permanent accommodation, cost of living crisis and uncertainty over future financial grants from Welsh Government
Parent Service(s)	Housing & Communities (sv)
Lead Cabinet Member(s)	Cabinet Member for Strategic Planning, Regulation & Housing

20

Inherent Risk Score

6

Target Risk Score

Existing Arrangements to Manage Risk

Governance	• Housing and Homelessness is being monitored through existing governance arrangements through the Directorate Management Board and Service Management Team. • Furthermore there are existing team arrangements to monitor and report the delivery of the service. • The Housing and Homelessness teams are also involved with the Strategic Housing Forum and its associated subgroups with Registered Social Landlords and Rough Sleeper Strategic Group.
Internal Controls & Processes	• Weekly meetings are held with the finance BP to discuss budgets and forecasting. • The Housing and Homelessness teams also submit monthly finance forecasts and produce quarterly performance measures to monitor performance. • There are also other operational performance measures monitored and reported through the teams. • The team also submit monthly Wales Housing statistics to Welsh Government.
Other Arrangements	• Welsh Government grants were received during 2022-23 which reduce the overall spend on the housing advice and temporary accommodation service. • WG has advised that additional grant funding will be forthcoming in future years but has given no indicative figures. • The Housing and Homelessness teams are also involved with the Strategic Housing Forum and its associated sub groups with Registered Social Landlords and Rough Sleeper Strategic Group. • NCC provides regular monitoring performance reports on its housing and homelessness position.

Direction of Risk

	DoR	Comment
Pressure on Housing & Homelessness Services	➡	Pressure on homelessness services continues to increase. It is anticipated that the Ukrainian situation, cost of living crisis and an increased number of private sector landlords potentially giving notice to their tenants in advance of the Renting Homes Wales Act coming into force will exacerbate the demand for temporary accommodation. The authority is working with Housing Associations and the private sector to try to prevent homelessness and increase the stock available for temporary and move-on accommodation.

Action Description	Period	Value
Develop a strategy framework for private sector housing, bringing together the Adaptations Policy, Private Sector Leasing scheme, Housing Loans Policy	Sep 2022	●
Review of the Community Housing Protocol to ensure that it remains fit for purpose and delivers the expected outcomes.	Sep 2022	●
Undertake a review of the Housing Allocation Policy.	Sep 2022	●

Pressure on the Delivery of Children Services

Risk Overview	Children Services are facing pressures to manage to manage increase in volume of referrals and cases of children with complex needs. This is in a context of inflationary cost rises and budgets not being able to meet these cost increases; alongside recruitment and retention issues across the Social Care sector and in Newport.
Parent Service(s)	Children Services (sv)
Lead Cabinet Member(s)	Cabinet Member for Social Services

25

Inherent Risk Score

6

Target Risk Score

Existing Arrangements to Manage Risk

Governance	• Children Services delivered in accordance with Social Services and Well-being Act, Well-being of Future Generations and Children's Act. • There are governance arrangements in place at local, regional and national levels. • Directorate and Service Management Teams meet monthly to provide service and performance updates on the delivery of the service. This includes performance, finance and HR information to inform decision making. Additionally, the Council's Executive Board and Corporate Management Team has oversight in the delivery of services. • At a regional (Gwent) level, Heads of Service and Director of Social Services represent Newport Council at the Regional Partnership Board. Service pressures are reported here and collaborative working between agencies and other local authorities. • The Safeguarding Board and Children's Family Strategic Partnership Board collaboratively work at regional levels to monitor and manage demand issues.
Internal Controls & Processes	• The Council's Children Services teams deliver services in compliance with the Social Services and Well-being Act and Children's Act. Internal Controls and processes are established to meet these requirements under the different Acts. • WCCIS system monitors and records caseloads and case management across social services. Regular (Monthly) check ins and case management meetings are held between the Council's staff and managers to monitor and manage caseloads. • Collaborative and co-production working takes place between Children Services and other agencies to manage caseloads. This includes Foster Wales. • Human Resources – HR Business Partners support Managers with the recruitment and retention of staff including working the Council's Communications team to promote social care roles. • Finance – monthly forecasting and monitoring of finances across Children services. Mechanisms in place to escalate budget pressures and Finance Business Partners forecasting demand pressures / resources. Commissioning and procurement to find best value for residential placements. • Performance Management – Monthly reporting to Welsh Government and regular performance monitoring of services in Newport.
Other Arrangements	• Care Inspectorate Wales (External Regulator) and Internal Audit provide assurance of governance, internal control and risk management. • Third sector partnership working with Barnardos – prevention and statutory functions supporting families, MyST, residential homes provision, and Foster families.

Direction of Risk

	DoR	Comment
Pressure on the Delivery of Children Services		The risk score has increased in the last quarter as the service has had to put in place measures to manage the increase volume of referrals into the safeguarding hub. We have also seen an increase in staff sickness and we continue to struggle with recruitment. We are currently working as a whole service to ensure that the most vulnerable and at risk are prioritise and RAG rating of other cases open to statutory services is underway.

Action Description	Period	Value
Completion and implementation of Welsh Government action plan to work towards reducing the numbers of looked after children	Sep 2022	★
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	Sep 2022	●
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.	Sep 2022	★
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.	Sep 2022	★

Schools Finance / Cost Pressures

Risk Overview	Cost pressures of schools are not met resulting in increased deficit budgets
Parent Service(s)	Education Services (sv)
Lead Cabinet Member(s)	Deputy Leader & Cabinet Member for Education & Early Years

20

Inherent Risk Score

6

Target Risk Score

12

Schools Finance / Cost Pressures

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• Structures within Education and Finance support the escalation of identified issues to senior officers, Heads of Services and Executive Board. • In addition, the Schools Forum is a statutory committee which acts as a consultative body in relation to any changes to the schools funding formula, and task and finish sub-groups are created to consider specific elements where necessary. • Schools Governors are also responsible for monitoring and reporting school finance positions.
Internal Controls & Processes	• The Finance Business Partners provide a key role through their relationships with schools, and support early identification of emerging issues. • Any issues are escalated to the Lead and Senior Finance Business Partners and the Assistant Head of Education to consider intervention and discussions around appropriate mitigating actions.
Other Arrangements	• Each school has a Service Level Agreement with the Council to support them in financial planning and monitoring, although schools have a choice in the level of service they wish to procure under these arrangements.

Direction of Risk

	DoR	Comment
Schools Finance / Cost Pressures		This situation remains very fragile, and following confirmation of the pay award. Education service and schools are working with Finance to support and identify schools who may be likely to end the year with a deficit position. Systems and processes for early identification of potential difficulties continue to be refined and will be used to mitigate any issues likely to arise.

Action Description	Period	Value
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.	Sep 2022	●
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	Sep 2022	●
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.	Sep 2022	●

Stability of Social Services Providers

Risk Overview	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.
Parent Service(s)	Adult Services (sv)
Lead Cabinet Member(s)	Cabinet Member for Social Services

20

Inherent Risk Score

6

Target Risk Score

25

Stability of Social Services Providers

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• Newport City Council is consistently reviewing and monitoring the provision of residential and non-residential care providers in the city and across the region. • Regular Directorate and Service area meetings are held including representatives from Finance to assess and forecast the Council's financial position. • Extensive work being undertaken regionally and nationally to support providers and to explore alternative models of provision. This includes Welsh Government officials and is linked to extensive focus and work with health colleagues to explore care in hospital settings and the need to provide community based care.
Internal Controls & Processes	• The Council undertakes regular monitoring and assessment of placements and care packages across Adult Services. • The Commissioning team are in weekly if not daily contact with providers in order to support packages of care. Similarly staff from the teams are in very regular contact with residential providers including links with Care Inspectorate Wales. • The Council's financial monitoring and reporting of care provision is also undertaken monthly. Contract management arrangements are in place to manage provision and ensure providers meet necessary requirements, standards and provide value for money.
Other Arrangements	• The focus on this area of work is extensive including external monitoring.

Direction of Risk

	DoR	Comment
Stability of Social Services Providers	➡	The current economic climate is continuing to be challenging. Increased fee levels have delivered financial stability for the time being but predicted energy price hikes and increases in inflation present ongoing risk for winter months of this financial year. In addition, the likely impact of both flu and covid is highly significant in this area of work. Thus the fragility of the workforce continues to impact on capacity.

Action Description	Period	Value
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.	Sep 2022	

Welsh Government's Net Carbon Zero Target by 2030

Risk Overview	Welsh Government has set a target for all public sector bodies to be net zero carbon by 2030. To achieve this target, NCC has a Climate Change Plan 2022-27 to deliver key actions and projects.
Parent Service(s)	Environment & Public Protection (sv)
Lead Cabinet Member(s)	Cabinet Member for Climate Change & Bio-diversity

16

Inherent Risk Score

10

Target Risk Score

12

Welsh Government's Net Carbon Zero Target by 2030

30 SEP 22

Existing Arrangements to Manage Risk

Governance	• The Climate Change Plan is overseen by the Climate Programme Board. Six subgroups are in place to lead on each of the themes which reports to the Climate Programme Board. • Strategic Director (Environment & Sustainability) is the chair of the Climate Programme Board and lead officer of the Climate Change Plan. • Strategic Director (Transformation & Corporate) is Deputy Lead and Vice Chair.
Internal Controls & Processes	• Quarterly reports are reported to the Programme Board and Cabinet Member and half yearly reports are reported to Overview and Scrutiny Management Committee. • An Annual Report which includes council carbon emissions is reported to Cabinet each year. Action plans are reviewed on an annual basis to agree work for the following year.
Other Arrangements	• The council is working with partners to implement the Local Area Energy Plan which is the route map to a carbon net zero energy system by 2050 for the whole of the local authority area. • The council is also working with One Newport partners to develop a Newport-wide strategy.

Direction of Risk

	DoR	Comment
Welsh Government's Net Carbon Zero Target by 2030	➡	No change from previous quarter.

Action Description	Period	Value
Ebbw West Solar Farm Development	Sep 2022	●
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.	Sep 2022	★
Select a building decarbonisation delivery partner (Via RE:Fit) and complete a phase of decarbonisation works on the NCC estate.	Sep 2022	★
Support the completion of the Welsh Government supported Local Area Energy Plan (LAEP) pilot to develop a decarbonisation action plan for the City of Newport in collaboration with NCC Policy, Partnership and Involvement team and external stakeholders.	Sep 2022	✓

Report

Governance and Audit Committee

Part 1

Date: 26 January 2023

Subject **Audit Wales and Regulatory Bodies Published Reports 2022/23 between April and December 2022.**

Purpose To present an update on Audit Wales and Regulatory (Care Inspectorate Wales / Estyn) bodies reports published between April and December 2022 along with the Council's response.

Author Head of People, Policy and Transformation

Ward All

Summary The Governance and Audit Committee is required under its terms of reference to receive and consider inspection reports from external regulators and inspectors and to make recommendations and, where necessary, monitor implementation and compliance with agreed action plans.

There are three external regulators: Audit Wales, Care Inspectorate Wales, and Estyn. Each body is responsible for providing assurance that the Council is fulfilling its statutory duties and providing value to the public. This report covers the regulatory reports published by each body between April and December 2022 including a summary of the Council's response (where applicable) and any additional actions which the Council is undertaking to respond to the recommendations.

Proposal The Governance and Audit Committee is asked to consider the contents of this report of the regulatory activity completed and the assurances that where recommendations have been raised the Council is taking necessary action.

Action by Corporate Management Team and Heads of Service

Timetable Immediate

This report was prepared after consultation with:

- Corporate Management Team

Signed

Background

In May 2021, the terms of reference for the Governance and Audit Committee (GAC) was updated to align with the Local Government & Elections (Wales) Act 2021. One of the functions outlined in the terms of reference of the Committee is:

To receive and consider inspection reports from external regulators and inspectors and to make recommendations and, where necessary, monitor implementation and compliance with agreed action plans.

In June 2021, the Auditor General also requested all Council's Governance and Audit Committees to formally consider all reports of external review bodies – principally: Audit Wales (AW), Estyn, and Care Inspectorate Wales (CIW).

All reports received by the Council are considered by the relevant Directors and Heads of Service impacted by the report. All reports are shared with relevant Cabinet Member(s). Where recommendations are raised for the Council to consider / action, the relevant service area(s) are required to confirm their response (if applicable). These may already be actions identified in their service plans, risk mitigation response, programmes / projects being delivered by the service area or bespoke actions. Where service areas are not able to implement the recommendations e.g. resources, prioritisation etc, they are asked to provide an explanation to support their decision.

This report provides an overview of the reports that have been published by the three regulatory bodies between April and December 2022. The Report includes where recommendations have been highlighted, service area(s) response to these recommendations and action(s).

Audit Wales (Appendices One and Three)

Audit Wales (AW) is the statutory external auditor of most of the Welsh public sector and its role is to examine how public bodies manage and spend public money including achieving value in the delivery of their services. Reports produced by AW cover either national (thematic) areas or local studies of the public body.

For the period covered in this report, AW have published nine reports: six national (thematic) reports and three local studies. Each of these reports and the Council's response is outlined in Appendix one of this report where recommendations have been raised for local authorities to consider and if applicable implement necessary actions.

Appendix three includes copies of the Local Audit Wales reports completed.

Care Inspectorate Wales

Care Inspectorate Wales (CIW) are the independent regulator of social care and childcare in Wales. CIW are responsible for inspecting and driving improvement of regulated services and local authority social services. CIW also undertake national (thematic) reviews of social care services and inspect social care and childcare services across local authority areas.

Inspection reports of regulated services such as children's homes and secure accommodation services and residential family centres are not reported and/or made available on the CIW website to protect the privacy of children or people using that service. In the period covered in this report, no national or local studies have been completed by Care Inspectorate Wales.

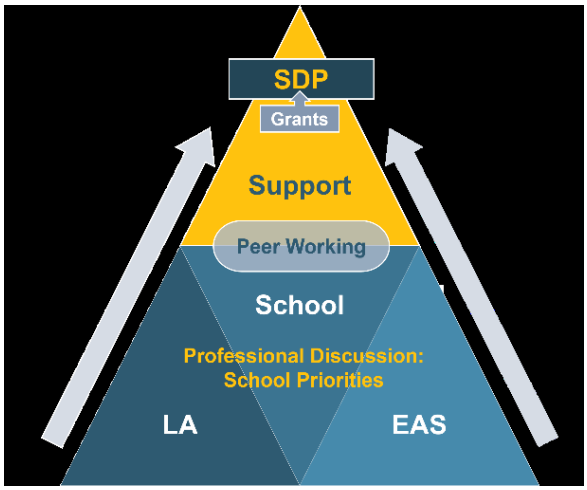
Estyn (Appendix 2)

Estyn is the independent inspection and advice service on quality and standards in education and training provided in Wales. Estyn inspect quality and standards including all schools, further education, adult community learning, local government education services, teacher education and training, Welsh for adults, work-based learning, and others. Below is an overview of how Newport Council, the Regional School Improvement Partners (EAS) and schools collaborate to monitor and implement recommendations and actions from Estyn Thematic, local and School inspection reports.

Appendix 2 of this report provides an overview of Estyn activity completed in 2022/23 with one national (thematic) review and four school inspections. Links are available for further information.

Estyn / Newport Council School Inspection and Assurance Overview.

Newport Council's Education Service works in partnership with its School Improvement Partners Education Achievement Service (EAS), Gwent Regional group) to ensure that schools in Newport have the bespoke support they require to meet the recommendations in Estyn inspection reports and to monitor their progress against the recommendations.



This is achieved through the Regional Approach to School Improvement (see diagram to the right). To support the process the Council's Education Service alongside the school and EAS collaborate to monitor and assure that recommendations and actions are delivered to improve performance.

The following activities are undertaken:

- **School Development Planning (SDP) Professional Discussion** – Annual professional discussion with the school leaders, Chair of Governors to assess performance, progress against their priorities, Estyn, Internal Audit recommendations.
- **Termly Supported Self-Evaluation** – Quality assure areas of strength and development including self-evaluation against any Estyn recommendations.
- **Team Around the School Meeting (identified school) -** Collaborative meetings between a school, the LA and EAS which are held on a 4-6 weekly cycle, for schools identified as requiring targeted, intensive support and are focussed on the forensic needs of the school.
- **Multi-Agency Meetings (secondary schools in Special Measures) -** These meetings are held on a termly basis, for secondary schools in the Estyn category of Special Measures. The outcome of these meetings and next steps, are reported and discussed with the EAS through the monthly partnership meeting, with the LA.

Appendix 1 – Summary of Audit Wales reports
Appendix 2 – Summary of Estyn Inspection reports
Appendix 3 – Audit Wales NCC reports.

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?
Recommendations and actions are not implemented by the Council to improve the delivery of services to the public / service users.	M	L	All Regulatory reviews and reports are shared with the relevant Senior Officers and Cabinet Members. Recommendations and Actions are delivered and monitored by the relevant service area(s) with corporate monitoring by People, Policy and Transformation	Corporate Management Team

*Taking account of proposed mitigation measures

Links to Council Policies and Priorities
Corporate Plan 2022-27
Climate Change Plan

Options Available and considered

1. To consider the contents of this report and recommend to Council that the recommendations / actions raised by the regulatory bodies be reported to Governance and Audit Committee in the end of year report with an overview of what the Council has undertaken.
2. To request further information or reject the contents of this report.

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 adverse budgetary impacts as a result of this report. Any recommendations made by the regulatory bodies in the reports issued during the first nine months of the financial year will be addressed through existing resources. Where this is not possible, consideration will need to be given to alternative mitigation or the impact will need to be factored into the Council's medium term financial planning. Some of the recommendations make specific reference to financial considerations and these will be reflected, as appropriate and practicably, within key financial plans, such as the annual budget report and Capital Strategy.

Comments of Monitoring Officer

There are no specific legal issues arising from the report. In accordance with the Local Government (Wales) Measure 2011, as amended by the Local Government & Elections (Wales) Act 2021, there are a number of statutory functions that the Governance and Audit Committee have to discharge and there are other non-statutory functions that can also be included within the terms of reference of the Committee. One of the additional functions that

the Council has previously delegated to this Committee is the responsibility for receiving and considering inspection reports from external regulators and inspectors, making any necessary recommendations and monitoring implementation and compliance with agreed action plans. This also meets the requirements of the Auditor General in terms of ensuring that all reports from external regulators are reported to the Council and there is a process in place for monitoring compliance. The role of the Governance and Audit Committee is to consider this overview report on the regulatory activity undertaken during the past 6 months period and to satisfy itself that appropriate action has been taken to address the issues identified by the regulators. Responsibility for individual actions, as identified in the responses to the specific regulatory reports, is a matter for the relevant officers and Cabinet Members but the Committee needs to be satisfied that robust procedures are in place to identify and monitor those actions.

Comments of Head of People, Policy and Transformation

Newport City Council has a responsibility for ensuring that its services provide value for money to the taxpayer and that we are fulfilling our statutory duties. This report to the Governance & Audit Committee outlines the regulatory activity completed this financial year to date and will provide necessary assurances that our governance, internal control, and risk management processes are operating effectively. We maintain a strong and ongoing working relationship with the three regulatory bodies and support their work completed throughout each year.

Local issues

None.

Scrutiny Committees

Not applicable as this report will be presented to the Council's Governance and Audit Committee.

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**

The regulatory activity completed by the three bodies all consider the Wellbeing of Future Generations Act in its findings and recommendations for the Council. The Council's response also considers the five ways of working (Long term, Collaboration, Preventative, Involvement, Integration) to deliver improvement.

- **Equality Act 2010**

Not applicable as this is an information only report to the Governance and Audit Committee.

- **Socio-economic Duty**

Not applicable as this is an information only report to the Governance and Audit Committee.

- **Welsh Language (Wales) Measure 2011**

All reports published by the three regulatory bodies are available in Welsh and English.

Consultation

Consulted with Director of Social Services, Head of Children Services and Head of Education Services.

Background Papers

Audit Wales
Care Inspectorate Wales
Estyn

Dated: 11th January 2023

Appendix 1 - Audit Wales Reviews 2022/23

The table below provides an overview of completed Audit Wales reviews between 1st April 2022 and 1st December 2022 and the Council's initial response / action taken (if necessary). The table includes National reviews and Local (NCC) reviews.

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
National Report – Social Enterprises *'A Missed Opportunity'* December 2022	This is the second Audit Wales review examining poverty and how the public sector is alleviating and tackling poverty. How local authorities are working to grow and make the most Social Enterprises ensuring social value and social capital stay in communities and help people who are struggling. **Overall Conclusion** – local authorities are not effectively working with Social Enterprises to maximise their impact, make better use of resources and improve services for people and communities. Three Recommendations raised for local authorities to consider.	**Cabinet Member(s)** Councillor Deb Harvey - Cabinet Member for Community Well-being. **Lead Directorate / Service Area(s)** Social Services / Prevention and Inclusion / Environment & Sustainability / Housing & Communities	**Recommendation 1** To get the best from their work with and funding of Social Enterprises, local authorities need to ensure they have the right arrangements and systems in place. We recommend that local authority officers use the checklist in **Appendix 2** to: • Self-evaluate current Social Enterprise engagement, management, performance and practice; • Identify opportunities to improve joint working; and • Jointly draft and implement an action plan with timeframes and responsibilities clearly set out to address the gaps and weaknesses identified through the self-evaluation.	**In Progress** A working group will be established to review the findings of the Audit Wales 'Poverty Reports' and to consider the Council's response to the recommendations raised and Implement as necessary. The working group will consider the best approach for the Council to undertake a self-evaluation of Social Enterprises based upon the resources available. The Group as necessary will report to Directors and Corporate Management Team to outline the Council's approach and next steps.	**Prevention and Inclusion / Housing & Communities** **May 2023**
			Recommendation 2 To drive improvement, we recommend that the local authority: • Formally approve the completed Action Plan; • Regularly report, monitor, and evaluate performance at relevant scrutiny committees; and • Revise actions and targets in light of the authority's evaluation and assessment of its performance.		
			Recommendation 3 To ensure the local authority delivers its S.16 responsibilities to promote	**In Progress** The Director of Social Services report 2022/23 will consider the	**Director of Social Services.** **September 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			Social Enterprises we recommend that it reports on current activity and future priorities following the evaluation of its Action Plan including the Annual Report of the Director of Social Services.	activity and future priorities for Social Enterprises.	
National Report – Poverty in Wales *'Time for Change'* November 2022	Examined the challenges of poverty of Wales and how government is responding. First of three reviews on alleviating and tackling poverty (Social Enterprises, see above and community resilience and self-reliance in council plans). **Overall Conclusion** – the scale of the challenge and weaknesses in current work make it difficult for Welsh and local government to deliver the systemic change required to tackle and alleviate poverty. Eight recommendations raised for Welsh Government and local authorities to consider. Recommendations 1 and 4 for Welsh Government. Recommendations 2, 3, 5, 6, 7, 8 for local authorities.	**Cabinet Member(s)** Cllr Deb Harvey, Cabinet Member for Community Well-being **Lead Directorate / Service Area(s)** Social Services / Prevention and Inclusion / Environment & Sustainability / Housing & Communities	**Recommendation 2 – *Local strategies, targets and performance reporting for tackling and alleviating poverty.*** In Paragraphs 2.13 – 2.23 and Paragraphs 3.33 – 3.35 we highlight that councils and partners have prioritised work on poverty, but the mix of approaches and a complicated delivery landscape mean that ambitions, focus, actions, and prioritisation vary widely. We highlight that evaluating activity and reporting performance are also variable with many gaps. We recommend that the councils use their Wellbeing Plans to provide a comprehensive focus on tackling poverty to co-ordinate their efforts, meet local needs and support the revised national plan targets and actions. This should: • Include SMART local actions with a greater emphasis on prevention. • Include a detailed resourcing plan for the length of the strategy. • Be developed with involvement from other public sector partners, the third sector, and those with experience of poverty. • Include a robust set of consistent outcome indicators and measures to increase understanding of poverty locally; and • Be subject to annual public reporting to enable a whole system view of poverty locally to help improve delivery and support.	**In Progress** It is accepted that the Council is not able to tackle anti-poverty alone. The role of the Gwent Public Services Board and the Council's local One Newport group will be coordinating activities to tackle and prevent poverty. The new Well-being Plan 23-28 (to be launched in April '23) is focused on this area considering the Marmot principles. There is an objective focused on addressing poverty, health and well-being. Supporting this will be a range of measures linked to Marmot, Well-being Assessment and Well-being measures which monitor the impact of actions to address poverty. Newport Council's Corporate Plan 22-27 also has strategic priorities which will tackle and alleviate poverty in Newport's communities. Each Well-being Objective (WBO) considers supporting residents and communities through: **WBO 1** – Education and Employment focusing on becoming a living-wage city, eliminating education inequality, and attracting economic investment.	**People, Policy & Transformation.** **June 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
				WBO 2 – Improving the environment and places which people live, travel, recreational. Also improving how residents access digital technology and services. **WBO 3** – Focuses on early intervention, prevention and support that will enable residents to live health and positive lives. **WBO 4** – Focuses on improving access to services, community asset transfer and community wealth building. To support the delivery of these objectives the Council's service plans outlines the actions and performance measures. Services directly involved with supporting residents in poverty e.g. Housing, Education, Prevention are already working in partnership with other organisations.	
			Recommendation 3 – *Leadership on the poverty agenda* In Paragraph 2.23 we note that just over a third of councils have lead members and lead officers for addressing poverty. Given the importance of effective leadership in driving the poverty agenda forward and breaking silos within councils and between public bodies, we recommend that each council designate a cabinet member as the council's poverty champion and designate a senior officer to lead and be accountable for the anti-poverty agenda.	**Complete** Newport Council's Cabinet Member for Community Well-being includes in their portfolio the anti-poverty agenda. Additionally, the Council has appointed an Anti-poverty Champion. Their responsibility is to support anti-poverty work of the Council and partners in Newport. As poverty impacts cross section of service areas, the Head of Housing and Communities and Head of Prevention and Inclusion are leading on work associated with anti-poverty.	**Corporate Management Team / Law & Standards**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			Recommendation 5 – *Experience mapping to create inclusive services for people in poverty* In Paragraphs 3.2 – 3.6 we highlight that people in poverty are often in crisis, dealing with extremely personal and stressful issues, but they often find it difficult to access help from councils because of the way services are designed and delivered. We recommend that councils improve their understanding of their residents' 'lived experience' through meaningful involvement in decision-making using 'experience mapping' and/or 'Poverty Truth Commissions' to review and improve accessibility to and use of council services.	**In Progress** As identified in the Social Enterprises report, NCC will establish a working group to review the findings of the report. The working group will consider the findings of the report in this area the best approach to take within existing available resources.	**Prevention & Inclusion / Housing & Communities** **May 2023**
			Recommendation 6 – *Web Landing page for people seeking help* In Paragraph 3.14 we highlight the difficulties people in poverty face accessing online and digital services. To ensure people are able to get the information and advice they need, we recommend that councils optimise their digital services by creating a single landing page on their website that: • Is directly accessible on the home page. • Provides links to all services provided by the council that relate to poverty; and • Provides information on the work of partners that can assist people in poverty.	**Complete** Newport City Council has a support and advice page accessible on the Council's home page which provides a link for residents to access a range of services delivered by the Council and partner organisations.	**People, Policy & Transformation**
			Recommendation 7 – *Streamlining and improving application and information services for people in poverty*	**In Progress** As identified in the Social Enterprises report, NCC will establish a working group to review the findings of the report.	**Prevention & Inclusion / Housing & Communities** **May 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			In Paragraphs 3.15 and 3.16 we note that no council has created a single gateway into services. As a result, people have to complete multiple application forms that often record the same information when applying for similar services. We highlight that whilst it is important that councils comply with relevant data protection legislation, they also need to share data to ensure citizens receive efficient and effective services. We recommend that councils: • Establish corporate data standards and coding that all services use for their core data. • Undertake an audit to determine what data is held by services and identify any duplicated records and information requests. • Create a central integrated customer account as a gateway to services. • Undertake a data audit to provide refresher training to service managers to ensure they know when and what data they can and cannot share; and • Review and update data sharing protocols to ensure they support services to deliver their data sharing responsibilities.	The working group will consider the findings of the report in this area the best approach to take within existing available resources.	
			Recommendation 8 – *Complying with the Socio-Economic Duty* In Paragraphs 3.27 to 3.32 we set out that while all councils undertake some form of assessment to determine the likely socio-economic impact of policy choices and decisions, approaches vary and are not always effective. We recommend that councils review their integrated impact assessments or equivalent to:	**Complete** Newport City Council's Fairness and Equality Impact Assessment already integrates the socio-economic duty.	**People, Policy & Transformation**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			• Ensure that they draw on relevant, comprehensive and current data (nothing over 12 months old) to support analysis; • Ensure integrated impact assessments capture information on: • Involvement activity setting out those the service has engaged with in determining its strategic policy such as partners, service users and those it is coproducing with: ○ The cumulative impact/mitigation to ensure the assessment considers issues in the round and how it links across services provided across the council. ○ How the council will monitor and evaluate impact and will take corrective action; and ○ An action plan setting out the activities the Council will take as a result of the Integrated Impact Assessment.		
Local Review (App 3) – Assurance and Risk Assessment Review November 2022	To identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of its resources. Focused on the following areas of the Council: • Financial Position • Local Government & Elections Act 2021 • Carbon Reduction Plan • Newport Intelligence Hub Two Recommendations for NCC consideration.	**Cabinet Member(s)** Cllr Jane Mudd, Leader of Newport City Council **Lead Directorate / Service Area(s)** Newport City Council Executive Board	**Recommendation 1 – *Carbon Reduction Planning Arrangements*** The Council should ensure its proposed actions to reach net zero carbon by 2030 are: • Fully costed in terms of their carbon reduction impact to enable them to be evaluated and prioritised. And • Fully reflected in its financial planning.	**In Progress** Funding plan currently under development as part of the Climate Programme work. This will not include buildings costs. A buildings assessment is currently underway to fill this gap which should be complete in March 2023 and will also be used to inform the asset rationalisation programme	**Environment & Public Protection and Finance Service Areas** **March 2023**
			Recommendation 2 – *Carbon Reduction monitoring of progress* The Council should develop a robust and comprehensive set of metrics that support each planned action to	**In Progress** Metrics are already defined in the Climate Change Plan. A review of the plan will take place in Q4 2022-23 which will include reviewing and rationalising	**Environment & Public Protection** **March 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			measure, forecast impact and report progress to net zero carbon by 2030.	metrics to ensure they are focused and support the themes, priorities and actions in the plan and progress to net zero by 2030.	
National Review – National Fraud Initiative 2020/21 October 2022	NFI outcomes in Wales decreased by £1.5 million to £6.5 million in the 2020/21 exercise. Primarily due to fewer ineligible claims for Council Tax Single Persons Discount and Housing Benefit claims detected. While the majority of Welsh NFI participants display a strong commitment to counter fraud, 13 of the 22 Welsh local authorities identified 95% of the fraud and error outcomes achieved by the sector. This suggests that some local authorities have either failed to recognise the importance of the exercise or are unwilling to allocate adequate, skilled counter-fraud resources to investigate the NFI matches. Three recommendations raised by the report.	**Lead Cabinet Member(s)** Cllr Dimitri Batrouni, Cabinet Member for Organisational Transformation **Lead Directorate / Service Area(s)** Transformation and Corporate / Finance	**Recommendation 1** All participants in the NFI exercise should ensure that they maximise the benefits of their participation. They should consider whether it is possible to work more efficiently on the NFI matches by reviewing the guidance section within the NFI secure web application.	**Complete** Although Internal Audit co-ordinate the NFI on behalf of the Council they have limited resources to review all matches. Some matches are distributed to service areas to review. The Chief Internal Auditor will review the NFI web guidance and ensure all officers allocated matches to check do the same.	**Finance**
			Recommendation 2 Where local auditors recommend improving the timeliness and rigour with which NFI matches are reviewed, NFI participants should take appropriate action.	**Complete** The NFI co-ordinator will work with Heads of Service of officers who have been allocated matches to check to ensure rigorous checking is undertaken on a timely basis.	**Finance**
			Recommendation 3 Audit committees, or equivalent, and officers leading the NFI should review the NFI self-appraisal checklist. This will ensure they are fully informed of their organisation's planning and progress in the 2022-23 NFI exercise.	**In Progress** The NFI co-ordinator will review the NFI self-appraisal checklist and ensure the Governance and Audit Committee is made aware of the Council's involvement with the 2022/23 NFI exercise.	**Finance** **March 2023**
Local Review (App 3) – Springing Forward Workforce. October 2022	How the Council strategically plans for its workforce requirements both now and in the future, how it monitors its workforce and how it reviews and evaluates the effectiveness of its arrangements.	**Lead Cabinet Member(s)** Cllr Dimitri Batrouni, Cabinet Member for Organisational Transformation **Lead Directorate / Service Area(s)**	**Recommendation 1 – *Sustainable Development Principle*** The Council should use the sustainable development principle to shape the revision of its People and Culture Strategy, considering longer-term workforce risks and opportunities.	**In Progress** The People Plan is a core document that supports our Corporate Plan. Following approval of the new Corporate Plan in November 22, People Plan development has commenced. Ongoing	**People, Policy & Transformation** **June 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
	Overall Conclusion – Newport Council has applied the sustainable development principle to develop a clear vision for its workforce that is supported by effective implementation arrangements. Two Recommendations were raised for NCC consideration.	Transformation and Corporate / People, Policy & Transformation		engagement and dialogue is currently taking place to shape priorities. Once the themes emerge, Members and the senior team will agree our plan for the next few years. The detailed actions relating to workforce planning are outlined in the Service Plan with a target date of 30 Jun 2023.	
			Recommendation 2 – *Performance Management* The Council should benchmark its workforce management information internally and with other organisations to strengthen its understanding of workforce performance.	**In Progress** Benchmarking information from the Council's MI Hub system is now available for service areas to compare and contrast Council performance measures and plan interventions. Some of our performance measures are available externally and are benchmarked, further work is being led on by the WLGA to give Councils the opportunity to benchmark in these areas.	
National Review – Equality Impact Assessments *'More than a tick box exercise'* September 2022	Examined the overall approach to undertaking Equality Impact Assessments (EIAs) across the 44 public bodies in Wales. Audit Wales focused primarily on understanding public bodies' approaches with a view to finding good or interesting practice and identifying any common areas for improvement. We did not evaluate individual public bodies' approaches in detail. **Overall Conclusion** – There are examples of good practice in aspects of EIA process across public bodies	**Lead Cabinet Member(s)** Cllr Dimitri Batrouni, Cabinet Member for Organisational Transformation **Lead Directorate / Service Area(s)** Transformation and Corporate / People, Policy & Transformation	**Recommendation 4 – *Reviewing public bodies' current approach for conducting EIAs*** Public bodies should review their overall approach to EIAs considering the findings of this report and the detailed guidance available from the EHRC and the Practice Hub. We recognise that developments in response to our other recommendations and the Welsh Government's review of the Public Sector Equality Duty (PSED) Wales specific regulations may have implications for current guidance in due course.	**In Progress** There is an action in the People, Policy & Transformation service plan to update the Council's Fairness and Equalities Impact assessment and to provide training / support. The team will consider the report findings as part of its review of the Impact Assessment. Progress against this action will be reported through the Strategic Equalities Annual Report and Service Plan process.	**People, Policy & Transformation** **March 2024**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
	examined. Many public bodies use guidance from Equality Impact Assessment in Wales Practice Hub. However, there are areas for improvement. Four Recommendations raised for Welsh Government and public bodies to consider. Recommendations 1 to 3 are for Welsh Government consideration. Recommendation 4 is for public bodies consideration.				
National Review – Public Sector Readiness for Net Zero Carbon by 2030 July 2022	This is an Audit Wales baseline review on how the public sector is preparing to achieve the Welsh Government's collective ambition for a net zero public sector by 2030. **Overall Conclusion** - There is clear uncertainty about whether the public sector will meet its 2030 collective ambition. Our work identifies significant, common barriers to progress that public bodies must collectively address to meet the ambition of a net zero public sector by 2030. And while public bodies are demonstrating commitment to carbon reduction, they must now significantly ramp up their activities, increase collaboration and place decarbonisation at the heart of their day-to-day operations and decisions. Organisations need to be bold and innovative and share	**Lead Cabinet Member(s)** Cllr Yvonne Forsey, Cabinet Member for Climate Change and Biodiversity **Lead Directorate / Service Area(s)** Environment & Sustainability / Environment & Public Protection	**Call for Action 1** Strengthen your leadership and demonstrate your collective responsibility through effective collaboration **Call for Action 2** Clarify your strategic direction and increase your pace of implementation. **Call for Action 3** Get to grips with the finances you need. **Call for Action 4** Know your skills gaps and increase your capacity. **Call for Action 5** Improve data quality and monitoring to support your decision making	**Complete** Newport City Council's Climate Change Plan 2022-27 has in place a detailed action plan covering six themes: 1. Organisational Culture & Leadership 2. Our Buildings 3. Our Land 4. Transport & Mobility 5. Goods & Services we procure 6. Our Wider Role Progress against the Climate Change plan will be reported in the Council's Climate Change Annual Report, service plans and the Council's Well-being and Assessment report.	**Environment & Public Protection**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
	experiences of their successes and failures. The Auditor General will not criticise organisations for taking well-managed risks to address this unprecedented challenge. Audit Wales did not make specific recommendations. However, they have encouraged public bodies to consider the messages in the report and through their internal governance structure set out publicly how they intend to respond to the calls for action.				
Local Review (App 3) – Springing Forward, Strategic Asset Management June 2022	The Audit Review sought to answer the question: Is the Council's strategic approach to its assets effectively helping the Council to strengthen its ability to transform, adapt and maintain the delivery of its services in the short and longer term?	**<u>Lead Cabinet Member(s)</u>** Cllr Dimitri Batrouni, Cabinet Member for Organisational Transformation **<u>Lead Directorate / Service Area(s)</u>** Transformation and Corporate / People, Policy & Transformation	**Recommendation 1 – *Develop longer term planning that is required by the Sustainable Principle*** The Council should demonstrate longer-term considerations for its property portfolio strategic planning and associated decision-making processes.	**<u>In Progress</u>** Following the pandemic and the introduction of our 'New Normal' working policies and the development of our new Corporate Plan we will review our Strategic Asset Management Plan, and Disposal and Asset transfer strategies. This will be supported by an asset rationalisation programme in our Transformation Plan. The detailed actions relating to asset management are outlined in the People, Policy & Transformation Service Plan 22-24.	**People, Policy & Transformation** **March 2024**
			Recommendation 2 – *Further develop partnership working* Engage with public sector partners across Gwent to realise the potential benefits arising from a strategic approach to a single public estate.	**<u>In Progress</u>** The Asset Rationalisation programme in our Transformation Plan will also consider opportunities for working with partners, which	**People, Policy & Transformation** **March 2024**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
				maybe within a Gwent or local/Newport context.	
National Review - Direct Payments for Adult Social Care April 2022	This report looks at how local authorities provide Direct Payments (DP) services to adults, examining their impact and value for money. Overall Conclusion - Direct Payments support people's independence and are highly valued by service users and carers, but inconsistencies in the way they are promoted and managed by local authorities mean services are not always equitable and it is difficult to assess overall value for money. Ten recommendations are raised in the report: One recommendation (8) for consideration by Welsh Government and nine recommendations for local authorities to consider.	**Lead Cabinet Member(s)** Cllr Jason Hughes and Cllr Stephen Marshall, Cabinet Members for Social Services **Lead Directorate / Service Area(s)** Social Services / Adult Services	**Recommendation 1 – *Promote and raise awareness of Direct Payments*** Review public information in discussion with service users and carers to ensure it is clear, concise and fully explains what they need to know about Direct Payments.	**Completed** Public information reviewed on Website and available to all.	**Adult Services** **December 2022**
			Recommendation 2 – *Promote and raise awareness of Direct Payments* Undertake additional promotional work to encourage take up of Direct Payments.	**In Progress** Replacement of staff due to vacancy has been successful and further promotional work with managed care and front door services within adults underway. We will have completed promotional work with all internal service areas in April 2023 and continue ongoing promotion externally.	**Adult Services** **April 2023**
			Recommendation 3 – *Promote and raise awareness of Direct Payments* Ensure advocacy services are considered at the first point of contact to provide independent advice on Direct Payments to service users and carers.	**In progress** Advocacy referral is part of the offer when any information or consideration of DP.	**Adult Services** **January 2023**
			Recommendation 4 – *Direct Payments are consistently offered* Ensure information about Direct Payments is available at the front door to social care and are included in the initial discussion on the available care options for service users and carers.	**Completed** DP workers closely aligned with the front door of Adult services.	**Adult Services** **November 2022**
			Recommendation 5 – *Direct Payments are consistently offered* Provide training to social workers on Direct Payments to ensure they fully	**In Progress** Training available and the DP workers will be attending the managed care and front door	**Adult Services** **April 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			understand their potential and feel confident promoting it to service users and carers.	team meetings to ensure clear understanding of what DP can offer and the process for all practitioners	
			Recommendation 6 – *Sufficient Personal Assistant capacity.* Work together (All-Wales local Direct Payments Forum and Social Care Wales) to develop a joint Recruitment and Retention Plan for Personal Assistants.	**In Progress** Regional work across Gwent to ascertain DP priorities will encompass this as a priority for the future of DP take up by citizens with eligible needs.	**Adult Services** **August 2023**
			Recommendation 7 – *Services provided equitably and fairly* Clarify policy expectations in plain accessible language and set out: What Direct Payments can pay for; • How application and assessment processes, timescales and review processes work. • How monitoring individual payments and the paperwork required to verify payments will work. • How unused monies are to be treated and whether they can be banked; and • How to administer and manage pooled budgets. Public information should be reviewed regularly (at least every two years) to ensure they are working effectively and remain relevant.	**In Progress** Regional work across Gwent to ascertain DP priorities will encompass this as a priority for the future of DP take up by citizens with eligible needs. The regional work will be reviewing all the processes and timescales required for DP. It will also cover all the points in recommendation 7 to ensure a consistent regional approach for all who access care and support through DP.	**Adult Services** **August 2023**
			Recommendation 9 – *Effectively manage performance to judge impact and value for money.* Work together (Welsh Government and local authorities) to establish a system to fully evaluate Direct Payments that captures all elements of the process. – information, promotion, assessing, managing and evaluating impact on wellbeing and independence.	**In Progress** Part of the regional work will be to ensure the effective management of the DP performance is value for money locally and regionally	**Adult Services** **December 2023**

Audit Wales Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Audit Wales Recommendation(s)	NCC Action / Update	Completion by (Service Area / Date)
			Recommendation 10 - *Effectively manage performance to judge impact and value for money.* Annually publish performance information for all elements of Direct Payments to enable a whole system view of delivery and impact to support improvement.	**In Progress** Local publication of DP is underway and will also be part of the regional work to benchmark and consider any local amendments required to ensure growth and value for money for the public purse and that DP is meeting the care and support needs of citizens.	**Adult Services** **December 2023**

Appendix 2 - Estyn Thematic Reports and Inspections

The table below provides an overview of Estyn Thematic Reports and a summary of inspections completed of Newport City Council schools between 1st April 2022 and 1st December 2022.

National (Thematic Reviews)

Estyn Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Estyn Recommendation(s)	NCC Action / Update Position Statement	Completion by (Service Area / Date)
Thematic Review – Effective approaches to assessment that improve teaching and learning. October 2022	This report is written in response to a request for advice from the Minister for Education and the Welsh Language in his remit letter to Estyn for 2021-2022. It focuses on how maintained primary, secondary, all-age and special schools are developing effective approaches to assessment that improve teaching and learning. Six recommendations raised of which four (1 to 4) aimed at schools and two (5 and 6) for Welsh Government, Education Consortia and local authorities to implement.	**Lead Cabinet Member(s)** Cllr Deb Davies, Cabinet Member for Education and Early Years **Lead Directorate / Service Area(s)** Chief Executive / Education Services	**Recommendation 5** Develop constructive professional learning opportunities for schools to improve their understanding and use of formative assessment practices.	**In Progress** These recommendations are being developed by Newport's partner School Improvement Service.' The Education Achievement service, (EAS)'. Actions linked to each of these recommendations are embedded into the EAS Business Plan which is monitored by The Joint Executive Group and Company Board on a quarterly basis. This is being supported through the work of Learning Network and Professional Learning Schools across the region, Practitioner Networks, Development Groups, and a National, cross regional professional learning offer aligned to the Curriculum for Wales. These professional learning opportunities and research and policy documents are conveniently captured in the regional Curriculum for Wales Google Site.	**Education Service** **August 2023**
			Recommendation 6 Facilitate and support collaboration across schools to develop leaders' and teachers' understanding of	**In Progress** Every school cluster attended a curriculum conversation to provide an update of progress towards	**Education Service** **August 2023**

Estyn Report / Date Reported	Report Overview	Lead Cabinet Member(s) / Directorate & Service Area	Estyn Recommendation(s)	NCC Action / Update Position Statement	Completion by (Service Area / Date)
			progression and share effective practice in formative assessment.	Curriculum for Wales and their collaborative work across the cluster. Every school has completed a self-assessment exercise against their current progress and emerging practices. The EAS has targeted support and professional learning, to meet the needs of individual schools and clusters. Professor Mick Waters is working with the EAS, LAs and schools, to co-construct a range of approaches to develop a common understanding of learner progression. The Curriculum for Wales networks are supporting the sharing of practice in the development and realisation of cluster plans and in providing guidance, example plans and case studies for sharing across all schools.	

School Inspections

Inspections completed of NCC schools are for information only to the Governance and Audit Committee. See Inspection process overview in report.

School Inspected	Date Reported	Main Findings and School Recommendations
Malpas Church in Wales Primary School Special Measures Follow Up	November 2022	• Malpas Church in Wales Primary School is judged to have made sufficient progress in relation to the recommendations following the most recent core inspection. • As a result, His Majesty's Chief Inspector of Education and Training in Wales removed the school from the list of schools requiring special measures. • No further recommendations raised.
St Patrick's Roman Catholic Primary School	June 2022	• Positive report on the School environment and the level of teaching delivered. • Positive arrangements in place to govern and manage the school noting the effectiveness between Leaders and governors sharing responsibilities purposefully. • Good controls and processes in place to self-evaluate, plan for improvements and opportunities for professional learning to staff. • Four recommendations for the school to consider and implement with further information provided in the report.
Crindau Primary School	May 2022	• Positive report recognising the school leadership team having a strong vision, clear sense of direction and a plan for continuous school improvements. • Positive arrangements in place to support pupils and families focusing on their well-being creating a strong sense of community.

School Inspected	Date Reported	Main Findings and School Recommendations
		• Purposeful ethos for learning across the staff focused on improving pupil literacy and numeracy skills. • Three recommendations raised for the school to implement and further information provided in the link.
Ysgol Gyfun Gwent Is Coed	May 2022	• Positive report recognising the work of the School Leadership Team with effective school improvement arrangements in place to self-evaluate and implement improvement plans. • Positive teaching environment and provision to support pupils and their families. • Effective arrangements in place to support and enable staff professional development to support the teaching of oracy skills. • Five recommendations raised and further information provided in the link.

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Audit Wales

Assurance and Risk Assessment Review – Newport City Council

Audit year: 2021-22

Date issued: November 2022

Document reference: 3210A2022

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The Council has developed a vision and action plan to achieve net zero carbon emissions by 2030 but is uncertain if its plan will achieve this target 8

The Council has made good progress to establish its Newport Intelligence Hub but further action is required to broaden its utilisation and impact 10

What we reviewed and why

1 We undertook this project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources. This project also helped us to assess the extent to which the Council is applying the sustainable development principle in taking steps to meet its well-being objectives.

2 This report summarises our findings in the areas where we have undertaken more detailed Assurance and Risk Assessment work. We will also produce an Annual Audit Summary in the autumn of 2022 that will summarise all of our audit work undertaken since our last Annual Audit Summary in January 2021.

3 We focused in particular on the following areas at the Council:

- financial position
- implications of the Local Government and Elections (Wales) Act 2021
- carbon reduction plan
- Newport Intelligence Hub

4 Our evidence base for this work included interviews with senior officers, reviewing relevant documents and holding focus groups.

5 The Assurance and Risk Assessment project has been ongoing throughout the year. We fed back emerging findings to officers as we undertook this work, and also held a workshop with the Council's Cabinet and Corporate Management Team in March 2022 at which we shared emerging findings in relation to some aspects of this work. We also used the workshop to gather the perspectives of senior managers on the key audit risks in relation to the Council and to inform our forward planning.

Recommendations

Exhibit 1: recommendations

The table below sets out the recommendations that we have identified following this review.

Carbon Reduction planning arrangements

R1 The Council should ensure its proposed actions to reach net zero carbon by 2030 are:

- fully costed in terms of their carbon reduction impact to enable them to be evaluated and prioritised; and
- fully reflected in its financial planning.

Carbon Reduction monitoring of progress

R2 The Council should develop a robust and comprehensive set of metrics that support each planned action to measure, forecast impact and report progress to net zero carbon by 2030.

Financial position – the Council understands its improved financial position, acknowledges future uncertainties, and is taking measures to transform its service delivery for future sustainability

6 We reviewed the Council's financial position during August 2022. This included consideration of the Council's financial reserves position, the delivery of planned savings and performance against the planned budget for the year.

7 Overall, we found that the Council understands its improved financial position, acknowledges future uncertainties, and is taking measures to transform its service delivery for future sustainability.

8 We reached this conclusion because:

- the Council understands its current financial position and a range of potential future uncertainties and is making early steps toward transforming into a more financially sustainable delivery model. However, medium-term financial planning will continue to rely on a range of assumptions, and when coupled with the changing socio-economic landscape in this period of significant economic uncertainty, planning for financial resilience and future budget rounds will continue to be challenging for councils.

- the Council's usable reserves, detailed below in **Exhibit 2**, increased by £38.5 million (38%) in the year ending March 2022 to £140 million, although much is held for specific purposes such as future Private Finance Initiative obligations.

Exhibit 2: the Council's usable reserves increased by £38.5 million (38%) in the year ending March 2022 to £140 million

Newport	Amount of Usable Reserves as a proportion of Net cost of services					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Net Cost of Services in £ Millions [1]	277.5	284.5	294.0	299.8	290.8	337.3
Usable revenue reserves not protected by law in £ Millions	95.4	94	94.7	78.8	101.5	140.0
Total Usable Reserves not protected by law as a % of net cost of services	34.4%	33.0%	32.2%	26.3%	34.9%	41.5%
Total Usable Reserves not protected by law as a % of net cost of services – Comparison ranking with all other Welsh Councils (1 = Highest)	1st	2nd	2nd	5th	5th	Not yet available

Source: Audit Wales analysis of the Statement of Accounts of Newport City Council

- the Council continues its good record of achieving savings, achieving 94% (£3.2 million) of its £3.4 million of revenue savings in 2021-22. The Council included a further £812,000 of savings to its 2022-23 revenue budget but does not currently plan further savings in its revenue budgets for 2023-24 or 2024-25.
- the Council has set a balanced revenue budget for 2022-23 and has identified a funding gap of £2 million in 2023-24 and £2 million in 2024-25.

[1] Source: Newport City Council, Statement of Accounts, Net Cost of Services is stated Net Cost of Services (without Housing Revenue Account) + precepts + levies + debt interest

- the Welsh Government's indicative funding settlements on an all-Wales basis of 3.5% and 2.4% respectively for 2023-24 and 2024-25 provide a degree of funding certainty over the medium term. However, medium-term financial planning will continue to rely on a range of assumptions, and when coupled with the changing socio-economic landscape in this period of significant economic uncertainty, planning for financial resilience and future budget rounds will continue to be challenging for councils.
- the Council reported an underspend of £18.4 million against the £315.9 million in its revenue budget for 2021-22 (6% underspend). The underspend is summarised below:

Exhibit 3: underspends

Underspends across all service areas due to changes in service provision and working practices caused by COVID.	**£7.8 millio**
Receipt of significant one-off Welsh Government funds over and above that received from the 'Hardship Fund' for COVID-specific expenditure and lost income.	**£3.0 millio**
Underspends on capital financing.	**£4.3 millio**
The Council not needing to use its general revenue contingency budget.	**£1.4 millio**
Underspends against council tax reduction scheme and council tax income.	**£1.9 millio**
Total underspend against 2021-22 revenue budget.	**£18.4 million**

9 We also published a Local Government Financial Sustainability Data Tool in February 2022 which includes a range of financial data for councils, national parks and fire and rescue authorities in Wales.

The Council has made good progress in the implementation of the Local Government and Elections (Wales) Act 2021

10 We reviewed the Council's responses to the Local Government and Elections (Wales) Act 2021 in May 2022.

11 Overall, we found that the Council has made good progress in implementing the Local Government and Elections (Wales) Act.

12 We reached this conclusion because:

- the Council has reconstituted its Governance and Audit Committee to meet the requirements of the Act.
- the Council intends to integrate the annual self-assessment within its annual Corporate Well-being Report (Annual Report) to assess the overall performance and governance of the organisation and that the Council intends to produce the first Annual Report in September 2022. The Council is also clear on the enhancements it needs to make to its previous Annual Report to meet the requirements of the Act.
- the Council has an approved Participation Strategy and has put in place appropriate supporting arrangements for engagement with local people and its other stakeholders.
- in common with other Welsh councils, the Council is currently engaging with the Welsh Local Government Association to develop the arrangements and resources required to undertake Panel Assessments.

The Council has developed a vision and action plan to achieve net zero carbon emissions by 2030 but is uncertain if its plan will achieve this target

13 In July 2022, the Auditor General published Public Sector readiness for Net Zero Carbon by 2030, which looked at decarbonisation actions in 48 public bodies, including all councils. This report found uncertainty that the collective ambition for a net zero public sector by 2030 will be met. Our work identified significant, common barriers to progress that public bodies must collectively address to meet the collective ambition. We found that while public bodies are demonstrating commitment to carbon reduction, they must now significantly ramp up their activities, increase collaboration and place decarbonisation at the heart of their day-to-day operations and decisions.

14 In the report, the Auditor General makes the following five calls for action from public bodies:

- strengthen your leadership and demonstrate your collective responsibility through effective collaboration;
- clarify your strategic direction and increase your pace of implementation;
- get to grips with the finances you need;
- know your skills gaps and increase your capacity; and
- improve data quality and monitoring to support your decision making.

15 The following paragraphs set out the findings of our local audit work on the Council's decarbonisation action plan. These findings sit within the wider context of the Auditor General's July 2022 report that calls for increased pace and stronger leadership across Wales in reducing carbon emissions.

16 Overall, we found that the Council has developed a vision and action plan to achieve net zero carbon emissions by 2030, but is uncertain if its plan will achieve this target.

17 We reached this conclusion because:

- the Council has a clear vision for achieving net zero carbon by 2030 that is also complementary to the actions of other public bodies.
- the Council's vision and action plan to achieve net zero carbon contains numerous actions the Council will take to lower its own carbon emissions to net zero by 2030. These actions have yet to be fully costed and still need to be built into the Council's Medium-Term Financial Strategy and Capital Programme. We understand the challenges of assessing the financial cost and carbon impact of decarbonisation actions, but this data will be key to prioritising actions that deliver the greatest returns and understanding funding requirements.
- within the Council, the Climate Change plan contains priorities and actions for its own services, such as Waste, Digital, Building Control, Schools, Procurement, as well as partnership working with Newport Norse, Public Transport and Natural Resources Wales. However, the Council cannot assure itself that the entirety of its planned activities will have sufficient impact to achieve net zero carbon status by 2030. We include within this report a recommendation for the Council to support its planned activities with a suite of metrics that include time profiled targets for impact together with some financial planning arrangements.
- the Council demonstrates an understanding of the need for reducing carbon emissions within Newport and identifies the broad range of actions needed to respond to the challenge within its Local Area Energy Plan (LAEP)[2].

[2] Newport City Council, Newport's Local Area Energy Plan, March 2022

- the Council carried out extensive and effective consultation with residents, businesses, school children and other stakeholders as part of developing its current carbon reduction plan.
- the Council can demonstrate how it has started to collaborate with other organisations to deliver carbon reduction initiatives. Two examples of this collaboration are: with One Newport partners to develop a Climate Strategy for the city; and a second example being working with Egni Co-op, a community organisation that funds and manages Photo Voltaic installation in Wales.
- the Council has begun investing in officer capacity for its carbon reduction arrangements, but acknowledges that further significant investment is required as its carbon reduction activities increase.
- the Council can offer examples of how it is learning from other councils to enhance its own arrangements for carbon reduction.

The Council has made good progress to establish its Newport Intelligence Hub but further action is required to broaden its utilisation and impact

18 During the period November 2021 to May 2022, we carried out a short review of the Council's Intelligence Hub, to consider:

- the extent that the Council is achieving the design principle of its Corporate Plan to make evidence based decisions;
- the depth and breadth of the Intelligence Hub's utilisation within the Council's thinking; and
- the appreciation, reliance and expectation of data and informatics by senior officers of the Council.

19 The aim of the project was to provide an assessment of progress so far and, where possible, to identify any areas for improvement.

20 Our work included document reviews, interviews and group discussions with Council staff and a short survey of senior Council officers.

21 Overall, we found that whilst the Council has made good progress to establish its Newport Intelligence Hub further action is required to broaden its utilisation and impact.

22 We reached this conclusion because:

- the Council's Intelligence Hub could provide examples of where and when their involvement in data management and visualisation within Council projects has provided greater insight leading to greater impact in Council decision-making; and
- we identified inconsistent awareness and utilisation of the Intelligence Hub by directorates of the Council.

23 We facilitated a workshop of Council officers involved in the management and technical activities of the Intelligence Hub, to discuss the above findings and possible actions to take in response. Some actions to further improve the Newport Intelligence Hub will be included in the forthcoming Service Improvement Plan. Examples include:

- increase awareness of the Newport Intelligence Hub across the Council, highlighting its products, achievements, and potential future contributions;
- increase engagement with all departments of the Council, with particular focus where engagement has previously been low;
- seek opportunities for collaborative working; and
- develop and offer specialist and technical training within the Council.

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Springing Forward – Workforce – Newport City Council

Audit year: 2021-22

Date issued: October 2022

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The Council has a clear vision for its workforce that is supported by effective implementation arrangements

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The Council is aware of its workforce-related challenges and is currently enhancing its workforce monitoring arrangements, but limited benchmarking is restricting potential learning 9

Summary report

Summary

What we reviewed and why

1 We reviewed how the Council strategically plans for its workforce requirements both now and in the future, how it monitors its workforce and how it reviews and evaluates the effectiveness of its arrangements.

2 We delivered this review as the world moves forward, using the experiences from the global COVID-19 pandemic, to look at how councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities

3 When we began our audit work under the Well-being of Future Generations (Wales) Act 2015 we recognised that it would take time for public bodies to embed the sustainable development principle, but we did also set out our expectation that over the medium term we would expect public bodies to be able to demonstrate how the Act is shaping what they do. It is now approaching seven years since the Well-being of Future Generations Act was passed and we are now into the second reporting period for the Act. Therefore, we would now expect public bodies to be able to demonstrate that the Act is integral to their thinking and genuinely shaping what they do.

4 This project had three main aims:

- to gain assurance that councils are putting in place arrangements to transform, adapt and maintain the delivery of services;
- to explain the actions that councils are taking both individually and collectively to strengthen their arrangements as well as further embed the sustainable development principle; and
- to inspire councils and other organisations to further strengthen their arrangements through capturing and sharing notable practice examples and learning and making appropriate recommendations.

5 We undertook the review during the period April to July 2022, reviewing key council documents and speaking with officers of the Council.

6 At the end of March 2021, the Council employed 5,100 people, which has reduced by 9% from the 5,600 people it employed in March 2017. In terms of full-time equivalents (FTE), in March 2021 the Council employed 27.0 FTEs for every 1000 residents which is below the 32.4 FTEs average for all Welsh Councils.

What we found

7 Our review sought to answer the question: Is the Council's strategic approach to its workforce effectively helping the Council to strengthen its ability to transform, adapt and maintain the delivery of its services in the short and longer-term?

8 Overall, we found that the Council has applied the sustainable development principle to develop a clear vision for its workforce that is supported by effective implementation arrangements.

9 We reached this conclusion because:

- the Council has a clear vision for workforce, supported by key strategies and effective arrangements for implementation;
- the Council has applied the sustainable development principle to make good progress in developing new ways of working; and
- the Council is aware of its workforce-related challenges and is currently enhancing its workforce monitoring arrangements, but limited benchmarking is restricting potential learning.

Recommendations

Exhibit 1: recommendations

The table below sets out the recommendations that we have identified following this review.

Recommendations
Sustainable Development Principle R1 The Council should use the sustainable development principle to shape the revision of its People and Culture Strategy, considering longer-term workforce risks and opportunities.
Performance Management R2 The Council should benchmark its workforce management information internally and with other organisations to strengthen its understanding of workforce performance.

Detailed report

The Council has a clear vision for its workforce that is supported by effective implementation arrangements

The Council has a clear vision for workforce, supported by key strategies and effective arrangements for implementation

Why setting a clear vision is important

10 A clear workforce strategy and well-developed delivery plans are important to identify the intended usage of assets over the short and longer term; the funding available to maintain and develop assets, as well as the anticipated future level of demand for, and cost of, providing services. It is also important to identify how the workforce management strategy aligns and is integrated with other relevant strategies including, agile working, assets, digital and carbon reduction. Learning from the changes brought about by the global COVID-19 pandemic, can help Councils strengthen their ability to transform, adapt and maintain the delivery of services.

11 In reaching the conclusion that the Council has a clear vision for workforce, supported by key strategies and effective arrangements for implementation, we found that:

- within the Council's current Corporate Plan 2017-2022, Building on Success, Building a Better Newport, the Council made several pledges under the banner of a Modernised Council that includes commitments to developing a modern, capable workforce, where the use of agile working would be explored and implemented wherever possible. The Council's new Corporate Plan is in the final stages of development.
- the Council augments its Corporate Plan pledges with its People and Culture Strategy – the latest version currently being for 2018-22. The People and Culture Strategy is in the early stages of revision to reflect the revised Corporate Plan. Whilst developing the Strategy, the Council should take the opportunity to use the sustainable development principle to shape its approach including considering longer-term workforce risks and opportunities.
- in response to the first lock-down in March 2020 of the COVID-19 pandemic the Council had to adapt how its workforce operated. Those delivering front line services were protected through adapting working practices adapted, whilst previously office-based staff worked from home, wherever possible. In June 2020 the Council published its Strategic Recovery Aims that included the aim to Sustain a Safe, Healthy and Productive Workforce, which are consistent with its strategic vision for its workforce.

- in addition to the medium-term People and Culture Strategy, the Council has a yearly Workforce Plan. The Council's Workforce Plan 2021-22 states annual priorities, which are the following five themes:
  - succession planning;
  - structural effectiveness review;
  - nurture and develop talent;
  - a more representative workforce; and
  - a digitally enabled workforce.
- to support delivery of its corporate strategies, each directorate of the Council produces an Annual Service Plan. Progress against these Annual Service Plans are monitored through the Council's Management Information hub and also its democratic process. Within each templated Annual Service Plan is a dedicated section on Workforce Planning. Annual Service Plan for 2021-22 include explicit activities by directorates to support staff recruitment and retention such as succession planning, training and expanding previously flat structures to provide clearer career pathways..

The Council has applied the sustainable development principle to make good progress in developing new ways of working

12 The Council's transformational project, 'New Normal' is driving the Council's implementation of learning, adaptation and need for change stemming from the COVID-19 pandemic and requirements for carbon reduction. This project includes transforming its workforce in conjunction with its buildings, digital services and energy consumption through a collection of new employment policies for its workforce, including:

- Agile Working Policy
- Working from Home Policy
- Flexi time Scheme
- Travel and Subsistence
- Parking at the Civic Centre

Why the Well-being of Future Generations (Wales) Act 2015 is important

13 When we began our audit work under the Well-being Future Generations (Wales) Act 20151 (the Act) we recognised that it would take time for public bodies to embed the sustainable development principle, but we did also set out our expectation that over the medium term we would expect public bodies to be able to demonstrate how the Act is shaping what they do. It is now approaching seven years since the Act was passed and we are now into the second reporting period

[1] Well-being of Future Generations (Wales) Act 2015 (legislation.gov.uk)

for the Act. Therefore, we would now expect public bodies to be able to demonstrate that the Act is integral to their thinking and genuinely shaping what they do.

14 Under the Act Councils must carry out sustainable development in accordance with the sustainable development principle. To do something in accordance with the sustainable development principle is to act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. To act in that manner, the Council must take account of the five ways of working: Long-term, Integration, Involvement, Collaboration and Prevention. Statutory guidance on the Act2 sets out that seven core organisational activities that public bodies should consider applying the Act to. Workforce is one of those core organisational activities.

15 In reaching the conclusion that the Council has applied the sustainable development principle to make good progress in developing new ways of working, we found that:

- the Act requires the Council to demonstrate that it balances short-term needs with the need to safeguard the long-term needs for its workforce. Each year the Council undertakes workforce planning within service areas. In addition to considering short term immediate issues the Council's process for workforce planning also incorporates some scenario and potential medium-term future trend considerations. The Council should extend its workforce planning exercise to also consider longer-term risks to help shape its workforce to be more fit for purpose.
- there are well defined links between its workforce planning and other strategies, eg digital, carbon reduction and agile working.
- the Council is experiencing significant difficulty in recruiting staff to some key roles due to a range of external factors. The Council is responding to these challenges within its Workforce Plan 2021-22 and Annual Service Plans. The Council is also developing its arrangements that monitor staff turnover and recruitment.
- the Council has in the last two years introduced a Wellness Policy and surrounding arrangements which are individually tailored to individual employees to help keep them well and able to work. These arrangements are currently being developed and not complete, but their introduction demonstrates a shift away from sanction and toward a preventative culture that will, if successful, contribute to the Council's strategic aims of employee health and retainment.
- the Council can demonstrate many examples of where it engages with its workforce and external stakeholders, through surveys, staff working groups, etc. to inform its decision-making processes and also recognises value of and challenge to maintain effective engagement.

[2] https://gov.wales/sites/default/files/publications/2019-02/spsf-1-core-guidance.PDF

- the Council can point to two examples of where it is working collaboratively with other organisations: to provide specialist services: partnership with Barnardos to deliver a Newport Family Support Service; and the partnership including Cardiff County Council and Welsh Government to undertake a regional response to the National Transfer Scheme. In developing the People and Culture Strategy the Council should take the opportunity to consider how it works collaboratively to other organisations to deliver its workforce.
- the Council's Workforce Plan includes a priority to have a more diverse workforce. The Council is required to publish its gender pay gap each year in the Pay and Reward Policy. The overall trend has been a declining gender pay gap across the Council which for the first time in 2022, when comparing the median pay gap, women are paid a higher hourly rate of pay than men. The Council is intent upon addressing other areas of inequality in its workforce in the near future.

The Council is aware of its workforce-related challenges and is currently enhancing its workforce monitoring arrangements, but limited benchmarking is restricting potential learning

Why effectively reviewing the delivery of planned changes is important

16 Councils should use data to monitor whether they are achieving their intended outcomes effectively and efficiently over the short and longer term. Using benchmarking data can provide useful insight into Councils individual performance and can identify opportunities for learning from other organisations

17 In reaching the conclusion that the Council is aware of its workforce-related challenges and is currently enhancing its workforce monitoring arrangements, but limited benchmarking is restricting potential learning, we found that:

- the Council's quarterly update on Corporate Risk Register provides regular assessment of the workforce challenges facing the Council. The mitigations in the latest update at the time of our audit work which was March 2022 were:
  - building on the lessons learned from the COVID-19 crisis undertake further work to enable some of its workforce to work more flexibly from Council offices, home and other locations securely and safely.
  - collaborating with SRS to ensure officers and Members are able to work remotely using digital solutions and appropriate equipment.
  - developing HR policies and procedures that will support the wellbeing and development of the organisation's staff.
  - pressures developing around the supply of labour (most notably HGV drivers and care staff) which is partly affected by Brexit and COVID-19.

- current Annual Service Plans, including workforce specific actions, were set in April 2021 and senior Council officers are actively working on delivery. The Council's Senior Leadership Team receive quarterly progress updates on Service Plans.
- the Council presents bi-annual performance reports to both its Cabinet and Performance Scrutiny – People committee that includes updates on progress in delivering workforce related activities. as well as standard workforce related data for including for example multiple reporting periods, comparison and information on staff turnover, sickness rates, are not reported.
- the Council is currently modernising its arrangements for collecting/reporting key workforce related management information for its strategic and operational managers. For example, the Council's internal Management Information hub has recently begun providing key monthly workforce performance data such as sickness, staff turnover, wellbeing assessments.
- there is very little workforce benchmarking, either within Council departments over time nor external comparison with other similar organisations, which limits insight into the Council's own performance and opportunities for learning from other organisations.
- the Council's Human Resources officers met with their equivalent from across the Welsh public sector throughout the challenging period to share knowledge and experience, particularly at a regional level to focus upon workforce challenges in social care and health.

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Springing Forward – Strategic Asset Management – Newport City Council

Audit year: 2021-22

Date issued: June 2022

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Summary report

Summary

What we reviewed and why

1 We reviewed the Council's arrangements for managing its assets. We looked at how the Council strategically plans the use of its assets, how it monitors the use of its assets and how it reviews and evaluates the effectiveness of its arrangements.

2 We delivered this review as the world moves forward, using the experiences from the global COVID-19 pandemic, to look at how councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.

3 When we began our audit work under the Well-being of Future Generations (Wales) Act 2015 we recognised that it would take time for public bodies to embed the sustainable development principle, but we did also set out our expectation that over the medium term we would expect public bodies to be able to demonstrate how the Act is shaping what they do. It is now approaching seven years since the Well-being of Future Generations Act was passed and we are now into the second reporting period for the Act. Therefore, we would now expect public bodies to be able to demonstrate that the Act is integral to their thinking and genuinely shaping what they do.

4 This project had three main aims:

- to gain assurance that councils are putting in place arrangements to transform, adapt and maintain the delivery of services;
- to explain the actions that councils are taking both individually and collectively to strengthen their arrangements as well as further embed the sustainable development principle; and
- to inspire councils and other organisations to further strengthen their arrangements through capturing and sharing notable practice examples and learning and making appropriate recommendations.

5 The Council has a substantial land and property estate covering over 170 buildings such as the Civic Centre, Telford Depot, schools, etc at the end of March 2021, with a total net book value above £342 million.

6 We undertook the review during the period November and December 2021, reviewing key Council documents and speaking with officers and elected members of the Council.

What we found

7 Our review sought to answer the question: Is the Council's strategic approach to its assets effectively helping the Council to strengthen its ability to transform, adapt and maintain the delivery of its services in the short and longer term?

8 Overall we found that the Council strategically plans and manages its property assets well, needs to put the sustainable development principle at the heart of its considerations, building on the experience of the pandemic

9 We reached this conclusion because:

- the Council's strategic assets plan has clear aims and rationale and is supporting its overall corporate plan, however, progress has understandably slowed as it learns from the COVID-19 pandemic;
- the Council was comparatively well placed to respond to the COVID-19 crisis with swift agility and in partnership with other public sector organisations; and is looking to retain some benefits of new ways of working for the future; and
- the Council does present some performance indicators to help evaluate its performance and accepts that this data would be enhanced by comparing with and learning from other organisations.

Recommendations

Exhibit 1: recommendations

The table below sets out the recommendations that we have identified following this review.

Recommendations
Develop longer-term planning that is required by the Sustainable Principle R1 The Council should demonstrate longer-term considerations for its property portfolio strategic planning and associated decision-making processes.
Further develop partnership working R2 Engage with public sector partners across Gwent to realise the potential benefits arising from a strategic approach to a single public estate.

Detailed report

The Council strategically plans and manages its property assets well, needs to put the sustainable development principle at the heart of its considerations, building on the experience of the pandemic

The Council's strategic assets plan has clear aims and rationale and is supporting its overall corporate plan, however, progress has understandably slowed as it learns from the COVID-19 pandemic

Why setting a clear vision is important

10 A clear asset management strategy and well-developed delivery plans are important to identify the intended usage of assets over the short and longer term; the funding available to maintain and develop assets, as well as the anticipated future level of demand for, and cost of, providing services. It is also important to identify how the asset management strategy aligns and is integrated with other relevant strategies including, agile working, workforce, digital and carbon reduction. Learning from the changes brought about by the global COVID-19 pandemic, can help councils strengthen their ability to transform, adapt and maintain the delivery of services.

11 In reaching this conclusion we found that:

- the Council's existing Strategic Asset Management Plan 2018-25 (SAMP) states that it does not require all of its current property portfolio, further that 'the current portfolio is larger than the Council can afford to retain in the medium to long term'.
- the Council has improved its understanding of its estates since setting its current Corporate Plan and now has a clear intent for using some assets for corporate use and also for disposal. However, the Council intends to continue with an audit of all its built assets by 2025 to fully understand their long-term carbon impact with the aim of better strategic utilisation.
- learning from the experiences of the COVID-19 pandemic, listening to its workforce and seeking to cost effectively reduce carbon impact has led the Council to rethink its property portfolio. The Council continues to develop how it will use its buildings, particularly the Civic Centre, in the future.

The Council was comparatively well placed to respond to the COVID-19 crisis with swift agility and in partnership with other public sector organisations; and is looking to retain some benefits of new ways of working for the future

12 In reaching this conclusion we found that:

- the Council responded swiftly to the rapidly changing environment of the COVID-19 global pandemic. The lockdown in March 2020 required previously office-based staff to work from home. The Council was in a comparatively good position to respond to the immediate need for its office-based staff to work from home. This was largely due to already having made it routine to provide staff with laptops and investing in cloud technologies.
- maintaining vital Council services required staff to be flexible in how and where they worked, imaginative digitisation of services and practical solutions to ensure that vital Council services continued whilst also contributing to the extension of additional health services. This has understandably resulted in operational plans and arrangements moving at greater pace and in some areas developed beyond the scope of the existing Strategic Asset Management Plan and other key Council strategies.
- in November 2019, the Council opened its partnership hub in Ringland that delivers a range of services, including health, Police and Third Sector and Council from a single building that is purposefully located to serve the community. This is a pathfinder project to establish an appropriate model for the remaining three hubs. The Council will be reviewing the Ringland hub model and developing proposals for the remaining three hubs by March 2023.
- the Council is progressing with its 'New Normal' project to further reduce the need for traditional office accommodation space by:
  - enabling many of its staff to continue to work from home for some of the time;
  - changing the office environment to collaborative working places;
  - condensing service delivery offices into less buildings; and
  - integrating with the Council's strategic priorities, particularly to improve its estate to meet the 2030 Net zero carbon commitment, driven in part by the Council's Climate Change Plan and Local Area Energy Plan.

The Council's strategy and management of its property portfolio and existing arrangements for surplus buildings are effective, but now needs to put the sustainable development principle at the heart of its considerations, building on the experience of the pandemic

Why the Well-being of Future Generations (Wales) Act 2015 is important

13 When we began our audit work under the Well-being of Future Generations (Wales) Act 2015 we recognised that it would take time for public bodies to embed the sustainable development principle, but we did also set out our expectation that over the medium term we would expect public bodies to be able to demonstrate how the Act is shaping what they do. It is now approaching seven years since the Well-being of Future Generations Act was passed and we are now into the second reporting period for the Act. Therefore, we would now expect public bodies to be able to demonstrate that the Act is integral to their thinking and genuinely shaping what they do.

14 Under the Well-being of Future Generations (Wales) Act 2015 (the Act) councils must act in accordance with the sustainable development principle. To do this, the Council must take account of the five ways of working: Long-term, Integration, Involvement, Collaboration and Prevention. Statutory guidance on the Act[1] sets out the seven core organisational activities that it is essential that the sustainable development principle is applied to. Assets are one of those core organisational activities.

15 In reaching our conclusion we found that:

- the WFG Act requires the Council to demonstrate that it has balanced the demands of short term whilst also safeguarding its ability to also meet needs in the longer term. The Council can demonstrate some thinking in the medium term for its property portfolio. Whilst the Council continues to gather further information on its property estate it accepts that it should also incorporate longer-term trends into their plans.
- the Council lists that its property estate is a major risk in its Corporate Risk Register 2021/22 Quarter 2 Update (Page 24), with an action 'to develop a balanced strategy for the future of the Civic Centre', describing the action: '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'.

  In 2020, public sector organisations in Gwent agreed to collaborate with a view to identifying possible strategic approaches to a One Public Estate.

[1] Welsh Government, Shared Purpose: Shared Future 1 – Core Guidance, 2016

Such an approach may identify flexibility, collaboration opportunities and a reduced dependency to seek out private market solutions which may potentially reduce costs. However, progress so far has been limited by the operational demands of the COVID-19 pandemic.

- the Council can demonstrate many examples of where it works collaboratively with other partners. Examples of recent collaborative working include the Track, Trace and Protect service and working with Aneurin Bevan University Health Board to house vaccination centres. But the Council still accepts that collaboration is still proving difficult to embed routinely.
- the Council's pilot for a community hub in Ringland and planned further developments are an example of where the Council is actively placing multi-agency services in a single building situated within the community. We were told that the hubs provided vital support and preventative services to the most vulnerable residents during the pandemic.

The Council does present some performance indicators to help evaluate its performance and accepts that this data would be enhanced by comparing with and learning from other organisations

Why effectively reviewing the delivery of planned changes to assets is important

16 Councils should use data to monitor whether they are achieving their intended outcomes effectively and efficiently over the short and longer term. Using benchmarking data can provide useful insight into councils' individual performance and can identify opportunities for learning from other organisations.

17 In reaching this conclusion we found that:

- as part our examination of councils' performance assessments covering the 2020-21 financial year, we noted a reduced reference to comparative performance information, although we recognise that the pandemic led to the suspension of some national data collection. The ability to compare data and performance with other organisations will continue to be an important element of arrangements to secure value for money and will be a challenge for councils to consider particularly as they continue to implement the requirements relating to self-assessment set out in the Local Government and Elections Act (Wales) 2021.
- for example, within the Council's Service Plans 2017-22[2], there are a set of Performance Indicators with targets set for 2021-22 and actual data for the last three years. While understanding that the suspension of national

[2] Newport City Council, Regeneration, Investment & Housing Annual Service Plan 2017-22.

benchmarking datasets has made comparison more difficult, no external comparison has been provided.

- the Council's Strategic Asset Management Plan 2018-25 has an action, as yet incomplete, for its community partnership hubs to establish a set of performance indicators to ensure an effective and common approach is adopted in evaluating and monitoring the neighbourhood hub and spokes model. In addition to the intended set of pan-County performance indicators, the Council should consider how it will be able to gauge the social worth and impact of individual hub areas to inform improvement and resilience to future decision-making.
- the Council can provide some examples of when it has learnt from other organisations, examples being when the Council visited Partnership Hubs in Cardiff whilst developing the housing of a partnership hub pilot, and also linked up with Monmouthshire Council to benefit from their experience in implementing hybrid democratic meetings and services to enable the Council, during the COVID-19 pandemic, to re-establish the democratic processes online.

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Report

Governance & Audit Committee

Part 1

Date: 26 January 2023

Subject **Internal Audit – Progress against audit plan 2022/23 Quarter 3 (Q3)**

Purpose The purpose of this report is twofold:

The Chief Internal Auditor's update to Members of the Council's Governance & Audit Committee of the Internal Audit Section's progress against the 2022/23 agreed Internal 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.

Separately, the Head of Finance's update on audit resources in 2023/24 onwards

Author Chief Internal Auditor

Ward General

Summary The attached report identifies that the Internal Audit Section is making progress against the 2022/23 audit plan and internal performance indicators.

The Internal Audit Plan was based on 1073 audit days.

2 Unsatisfactory audit opinions are being reported:
i) Purchasing Cards (Transactions) and
ii) Passenger Transport Unit (PTU) Taxi Contracts follow up.

Proposal 1) Regarding progress on delivering the 2022/23 audit plan, that the report be noted by the Council's Governance & Audit Committee

2) Regarding the audit resources in 2023/24 onwards, to provide any feedback and comments to the Head of Finance

Action by The Governance & Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People, Policy & Transformation

Signed

Background

CHIEF INTERNAL AUDITOR UPDATE ON PROGRESS ON THE 2022/23 AUDIT PLAN

1. This report aims to inform Members of the Governance & Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed Internal 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 7.5 FTE audit staff. At the start of the year there were 5.5 audit staff in the team; support is being provided by an external internal audit provider. As a result of significant budget pressures facing the Council, a budget saving proposal has been put forward to reduce the audit establishment by 1 FTE.

4. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues on a 50:50 basis.

Public Sector Internal Audit Standards (PSIAS)

5. The Public Sector Internal Audit Standards (PSIAS) 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 – Chartered Institute of Public Finance & Accountancy (CIPFA).

6. 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 compliant with the Standards, with no significant areas of non-compliance. The next review will take place at the end of 2023.

Internal Audit Plan

7. The 2022/23 Revised Internal Audit Plan was agreed by the Governance & Audit Committee on the 28th July 2022 and was based on 1073 audit days with 62 opinion related jobs.

8. 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 (where necessary), meetings and provide relevant documentation.

9. In 2021/22 external resources were brought in to undertake audit jobs which could not be completed in house due to vacancies. This support has continued into 2022/23 to ensure appropriate audit coverage during the year.

Performance

10. 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.

11. 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 Governance & Audit Committee on a quarterly basis; the target for each of the indicators is set internally by the Chief Internal Auditor.

12. The performance for Quarter 3 2022/23 is summarised below with the detail shown at **Appendix A**:

    a. 47% of the original audit plan has been achieved so far which is just below the target of 50%;

    b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages 5 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 within the target time of 5 days.

13. 12 out of 13 2021/22 audit reviews which were in draft as at 31/03/22 have now been finalised. The remaining audit is in the process of being finalised and will be completed shortly.

14. A vacancy / secondment provision was taken into account in the planning stages which related to the Chief Internal Auditor's work with Monmouthshire and 2 vacant posts. The team took on additional external professional support to enable it to achieve the 2021/22 audit plan and has carried this through to 2022/23.

15. The vacancies in the team will be managed through recruitment and by external support.

16. The team is on track to achieve the agreed Internal Audit plan by the year end.

17. 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. The Chief Internal Auditor will review the situation throughout the year and will prioritise audit work if necessary, to complete the plan.

18. From time to time the team does get involved with additional non-planned audit work which can result in time consuming special investigations.

Quality Control

19. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report (Appendix F). 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 2022/23.

Financial Training

20. 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. This course is mandatory for all managers and is available bimonthly, as part of the Corporate Training Programme. Feedback from staff who have previously attended courses has been positive. 8 training sessions have been held so far this year, involving 109 delegates; more are planned in Q4.

Audit Opinions 2022/23

21. Audit opinions issued so far in 2022/23 are shown at **Appendix B.** Definition of audit opinions currently given is shown at **Appendix D**.

22. 43 jobs were completed to at least draft report stage by 31 December 2022, 21 of which warranted an audit opinion:

    4 *x Good,*
    15 x Reasonable,
    2 x Unsatisfactory,
    No *Unsound* audit opinions.

    In addition, 4 grant claims have been audited resulting with an *Unqualified,* opinion.

23. Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), the new financial system and the provision of financial advice and financial regulations training (**Appendix C**).

24. The *Unsatisfactory* audit opinions related to Purchasing Cards (Transactions) and Passenger Transport Unit (PTU) Taxi Contracts (Follow-Up) 2021/22 which has previously been reported into Committee.

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2223-P5	Finance	Procurement & Payments	Purchasing Cards (Transactions)	Medium	Draft	Unsatisfactory
P2223-P70	City Services	Transport	PTU Taxi Contracts (Follow-Up) 2021/22	High	Draft	Unsatisfactory

25. The key concerns identified from the audit leading to the second consecutive *Unsatisfactory* audit of the PTU (Taxi Contracts) Follow Up has led to the Strategic Director being called into Governance & Audit Committee which is covered under a separate report. The key concerns leading to the Unsatisfactory audit opinion for Purchasing Cards (Transactions) are shown at **Appendix E**.

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 and Strategic Directors for information and appropriate action where necessary.

Follow up audit reviews

29. Where *Unsatisfactory* or *Unsound* opinions are issued, we aim to follow 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. Previously these have been reported separately to this Governance & Audit Committee on a six-monthly basis.

HEAD OF FINANCE UPDATE ON AUDIT RESPOURCES 2023/24 ONWARDS

30. As part of the Council's budget proposals for 2023/24, a proposal to reduce the number of audit managers from 2 to 1 is made and this would impact audit resources by 119 operational and 60 management days and necessitate a re-organisation of some aspects of work to facilitate.

The proposal is made within the context of the most challenging financial situation experienced to date by UK public sector and Councils in particular. the 2023/24 budget shortfall presented to the Cabinet in their December 2022 meeting was £27.6m prior to cost reduction plans and £55.8m over the medium term. These are unprecedented levels of budget challenges requiring the consideration of all potential solutions to balance the budget shortfall. This proposal will save £61k annually.

As the Committee will no doubt acknowledge, the deletion of this resources and its impact is far from ideal, especially in a challenging period for this Council. It will reduce opinion related work and therefore less assurance to the Council on the appropriateness of the internal control environment, governance arrangements and risk management processes in place. However, the Council budget needs to be balanced and this saving needs to be seen in the context of other

very significant front line service budget savings and associated risks affecting individual and families which are under consideration. All areas of the Council were required to find substantial and unprecedented level of savings.

The 'decision point' for this proposal is the Head of Finance' and therefore it is not subject to external, public consultation. The Head of Finance and the Executive Team, who have reviewed all proposals, understand the risks involved in deleting this role and this has been set against the risks and other issues involved in other budget proposals across the organisation, which, given the increased scale of savings being considered, are substantial.

As a delegated operational decision for the Head of Finance, the Committee are invited to consider and provide any feedback to the Head of Finance direct, and who will, if required, pass these on to Executive Board / Cabinet Member, as needed.

Financial Summary

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

Risks

32. 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 Governance & 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	L	M	Audit work will be prioritised ; Have engaged with external provider to provide additional resources to support the team.	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

33. 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

34. 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.

35. The Governance & 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

36. N/A

Comments of Chief Financial Officer

37. There are no specific financial issues coming from this report. The internal audit team fulfils my statutory requirement to provide an internal audit function and provides assurances or highlights issues in the 'control environment' operated by services and functions in the operational aspects of carrying out their services and functions.

38. Most services reviewed this year to date are showing a reasonable or better level of control. The exceptions are Purchasing Cards (Transactions) and the 'Passenger Transport Unit Taxi function' which has received a second 'unreasonable' assessment.

Comments of Monitoring Officer

39. 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, Policy and Transformation

40. As part of the Well-being of Future Generations Act (2015) and its corporate governance arrangements 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.

Local issues

41. N/A

Scrutiny Committees

42. N/A

Equalities Impact Assessment and the Equalities Act 2010

43. 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.

44. All audits are undertaken in a non-discriminatory manner and key equalities issues identified under the scope of the audits will be identified as part of the audit reports and management discussions. As this is a report on the performance of the Internal Audit Team and audit opinions issued, there is no requirement for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

45. N/A

Wellbeing of Future Generations (Wales) Act 2015

46. 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 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 Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

Consultation

47. N/A

Background Papers

48. N/A

Dated:

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

2021/22	2021/22 Target	1st Qtr 21/22	2nd Qtr 21/22	3rd Qtr 21/22	4th Qtr 21/22	Comments
Proportion of planned audits complete	82%	20%	30%	42%	71%	[Profiled Target Q3 50%]
Directly chargeable time against total time available	50%	57%	55%	53%	53%	Quarterly performance
Directly chargeable time against planned	100%	78%	75%	78%	80%	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	2	5	8	11	Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0	1	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	7 days	6 days	6 days	5	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	5 days	4 days	3 days	3	Cumulative figures

2022/23	22/23 Target	1st Qtr 22/23	2nd Qtr 22/23	3rd Qtr 22/23	4th Qtr 22/23	Comments
Proportion of planned audits complete	82%	19%	31%	47%		[Profiled Target Q3 50%]
Directly chargeable time against total time available	50%	50%	56%	52%		Quarterly performance
Directly chargeable time against planned	100%	60%	58%	62%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	N/A		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	3	5	8		Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	3 days	5 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	2 days	2 days		Cumulative figures

Appendix B

Opinions as at 31 December 2022, Q3

	Q1	Q2	Q3
Good	1	1	4
Reasonable	4	8	15
Unsatisfactory	1	1	2
Unsound	0	0	0
Total		10	21
Unqualified	1	4	4

Internal Audit Services - Management Information for 2022/23 Q3

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2223-P16	People, Policy & Transformation	Newport Intelligence Hub	Street Naming & Numbering	Medium	Draft	Good
P2223-P48	Education Services	Resources & Planning	Trips & Visits Evolve System (Follow-up #2)	High	Final	Good
P2223-P49	Education Services	Engagement & Learning	Gwent Music Support Service (Follow-Up)	High	Draft	Good
P2223-P78	Environment & Public Protection	Climate Change	Carbon Reduction Team (2021/22)	Medium	Final	Good
P2223-P3	Finance	Income & Tax	Sundry Debtors	Medium	Final	Reasonable
P2223-P4	Finance	Procurement & Payments	Purchasing Cards - System	High	Final	Reasonable
P2223-P12	People, Policy & Transformation	Digital Services & Complaints	Payment Card Industry Data Security Standards (PCI DSS) (Follow Up)	High	Final	Reasonable
P2223-P13	People, Policy & Transformation	Human Resources	HR/Payroll CAATs	Medium	Final	Reasonable
P2223-P14	People, Policy & Transformation	Human Resources	Recruitment & Selection	High	Final	Reasonable
P2223-P22	Law & Standards	Legal	Land Charges	Medium	Draft	Reasonable
P2223-P26	Children Services	Childrens Teams	Children With Disabilities	Medium	Final	Reasonable
P2223-P29	Children Services	Residential Homes	Rose Cottage	Medium	Final	Reasonable
P2223-P31	Children Services	Residential Homes	Control Risk Self-Assessments	Medium	Final	Reasonable
P2223-P35	Adult Services	Integrated Teams	Mental Health Service (2021/22)	High	Final	Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2223-P36	Adult Services	Residential Homes	Control Risk Self-Assessments	Medium	Final	Reasonable
P2223-P57	Education Services	Primary Schools	Rogerstone Primary 2021/22	Medium	Final	Reasonable
P2223-P69	City Services	Fleet	Vehicle Usage & Trackers (Follow up)	High	Draft	Reasonable
P2223-P79	Environment & Public Protection	Cemetery & Crematorium	Gwent Crematorium	Medium	Final	Reasonable
P2223-P81	Environment & Public Protection	Waste & Cleansing	Household Waste Recycling Centre	Medium	Draft	Reasonable
P2223-P5	Finance	Procurement & Payments	Purchasing Cards - Transactions	Medium	Draft	Unsatisfactory
P2223-P70	City Services	Transport	PTU Taxi Contracts (Follow-Up) 2021/22	High	Draft	Unsatisfactory
P2223-P53	Education Services	Grants	Education School Improvement Grant (SIG) 2021/22	Medium	Final	Unqualified
P2223-P54	Education Services	Grants	Pupil Development Grant (PDG) 2021/22	Medium	Final	Unqualified
P2223-P76	Environment & Public Protection	Public Protection	Scambusters Grant Claim 2021/22	Medium	Final	Unqualified
P2223-P84	Housing & Communities	HSG / Supporting People	Housing Support Grant (HSG)	Medium		Unqualified

Appendix C

Non Opinion work 2022/23 Q3

Job number	Service Area	Section or Team	Job Title
P2223-P1	Finance	Accountancy	New Financial System
P2223-P7	Finance	Accountancy	Annual Governance Statement
P2223-P8	Finance	General	National Fraud Initiative (NFI)
P2223-P9	Finance	General	Financial Advice
P2223-P18	People, Policy & Transformation	General	Financial Advice
P2223-P19	People, Policy & Transformation	General	Financial Regulations Training
P2223-P24	Law & Standards	General	Financial Advice
P2223-P32	Children Services	General	Financial Advice
P2223-P37	Adult Services	General	Financial Advice
P2223-P40	Prevention & Inclusion	General	Financial Advice
P2223-P45	Regen & Economic Development	General	Financial Advice
P2223-P64	Education Services	Schools	Control Risk Self-Assessments
P2223-P65	Education Services	General	Schools Financial Regulations Training / Cluster Meetings
P2223-P66	Education Services	General	Financial Advice
P2223-P72	City Services	General	Financial Advice
P2223-P82	Environment & Public Protection	General	Financial Advice
P2223-P87	Housing & Communities	General	Financial Advice

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.

Appendix E

Extract from the Draft Internal Audit Report – Purchasing Cards (Transactions)

During 2021/22 (the test period) 19,845 transactions were processed using the Council's purchase cards totalling a net spend of £4.8m. The audit took a sample of 227 transactions, with a spend value of £893,889.

The overall Internal Audit opinion is an **Unsatisfactory** level of assurance.

As set out in the Memo and the Action Plan, the key issues identified were as follows:

1. *Cardholders have failed to review transactions as per the Purchasing Card Policy*
2. *Full, legible and detailed receipts were not held for all transactions made*
3. *VAT had been incorrectly applied to a number of transactions. VAT was not always appropriately reclaimed or supported by a full VAT receipt*
4. *A number of transactions had been made which were deemed by the Purchasing Card Policy as being 'prohibited'*
5. *Purchases had been made which were deemed by the auditor to be an inappropriate use of public funds*
6. *Transactions had not always been administered in line with the required financial accounting principles relating to pre-payments*
7. *Purchases had been made by persons other than the designated cardholder*

Appendix F

CONFIDENTIAL

INTERNAL AUDIT SERVICES

AUDIT EVALUATION QUESTIONNAIRE

AREA OF REVIEW:

The Audit Review	**Please tick as appropriate** (*Where answers given as 'Partially' or 'No'– please provide comments)*
Do you feel that the review was of benefit to your Service Area?	☐ Yes ☐ Partially ☐ No
Did the review address the main "risk" areas within your Service Area?	☐ Yes ☐ Partially ☐ No
Has the audit assisted on giving feedback on the effectiveness of your financial and administrative systems and procedures, and clarified the requirements of the Authority's Financial Regulations, Contract Standing Orders and other policies and procedures endorsed by Newport City Council?	☐ Yes ☐ Partially ☐ No
The Staff	**Please tick as appropriate** (*Where answers given as 'Partially' or 'No'– please provide comments)*
Did you find the approach of the audit staff to be constructive, helpful?	☐ Yes ☐ Partially ☐ No
The Audit Report	**Please tick as appropriate** (*Where answers given as 'Partially' or 'No'– please provide comments)*
If you accepted the offer of a meeting to discuss the "draft" report, did you find this to be helpful / beneficial? *If you did not accept the offer of a meeting and provided written comments please leave blank.*	☐ Yes ☐ Partially ☐ No
Do you feel that the report fairly represented the strengths and weaknesses of the areas that were reviewed?	☐ Yes ☐ Partially ☐ No
Do you feel that your management comments and any action that you agreed were correctly reflected in the final report?	☐ Yes ☐ Partially ☐ No
Report Format	**Please tick as appropriate** (*Where answers given as 'Partially' or 'No'– please provide comments)*

Is the report format easy to follow? If no, please offer any comments below as to any area(s) you feel could be improved upon.	☐ Yes ☐ Partially ☐ No
Questionnaire	**Please tick as appropriate** (*Where answers given as 'Partially' or 'No'– please provide comments)*
Do you feel that having the opportunity to comment via a questionnaire is beneficial / a useful part of the process?	☐ Yes ☐ Partially ☐ No
Generally, overall, were you satisfied with the audit service that you received?	☐ Yes ☐ Partially ☐ No
Please comment below if there are any areas relating to the way the audit was conducted (i.e. notification, on site work, the report etc.), or areas not covered / discussed during this visit that you would like covered in any future visits. Please identify below any improvements you feel would benefit your service on future audits.	
Comments:	

Thank you for taking the time to complete this questionnaire.

Name: **Date:**

Position / Job Title:

Please return by email to: andrew.wathan@newport.gov.uk

Andrew Wathan,
Chief Internal Auditor,
Internal Audit,
Newport City Council,
Civic Centre,
Newport,
NP20 4UR

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NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Report

Governance and Audit Committee

Part 1

Date: 26 January 2023

Subject **Waiving of Contract Standing Orders: Quarterly report reviewing Urgent decisions or Waiving Contract SOs (Quarter 3, October to December)**

Purpose To advise the Governance and Audit Committee of a decision taken in accordance with the Standing Orders, in consultation with the Chair of Planning Committee, to issue an Enforcement Notice and accompanying Stop Notice on land at Green Lane, Peterstone without being reported for decision to the Planning Committee.

Author Governance Team Leader

Ward General

Summary This report provides details of decisions on the use of Standing Order 22.4 (decisions taken urgently) or the Waiving of Contract Standing Orders for the above period.

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

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

Action by Audit Committee

Timetable Immediate

This report was prepared after consultation with:

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

Background

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

In this section you must set out all necessary information to allow Councillors to take an informed decision. You will need to put forward the case to support your proposals.

Financial Summary

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

Risks

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

Options Available / Preferred Option and Why

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

Comments of Chief Financial Officer

See original reports attached.

Comments of Monitoring Officer

See original reports attached.

Comments of Head of People, Policy and Transformation.

See original reports attached.

Equalities Impact Assessment and the Equalities Act 2010

See original reports attached.

Children and Families (Wales) Measure

See original reports attached.

Wellbeing of Future Generations (Wales) Act 2015

See original reports attached.

Consultation

See original reports attached.

	Subject	Decision & Date	Reason for Urgency/Reason to waive Contract Standing Orders	Comments of Chief Internal Auditor
1	Green Lane, Peterstone - Enforcement Notice and Stop Notice	14 December 2022	Unauthorised works were progressing on the site resulting in the land being stripped of topsoil to form bunds adjacent to protected reens and there was evidence of residential occupation on the site. The situation on site was fast moving and as the site is located within Flood Zone 3 of the Flood Maps for Planning (where residential use would not be allowed as matter of principle given the highly vulnerable nature of the use), this presented a risk to life and property in the event of a significant storm. Allied to this, the bunds were formed of loose material and are located within a Site of Special Scientific Interest (SSSI) (UK level designation) and adverse weather and rain could result in the bunds polluting the adjacent waterway that make up the SSSI. These threats were immediate and could have been exacerbated if further works were undertaken or the residential use intensified. It was therefore considered necessary to cease works immediately due to the location of the site in a SSSI (Site of Special Scientific Interest) and Flood Zone 3.	There is sufficient justification within this report to warrant the Urgent Decision taken. It may be beneficial to include a timeline of key events in future if similar decisions are taken.

Background Papers

The following documentation is provided as background to the above decisions:

Cabinet Member for

- Report attached as **Appendix A**

Dated: 28 December 2022

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Report

Governance and Audit Committee – Urgent Item Report

Date: 14th December 2022

Subject **Green Lane, Peterstone - Enforcement Notice and Stop Notice**

Purpose To advise the Governance and Audit Committee of a decision taken in accordance with the Standing Orders, in consultation with the Chair of Planning Committee, to issue an Enforcement Notice and accompanying Stop Notice on land at Green Lane, Peterstone without being reported for decision to the Planning Committee.

Author **Head of Regeneration and Economic Development**

Ward Marshfield

Reason for Urgency

Unauthorised works were progressing on the site resulting in the land being stripped of topsoil to form bunds adjacent to protected reens and there was evidence of residential occupation on the site. The situation on site was fast moving and as the site is located within Flood Zone 3 of the Flood Maps for Planning (where residential use would not be allowed as matter of principle given the highly vulnerable nature of the use), this presented a risk to life and property in the event of a significant storm. Allied to this, the bunds were formed of loose material and are located within a Site of Special Scientific Interest (SSSI) (UK level designation) and adverse weather and rain could result in the bunds polluting the adjacent waterway that make up the SSSI. These threats were immediate and could have been exacerbated if further works were undertaken or the residential use intensified. It was therefore considered necessary to cease works immediately due to the location of the site in a SSSI (Site of Special Scientific Interest) and Flood Zone 3.

Summary Action taken included authorisation to serve an Enforcement Notice with regards to the unauthorised works, which comes into effect 28 days post issue, and the applicant would have a right of appeal against this Notice. Therefore, it was also considered necessary to issue a Stop Notice at the same time to prohibit any further works with immediate effect.

Proposal **Note the decision and justification to issue an urgent Enforcement Notice and Stop Notice in accordance with Standing Orders.**

Action by **Head of Regeneration and Economic Development in conjunction with Chair of Planning Committee – minuted by Democratic Services.**

Timetable Immediate effect

This report was prepared after consultation with:

- Cllr Mark Spencer (Chair of Planning Committee)
- Joanne Evans (Senior Solicitor)
- Anne Jenkins (Governance Team Leader)

- Pamela Tasker (Governance Officer)
- Andrew Ferguson (Planning and Development Manager)
- Stephen Williams (West Area Development Manager)

Signed

Background

The report contained in this schedule assessed the breach of planning control against relevant planning policy and other material planning considerations, and took into consideration the views of statutory consultees where applicable.

Planning decisions are expected to benefit the City and its communities and there is a duty to pursue formal enforcement action against inappropriate or poor quality development in the wrong locations. This improves the appearance of the physical environment and the amenities of residents and businesses by tackling unsightly land and buildings that are detrimental to the amenities of the area.

Where formal enforcement action is taken, the recipient of the Notice has a statutory right of appeal in most cases. There is no third party right of appeal against a decision with the exception of High Hedge Remedial Notices. Appeals are normally lodged with Planning and Environment Decisions Wales. Non-compliance with a statutory Notice is a criminal offence against which prosecution proceedings may be sought. The maximum level of fine and/or sentence that can be imposed by the Courts depends upon the type of Notice issued.

Investigations and issuing of notices are carried out by existing staff and there are no additional staffing issues. It is sometimes necessary to employ a Barrister to act on the Council's behalf in defending decisions relating to planning enforcement appeals but these costs are met by existing budgets.

Where applicable as planning considerations, specific issues relating to sustainability and environmental issues, equalities impact and crime prevention impact of each proposed development are addressed in the relevant report in the attached schedule.

Financial Summary

The cost of investigating enforcement complaints and pursuing formal action is met by existing budgets. Costs can be awarded against the Council at an appeal if the Council has acted unreasonably and/or cannot defend its decisions. Similarly, costs can be awarded in the Council's favour if an appellant has acted unreasonably and/or cannot substantiate their grounds of appeal.

In the case of Stop Notices, compensation can be awarded against the Council if it is demonstrated that the breach of planning control alleged has not occurred as a matter of fact, the breach is immune from enforcement action due to the passage of time, or the activities/development have planning permission.

Risks

Two risks are identified in relation to decisions to take formal enforcement action: decisions being overturned at appeal with costs awarded; and compensation being awarded if a Stop Notice is issued.

An appeal can be lodged by any recipient of a formal Notice, with the exception of a Breach of Condition Notice. Costs can be awarded against the Council if decisions cannot be defended as reasonable, or if it behaves unreasonably during the appeal process, for example by not submitting required documents within required timescales. Conversely, costs can be awarded in the Council's favour if the appellant cannot defend their argument or behaves unreasonably.

If a Stop Notice is issued, compensation can be awarded against the Council if it is demonstrated that the breach of planning control alleged has not occurred as a matter of fact, the breach is immune from enforcement action due to the passage of time, or the activities/development has already been granted planning permission. Legal advice is sought before taking such action, and a cost-benefit analysis is undertaken to fully assess the proposed course of action.

Mitigation measures to reduce risk are detailed in the table below. The probability of these risks occurring is considered to be low due to the mitigation measures; however the costs associated with a public inquiry can be high. These are infrequent, so the impact is considered to be medium.

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?
Decisions challenged at appeal and costs awarded against the Council.	M	L	Ensure reasons for taking formal enforcement action can be defended at appeal. Ensure appeal timetables are adhered to.	Planning Committee Planning and Development Manager
Compensation awarded in relation to a Stop Notice	L	L	Ensure reasons for issuing a notice can be defended at appeal. Cost benefit analysis undertaken, and legal advice sought on proposed actions.	Planning and Development Manager and Senior Legal Officer Planning and Development Manager

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities
The Council's Corporate Plan 2022-2027 identifies four Well-being Objectives, with the overall aim to be an ambitious, fairer, greener Newport for everyone. To achieve this goal, we have four well-being objectives that will prioritise our focus over the next five years and will support our longer-term vision for Newport over the next 20 years:

- Economy, Education and Skills,
- Environment and Infrastructure
- Quality Social Care and Community Services
- An Inclusive, Fair and Sustainable Council

Through development management decisions, good quality development is encouraged and the wrong development in the wrong places is resisted. Planning decisions can therefore contribute directly and indirectly to these priority outcomes by helping to deliver sustainable communities and ensuring high quality 'place-making'.

Under Section 38(6) of the Planning and Compulsory Purchase Act 2004 all planning applications must be determined in accordance with Future Wales: The National Plan 2040 and the Newport Local Development Plan (Adopted January 2015) unless material considerations indicate otherwise. Planning decisions are therefore based primarily on national planning policy and this core Council policy.

Options Considered
1) To take action urgently in accordance with the Officer recommendation using provisions in the Standing Orders; or
2) To delay urgent action and report the case to Planning Committee for determination.

Preferred Option and Why
Option 1 was preferred given that the unauthorised works were continuing to progress on the site resulting in the land being stripped of topsoil to form bunds adjacent to protected reens and there was

evidence of residential occupation on the site. The situation on site was fast moving and as the site is located within Flood Zone 3 of the Flood Maps for Planning (where residential use would not be allowed as matter of principle given the highly vulnerable nature of the use), this presented a risk to life and property in the event of a significant storm. Allied to this, the bunds were formed of loose material and are located within a Site of Special Scientific Interest (SSSI) (UK level designation) and adverse weather and rain could result in the bunds polluting the adjacent waterway that make up the SSSI. These threats were immediate and could have been exacerbated if further works were undertaken or the residential use intensified. It was therefore considered necessary to cease works immediately due to the location of the site in a SSSI (Site of Special Scientific Interest) and Flood Zone 3.

Comments of Chief Financial Officer

In the normal course of events, there should be no specific financial implications arising from the determination of planning applications or enforcement action.

There is always a risk of a planning decision being challenged at appeal. This is especially the case where the Committee makes a decision contrary to the advice of Planning Officers or where in making its decision, the Committee takes into account matters which are not relevant planning considerations. These costs can be very considerable, especially where the planning application concerned is large or complex or the appeal process is likely to be protracted.

Members of the Planning Committee should be mindful that the costs of defending appeals and any award of costs against the Council following a successful appeal must be met by the taxpayers of Newport.

There is no provision in the Council's budget for such costs and as such, compensating savings in services would be required to offset any such costs that were incurred as a result of a successful appeal.

Comments of Monitoring Officer

Planning Committee are required to have regard to the Officer advice and recommendations set out in the Enforcement Schedule, the relevant planning policy context and all other material planning considerations. The Committee needs to consider whether the particular enforcement action being recommended is expedient and in the public interest and whether it is proportionate to the breach of planning control identified.

Comments of Head of People and Business Change

Within each report the sustainable development principle (long term, prevention, integration collaboration and involvement) of the Well-being of Future Generations (Wales) Act has been fully considered.
From an HR perspective there are no staffing issues to consider.

Comments of Cabinet Member

The Cabinet Member for Strategic Planning, Regulation and Housing has been made aware of the report.

Local issues

Ward Members have been notified of this decision due to the urgent nature of the report.

Scrutiny Committees

None

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.

An Equality Impact Assessment for delivery of the Development Management service has been completed and can be viewed on the Council's website.

Children and Families (Wales) Measure

Although no targeted consultation takes place specifically aimed at children and young people, consultation on planning applications and appeals is open to all of our citizens regardless of their age. Depending on the scale of the proposed development, applications are publicised via letters to neighbouring occupiers, site notices, press notices and/or social media. People replying to consultations are not required to provide their age or any other personal data, and therefore this data is not held or recorded in any way, and responses are not separated out by age.

Wellbeing of Future Generations (Wales) Act 2015

The Well-being and Future Generations (Wales) Act seeks to improve the social, economic environmental and cultural well-being of Wales. Public bodies should ensure that decisions take into account the impact they could have on people living in Wales, in the future. The 5 main considerations are:

Long term: Decisions made by the Planning Committee balances the need to improve the appearance of areas as well as meeting the needs of residents in order to make places safe to live in and encourage investment and employment opportunities. Planning decisions aim to build sustainable and cohesive communities.

Prevention: Sound planning decisions remove the opportunity for anti-social behaviour and encourages a greater sense of pride in the local area, thereby giving the City potential to grow and become more sustainable.

Integration: Through consultation with residents and statutory consultees, there is an opportunity to contributes views and opinions on how communities grow and develop, thereby promoting greater community involvement and integration. Planning decisions aim to build integrated and cohesive communities.

Collaboration: Consultation with statutory consultees encourages decisions to be made which align with other relevant well-being objectives.

Involvement: Planning applications are subject to consultation and is regulated by legislation. Consultation is targeted at residents and businesses directly affected by a development, ward members and technical consultees. Engagement with the planning process is encouraged in order to ensure that the views of key stakeholders are taken into consideration.

Decisions made are in line with the Council's well-being objectives published in March 2017. Specifically, Objective 9 (Health and Well Being) of the adopted Newport Local Development Plan (2011-2026) links to this duty with its requirement to provide an environment that is safe and encourages healthy lifestyle choices and promotes well-being.

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. It is considered that there would be no significant or unacceptable increase in crime and disorder as a result of the consultation of these guidance documents.

Consultation

The report contained in this schedule assess the breach of planning control or relevant complaint against relevant planning policy and take into consideration the views of statutory consultees where applicable.

Background Papers

NATIONAL POLICY

Planning Policy Wales (PPW) Edition 11 (February 2021)
Future Wales: The National Plan 2040
Development Management Manual 2017
Welsh National Marine Plan November 2019

PPW Technical Advice Notes (TAN):

TAN 5: Nature Conservation and Planning (2009)
TAN 12: Design (2016)
TAN 15: Development and Flood Risk (2004)

Welsh Government Circular 016/2014 on planning conditions

LOCAL POLICY

Newport Local Development Plan (LDP) 2011-2026 (Adopted January 2015)

Supplementary Planning Guidance (SPG):

Planning Obligations (adopted August 2015)
Wildlife and Development (adopted August 2015)

Consultation

Not applicable. This report is to inform the Governance and Audit Committee of the decision made by the Authority.

Background Papers

Not applicable

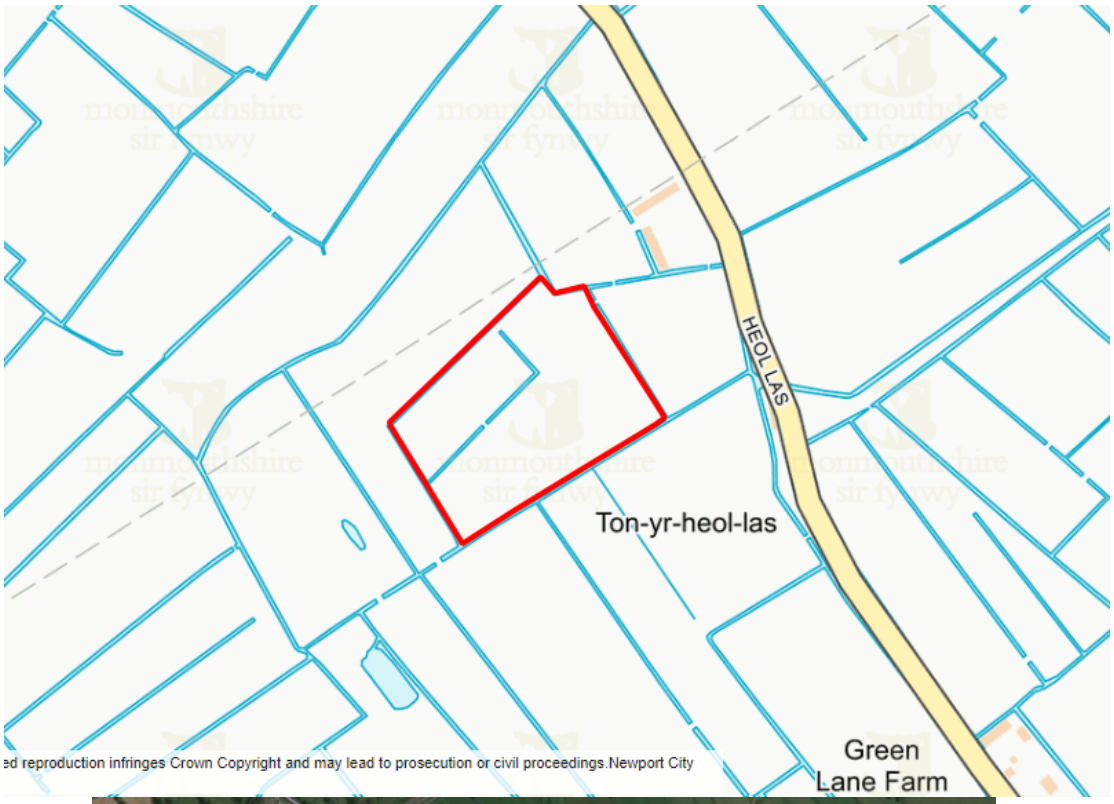
Dated: 19th December 2022

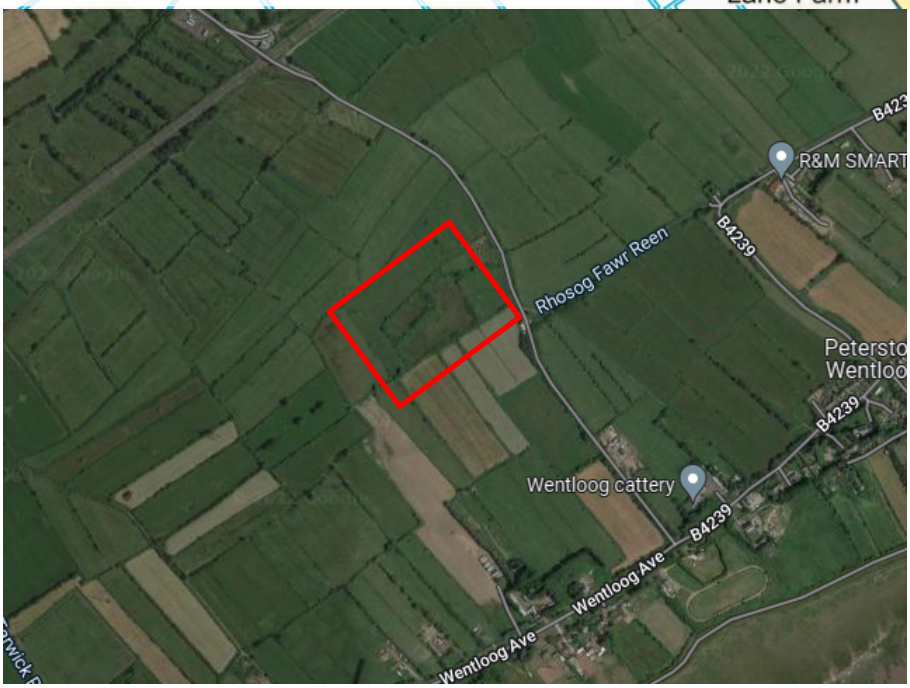
No: 1 E22/0000 Ward: MARSHFIELD

SITING OF A RESIDENTIAL TOURING CARAVAN, CREATION OF A RESIDENTIAL STRUCTURE, ERECTION OF WORKSHOP/STORAGE STRUCTURE, LAYING OF A HARDSTANDING AND BUND WITHOUT PLANNING PERMISSION – GREEN LANE, PETERSTONE, WENTLOOGE, CARDIFF, CF3 2TS

1.0 Breach of Planning Control

1.1 Siting of a residential touring caravan, creation of a residential structure, erection of workshop/storage structure, laying of a hardstanding and bund at Green Lane, Peterstone and the associated access.





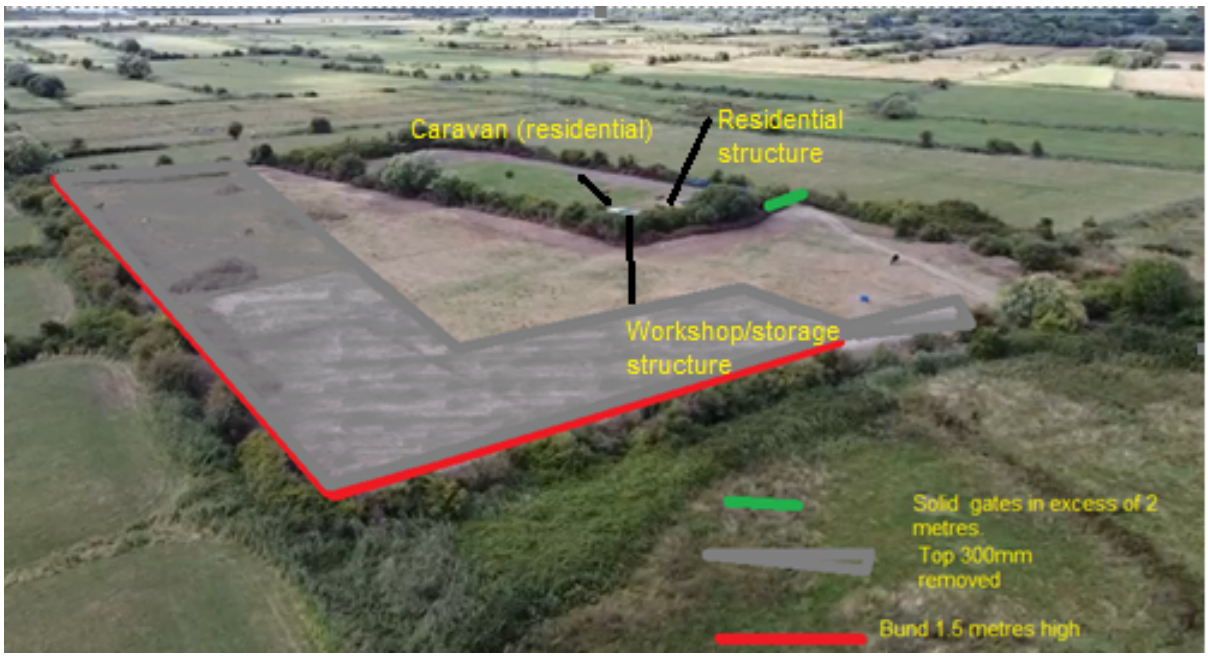
2.0 Assessment

2.1 It has been brought to Officers' attention that a yard enclosed by a bund, which is in places approximately 2 metres high, is being created at the above location. Encompassing c. 2.17 ha. The site in question is located within the countryside and Green Belt as designated in the Newport Local Development Plan 2011-2026 (Adopted January 2015 (LDP)). It is also approximately 80 metres from the boundary with Cardiff, who were consulted on this matter and supportive of this proposed course of action. The site layout is depicted below at Figure 1.

2.2 As can be seen, the bund runs along the eastern boundary of the site and the virtually the entire length of the southern boundary, approximately 250 m in total. An area of c. 0.66 hectares has been stripped of the top c. 300mm of topsoil, which has been subsequently extended further, and this material then utilised to construct the bund. Hardcore is being tipped into this area to create a hardstanding, which will ultimately be extensive if the development of the site continues. Also present on site is a residential touring caravan, workshop/storage structure and a new structure that appears to be a dwelling under construction.

2.3 The Gravesham test (Gravesham BC v Secretary of State for the Environment and Another (1983) has been applied and it is considered that the building does not currently offer all the facilities required for day-to day private domestic existence and is therefore not a dwellinghouse. However, a bed was present, a shower is being installed and a toilet was outside. Inside the structure was a log burner and TV, which would facilitate the residential occupancy. This building was connected to a photovoltaic array, with back up battery, and a generator.

Figure 1: Annotated site layout – looking West.



2.4 Camouflage netting has been employed on both the residential structure and residential caravan, as such, the normal 4/10 year immunity timeframe may not apply, as under the common law an individual cannot benefit from their wrongdoing. This was developed further in Welwyn Hatfield Council v Secretary of State, where the "public policy argument" overrode the four year rule. In this case, Lord Manse (Paragraph 54) stated that "…*the four-year statutory periods must have been conceived as periods during which a planning authority would normally be expected to discover an unlawful building operation or use and*

after which the general interest in proper planning control would yield and the status quo prevail …"

2.4 Main Issues

The main issues in this case are considered to be:

1. Does the development, both the mixed use of the site and building with residential aspects, constitute an appropriate form of development in the Green Belt?
2. General development principles, design and sustainability;
3. Flood risk considerations;
4. The impact of the development on highway safety;
5. Impact on ecology;
6. Foul sewerage; and
7. Human rights

2.5 **Green Belt Policy**

Planning Policy Wales (Edition 11, February 2021, para 3.65) is clear that the most important attributes of Green Belts are their permanence and openness. To maintain the openness of such an area, development within a Green Belt must be strictly controlled with a general presumption against development, which is inappropriate in relation to the purposes of the designation. PPW lists the development which may be appropriate and includes:

- mineral extraction;
- renewable and low carbon energy generation;
- engineering operations; and
- local transport infrastructure.

As this development does not fall within the above list, it is unacceptable (para. 3.77). Furthermore, the development does not maintain the openness of the Green Belt and is in conflict with the designation. LDP Policy **SP6** reflects this position insofar as it deals specifically with maintaining the openness of the Green Belt and states that within this area, development which prejudices the open nature of the land will not be permitted. The proposal would prejudice the open nature of the land.

2.6 In terms of the effect of development on the character and appearance of an area, the following LDP policies are relevant:

SP5 aims to protect the countryside for its own sake and restrict new development to uses appropriate within the countryside, which must also respect the landscape character and biodiversity of an area.

CE4 seeks to protect, conserve and restore landscapes on the appropriate register. In this particular case, the Gwent Levels are included on the Cadw/ICOMOS 'Register of Landscapes of Outstanding Historic Interest in Wales'. The site also falls within a Special Landscape Area (Wentlooge Levels), in accordance with PPW (para. 6.3.12).

SP8 requires development to contribute positively to an area by virtue of its design and the materials utilised.

GP6 seeks good quality design in new development and requires proposals to be sensitive to the unique qualities of the site and respond positively to the character of the area.

In short, this development is incongruous in this location for the following reasons:

- due to its large scale;

- design, due to the presence of the bunds, caravan and various structures in this flat landscape;
- development does not serve an agricultural use or is a use that necessitates a rural location ; and
- has removed the characteristic field grips (drainage system of the area).

2.7 General development principles, design and sustainability

2.8 Policy **GP1** aims to ensure the sustainable development agenda by requiring that development can withstand predicted changes in local climate and reduce the risk of flooding on site. Given the developments location in Zone C1 / Zone 3 and the fact that it is single storey indicates strongly that this cannot be achieved. The residential caravan would also be very vulnerable development should a flood event occur and is classed as highly vulnerable development. Policy GP1 states development should be designed to minimise energy consumption and given that the dwelling is essentially a timber structure this is also unlikely to be achieved. Additionally, policy **H2** states that residential development should be built to high standards of environmental and sustainable design.

2.9 In terms of general amenity of the occupants, policy **GP2** aims to provide adequate amenity for occupiers, the nature of the development has meant that the amenity of occupants has been severely compromised. For example, the SW facing windows have camouflage netting over them and the toilet is essentially a hole in the ground.

3.0 Good quality design is sought by virtue of policy GP6 and its associated fundamental design principles. These include: sensitivity to the context of the site; preserve and enhance the character of the locality; and sustainability. As the structure with residential features is essentially a timber structure in a field it contrasts markedly with the surrounding countryside.

3.1 Policy **SP1**, which addresses sustainability in the LDP, requires that development be energy efficient, reduces car usage and minimises the risk of flooding, amongst other elements. As previously observed, the use of the site is unlikely to be efficient in terms of energy usage. The presence of the development in a rural location some distance from public transport links and in flood zone C1 is also counter to policy SP1.

3.2 **Flood Risk**

This location forms part of a low-lying coastal area and falls within flood risk zone (C1), as defined by Development Advice Maps, therefore compliance with Technical Advice Note 15 is required. In terms of TAN 15, the development's end use is unknown, but can only be justified if it can be demonstrated that it satisfies the test at part 6.2 of the TAN:

i. Its location in zone C is necessary to assist, or be part of, a local authority regeneration initiative or a local authority strategy required to sustain an existing settlement; or,

ii. Its location in zone C is necessary to contribute to key employment objectives supported by the local authority, and other key partners, to sustain an existing settlement or region;

and,

iii. It concurs with the aims of PPW and meets the definition of previously developed land (PPW fig 2.1); and,

iv. The potential consequences of a flooding event for the particular type of development have been considered, and in terms of the criteria contained in sections 5 and 7 and appendix 1 found to be acceptable.

Given that the development fails to satisfy either of the first two parts of the test, in that it is not part of regeneration initiative or part of an employment objective, it is unacceptable. As such, one does not need to proceed to the second part of the test. Notwithstanding this, the land would not meet the definition of previously developed land either.

3.3 The consequences of flooding have not been considered and have not been found to be manageable. It should not be necessary to go onto a technical assessment. However, as there is a greater resolution on the Flood Map for Planning (FMP) than is on the Development Advice Map (DAM) it was determined that it would be appropriate to assess the development against this modelling. As previously noted, the development is in C1, where a 0.5% (1 in 200 year) and 0.1% (1 in 1000 year) annual probability tidal flood exists.

3.4 As can be seen in the excerpts of the FPM below (see Figures 2 and 3), the majority of the site falls within Zone 3 for either sea or river flooding under the FPM assessment, which are defined below:

Rivers – Flood Zone 3

Areas with more than 1% (1 in 100) chance of flooding from rivers in a given year, including the effects of climate change.

Figures 2 and 3: Excerpts from the FPM of the area.

Sea – Flood Zone 3

Areas with more than 0.5% (1 in 200) chance of flooding from the sea in a given year, including the effects of climate change.

Rivers – Flood Zone 2

Areas with 0.1% to 1% (1 in 1000 to 1 in 100) chance of flooding from rivers in a given year, including the effects of climate change.

Should a flood event occur, the FMP indicates that the unmade lane from the site would also be flooded, as would Green Lane in the location of the junction with the unmade road, which would therefore preclude safe egress from the site. The creation of the hardstanding, including associated bund, is therefore considered contrary to Policy **SP3** of the LDP. National Planning Policy is clear that highly vulnerable development (such as residential uses) should not be permitted in areas at risk of flooding.

3.5 Highway issues

In terms of the vehicular access on to Green Lane from the site, Green Lane is a single-track road with a reen either side of it. There are few passing places here and drivers are mainly reliant upon access points over the reens, into the adjacent fields, as informal passing places. Green Lane is covered by the national speed limit, i.e., 60 mph. An adequate visibility-splay to the north is unachievable due to the layout of the road and the presence of a compound. The owner of the site in question has no control over the adjacent boundaries, as the site is effectively landlocked. This road is also unsuitable for the larger vehicles necessary to facilitate the construction.

Policy **GP4** of the LDP refers specifically to highways and accessibility and seeks to ensure that development would not be detrimental to highway or pedestrian safety.

3.6 **Ecology**

The site is located within the Gwent Levels- Rumney and Peterstone Site of Special Scientific Interest (SSSI), designated for the important habitat provided by the reen system for aquatic plants and invertebrates. The special interests of the SSSI are dependent on

the water quality, water quantity and continued management of the drainage system. Any activity which has an adverse effect on these will have an adverse impact on the wildlife for which the area was notified as a SSSI. Policy **GP5** requires that such development will not have an unacceptable impact on water quality.

3.7 As the bund enclosing the site is adjoining the reens and comprises of unconsolidated material, high rainfall events will wash material into the reen system therefore adversely affecting the water quality of the reen network. A soakaway toilet has also been constructed adjacent to one of the reens, which could contaminate the adjacent reen. Additionally, Policy **SP9** seeks the conservation, enhancement and management of recognised sites within the natural environment, which this development fails to do, as described above.

3.8 An NRW officer visited the site on 11/08/22 (in response to NRW incident ref. WIRS 2205698) and observed the following:

A large area of the field had had the turf/topsoil removed. Soil was piled in a long mound alongside the field ditch bordering the eastern edge of the field. The mound was immediately next to the ditch and soil had entered the water.

The entry of soil in to the ditch constitutes an offence under Regulation 12 (1) (b) and 38 (1) (a) of the Environmental Permitting (England and Wales) Regulations 2016: To cause or knowingly permit a water discharge activity without the benefit of a permit.

Aerial photographs of the site show that prior to the topsoil being stripped, the field was permanent pasture and had traditional 'grips'. This grassland habitat looked semi-unimproved and likely a remanent of traditional marshy/hay meadow and vital habitat that supports the SSSI Shrill Carder Bee feature. The stripping of turf and top soil has lead to reduction in extent of this habitat. Reduction in habitats and species is likely to in turn reduce their resilience to climate change.

Field grips are a rapidly disappearing technique to aid drainage of a field. They are a historic feature of the landscape and key to the SSSI features, providing valuable variety of habitats within the same one field. These slight and fragile earthworks are vulnerable in other fields that are under-drained and ploughed. Once damaged or removed they are very difficult to restore.

3.9 Foul Sewerage

Policy **GP3** of the LDP refers to service infrastructure and identifies that in areas served by the public foul sewer development will not be permitted with connections to private facilities unless there are exceptional circumstances that prevent connection to the public sewer. Circular 008/2018 – *"Planning requirement in respect of the use of private sewerage in new development, incorporating septic tanks and small treatment plants*", provides additional information on this.

4.0 Foul sewage is currently being disposed of to a hole in the ground. No information has been provided to demonstrate that a connection to the public foul sewer is not achievable. However, there is no evidence of a sewer run in this locale either.

4.1 **Human Rights**

The rights of the occupiers of the site under the Human Rights Act 1998 have been considered. Article 8 identifies that everyone has the right to respect for his private and family life, his home and his correspondence. It goes on to say that there shall be no interference by a public authority with the exercise of this right except such as in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic wellbeing of the country, for the prevention of disorder or

crime, for the protection of health or morals, or for the protections of the rights and freedoms of others.

4.2 In terms of Human Rights, it is not considered that the matters in relation to this enforcement case amount to exceptional matters that would overcome the significant concerns relating to the inappropriate development in the Green Belt, on a Site of Special Scientific Importance and within a C1 Flood Zone (Flood Zone 3 on FMfP). Therefore, it is considered proportionate that an Enforcement Notice and Stop Notice be issued given the significant harm that would arise and implications of continued use. Whilst issuing an enforcement notice will result in an interference with Article 8 of the European Convention on Human Rights for all affected residents, this must be weighed against the public interest. An Enforcement Notice and Stop Notice would effectively mitigate the risks identified to property, human health, biodiversity and the countryside.

5.0 Other Considerations

5.1 ***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. This duty has been considered in the evaluation of this breach of condition. It is considered that there would be no significant or unacceptable increase in crime and disorder as a result of the proposed enforcement action.

5.2 Equality Act 2010

The Equality Act 2010 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.

5.3 Having 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.

5.4 The above duty has been given due consideration in the determination of this application. It is considered that enforcement action in this case will not have any significant implications for, or effect on, persons who share a protected characteristic, over and above any other person.

6.0 Options Considered/Available

6.1 The Council has powers under Section 172 of the Town and Country Planning Act 1990 to issue an Enforcement Notice requiring steps to be taken to remedy this breach of planning control. Failure to comply with the requirements of an Enforcement Notice is a criminal offence, against which prosecution proceedings may be taken at the Magistrates' Court. The maximum penalty for this offence is currently a fine of £20,000 or, upon conviction on indictment, an unlimited fine.

6.2 Due to the right to appeal against an Enforcement Notice, there is potential for a delay of a significant number of months before the Notice takes effect (with PEDW facing a current backlog). Until the determination of the appeal the tipping could continue without an offence being committed and without further enforcement action being taken. Due to the immediate and irreparable harm that could be caused by continued tipping and storage of waste during this period, the Council may wish to exercise its powers under Section 183 of the Town & Country Planning Act 1990 to issue a Stop Notice; whilst not precluding other bodies, such

as NRW, taking action under other legislation. This Notice would prevent further works until the Enforcement Notice comes into effect. Non-compliance with a Stop Notice is a criminal offence with the same penalty as an Enforcement Notice.

6.3 Welsh Office Circular 24/97, Enforcing Planning control: Legislative Provisions And Procedural Requirement, states:

There is no right of appeal to the Secretary of State against the prohibition in a stop notice. The merits of the LPAs decision to serve a stop notice cannot be examined in the course of an appeal, under section 174, against the related enforcement notice. The validity of a stop notice, and the propriety of the LPA's decision to issue a notice, may be challenged by seeking leave of the High Court to apply for judicial review, in accordance with the Rules of the Supreme Court; but probably not by way of defence to a prosecution brought by the LPA under section 187 if the notice is valid on its face, by analogy with the judgement of the Court of Appeal (Criminal Division) in R v Wicks [1995] 93 LGR 377.

6.4 It should be noted that compensation is payable by the Local Planning Authority for any loss or damage the claimant has suffered as a result of the Stop Notice if those activities specified in the Notice do not represent a breach of planning control. In this instance, officers are satisfied that a breach of planning control has occurred, and that any claim for compensation would not be justified.

6.5 Alternatively, if it is considered that the tipping of hardcore and the creation of hardstandings do not have an unacceptable impact on the rural character, landscape importance, Green Belt, drainage ability of the reen system or nature conservation, impact on neighbours, highway safety or that the impact caused is not sufficiently bad as to warrant formal enforcement action, it can resolve to take no further action.

7.0 Costs/Benefits

Before issuing a Stop Notice, a cost/benefit analysis is required.

Costs:

- Increased risk of flooding and associated damage to property/ risk to life.
- Damage to SSSI.
- Risk of an accident due to the substandard access on to Green Lane.
- The costs to the developer of the Authority serving the Notice are unknown. However, there is a risk of compensation sought against Newport City Council if the development does not represent a breach of planning control.

Benefits:

- Further tipping and associated works will cease.
- Environmental costs of further contamination, due to the further extension of the bunds, of the reens during an appeal period are reduced.
- Prosecution proceedings can be sought immediately if further work takes place.
- The harm to the appearance and condition of the land will not continue to worsen.

Overall, it is considered that the benefits of issuing a Stop Notice outweigh the costs.

8.0 Preferred Choice and Reasons

8.1 In this instance it is considered that the development causes significant harm to the Green Belt and the site is clearly visible from the Wales Coast Path directly to the south of the site. The development contravenes policies CE4, GP1, GP2. GP3, GP4, GP5, GP6, H2, SP1, SP3, SP5, SP6, SP8 and SP9 of the Newport Local Development Plan. In addition, there is potential for these operations to continue while an appeal is lodged against an Enforcement Notice, which would result in immediate and irreparable damage to the SSSI.

8.2 Should enforcement action not be taken, after ten years (once substantially complete), as it facilitates a change of use, the development will become immune from any further enforcement action and it will not be possible to mitigate any harm caused. Should a dwelling be constructed the immunity period for it is 4 years.

8.3 It is therefore recommended that enforcement action be taken in this case and that an Enforcement Notice **and** Stop Notice be issued under Sections 172 and 183 of the Town & Country Planning Act 1990 respectively requiring:

Stop Notice point A and Enforcement Notice A to .

A) Cease the residential use of the site, the removal of topsoil and tipping to create a hardstanding and the burning of waste.
B) Remove all the imported hardcore, rubbish and waste from the site.
C) The bund along the site's boundary shall be spread evenly over the site, so as to recreate the former ground level (subject to E) below).
D) Remove all fencing, gates and conifers installed in association with the unauthorised development.
E) The site's grip system shall be reinstated, as per the attached Lidar data. The grips shall be no more than a 'spades depth' down (0.3- 0.5m). Removed material will be evenly spread on adjacent areas.
F) Remove all trackways and hardstanding that have been created within the site.
G) All caravans, unauthorised structures, plant and non-agricultural items shall be removed from the site.

8.4 Should the development continue unabated that this report will act as authorisation to pursue an injunction in the county court, as per the Town and Country Planning Act 1990:

187B Injunctions restraining breaches of planning control.

(1) Where a local planning authority consider it necessary or expedient for any actual or apprehended breach of planning control to be restrained by injunction, they may apply to the court for an injunction, whether or not they have exercised or are proposing to exercise any of their other powers under this Part.

if so required.

9.0 Recommendation

9.1 That the Head of Law and Standards be authorised to issue a Stop and Enforcement Notice under Section 183 and 172, respectively, of the Town and Country Planning Act 1990 (as amended) requiring the above.

9.2 As noted above, if the development continues following the issue of an enforcement Notice and a Stop Notice, to pursue an injunction under Section 187B of the Town and Country Planning Act 1990 (as amended).

Compliance Period:

(1) Cessation of the residential use of the caravan, tipping of hardcore, burning of waste, stripping of topsoil and creation of hardstandings 24 hours (Stop Notice).
(2) Points (B) to (G) one month.

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NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

Report

Governance & Audit Committee

Part 1

Date: 26th January 2023

Subject **2023/24 Capital Strategy and Treasury Management Strategy**

Purpose The purpose of this report is to gather the Committee's views and responses to the Council's draft Capital and Treasury Management Strategies. These views and responses will then be reported to both Cabinet and Council, to inform their respective considerations of these documents. Both strategies are appended to this report. To aid the Committee's deliberations, the covering report summarises the key aspects to both strategies, as well as well as highlighting the main implications and risks arising from them. In addition, to assist Committee in navigating the strategies, paragraph 5 includes a series of questions that the Committee may wish to use as a guide for their deliberations and to enable focus on the strategic aspects of Capital and Treasury Management.

Author Assistant Head of Finance / Head of Finance

Ward General

Summary As set out within the Corporate Plan, the Council has ambitious plans for the city, with the Capital Programme a key enabler in delivering this ambition. The current programme is due to end in March 2023, with a new five-year programme commencing in 2023/24. The new programme will predominantly comprise of annual recurring allocations and a number of ongoing schemes from the existing 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 Council's borrowing and 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. It demonstrates that the Council's approach to taking capital and investment decisions is in line with service objectives, whilst giving consideration to risk, reward and impact. It also demonstrates that these decisions are taken whilst having proper regard to stewardship of public funds, 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 outlined in this covering report.

Proposal Committee is asked:

- To provide comment on the Capital Strategy (Appendix 2), including the draft new Capital Programme within it (shown separately in Appendix 1) and the borrowing requirements/limits needed to deliver the new programme.
- To provide comment on the Treasury Management Strategy and Treasury Management Indicators, the Investment Strategy and the Minimum Revenue Provision (MRP) for 2023/24. (Appendix 3)

- As part of the above:

  - To note, and comment as needed, on the increasing debt, and corresponding revenue cost of this, in delivering the new Capital Programme, and the implications of this over both the short and medium-long term with regard to 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 required to fund ongoing and previously approved schemes brought forward from the current Capital Programme only, and the recommended prudential indicators on borrowing limits to achieve this.

  - To note and comment on the proposal to prioritise annual sums funding over any new schemes, unless unavoidable.

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

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

Signed

Background

Governance and requirement of councils

1. In November 2022, the Cabinet approved the Council's new Corporate Plan, which set out how it would achieve the ambition of an *Ambitious, Fairer, Greener Newport for everyone*. This mission is underpinned by four wellbeing objectives and supported by a transformation plan. Achievement of the four wellbeing objectives will be pursued via a series of actions and individual service plans. In some instances, these actions will involve activity and projects of a capital nature.

2. Whilst Cabinet makes decisions regarding the capital projects to be included in the programme, it is full Council that approves the borrowing limits that the overall programme must remain 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, it is important that those limits are not exceeded. This is an important area of overall financial management governance in that debt funded capital expenditure, and the external borrowing that results, lock in the Council into a long-term liability for the associated revenue costs. These costs, known as 'Capital Financing Costs' are comprised of the external loan interest costs and the provision for financing the debt funded capital expenditure, known as Minimum Revenue Provision (MRP).

3. The key governance documents that underpin this area of local authority finances 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 risk, reward and impact;

   iii) Shows how the Council takes account of stewardship of public funds, 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 Council's longer term borrowing requirement and approach, which is driven mainly by the Capital Programme requirements and, in Newport specifically, the reducing 'internal borrowing' capacity;

   (ii) Outlines how the Council will manage and invest any surplus cash;

   (iii) Includes additional guidance, namely the Welsh Government Investment Guidance and the MRP Policy.

   Both these strategies are a requirement of CIPFA's Prudential Code, which ensures, within the frameworks which these documents set, and a suite of prudential indicators, that capital expenditure plans are:

   - **Affordable –** there must be sufficient resources to be able to meet the capital financing consequence of debt-funded capital expenditure within the overall revenue budget. There must

also be sufficient capital resources for any non-debt funded capital expenditure. In addition, total capital expenditure is to be within **sustainable** limits. Councils are required to consider their current and estimated future resources available, together with the totality of their capital expenditure and income forecasts in assessing affordability.

- **Prudent –** it is important that whilst capital expenditure and capital financing costs are affordable, they are also proportionate. I.e. it is important that an appropriate proportion of the revenue budget is allocated for the purpose of financing past capital expenditure and that this is **sustainable**. Consideration as to overall financial **sustainability** is a key aspect to this. The operational borrowing limit should provide for the most likely level of borrowing, not the worst case, with the authorised limit providing sufficient headroom to enable day to day cash management. There should be alignment with the treasury management policy statement and practices and investing activities should strike an appropriate balance between security, liquidity and yield, in that order.

- **Sustainable –** sustainability is a key theme when considering both affordability and prudence and is something that should be assessed in terms of the long term financial picture.

4. The Capital Strategy and Treasury Management Strategy are inherently linked and the main recommendations and observations arising from these are summarised in the following sections. In light of the requirement for full Council to ultimately provide approval of these strategies, the Governance & Audit Committee are asked to review and provide comments on both strategies, and the limits and prudential indicators contained within them, as necessary, to enable Cabinet, and then Council, to appropriately consider and then approve each strategy as required. It is not the Committee's remit to review the individual schemes that comprise the proposed programme.

5. To assist the committee in their deliberations, and retain focus on the aspects that pertain to the committee's terms of reference, the following questions are provided as a guide:

    i. The borrowing strategy proposes that no additional borrowing, over and above that already approved, will be included within the Capital Programme because of affordability challenges. Does the committee feel that is an appropriate position to take?
    ii. As outlined in the document, there may be the scope to consider additional borrowing in future years and two scenarios are modelled (£5m/£10m additional borrowing beyond 2027/28). Both modelled scenarios are aimed at stabilising the Capital Financing Requirement over the long term. Does the committee feel as though the desire to stabilise the CFR is an appropriate one?
    iii. The report outlines the Council's borrowing approach, where available cash balances and investments are used in lieu of external borrowing (internal borrowing), thus deferring the need to undertake external borrowing and incur interest payable costs for as long as possible. Does the committee feel as though that this is the appropriate approach to take?
    iv. In relation to investments, the report outlines the intention to explore longer term and higher return investments, such as pooled funds. The report also outlines the previous decision to delay investment in such funds, mainly due to the uncertainties caused by the COVID-19 pandemic. Do the committee feel as though the intention to explore these funds further in 2023/24 is an appropriate one?
    v. The report highlights the intention to move to a rolling approach for capital management. As part of this, it is explained that schemes will be shown as indicative until the point at which the requisite funding is in place (either direct capital funding, such as external grants, or the required capital financing budget). Does the committee support the move towards a rolling approach and agree with the process suggested for formally adding schemes to the programme?
    vi. The report outlines the risk around previously approved schemes increasing in cost before the point at which they commence. The steps taken to minimise and manage such issues

are outlined in the report. Does the committee feel as though the steps outlined provide sufficiently robust governance and control around these risks?

Capital Strategy 2023/24 to 2033/34

Capital Programme to 2027/28

6. The Council's current capital programme ends in March 2023, with a new five-year programme taking effect from 2023/24. Because of the extremely challenging financial context facing the Council, and all councils in Wales, the scope for additional borrowing over and above that approved in previous years is severely limited. Therefore, the new programme will comprise annual sums, for activity such as cyclical asset maintenance, and unfinished schemes carried forward from the previous programme. Because of the high level of slippage forecasted in 2022/23, it means that the new programme will still be significant in scale and, because of this, remain a challenge in terms of deliverability.

7. Although the new programme will contain no new schemes, and very little borrowing headroom for new schemes, there may be the scope to review this position, particularly beyond the first two years of the programme. This is enabled by the move to a rolling approach to programme management, meaning each year the programme will be fully reviewed as another year is added to the back end of the five-year window. Therefore, should the financial outlook significantly improve, there may be scope to introduce new schemes or additional borrowing headroom. This may be critical, as there will inevitably be new demands upon capital resources emerging over the medium term and it will be important that the Council is able to respond to these demands.

8. In addition to new borrowing capacity, there may be one-off opportunities to bolster the capital headroom, via in-year revenue underspends. This would provide the scope to support new schemes and react to the risk of pressures being created by rising cost inflation on existing schemes. Even more critically, additional headroom would enable annual sums allocations to be augmented and deal with significant challenges in relation to maintenance backlogs and the increasing costs of renewal programmes, such as fleet. It is important to note that the current annual sums are based on historical allocations, with a minor uplift in light of the recent draft Local Government Settlement, where General Capital Financing (GCF) was increased. This is not currently sufficient for known pressures in relation, for example, to the fleet renewal programme. Work is currently ongoing to consider how best to prioritise the available resources towards the different areas that receive annual sums funding and ensure that the difficult costs to avoid, such as fleet renewal, are supported. However, ultimately, additional resource is required for annual sums and this is something that is being considered as part of the preparation of the 2023/24 budget and medium term financial plan.

9. The proposed programme is set out in the overview that follows. It shows a total programme of £137.7m, comprising annual sums of £24.6m and ongoing schemes totalling £112m. Borrowing headroom stands at only £1.057m (albeit £1m of this is ringfenced specifically in relation to the Council's Levelling Up bid) and is the residual value of the previously approved £4.5m, which is now almost entirely allocated for existing and past schemes. Significant schemes included within the proposed programme include the completion of the Council's Sustainable Communities for Learning Band B programme, the new leisure centre, the Transporter Bridge refurbishment and the Council's contribution towards the Cardiff Capital Region City Deal. The total value of the programme in 2023/24 stands at £67.9m, which is more than has been spent in previous years and could be a challenge to deliver without any slippage occurring.

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

	NEW 5-YEAR CAPITAL PROGRAMME					Total new programme
	2023/24 Budget £m	2024/25 Indicative £m	2025/26 Indicative £m	2026/27 Indicative £m	2027/28 Indicative £m	£m
Annual Sums	5.6	4.8	4.8	4.8	4.8	**24.6**
Ongoing Schemes	62.2	38.1	8.8	2.6	0.0	**112.0**
Uncommitted borrowing*	1.1	0.0	0.0	0.0	0.0	**1.1**
TOTAL EXPENDITURE	**68.9**	**42.9**	**13.6**	**7.4**	**4.8**	**137.7**

10. The capital programme is financed through a variety of different funding streams, including external grants, capital receipts, Section 106 contributions, direct revenue funding, use of reserves and external borrowing (unfunded or debt-funded capital expenditure).

11. Capital Expenditure funded by debt increases the need to undertake external borrowing, unless it is possible to bridge this need via 'internal borrowing', which is the use of existing cash resources which are underpinned by the overall level of earmarked reserves. As the capacity to internally borrow reduces, as reserves are utilised as intended, the need for external borrowing increases. This is particularly the case for this Council, which has had a high level of internal borrowing in the past, but is now seeing that capacity reducing over the medium-long term. Because of this, coupled with an increased level of unfunded capital expenditure, the Council is committed 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.

Affordable borrowing limit

12. The Council is legally required to approve an affordable borrowing limit (also termed the 'Authorised Limit' for external debt) each year. The Authorised Limit is the absolute maximum amount of borrowing that can be undertaken, in order to manage the overall, day to day, cash requirements of the Council. It also allows for a level of borrowing in advance of need to be undertaken, where appropriate and affordable. In addition, the Council needs to set an 'Operational Boundary', which is the expected level of borrowing required to finance the current Capital Programme. Any increase required to the Operational Boundary needs to be approved by full Council.

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

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit – borrowing	271	246	252	248
Authorised limit – PFI and leases	41	39	36	34
Authorised limit – total external debt	**312**	**285**	**288**	**282**
Operational boundary – borrowing	192	150	163	161
Operational boundary – PFI and leases	41	39	36	34
Operational boundary – total external debt	**233**	**189**	**199**	**195**

13. Over the medium term, it is anticipated that the level of borrowing required to facilitate the new capital programme will be substantial. As outlined in Table 2, it is projected that borrowing will reach £199m, compared with the £140m that is currently held. It should be noted, however, that this is a reduced figure from that forecasted in the previous Capital Strategy and compared with the previous year's limits, due to the slippage that has occurred in delivery the existing programme, short-term increase in the availability of internal borrowing and the removal of scope for additional borrowing over the medium term.

14. It can be seen that there is a significant difference between the Authorised Limit and the Operational Boundary. This is because of the level of internal borrowing available, underpinned by the level of cash backed reserves, which have increased significantly over recent years. The level of reserves will reduce over the medium-long term, in particular the PFI reserves, and, therefore, it will become necessary to undertake external borrowing in lieu of this reducing capacity. This will have a revenue impact because of the interest costs that will be incurred as a result of the external borrowing, compared to the lower cost of internal borrowing, which, in essence, is represented by interest income foregone.

15. It should be noted that the two limits described above only place a theoretical limit on borrowing that can be undertaken to fund new capital expenditure. This is particularly relevant where there is evidence of slippage occurring across the programme. As a consequence, in theory, additional borrowing could be undertaken over and above that budgeted in the existing Capital Programme, because the slippage means that the operational boundary, for example, would not be reached. This would present a risk that, ultimately, the cumulative level of borrowing could exceed that which is deemed affordable. Therefore, to ensure a measure of control on borrowing undertaken to fund new capital expenditure, a local indicator was introduced for 2022/23, which is directly linked to the level of borrowing headroom within the Capital Programme. The limit amounts to only £1.057m in 2023/24, with only £57,000 not earmarked already, and will apply until the scope for affording new borrowing improves.

16. The commitment to increase external borrowing leads to increasing capital financing costs, comprising both Minimum Revenue Provision (MRP) and interest payable. Because the financial impact of the current borrowing commitments was funded up front in the 2021/22 revenue budget, the existing revenue budget is already sufficient (unless interest rates increase significantly beyond current levels) and is not set to change over the medium term. The current budgets are set out in Table 3, below. The table also shows the value of capital financing costs as a proportion of the total revenue budget. The percentages quoted are lower than in previous years and are also set to decrease over the medium term. This is largely because of the capital financing budgets remaining stable at a time when the overall revenue budget is increasing, due to funding increases to cover pressures in key services. There remains uncertainty regarding local authority settlements beyond 2024/25 and, therefore, affordability of new borrowing and corresponding capital financing increases could remain a challenge.

Table 3: Capital Financing Budgets

	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Provision for repayment of debt (MRP)*	10.4	10.4	10.4	10.4	10.4
Net interest cost	6.9	6.9	6.9	6.9	6.9
Total capital financing (exc PFI)	**17.3**	**17.3**	**17.3**	**17.3**	**17.3**
PFI	5.7	5.5	5.5	5.7	5.7
Total Financing costs* (£m)	**23.0**	**22.8**	**22.8**	**23.0**	**23.0**
Proportion of net revenue stream	6.1%	5.9%	5.7%	5.8%	5.8%

*includes charges direct to service areas

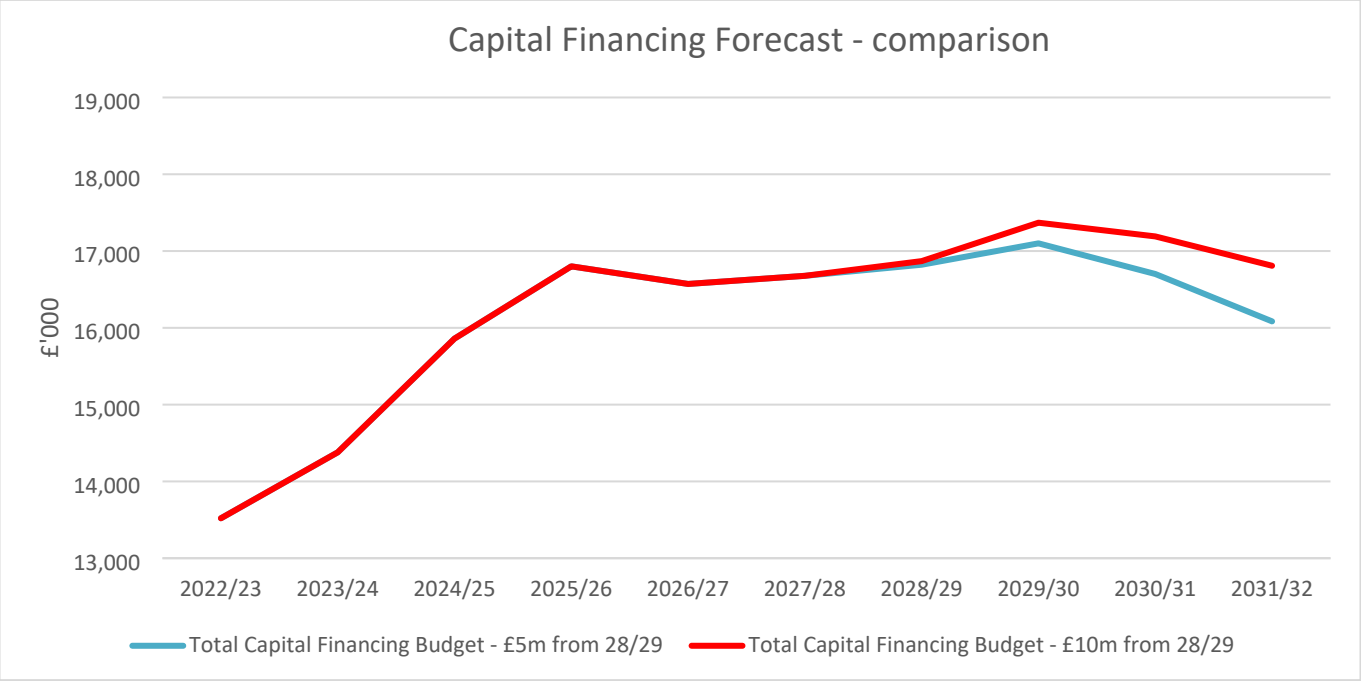
Longer term outlook

17. As well as considering the medium-term outlook, there is a need to look beyond this timeframe. This is particularly relevant when considering the move towards a rolling capital programme approach and future iterations of the capital programme. When reviewing the programme on a rolling basis, the overriding objective will be to ensure that capital expenditure plans are affordable, prudent and sustainable, requiring a limit to be placed upon debt funded capital expenditure over that period. When looking longer term, the following points will need to be considered:

    - the high level of forecast borrowing and corresponding higher level of capital financing cost over the next few years
    - the anticipated reduction in reserves and consequent capacity to be internally borrowed, requiring a continuing increase in external borrowing to replace it
    - the need to refinance existing maturing borrowing, which could incur a higher interest cost than currently being incurred
    - the Council's methodology for charging MRP, which realised a budget saving when changed in recent years, but which increases the charge each year from that point and will continue to do so going forward
    - the challenging medium term outlook driven by high inflation, increasing demand for services and the potential for external funding reductions.

18. As a consequence of the points above, the new programme does not contain provision for any new borrowing. Beyond 2027/28, which is the final year of the new programme, an assumption of £5m per year of new borrowing has been modelled. However, this would be subject to affordability within the revenue budget and cannot be guaranteed. Should the medium term revenue outlook improve, however, there may be scope to afford new borrowing beyond that level. Therefore, a further scenario, whereby £10m additional borrowing per year is incurred, has been modelled. The impact of both scenarios is shown in the graphs within the main Capital Strategy document and the chart that follows. Both options would achieve the aim of stabilising the Capital Financing Requirement and, in the case of the first scenario (£5m borrowing per year), it would reduce the CFR overall.

Chart 1: Capital Financing Cost Forecast, excluding PFI



19. The above graph demonstrates the impact that the existing programme, with the significant borrowing requirement attached to it, has on the capital financing requirements, denoted by the sharp increase in costs over the short term. Beyond that, there is a levelling off before a more gradual increase over the middle years. There is then a drop-off in both scenarios, largely because of some current significant MRP commitments coming to an end. Whilst this could, theoretically, release budget to allow further borrowing to be undertaken, it wouldn't achieve the aim of stabilising the underlying need to borrow (CFR). It should be noted that any increase in capital financing costs beyond the current budget provision, may result in a pressure on future revenue budgets.

Accountability and Responsibility for delivery of the Capital Programme

20. As outlined in the main strategy report, and capital monitoring reports during 2022/23, there has been a general issue in relation to slippage in recent years. A large part of this has been caused by the COVID-19 pandemic, which led to delays in scheme delivery, amongst other challenges. However, there are also instances of other issues, such as overly optimistic profiling and a degree of placeholding each time a new programme is developed, which have had an impact. As a consequence of slippage, there is a risk that revenue budget is provided in advance of need and external borrowing is undertaken before required. Therefore, it is an issue that needs addressing, especially with revenue resources being under such pressure over the medium term.

21. To address this, and in line with the recent senior management restructure, governance arrangements for the capital programme are being strengthened. A capital board is being proposed as part of the introduction of the Transformation Programme. Cabinet will retain the same authority over setting the programme, approving additions to the programme and approving slippage from year to year, however this new board will have a clear remit in terms of overseeing the delivery of the programme. Existing boards and groups, such as the Capital Strategy & Asset Management Group which has oversight of the asset maintenance programme, will remain, however ultimate internal officer responsibility will rest with the new board. Heads of Service and project managers will report to this board and be held accountable for ensuring delivery of schemes on time and within budget. It is anticipated that this will reduce instances of slippage and reduce the risk of scarce resources being tied up unnecessarily.

Treasury Management Strategy

22. The Council's detailed Treasury Management Strategy for 2023/24 and beyond are included as Appendix 3, as are the various treasury management indicators. Key points of interest are summarised below.

Borrowing Strategy

23. As outlined in earlier sections of this report, the Council is committed to being a net borrower over the life of the proposed new Capital Programme. In particular, a significant increase in the need to borrow is being projected to 2025/26 financial year. However, the Council's preferred strategy is to maximise the level of internal borrowing, aided by the recent increase in earmarked reserve levels. Therefore, whilst the overall Capital Financing Requirement is set to increase, the need to undertake new borrowing will be deferred for as long as possible.

24. However, the capacity to internally borrow is planned to reduce over the medium to long term. In addition, some existing sizeable loans are due to mature over the next few years. These two factors, will mean that some new borrowing will be required, before considering any overall increase in the CFR. As well as this, in light of the Council's position as a committed long-term borrower, the decision could be taken to undertake borrowing in advance of need. This would only be done in consultation with the Council's treasury advisors and where it was felt to be appropriate, and affordable, in order to mitigate against future interest rate rises. This is especially relevant considering recent interest rate rises and the potential for further rate rises over the forthcoming 12 months.

25. When the need to undertake borrowing arises, the Council will need to give consideration as to the time period over which to borrow. The guiding principle will be to achieve a low, but certain cost of finance. This will generally mean long term borrowing, as this can provide certainty for periods of more than 50 years, if desired. Also, there is currently little difference between long and short term borrowing rates. However, with there being potential for long-term borrowing interest rates to reduce over the medium term, the Council could decide to undertake a degree of short term borrowing as a way of buying time before rates reduce. Also, this would achieve a more balanced borrowing portfolio, but also assist with mitigating the risk of locking into high long-term borrowing rates prior to rates dropping. Again, individual borrowing decisions would only be taken in consultation with the Council's treasury advisors, but also whilst considering the maturity profile of the current borrowing portfolio, as well as overall affordability.

Investment Strategy

26. Both the CIPFA Code and the WG Guidance require the Council 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 Council'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 Council 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. Currently, this is not easy to achieve, despite increasing interest rates, due to the high inflation rates. However, in any longer term investment the Council makes, it would still seek to maximise the level of return providing security and liquidity was deemed acceptable from a risk management perspective.

27. As originally outlined in the 2021/22 Capital Strategy, and reiterated in last year's strategy, the Council intends to diversify its investment portfolio, given the relatively low returns from short-term unsecured bank investments and the need to maximise income generation in support of a very challenging medium-term outlook. The recent upturn in interest rates, coupled with uncertainty regarding the IFRS9 statutory override, led to this ambition being put on hold. However, it is intended to explore this further during the last quarter of 2022/23 and into 2023/24. The outcome is likely to be the Council investing

all, or part, of the £10m that is available for long-term investment in higher yielding asset classes, such as pooled property funds or covered bonds. This would represent a move away from investing in low yielding bank deposits or with other local authorities. The detail regarding the approved counterparty list and limits is shown in Appendix 3.

Head of Finance Summary

28. The Council's 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. As explained in the first part of this report, the core requirement for councils is to make decisions whilst taking into account affordability, prudence and sustainability:

29. In terms of the Council's proposed Capital Programme to 2027/28:

Affordability

- There is a significant increase in the Council's projected level of external borrowing and the associated capital financing costs over the next three years, in particular. However, some of this borrowing requirement is simply delayed from previous years. Due to the better than anticipated settlement the Council received for 2021/22, it was possible to fully fund the revenue costs of the entire current Capital Programme, to its conclusion. The current capital programme is therefore affordable, in totality, as a result of this. This is an important position because the Council has an unbalanced medium term financial position currently, due to high inflation driving up costs and increased demand for services. There is also a risk that funding constraints could arise over the medium term. Having already fully funded the revenue impact of the existing programme means that there is one less pressure on an already challenging outlook.

Prudence

- Prudent operational limits on the level of capital expenditure funded by borrowing have been recommended, which align with the proposed programme requirement and, therefore, the Council's priorities. These operational limits increase over the course of the programme and will result in the Council taking on significantly more debt. Therefore, the Capital Programme needs to be strictly managed within those limits to ensure that the need to externally borrow does not increase and expose the Council to any further risk or interest costs.

Sustainability

- As outlined above, the revenue costs arising from the existing Capital Programme have been fully funded within the overall revenue budget. In addition, WG have provided an indicative funding settlement for the next financial year, which provides some assurance regarding future funding levels. Providing that the Council is able to meet the challenge of balancing its budget over the medium term, then the costs of borrowing are sustainable.

- However, there is potentially a more significant challenge when considering the longer term sustainability of meeting the costs of debt funded capital expenditure, although this is dependent upon the funding context and the position in relation to inflation and demand for services. The Capital Strategy provides two scenarios, which exemplify the costs of limiting the annual level of debt funded capital expenditure to either £5m or £10m from 2028/29 onwards. Both of these scenarios would be successful in restricting the growth in the CFR longer term, with the £5m scenario actually reducing the CFR. However, due to the reducing capacity for internal borrowing and the MRP policy, the cost of capital financing does not reduce. Therefore, when developing future iterations of the Capital Programme, from a

sustainability perspective, it will be important for the Council not to overcommit itself to additional borrowing, particularly with the uncertainty regarding future funding levels.

30. The proposed new Capital Programme is unlike many in the past insofar as it is restricted to ongoing schemes and annual sums. This is reflective of the current financial situation and the extremely challenging MTFP situation meaning that new borrowing is not currently affordable. Because of the high volume and cost of schemes being carried forward from the current programme to the new programme, this is not necessarily a problem because there will be enough of a challenge in delivering the new programme without any new schemes on top. However, it is recognised that there will be a need for new schemes over the course of the next five years, as well as a critical need to address asset maintenance and fleet renewal challenges through the annual sums. Therefore, with a rolling approach now in place, it will be important to continually review the programme and the scope for additional borrowing. As well as this, all opportunities to increase the capital headroom via one-off sums need to be taken when available and potentially prioritised over other emerging pressures. This will assist with mitigating the impact of the maintenance backlogs and potentially avoiding the high cost impact of asset failure. The absence of significant capital headroom will mean that other funding sources will need to be pursued for any new schemes, as well as maximising the ability to self-fund schemes. The new, strengthened, governance arrangements, will be a crucial part of managing the challenging situation over the medium term.

31. The Committee is asked to note the above confirmations and key messages as the Capital and Treasury Management strategies are reviewed, and provide comments to Cabinet and Council, including on the prudential indicators and limits contained within these strategies.

Risks

Risk Title / Description	**Risk Impact score of Risk if it occurs* (H/M/L)**	**Risk Probability of risk occurring (H/M/L)**	**Risk Mitigation Action(s)** What is the Council doing or what has it done to avoid the risk or reduce its effect?	**Risk Owner** Officer(s) responsible for dealing with the risk?
Increased need to borrow beyond currently assumed levels.	High*	Medium	Regular monitoring and reporting of available headroom should identify any issues at an early stage and keep Cabinet / Council updated. A mechanism exists for increasing borrowing limits and this should only be done where affordable, prudent and sustainable.	Members, Executive Board, Heads of Service and Head of Finance.
Undertaking borrowing that is not ultimately required.	High	Low	Regular monitoring of schemes means that potential for slippage should be identified at an early stage. Continued reprofiling to be undertaken to guard against slippage not being identified. Regular contact with WG regarding potential grant funding, which could negate the need to undertake borrowing.	Executive Board, Heads of Service and Head of Finance.
Investment counterparty	High*	Low	The Council only invests with institutions with very high credit scores. It employs	Members, Head of Finance,

Risk Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	Risk Mitigation Action(s) What is the Council doing or what has it done to avoid the risk or reduce its effect?	Risk Owner Officer(s) responsible for dealing with the risk?
not repaying investments.			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.	Treasury staff, based on advice from treasury advisors.
Interest Rates moving adversely against expectations.	Medium*	High	There is currently a climate whereby interest rates are changing on a regular basis. Interest rate forecasts are regularly received from external treasury advisors and the Council is prudent when forecasting future interest payable. In addition, the Treasury Strategy provides for a balance between short and long-term borrowing as a means of managing this particular risk.	Head of Finance, Treasury staff, based on advice from treasury advisors.

** Impact is ultimately determined by the values involved, with the impact reducing as the values decrease.*

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 Government that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

To comment on and endorse both the Capital Strategy and the Treasury Management Strategy for 2023/24.

Preferred Option and Why

To endorse both strategies. The Prudential Code, Treasury Management Code and relevant legislation places a requirement upon local authorities to determine a long-term capital strategy and a strategy for managing investments and borrowing. Full Council are ultimately required to approve both strategies and, therefore, it is necessary for Governance & Audit Committee to comment on both strategies prior to them being considered first by Cabinet and then Council.

Comments of Chief Financial Officer

This report, and the Capital and Treasury Management Strategies appended, both 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 anticipated increase in borrowing and the revenue costs resulting from the proposed Capital Programme, which is largely comprised of ongoing schemes from the current programme. Continuation of increasing borrowing at this level beyond the next few years is potentially unsustainable and, therefore, it is important that the Capital Financing Requirement is stabilised and, ideally, reduced. Whilst the current Capital Programme is affordable, as the necessary capital financing budgets were frontloaded as part of the 2021/22 revenue budget, 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, a position needs to ideally be reached whereby debt funded capital expenditure is no greater than annual MRP, allowing the CFR to stabilise or, ideally, reduce. Even by limiting borrowing, as exemplified in the Capital Strategy, the capital financing costs do not necessarily reduce and increase in some years, therefore showing the importance of agreeing a prudent limit for future iterations of the programme. This will be a key issue over the medium to long term, mainly due to the challenging financial outlook being faced by the Council. At a time when demand for revenue resources, due to rising costs and demand for services, it will be important that demand for capital financing is proportionate and, ideally, kept to a minimum.

The degree of slippage in future years will also be a significant factor. It will be important that the strengthened governance arrangements are effective and that resources are not unnecessarily tied up, when they could be used for other purposes. As well as this, it will be vital that opportunities to increase capital headroom are taken and that issues surrounding asset maintenance are prioritised. This will assist the Council with being able to react to emerging needs and mitigate the chance of asset failure.

The Treasury Management Strategy highlights that whilst the capacity for internal borrowing did not decrease as much as was anticipated in the previous strategy, longer term that capacity is forecasted to diminish. Therefore, the need for the Council to undertake external borrowing remains and a view will need to be taken on whether this can be done early to mitigate the risks of further interest rate rises and remain within current set budgets.

Comments of Monitoring Officer

There are no specific legal issues arising from the report. 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 are required to be formally approved and adopted by full Council. Governance & Audit Committee are 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. Any comments raised by the committee will be included in the report that is subsequently received by Cabinet and then Council.

Comments of Head of People, Policy & Transformation

The Capital Strategy described within this report is considerate of, and meets the requirements of, the Wellbeing of Future Generations Act with a focus on long term planning and sustainability as part of the

sustainable development principle. The Fairness and Equality Assessment completed and summarised below reinforces this element, along with the positive impact of protected characteristics.

The report supports the new Corporate Plan objectives which are ambitious and focused on working collaboratively with our staff, residents, and partners to improve service delivery across the city whilst supporting other related plans and strategies, in particular the Council's Strategic Equality Plan.

As the Council works towards its new Corporate Plan and Capital Strategy, it will be necessary to consider the workforce required to achieve the objectives as set out. Any staffing impact will be considered, and consultation will take place as and when necessary.

Scrutiny Committees

N/A

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

The Council has a number of legislative responsibilities to assess the impact of any strategic decision, proposal or policy on people that may experience disadvantage or inequality. In relation to this strategy document, a Fairness and Equality Impact Assessment has been undertaken. The FEIA has been undertaken in light of this strategy being an overarching financial strategy, rather than a policy decision relating to one specific initiative or service. Therefore, there are elements to the assessment that don't lend themselves to this particular strategy. It should also be noted that there is a clear link between this strategy and the Council's revenue budget setting process, with the ultimate impact of debt-funded capital expenditure being felt within the revenue budget. Therefore, any consultation required will have been undertaken as part of the revenue budget setting process. Also, specific schemes within the Capital Programme will have been subject to an FEIA, where relevant.

The main conclusions to be drawn from the FEIA undertaken is that there is a clear link between the long-term nature of the Capital Strategy and the sustainable development principle of the Wellbeing of Future Generations Act. This is evidenced through the focus on ensuring affordability, prudence and, most relevantly, sustainability. Therefore, there is potentially a positive impact from the perspective of the younger age groups. In the case of the other protected characteristics, it is not felt that there is a specific impact, however this may not necessarily be the case for the individual schemes within the programme, which should have been subject to separate FEIAs. However, there are a variety of schemes within the programme that will, collectively, have had a positive impact upon groups with protected characteristics such as disability, language preference and socio-economic background.

Consultation

N/A

Background Papers

Report on Treasury Management for the period to 30 September 2022
Capital Monitoring and Additions Report – October 2022

Dated: 18th January 2023

Appendix 1 – Detailed breakdown of the proposed Capital Programme (£000)

	Budget 2023/24 (including slippage)	Indicative Budget 2024/25	Indicative Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Total
Annual Sums:						
People, Policy & Transformation:						
Asset Maintenance (including schools)	1,500	1,500	1,500	1,500	1,500	7,500
IT Replacement Schemes	224	150	150	150	150	824
Prevention & Inclusion:						
Disabled Facilities Grants	1,509	1,000	1,000	1,000	1,000	5,509
Safety at Home	300	300	300	300	300	1,500
Social Services:						
Disabled Equipment (GWICES)	165	165	165	165	165	825
Telecare	30	30	30	30	30	150
Infrastructure:						
Fleet Replacement	1,327	1,123	1,123	1,123	1,123	5,615
Highways Asset Maintenance	500	500	500	500	500	2,500
Annual Sums Total	**5,555**	**4,768**	**4,768**	**4,768**	**4,768**	**24,627**
Ongoing and Previously Approved Schemes:						
Education:						
Sustainable Communities for Learning - Band B	32,269	16,858	400	46	30	49,603
Welsh Medium Primary School (Pillgwenlly / Nant Gwenlli)	437	2,625	1,159	0	0	4,221
Charles Williams Renovations	1,413	0	0	0	0	1,413
Pentrepoeth Primary School Accessibility Works	204	0	0	0	0	204
St Mary's Primary School	1,716	1,478	0	0	0	3,194
Education Maintenance Grant 2020/21	1,308	0	0	0	0	1,308
Education Maintenance Grant 2021/22	534	0	0	0	0	534
Education Accessibility Works - Phase 2	569	0	0	0	0	569

	Budget 2023/24 (including slippage)	Indicative Budget 2024/25	Indicative Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Total
Free Schools Meals Capital Works	1,267	0	0	0	0	1,267
Education Total	**39,717**	**20,961**	**1,559**	**46**	**30**	**62,313**
Environment & Public Protection:						
Refit	1,135	0	0	0	0	1,135
Parks Improvements	1,054	0	0	0	0	1,054
Cemeteries Improvements	802	0	0	0	0	802
Environment & Public Protection Total	**2,991**	**0**	**0**	**0**	**0**	**2,991**
Infrastructure:						
Hostile Vehicle Mitigation	1,140	0	0	0	0	1,140
Infrastructure Total	**1,140**	**0**	**0**	**0**	**0**	**1,140**
People, Policy & Transformation:						
IT Replacement Schemes (in addition to annual sum)	95	95	52	0	0	242
People, Policy & Transformation Total	**95**	**95**	**52**	**0**	**0**	**242**
Regeneration & Economic Development:						
Cardiff Capital Region City Deal – NCC Contribution	2,375	4,167	1,145	0	0	7,686
Cardiff Capital Region City Deal – Cost of Carry Contribution	0	0	2,037	2,628	0	4,665
Central Library	518	0	0	0	0	518
Transporter Bridge	11,797	807	0	0	0	12,605
Lighting Strategy	300	0	0	0	0	300
New Leisure Centre	2,270	11,804	4,086	0	0	18,160
Transforming Towns	473	332	0	0	0	805
Newport Centre Demolition	600	0	0	0	0	600
Regeneration & Economic Development Total	**18,333**	**17,110**	**7,268**	**2,628**	**0**	**45,339**

	Budget 2023/24 (including slippage)	Indicative Budget 2024/25	Indicative Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Total
Total Capital Programme	**67,831**	**42,934**	**13,647**	**7,442**	**4,798**	**136,651**

	Budget 2023/24 (including slippage)	Indicative Budget 2024/25	Indicative Budget 2025/26	Indicative Budget 2026/27	Indicative Budget 2027/28	Total
Financed by:						
General Capital Grant	4,268	4,268	4,268	4,268	4,268	21,340
Supported Borrowing	4,155	4,155	1,201	20	10	9,541
Unsupported Borrowing	14,374	11,099	4,140	2,268	0	32,241
External Grants	32,575	19,751	3,538	26	0	55,909
S106	3,664	328	0	0	0	3,992
Other Contribution	349	0	0	0	0	349
Capital Receipts	2,754	950	0	0	0	3,704
Revenue Contribution	500	500	500	500	500	2,500
Reserves	5,192	1,883	0	0	0	7,074
Total Capital Programme Financing	**67,831**	**42,934**	**13,647**	**7,442**	**4,798**	**136,551**

Appendix 2

NEWPORT CITY COUNCIL
CAPITAL STRATEGY
2023/24 TO 2033/34

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NEWPORT CITY COUNCIL
CYNGOR DINAS CASNEWYDD

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 a summary of the implications for future financial sustainability.

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

The report highlights that expenditure on capital needs to remain within affordable, prudent and sustainable limits. Demand for capital resources remains high and therefore, inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners are required to address this.

The strategy highlights the key risks and recommendations:

- The Council's new rolling capital programme, a large proportion of which relates to ongoing and previously approved schemes being carried forward from the previous programme, requires a substantial amount of borrowing to 2024/25, in particular. Whilst this is affordable, due to the revenue budget requirement being forward funded in the 2021/22 budget, it would be unsustainable to continue increasing borrowing thereafter, especially given the current economic climate and pressures upon the Council's revenue budget.

- The Council's Medium Term Financial Plan includes no provision for any new borrowing over and above that already funded within the existing revenue budget. This is on the basis that new borrowing would not be affordable, prudent or sustainable. However, this position will be kept under review as certainty regarding the medium-term outlook increases.

- As per the agreed framework (detailed in the report), the new programme needs to be maintained within the agreed limits and not result in a medium-term increase in the Capital Financing Requirement. This is to be achieved by not incurring new expenditure to be funded via borrowing, other than that already approved. Any required increase in the level of capital expenditure to be specifically funded by borrowing would need approval by full Council.

- Due to the pressure for additional capital resources, primarily driven by the need to increase investment in annual sums for asset maintenance (buildings and highways) and fleet renewal, there is a requirement to supplement the capital headroom with one-off resources, and preferably recurring resources, wherever possible. To achieve this, it is proposed that any revenue underspends over the medium term are redirected towards the capital headroom and used to augment annual sums allocations. In addition, consideration is required as part of the revenue budget setting process to allocating additional base budget resources to supplement annual sums.

- As well as prioritising funding for annual, recurring, sums, there is a need to develop various strategic plans across the organisation which drive the need for capital expenditure. This will include clearer visibility and assessment of demand for maintenance of assets such as schools, highways and other operational assets, as well as focussing on asset rationalisation.

- The pressure upon the Capital Programme and the historic challenges in relation to programme delivery and slippage, coupled with a relatively new management structure, increases the need for clearer, more robust, governance structures around the programme. These are currently being developed but will likely result in a greater prominence for capital expenditure and funding, overseen by the Executive Board, coupled with a clear link to the Transformation Programme.

- 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

Capital expenditure can be defined as expenditure 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 acquire assets. It is the Council's policy not to treat any expenditure under £10,000 as capital, and therefore anything under this value will be charged as revenue in the year of expenditure.

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 readers' understanding of these, sometimes, technical areas.

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

The report sets out:

- The key objectives outlined in the Prudential Code and the governance arrangements for the Capital Strategy and programme, including the move towards a rolling approach to programme development and management (Section 2)

- The new proposed capital programme to 2027/28, including schemes carried forward from the current programme, its financing, and the revenue implications arising from demands on capital expenditure (Section 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 Council for further capital resources. (Section 4)

- Links between the Capital Strategy and Treasury Management strategy, and treasury decision making. (Section 5)

- A look at the commercial activity of the Council and the strategy going forward. (Section 6)

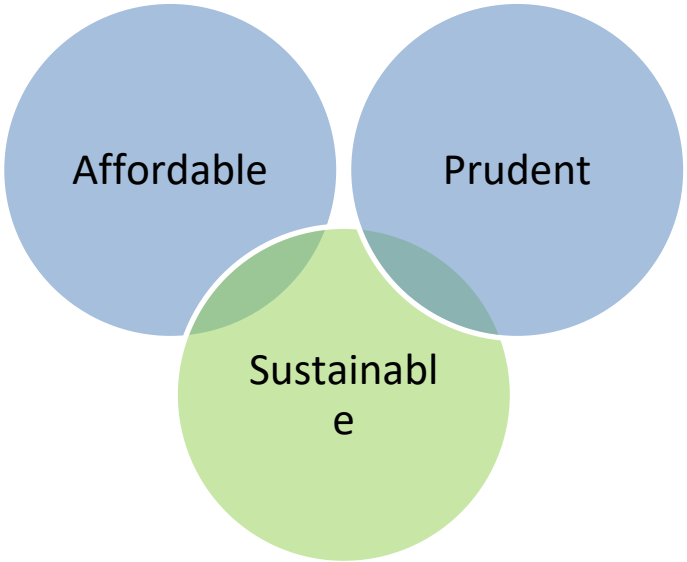
- Overview of other long-term liabilities the Council has, which members need to be aware of when looking at the Capital Strategy. (Section 7)

- Summary of the skills and knowledge the Council holds in order for it to carry out its duties for capital and treasury matters. (Section 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 Council's capital expenditure is affordable and prudent. In terms of both affordability and prudence, it is important that sustainability is considered and can be demonstrated;



AFFORDABLE

It is important that the Council's capital investment remains within **sustainable** limits. The Code requires authorities to consider the resources currently available to them and those estimated to be available in the future, together with the totality of the capital plans and income and expenditure forecasts. As well as capital expenditure plans, authorities should consider the cost of past borrowing, ongoing and future maintenance requirements, planned asset disposals and the MRP policy, which all impact upon affordability.

PRUDENT

The Council must ensure that its capital and investment plans are prudent and **sustainable**. As required by the Code, consideration should be given to the arrangements for the repayment of debt and the risk and impact on overall financial **sustainability**. The operational boundary for external debt should align with capital expenditure plans and provide for the most likely, not worse case, scenario. The authorised limit should provide sufficient borrowing headroom to enable day to day cash management. It is important that there is alignment with the treasury management policy statement and practices, and that risk management and analysis is taken into account. Borrowing in advance of need should only be undertaken where appropriate and affordable, and treasury management activities should find a balance between security, liquidity and yield reflecting the Council's risk appetite, but not prioritising yield over security and liquidity.

SUSTAINABLE

As highlighted above, the Council has to ensure sustainability when considering both affordability and prudence. In line with the long-term impact of decisions made in relation to capital investment plans, sustainability is considered over a minimum 10-year period.

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

All local authorities are required to have regard to CIPFA's Prudential Code and Treasury Management Code. During the autumn of 2021, a number of changes were consulted on and subsequently introduced. Some of these changes, such as local authorities being precluded from borrowing for investment where the primary aim is to generate a commercial return, were reflected in the 2022/23 Capital Strategy. Other changes, which were outlined in the previous strategy document and include prudential indicators being reported more frequently, could be deferred until 2023/24 and will be reflected in this year's strategy and in-year reports.

2.2. GOVERNANCE FOR APPROVAL AND MONITORING OF CAPITAL EXPENDITURE

Member responsibility for strategic finance rests with the Cabinet Member for Economic Growth and Strategic Investment, currently the Leader of the Council. The main governance and approval process for capital expenditure is summarised as follows:

- Council approves the overall revenue and capital budgets following recommendations from the Cabinet. As part of this, Council approves the external borrowing limits, which place a cap on the level of borrowing the Council can undertake during the year. These limits are based around the level of unfunded capital expenditure, including uncommitted expenditure, within the capital programme. The limits will not include expenditure on any schemes where borrowing is required, but which finance themselves through the savings generated. These limits are a key performance indicator for treasury management and ensure that capital expenditure is limited and borrowing remains affordable. Any changes required to the borrowing limits must be approved by full Council.
- Council approves the Treasury Management and Investment strategies, which are intrinsically linked to capital expenditure and the Capital Strategy. Further details of these are provided in sections 5.1 and 5.3.
- The detailed capital programme, contained within the overall budget, is approved by Cabinet following individual project appraisals by officers, which include 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 the Council's property advisors, Newport Norse. Discussions centre on the asset management agenda and include asset disposals and prioritisation of capital expenditure requirements. Other boards with capital considerations, include the People Services Capital Board..
- Operational decisions on capital expenditure will be made by the Capital Board, following a review of the project appraisal and/or business case and advice from CSAMG, where relevant. The board will also monitor the position in relation to previously approved schemes and ensuring that they remain affordable within the overall approved programme envelope. Should action be required to respond to increasing costs, Heads of Service and project managers will be expected to demonstrate that alternative options, such as rescoping and seeking alternative funding, have been considered.

- Cabinet approves any new capital expenditure to be added to the capital programme, including that funding from external resources, such as specific grant.
- Monitoring of Capital Expenditure is reported to Cabinet, including updates on capital receipts and the impact on the revenue budget of decisions made.

Affordability and sustainability are key considerations when approving capital expenditure, and therefore the agreed framework detailed in section 3.1 is used. Included within Appendix 2a is the process map used for the approval of capital expenditure.

Decisions on the approval of capital expenditure will be made in liaison with the Capital Accountancy Team and an understanding of the long-term revenue implications of the expenditure is assessed before it is added to the programme. Cabinet approves additions to and deletions from the Capital Programme when approving the regular monitoring reports. Approval of slippage from one financial year to the next is also a Cabinet responsibility and tends to take place towards the end of the financial year, as greater certainty around slippage levels become evident.

3. CAPITAL EXPENDITURE AND FINANCING

3.1. CURRENT CAPITAL PROGRAMME

The current capital programme originally covered the five-year period between 2018/19 and 2022/23. However, as approved by Cabinet in January 2020, an additional two years were added to the programme to incorporate those schemes, such as the Sustainable Communities for Learning Band B Programme, where completion was projected to extend beyond the original five-year timeframe. As the original capital programme window is due to end in March 2023, a new five-year programme is required.

This programme will run from 2023/24 to 2027/28, although a rolling approach to capital programme development and management will be introduced as part of this. This means that, rather than having a new programme once every five years, there will be a continual evolution of the programme, with a new year added each time the strategy is refreshed and the most recent year withdrawn. Because of the rolling approach, it means that future years within the programme will be shown as indicative only, until the point at which the full funding is in place for the expenditure planned in that respective year (in the case of debt-funded expenditure, this would require the requisite capital financing budget to be in place). However, this approach will allow for longer term planning and more flexibility in how the programme is managed. In addition, it means that schemes will only be added when ready, which should reduce the instances of “placeholding” and reduce the level of slippage reported.

Given the financial constraints that the Council has faced in recent years, and continues to face, Cabinet and Council established a framework for managing the programme, aimed at maximising capital expenditure but keeping new borrowing at a level that could be afforded within a sustainable revenue budget and, in doing so, not adding unnecessary pressure to the medium term outlook. This framework is as follows:

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

b. Any change and efficiency schemes requiring capital expenditure, and generating savings as a consequence, would be funded by offsetting the capital financing costs against the savings achieved;

c. 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 can be afforded and maximised within any headroom available. This available headroom is made up of residual borrowing headroom agreed within the previous programme and identified uncommitted capital reserves and capital receipts. The new programme does not currently include any allowance for new borrowing over and above that already approved for specific schemes. Therefore, the headroom going forward will largely comprise of capital reserves and receipts.

Because of this, the new programme, in the first few years at least, will be made up of recurring annual sums, ongoing schemes and those schemes approved and funded, but not yet started, as part of the previous programme. This will result in a relatively low level of capital headroom to be able to react to other emerging pressures. As a consequence, it will be necessary to top-up the capital headroom whenever possible, using one-off resources. These one-off resources will include repurposing of existing earmarked reserves, future capital receipts and any underspends against the overall revenue budget.

The proposed new capital programme is summarised in the table below. For 2023/24, the programme contains approved capital schemes of £67.9m, and the overall programme to 2027/28, including uncommitted borrowing, is £137.7m. This total figure includes £4.7m for the cost of carry of undertaking borrowing for Cardiff Capital Region City Deal schemes, prior to the funding from HM Treasury being received, and just £1.1m of uncommitted borrowing headroom (of which only £57,000 is not earmarked for specific schemes).

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

	NEW 5-YEAR CAPITAL PROGRAMME					**Total new programme**
	2023/24 Budget £m	**2024/25 Indicative £m**	**2025/26 Indicative £m**	**2026/27 Indicative £m**	**2027/28 Indicative £m**	**£m**
Annual Sums	5.6	4.8	4.8	4.8	4.8	**24.6**
Ongoing Schemes	62.2	38.1	8.8	2.6	0.0	**112.0**
Uncommitted borrowing*	1.1	0.0	0.0	0.0	0.0	**1.1**
TOTAL EXPENDITURE	**68.9**	**42.9**	**13.6**	**7.4**	**4.8**	**137.7**

** Uncommitted borrowing headroom to be invested in Council assets or regeneration.*

The new capital programme, including previously approved schemes, is substantial and leads to a considerable increase in the Capital Financing Requirement (CFR) over the medium term. As a result, there is a consequential increase in capital financing costs. As part of the overall 2021/22 Council budget, a £2.1m investment in the capital financing budget was made in order to provide for the revenue costs arising from the full capital programme. By committing these resources in advance, it means that no additional investment is required over the medium term to meet these costs. Due to the level of slippage experienced and projected beyond the current financial year, it means that there is likely to be an in-year underspend against this budget during 2023/24 and 2024/25. This may provide one-off opportunities to bolster the capital headroom, assuming there are no other emerging in-year pressures against the revenue

budget, for which the underspends are needed for the Council to be able to balance its overall monitoring position.

In terms of funding, the WG General Fund Capital Grant in 2023/24 is set to return to levels in line with 2021/22, having reduced temporarily in 2022/23. The draft Local Government settlement for 2023/24 has confirmed an amount of £4.268m, which actually represents an increase on historic levels. This increase will go a small way to reducing the pressure upon annual sums expenditure.

The overall programme contains a number of key capital schemes, some of which will continue beyond the forthcoming 2023/24 financial year. These include:

- Sustainable Communities for Learning Band B Programme
- Transporter Bridge renovation
- Cardiff Capital Region City Deal (CCRCD)
- New Leisure Centre

There may be other requirements for capital funding for schemes that are not yet contained within the overall programme. Any new schemes that arise during the year will either need to be funded via specific funding sources (e.g. external grant) or will represent a call upon the residual headroom available. It is important that capital expenditure remains at an affordable level within the framework agreed and, therefore, prioritisation of capital expenditure is essential and needs to be affordable and sustainable in the long-term. Regular reviews of previously approved schemes, not yet started, will be undertaken to ensure that they remain affordable. This is especially relevant in the current climate of high construction inflation and where capital expenditure is to be funded via borrowing, as there is a risk that the existing revenue budget may be insufficient. It will be expected that all necessary steps will be taken to ensure that existing budgets can be kept within, including reducing scope, seeking alternative funding sources and mitigating within a wider programme. As a last resort, consideration as to whether a scheme can still proceed will be required.

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

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

Table 2: Capital financing in £ millions

	NEW 5-YEAR CAPITAL PROGRAMME					Total new programme
	2023/24 Budget £m	**2024/25 Indicative £m**	**2025/26 Indicative £m**	**2026/27 Indicative £m**	**2027/28 Indicative £m**	**£m**
TOTAL EXPENDITURE	**68.9**	**42.9**	**13.6**	**7.4**	**4.8**	**137.7**
Financed by:						
Committed Grants and contributions	40.9	24.3	7.8	4.3	4.3	**81.6**
Committed Reserves, capital receipts, revenue	8.4	3.3	0.5	0.5	0.5	**13.3**
Committed new borrowing	18.5	15.3	3.3	0.0	0.0	**37.1**
Committed new borrowing for City Deal Cost of Carry	0.0	0.0	2.0	2.6	0.0	**4.7**
TOTAL COMMITTED (Appendix 1)	68.3	43.4	14.1	7.9	5.3	**139.1**
Uncommitted borrowing*	1.1	0.0	0.0	0.0	0.0	**1.1**
TOTAL UNCOMMITTED	**1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**1.1**
TOTAL FINANCING	**68.9**	**42.9**	**13.6**	**7.4**	**4.8**	**137.7**

As previously outlined, the better than expected Local Government settlement in 2021/22 enabled the Council to fully funded the revenue budget requirements arising from the commitment to undertake borrowing to fund the capital programme. For the new programme, the forecast level of borrowing is £42.8m, including borrowing headroom. The full impact of this is already funded within the revenue budget and, should there be any need to increase this total, it would need approval by Council.

When capital expenditure is initially financed by debt/borrowing, the Council is locked into a long-term revenue commitment to finance that expenditure over time. This financing is done via a mechanism known as the Minimum Revenue Provision (MRP). The budget held for MRP payments over the medium term (excluding PFI and leases) are as follows:

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

	2023/24 Budget	**2024/25 Budget**	**2025/26 Budget**	**2026/27 Budget**	**2027/28 Budget**
MRP budget	10.4	10.4	10.4	10.4	10.4

The table above shows the budgeted amount of MRP that is included within the Council's overall revenue budget, including where service areas are making contributions towards the capital financing costs of invest to save schemes. Because the capital financing costs arising from the existing schemes were fully funded in the 2021/22 revenue budget, and there is no new borrowing planned, there is currently no requirement to increase the MRP budget over the medium term. Should there be any new commitment to borrow in future years, this will need to be reflected via an increase in the MRP budget.

- The Council's full Minimum Revenue Provision statement and policy is available within the Treasury Management 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 - 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 required prudential indicators.

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

	2023/24 budget	**2024/25 budget**	**2025/26 budget**
Financing costs* (£m)	23.0	22.8	23.8
Proportion of net revenue stream	6.1%	5.9%	5.7%

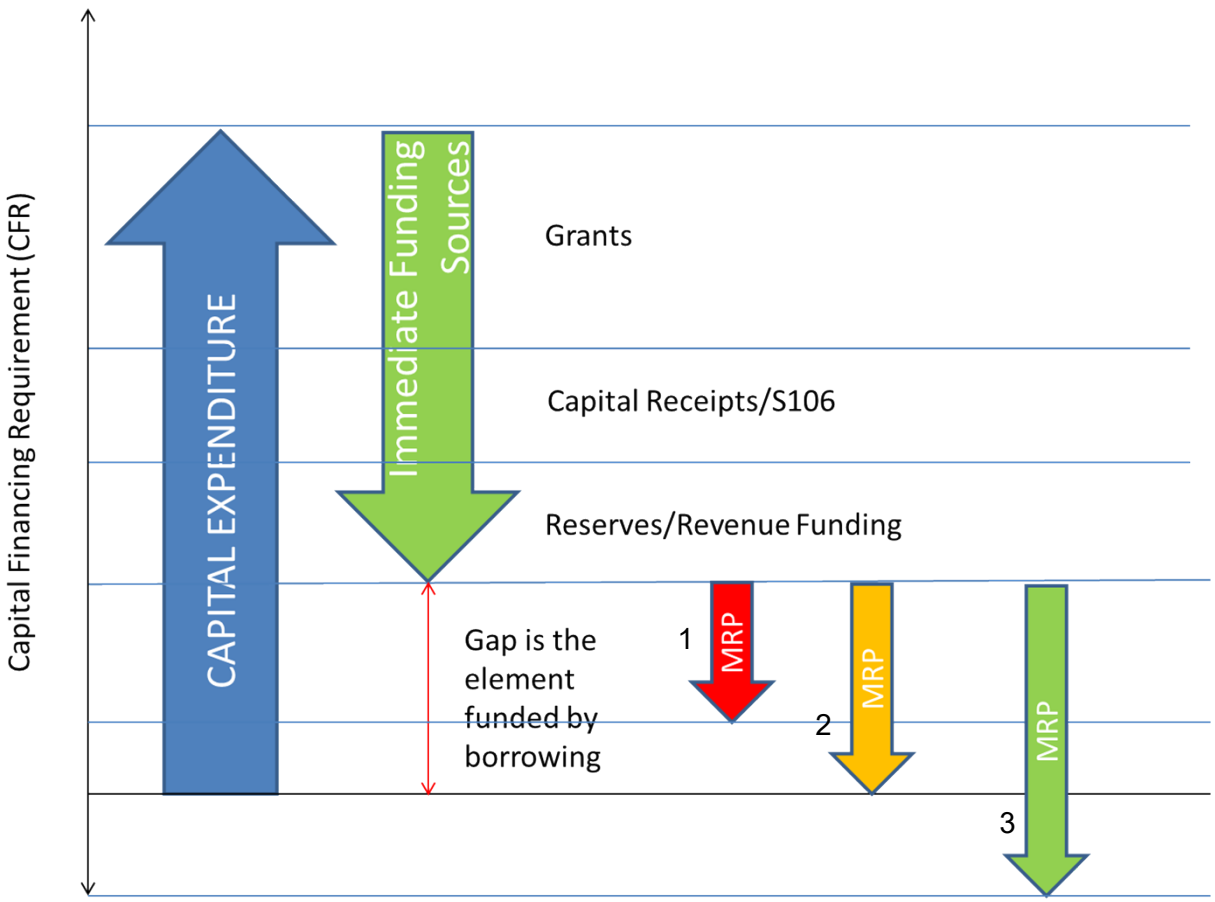
*includes capital financing costs of PFIs

From the table above it is evident that the proportion of the budget set aside to finance capital expenditure is set to steadily decrease over the medium-term. This reduction is a reflection of the fact that the capital financing budget was frontloaded in 2021/22 and is not set to significantly change during that period. However, core revenue funding is set to increase, via a combination of increased core funding from Welsh Government and Council Tax increases. This increase in funding is having the effect of reducing the proportion of the core revenue stream utilised on capital financing costs.

- Information on the revenue implications of capital expenditure is also included in the 2023/24 revenue budget report.

Capital Financing Requirement (the underlying 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:

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

This is an important concept, as it demonstrates how decisions on the level of capital expenditure and MRP budget impact upon the Council's long-term borrowing requirements and consequent capital financing implications. However, it is important to note that the CFR is only an indicator as to the need to undertake borrowing, with the actual need to borrow ultimately being driven by the overall short and long term cashflow requirements of the organisation.

The table below provides the medium-term outlook for the Council's CFR, inclusive of the impact of PFI arrangements. This is based on the proposed new programme and, therefore, does not reflect the potential for additional borrowing beyond that already approved. As can be seen, the CFR is expected to increase by £8.7m during 2023/24 to £282.5m, compared to the slight reductions that have occurred in the last three years. Therefore, this increase represents a stepped change in position, when compared with previous years, where the figure has generally stayed at around £273m.

This significant increase in capital expenditure, including that funded via other sources, will be a challenge to achieve, evidenced by the significant levels of slippage incurred during the 2021/22 and 2022/23 financial years. Therefore, it is important to recognise the likelihood that the actual CFR may turn out lower by the end of the 2023/24 financial year, in turn reducing the actual need to undertake external borrowing. This is a significant challenge for the Council, as it is important that ambitions for capital expenditure are not unrealistic, as this can result in unnecessarily committing resources towards the capital financing budget, which may result in other budget priorities not being able to be pursued.

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

	31/03/22 Actual	31/03/23 Forecast	31/03/24 Budget	31/03/25 Indicative	31/03/26 Indicative	31/03/27 Indicative	31/03/28 Indicative
TOTAL CFR	**273.5**	**273.8**	**282.5**	**286.5**	**280.2**	**270.9**	**259.3**

With the introduction of the accounting requirements 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 took the decision to initially defer the implementation of IFRS 16 Leases until the 2022/23 financial year in response to pressures on Council finance teams, as a result of the COVID-19 pandemic. However, there has been a subsequent further deferral, meaning that the introduction of the accounting standard is likely to be in 2024 at the earliest. Work is continuing to be undertaken to gather the relevant information and fully understand the impact upon the Council. The output of this work will be reflected in the 2024/25 Capital Strategy, at the earliest.

The greater the CFR, the larger the impact will be on the revenue budget, with that impact being exacerbated by an ongoing reduction in the availability of internal borrowing (defined as using available cash, underpinned by the overall level of earmarked reserves, in lieu of external borrowing). Therefore, in the long-term, there will be a need to keep annual capital expenditure funded by borrowing at a level below the annual MRP budget in order to maintain the capital financing revenue budget at a broadly sustainable level.

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 in excess of 40 years. The financing of these assets could also be over a long-term period. Therefore, 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 initially fund capital expenditure from borrowing, the Council is locked into the revenue implications arising from that decision (i.e. the annual cost of MRP) for a long-term period.

Due to the financial constraints that the Council continues to face, it is anticipated that revenue to fund capital financing will remain incredibly restricted over the long term. The capacity to use internal borrowing is also reducing, which means that the authority will face a challenge in relation to its medium to long term capital aspirations, particularly if there is a need or desire to incur a certain level of capital expenditure funded via borrowing. This comes at a time when the authority is facing challenges in relation to its existing asset base, in terms of maintenance backlogs, as well as demand pressures (e.g. increasing pupil numbers) adding to the need to invest in new and existing assets.

As already outlined, there will be no scope for new borrowing in the immediate future. Therefore, this presents an opportunity to stabilise, and possibly reduce, the increasing level of its CFR. This, in turn, will minimise the increase in associated capital financing costs and ensure that they remain affordable and sustainable. This is particularly relevant when considering the position outlined in the Medium Term Financial Plan and the competing financial pressures facing the Council.

Ideally, capital expenditure funded by borrowing should be less than the annual MRP budget, as this will reduce the overall level of the CFR on a year-to-year basis. However, it is recognised that this may be difficult to achieve and that a degree of capital expenditure funded by borrowing will be required as part of future capital programme iterations.

To assist with exemplifying the potential impact over the medium to long term, two scenarios have been modelled. The first scenario assumes no additional (i.e. in addition to already approved schemes) unfunded capital expenditure during the new programme window and then £5m of unfunded capital expenditure from 2028/29 onwards. The second scenario is based on incurring £10m of unfunded capital expenditure from 2028/29 onwards. Charts 1a and 1b, below, demonstrate the impact that these scenarios could potentially have upon the overall level of the CFR and the actual requirement to undertake external borrowing.

Chart 1a – Liability Benchmark v1 - £5m additional borrowing per year beyond 2027/28

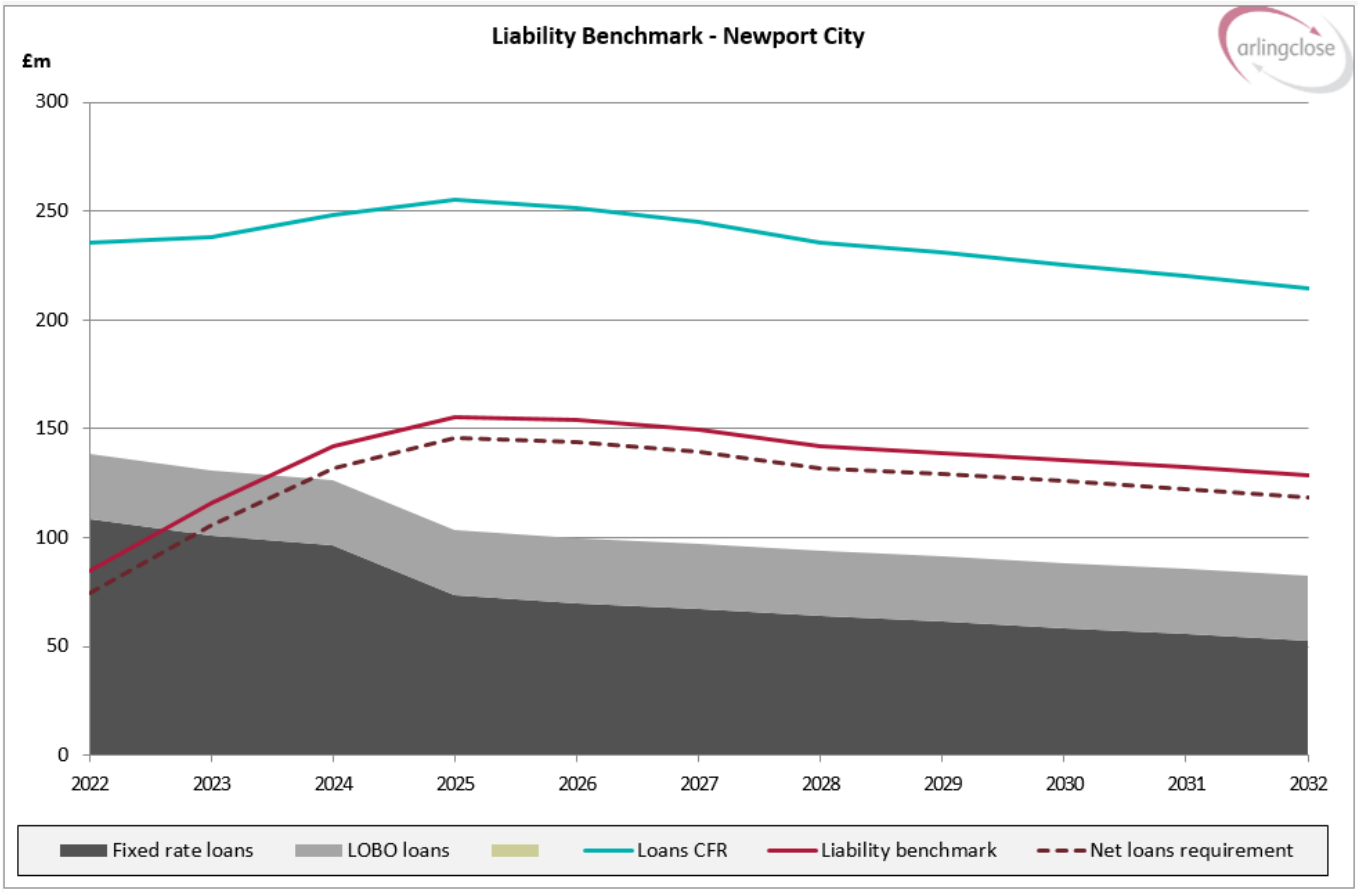
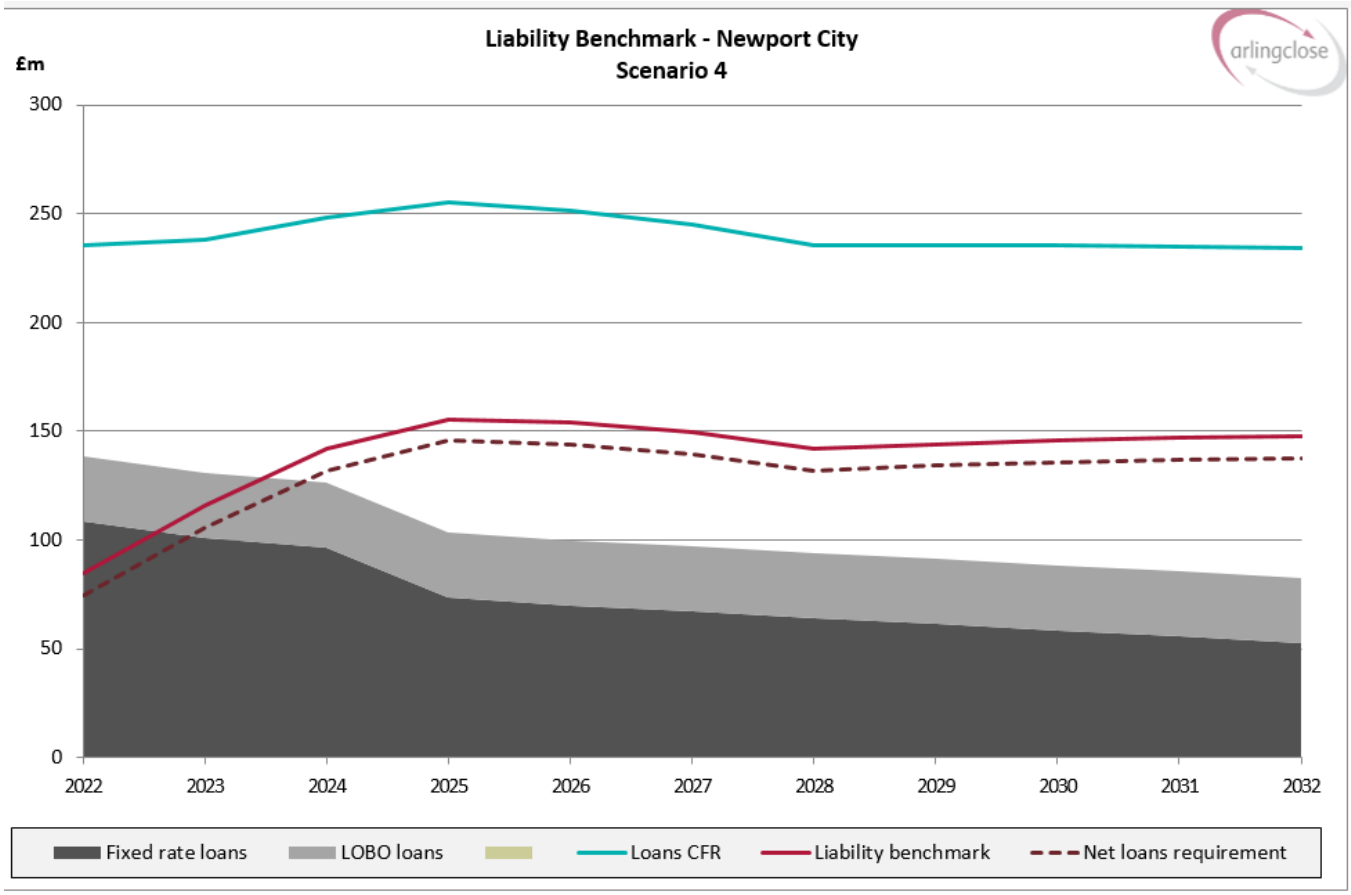


Chart 1b – Liability Benchmark v2 - £10m additional borrowing per year beyond 2027/28



Charts 1a and 1b, known as the Liability Benchmark, demonstrate the following, in terms of the impact of the current capital programme and the two modelled scenarios:

- The impact the current capital programme has in terms of the increasing CFR and consequent need for external borrowing, denoted by the steepness of the solid and dashed red curves over the first few years.
- A longer-term stabilisation (v1 and v2), and then reduction (v1), in the overall level of CFR, as shown by the trajectory of the solid blue lines.
- A longer-term stabilisation of the need to undertake actual external borrowing (v1 and v2), followed by a gradual reduction (v1), as shown by the trajectory of the dashed red lines.
- The impact of the reducing capacity for internal borrowing, demonstrated by the convergence of the two set of lines over the first few years and thereafter.
- The fact that a level of existing borrowing is scheduled for repayment (denoted by the shaded grey area) over the medium to long term, although the underlying need to borrow actually grows during that time, meaning that the repaid borrowing will need to be replenished.

The two modelled scenarios demonstrate that it would be possible to stabilise, and slightly reduce, both the CFR and actual need to borrow over the medium to long term. This is critical if the increase in consequent capital financing costs is to be minimised and remain at a level which is prudent, affordable and sustainable over the medium term. However, as the following paragraphs and Chart 2 demonstrate, there are other factors which also impact upon the overall level of capital financing costs incurred.

Chart 2 – Capital Financing Cost Forecast

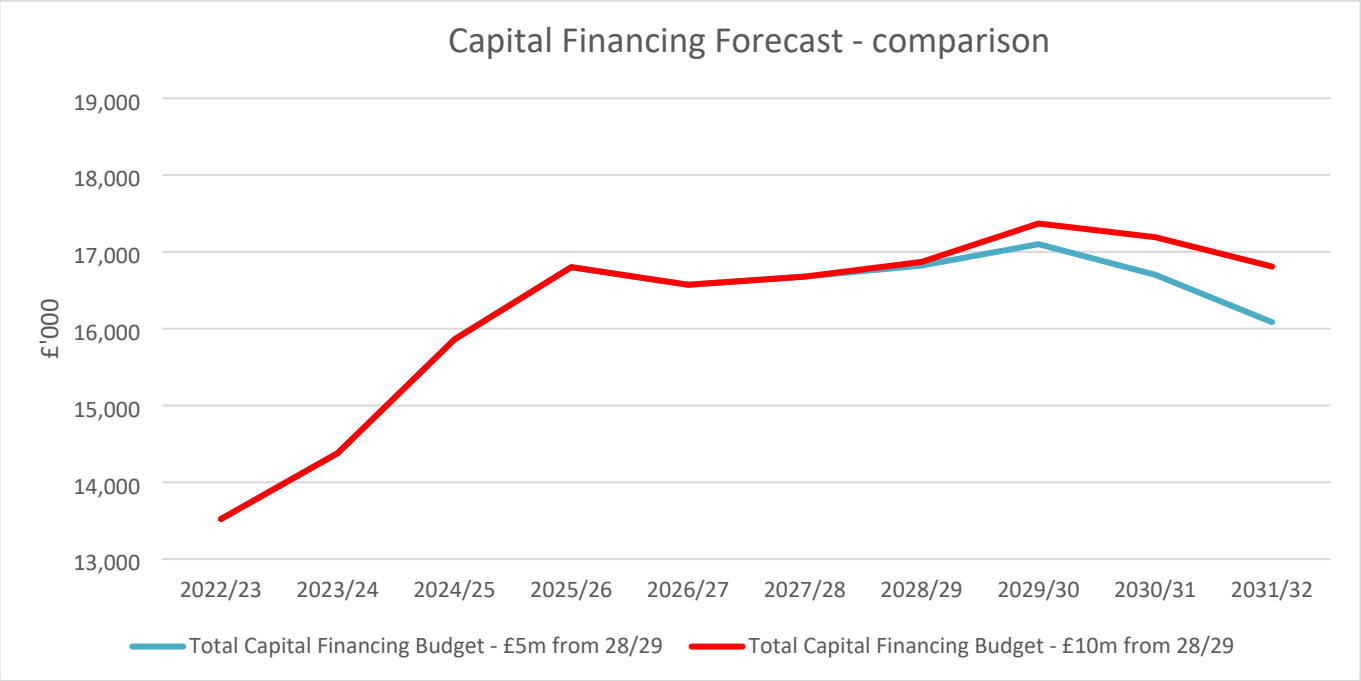


Chart 2 shows the increasing capital financing costs over the next 10 years with a limit of £5m or £10m of unfunded capital expenditure per annum after the current programme. This is initially driven by the capital programme that is proposed, resulting in a significant spike in capital financing costs to 2025/26. This is despite the modelled reductions in the CFR, as outlined in Charts 1a and 1b. Although the revenue costs arising from the current capital programme have been fully funded, this chart highlights the fact that there could be future capital financing budget pressure beyond the new programme window, especially if £10m of unfunded capital expenditure per year is pursued. Due to slippage experienced in delivering the current programme, it should be noted that the actual costs of capital financing are lagging behind the existing budget provision, resulting in an underspend against the revenue budget. This is set to continue in the short to medium term, although as the new programme nears completion, the full capital financing budget is likely to be required, depending upon interest rates on future borrowing.

The reason for the continued increase in capital financing costs, despite the levelling off of borrowing requirements, is primarily because of the change in MRP methodology, but also, in the earlier years, due to the reduced capacity for internal borrowing. What this means, in effect, is that additional external borrowing will need to be undertaken to replace the internal borrowing, just to maintain the status quo. The impact of this is that additional interest costs will be incurred and these will be borne by the capital financing budget. In the case of MRP, the change to the annuity methodology for unsupported borrowing means that MRP charges are lower in earlier years and increase as assets move through their useful life. Therefore, there will be an annual increase in MRP charges, and consequent impact upon the revenue budget, even if no additional unfunded capital expenditure is undertaken.

It should be noted that the scenarios above are for modelling purposes only, with assumptions included on the deliverability of the programme. In saying that, it is a good representation of the financial impact on Council finances given the two levels of capital spend funded from borrowing.

The actual position will of course be impacted by a number of factors that will ultimately determine the level of borrowing and associated capital financing costs. These factors include:

(i) availability of capital grant funding from Welsh Government and other bodies, (i.e. will there be the capacity or need to include those levels of capital expenditure funded by borrowing?)
(ii) the delivery of capital receipts (i.e. as above)
(iii) the utilisation and overall level of earmarked reserves (i.e. as above)
(iv) the general level of slippage within the capital programme (i.e. will the Council spend at the rates modelled even if included in budgets and programmes)

Sustainability and Ongoing Capital Programme Development

As already outlined, the long-term nature of the impacts arising from short to medium term capital expenditure and financing need to be understood in terms of its prudence, affordability and sustainability. The Head of Finance is satisfied that the current programme meets this key requirement, evidenced by the fact that the revenue implications are already fully funded. However, the key challenge facing the Council, in relation to capital, is the continuing pressure relating to the existing estate, in terms of maintenance backlogs and ensuring no asset failures occur. The current annual sums allocations are not as high as would be ideal, meaning that it can be challenging enough to maintain the status quo in terms of backlogs, before considering reducing them. In addition, there is the potential for demand for new schemes to emerge over the medium term, especially in relation to pupil number increases, for example.

On the basis that the current Medium Term Financial Plan is not balanced, there would appear to be little scope to increase capital resourcing by way of external borrowing, as the revenue budget would not be able to cater for the increased MRP and interest costs. The MTFP challenge is especially acute in 2023/24 and 2024/25. Whether or not the challenge will ease beyond those years will largely depend upon the rate of inflation being experienced and the position in relation to core funding via UK and Welsh governments. Therefore, it cannot be assumed that it will be possible to afford borrowing over the medium term. If the pressures upon the capital programme make this unavoidable, then members would need to prioritise those pressures over other competing pressures when setting a balanced budget for the year in question.

In light of this challenge, it is important that the authority understands the key drivers and risks associated with delivering an annually refreshed capital programme. These drivers are captured through various plans across the authority and are outlined in the diagram that follows. These plans will be subject to ongoing revision and it will be necessary for the authority to develop its understanding of the cost of key priorities arising from each plan, to inform what will potentially be a constrained programme in terms of the overall financial envelope.

There will be a range of priorities originating from these plans, particularly the Corporate Plan, which has been refreshed following the local elections in May 2022 and reflects some of the administration's manifesto commitments. As well as the priorities contained within the Corporate Plan, there is the aforementioned requirement to maintain the current asset base. This is something that has been severely impacted by constrained funding levels in previous years and has resulted in the maintenance backlog developing, which gives rise to the potential for major asset failures to occur where issues have developed over time. There is a particular risk surrounding highways and school buildings, although there are other asset bases that hold maintenance backlogs as well.

Therefore, whilst annual allocations are provided for asset maintenance, they are generally insufficient in value. The challenging revenue budget position does not provide an easy solution in increasing these allocations to a level that would, in the first instance, stop the backlogs from increasing. Because of this, it will be critical that opportunities to augment the annual sums, such as those outlined earlier in the strategy, are taken wherever possible. If it doesn't prove possible to increase the annual sums, they should, as a minimum, ensure the highest priority backlog issues are addressed, first and foremost. However, they would, in most cases, be insufficient to address any asset failures.

In addition to the annual sums, other approaches need to be pursued in order to reduce the maintenance backlog. This should include a review of the asset base more generally, and consideration to rationalising the number of assets. This rationalisation, which is a key tenet of the new Transformation Plan, could be achieved in a number of ways, such as closure or disposal of assets, asset transfers or schemes to refurbish/redevelop existing assets (e.g. neighbourhood hubs, Chartist Tower and the Newport Market development). Furthermore, it will be necessary to target external grant funding, such as Sustainable Communities for Learning funding, which will enable wholesale upgrade or replacement of existing assets, including those with significant maintenance backlogs.

Therefore, when developing the rolling capital programme, it will be necessary for decision-makers to ensure that the ongoing maintenance of existing assets is sufficiently addressed. However, there will be other priorities to be included within the programme at some point in the future, such as the need to address the climate emergency via a pursuit of carbon neutral assets, a response to the need for a new way of working, the next phase of WG's Sustainable Communities for Learning Programme and further regeneration schemes for the city. As already outlined, the pressure to support such initiatives will need to be carefully balanced against other competing priorities for revenue resources.

Although members will ultimately decide upon both the overall size of the new programme, and the schemes contained within it, it will be important that there is appropriate governance surrounding the development of the programme. This will be especially important given the constrained funding outlook and the need to be absolutely clear as to where the highest priorities lie. To achieve this, the Capital Board will need to act as an effective gateway and ensure that only those schemes with a clear plan for delivery and where the necessary due diligence has been undertaken are recommended for addition to the programme. The board should also ensure that there is enhanced oversight and management of the programme on an ongoing basis and reduce the likelihood of slippage or grant funding being foregone in future years. As an outcome, a more realistic, deliverable and achievable programme should result.

5. TREASURY MANAGEMENT

The Treasury Management Strategy (detailed in Appendix 3) and Capital Strategy are inextricably linked, with both strategies being considered for approval by Council as part of the same meeting. The figures within the Treasury Management Strategy align with the level of borrowing resulting from this Capital Strategy. The Council will need to approve both the prudential indicators detailed below and the borrowing limits recommended.

5.1. TREASURY MANAGEMENT

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, whilst 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 cashflow, largely underpinned by earmarked reserve balances, to fund capital expenditure funded by borrowing, known as internal borrowing.

As a result of decisions taken in the past, the Council as at 31st December 2021, has £140.4m borrowing at a weighted average interest rate of 3.6% and £51.5m treasury investments at a weighted average rate of 3.0%.

As outlined earlier, CIPFA consulted on changes to the Treasury Management code during 2021 and issued a new version of the code subsequent to that. The changes required as a result of the update were outlined in last year's strategy and are reflected in this year's strategy, where relevant and appropriate.

5.2. BORROWING STRATEGY

Whilst the current outlook is for the Council to have significant long-term borrowing requirements, the current strategy is to fund capital expenditure through reducing investments rather than undertaking new borrowing. To clarify, this means deferring new long-term borrowing and funding capital expenditure from day-to-day positive cashflows for as long as possible. 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 slightly lower than the current rates payable on long-term borrowing and this remains a primary reason for the current 'internally borrowed' strategy.

Whilst investment counterparty risk is minimised through this strategy, the risk of interest rate exposure is increased, as the current longer term borrowing rates may rise further in the future. However, long-term borrowing interest rates are broadly similar to short-term borrowing interest rates. Therefore, should there be a need to undertake borrowing at short notice, the current similarity in interest rates mitigates the risk to some extent and also ensures the Council is no worse off in the short term. The market position is being constantly monitored in order to manage this risk.

The Council's overall main objective when borrowing is to achieve a low but certain cost of finance, whilst retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term loans (which have traditionally been available at a lower cost) and long-term fixed rate loans where the future cost is known but higher. In the current economic context, short-term borrowing is not much cheaper than long-term borrowing (both available at between 4.0% and 5.0%), however this may revert to a more typical scenario in the medium term. The current availability of positive cashflow has meant that the Council has not been required to undertake any short-term borrowing recently, although this can change at relatively short notice.

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the CFR (which has been detailed in earlier sections). It should be noted that the estimated projected debt is broadly in line with the Operational Boundary, which acts as a borrowing limit for delivering the Capital Programme, as highlighted in the paragraphs that follow.

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

	31.3.2022 Actual	**31.3.2023 Forecast**	**31.3.2024 Budget**	**31.3.2025 Budget**	**31.3.2026 Budget**
Debt (incl. PFI & leases and ST & LT borrowing)	193	174	186	197	192
Capital Financing Requirement	273	274	283	286	280

As outlined earlier, the forthcoming introduction of IFRS 16 Leases will likely result in the CFR and debt identified as relating to leases increasing in future years. Work continues to assess the relevant leases that exist across the Council and their potential impact upon both the CFR and overall debt levels.

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.

Operational Boundary: The Council is obliged to approve an operational borrowing limit. This boundary has been set in line with the expected borrowing required to finance the current Capital Programme until 2027/28, taking account of likely levels of internal borrowing. A small additional allowance has also been made for the timing of PFI debt repayments. 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.

Authorised Limit: The Council is legally obliged to approve an affordable borrowing limit for external debt each year. This is the absolute limit for external borrowing and is set in line with the CFR, again with a small allowance made for the timing of PFI debt repayments. The authorised limit is greater than the Operational Boundary and provides a buffer for managing day to day cash requirements and undertaking borrowing in advance of need, where appropriate and affordable.

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

	2022/23 limit	**2023/24 limit**	**2024/25 limit**	**2025/26 limit**
Authorised limit – borrowing	271	246	252	248
Authorised limit – PFI and leases	41	39	36	34
Authorised limit – total external debt	**312**	**285**	**288**	**282**
Operational boundary – borrowing	192	150	163	161
Operational boundary – PFI and leases	41	39	36	34
Operational boundary – total external debt	**233**	**189**	**199**	**195**

Whilst the above indicators place a theoretical limit upon the level of borrowing that a council can undertake, they do not, for example, make an allowance for any amount of slippage that may be incurred whilst delivering the Capital Programme. This is relevant in the case of the Council's Capital Programme where, in relation to 2023/24 in particular, there is a significant level of forecasted unfunded expenditure and a high probability of slippage occurring. Therefore, to ensure that the level of expenditure to be funded via borrowing is controlled, a local indicator exists which restricts any unfunded expenditure being added to the existing Capital Programme over and above the headroom that is already in place. This indicator is in line with Table 1 of this report and, for 2023/24 only, limits additional borrowing for new capital expenditure to £1.057m. Should borrowing above this limit be required, it will need to be approved by full Council.

Table 8: Local Prudential Indicator: New capital expenditure to be funded via borrowing (£m)

	2023/24 limit	**2024/25 limit***	**2025/26 limit***
Borrowing headroom	1.1	0	0

** The limit is currently £0m, in line with the existing Capital Programme, but the £1.1m effectively applies across the three years shown.*

5.3. INVESTMENT STRATEGY

Treasury investments arise from receiving, and then holding, cash before there is a need to pay it 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. In the case of certain funds, the Council may request its money back at short notice.

Table 9: Treasury management investments in £millions

	31.3.2023 Forecast	**31.3.2024 Budget**	**31.3.2025 Budget**	**31.3.2026 Budget**	**31.3.2027 Budget**	**31.3.2028 Budget**
Near-term investments	22.4	0	0	0	0	0
Longer-term investments	0	10	10	10	10	10
TOTAL	**10**	**10**	**10**	**10**	**10**	**10**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and relevant 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, although the frequency of these reports will change to quarterly from 2023/24, in line with the recent changes to the Treasury Management Code. The Governance & 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 owner of the freehold, such as the case with 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.

6. COMMERCIALISATION

The 2019/20 Capital Strategy contained details of the Council's Commercialisation Strategy, which was agreed by Council during 2019. A feature of this commercial approach was to explore three areas of activity, all aimed at increasing income generation and contributing towards addressing the medium-term budget gap faced by the Council. The three areas of activity were:

1) Current services that could be provided on a more commercial basis - e.g. trade waste
2) New services that could be provided - e.g. energy services
3) Property investment – commercial and residential

As outlined in the 2022/23 strategy, the third element of this approach would entail, in essence, investment primarily for the purpose of yield. This type of activity is now precluded by the Public Works Loans Board

no longer lending to local authorities for this purpose and the updated Prudential Code preventing investment funded by borrowing solely for the purpose of yield. Combined with the financial constraints currently being faced, and new borrowing not currently being considered affordable, this area of the Commercialisation Strategy is no longer being pursued. The first two elements of the strategy are still areas that the Council will consider and potentially pursue, subject to affordability, risk acceptability and the ability to contribute towards the medium-term financial challenges.

7. OTHER LONG-TERM LIABILITIES

In addition to debt of £140.4m outlined above, the Council has a number of other long-term liabilities, which represent potential future calls on Council resources, as follows:

Private Finance Initiative (PFI)

The Council has two PFI arrangements. These are for the provision of the Southern Distributor Road (21 years remaining) and for Glan Usk Primary School (11 years remaining). As at 31st March 2022, the combined value of the liabilities was £40.7m. The Council holds specific earmarked reserves to cover the future costs of the PFIs.

Pension Liability

The Council is committed to making future payments to cover its pension fund deficit (valued at £403.2m) as at 31st March 2022.

Provisions

The Council has set aside long-term provisions for risks in relation to landfill capping and aftercare, for example.

Contingent Liabilities

The Council also has a number of contingent liabilities, which may or may not ultimately materialise as a call on Council resources. These liabilities are detailed in the annual Statement of Accounts and include potential insurance claims and risks attached to loans extended to external developers. As well as this, the Council has also entered into a number of financial guarantees to act as a guarantor, in particular for the safeguarding of former employee pension rights when their employment is transferred to third party organisations.

8. KNOWLEDGE AND SKILLS

In-house expertise

The overall Capital Programme, Capital Strategy 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 experienced qualified and part-qualified accountants who maintain Continuous Professional Development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and obtain relevant skills. In addition, there is a Treasury Management team who manage the day-to-day cash-flow activities and banking arrangements of the authority. Members of this team, again, attend the necessary courses and training and have an extensive amount of experience.

External expertise

All of the Council's main capital projects are overseen by project teams comprising the relevant professional disciplines from across the Council. When required, external professional advice is taken, primarily from the Council's property advisors, Newport Norse. The Council also engages with external treasury advisers for advice in relation to treasury management matters.

Members

Training is offered to members to ensure they have up to date skills to make capital and treasury decisions. Training has been provided as recently as December 2022, with a number of new members attending for the first time. A register is also kept on member attendance. The Council also involves members at a very early stage of a project's life cycle.

9. SUMMARY

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

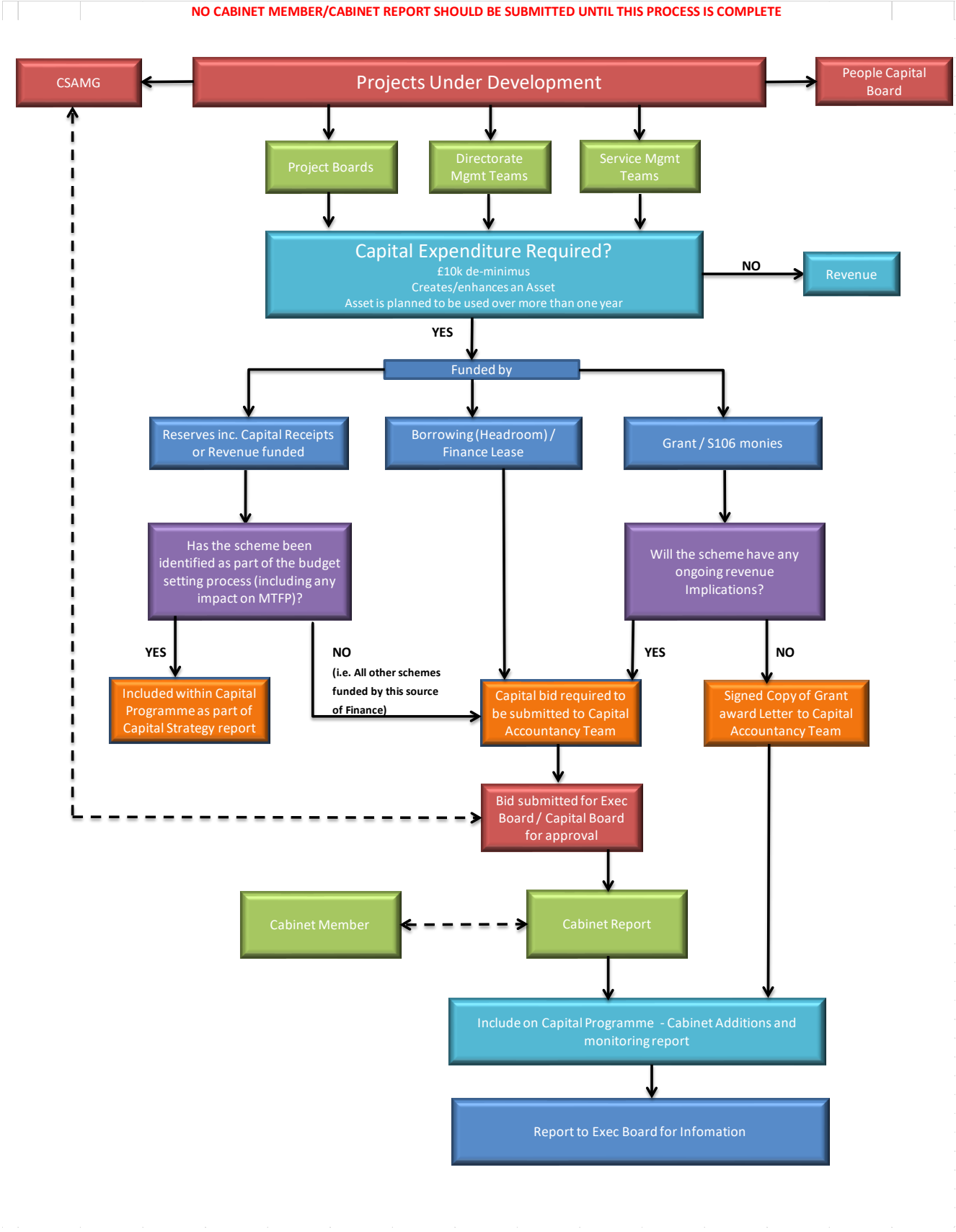
- The revenue budget includes the estimated revenue costs for the entire current capital programme, which includes a small level of headroom for additional capital projects to be added without impacting further on the MRP budget, as per the agreed framework.

- There are a number of demands on the capital programme and there is the need to link the capital strategy with a number of strategic plans across the organisation. This is to ensure that 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 capital financing budget increasing over the long-term, as shown in Chart 2, the Council will need to make some difficult decisions when developing the rolling Capital Programme, to ensure the capital plans remain affordable, prudent and sustainable.

- The Treasury Management Strategy, detailed in Appendix 3, highlights the Council's approach to managing its borrowing and investments. The proposed strategy for 2023/24 is in line with previous years and is based upon a low risk approach to both investments and borrowing. This means that investments held are generally low in value and the approach to borrowing is to look for security of costs, resulting in a generally high proportion of long-term borrowing compared to short term borrowing.

APPENDIX 2a – Capital Additions Process Map



Appendix 3

Treasury Management Strategy Statement 2023/24

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 2021 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 ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour

market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

Credit outlook:

Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic. CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2022):

The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly 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 A.

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 4.65%.

Local Context

On 31st December 2022, the Authority held £140.4m of borrowing and £51.5m 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.

Table 1: Balance sheet summary and forecast

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Capital financing requirement	**273.5**	**273.8**	**282.5**	**286.5**	**280.2**
Less: Other debt liabilities *	(40.8)	(38.5)	(36.2)	(34.0)	(31.8)
Loans CFR	**232.7**	**235.3**	**246.4**	**252.5**	**248.4**
Less: External borrowing **	(141.1)	(135.6)	(130.3)	(107.0)	(103.1)
Internal borrowing	**91.6**	**99.7**	**116.1**	**145.5**	**145.3**
Less: Balance sheet resources	(151.0)	(122.1)	(106.4)	(99.7)	(97.7)
Preferred Investment position	10.0	10.0	10.0	10.0	10.0
Treasury investments (or New borrowing)	**49.4**	**12.4**	**(19.6)**	**(55.8)**	**(57.7)**

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

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £57.7m over the forecast period. This is broken down into £38.0m refinancing of maturing existing borrowing and £19.7m additional external borrowing.

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 2023/24.

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.

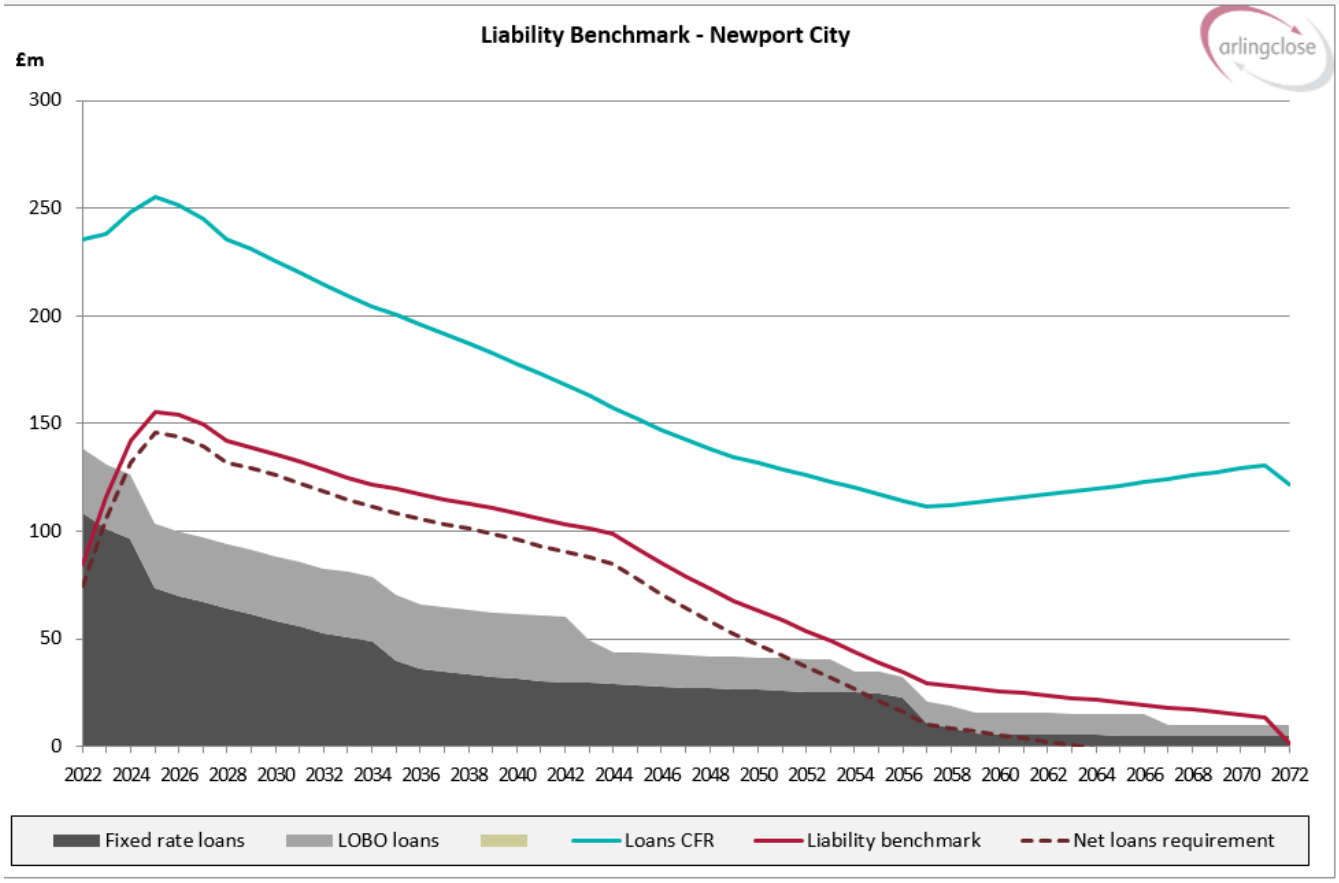
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	31.3.23 Estimate £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	232.7	235.3	246.4	252.5	248.4
Less: Balance sheet resources	(151.0)	(122.1)	(106.4)	(99.7)	(97.7)
Net loans requirement	81.7	113.2	140.0	152.8	150.7
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**91.7**	**123.2**	**150.0**	**162.8**	**160.7**

Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £5m a year from 2028/29, minimum revenue provision on new capital

expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.0% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



The chart above shows actual borrowing maturing over time (grey area reducing), however the need to borrow (the blue CFR line) is increasing sharply over the short term due to the proposed capital programme. Over the long-term, to ensure a sustainable position, the CFR needs to stop increasing and ideally come down in order for the liability benchmark to stabilise. This, in turn, reduces the need to borrow and consequent pressure on the capital financing budget. Its important to note that, even with limited planned unfunded capital expenditure beyond the medium term, the liability benchmark doesn't reduce to current levels until circa 2044. Therefore, the chart is demonstrating the following important points/assumptions:

- To be sustainable, the CFR 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 will diminish, 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, although the revenue impact of this is already funded, assuming interest rates don't increase significantly from the current position.
- 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 £140.4 million of loans, a decrease of £3.4 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Authority expects to borrow up to £19.6m in 2023/24. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £246 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 pressures upon 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 2023/24 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 the 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 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 plc 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 2023/24, and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Authority will take the option to repay LOBO loans to reduce refinancing risk in later years, 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. Financial derivatives may be used to manage this interest rate risk (see section 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The Authority currently holds significant 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 £40 million and £99 million. It is anticipated that the level of investments held in 2023/24 will be lower, as cash balances are used in lieu of external borrowing, in line with the authority's internal borrowing strategy.

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. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. However, because of the requirement to remain Mifid II compliant, the authority will need to retain a £10m minimum investment balance. The intention is to explore longer term, higher yielding asset classes during 2023/24, such as strategic pooled funds and covered bonds, as well as continuing its use of Money Market Funds, where necessary and appropriate. This will also enable the authority to generate a higher rate of return and contribute towards the medium-term challenges facing the revenue budget.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may opt to make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will, wherever possible, prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the 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 treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the limits shown. It should be noted that the Council is only intending to invest for longer term periods up to the Mifid value of £10m. However, some counterparty limits exceed £10m and this is because of the need to manage short term investment requirements when surplus cash balances exist.

Table 3: Treasury 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 *	25 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	£10m	£25m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£5m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments 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 to, and 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 to, and bonds issued or guaranteed by, registered providers of social housing or 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.

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, wherever possible. 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 "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day 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, or with other local authorities. This will cause investment returns 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 £120.5 million on 31st March 2023 and £104.8 million on 31st March 2024. 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.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £1 million in operational bank accounts count against the relevant investment limits.
Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries 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.

The Authority will spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

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

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

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

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. The impact of a 1% rise is predicated on known maturing borrowing during 2023/24, plus an allowance for borrowing in advance of need, should it be appropriate to do so as a means for mitigating the potential for rising interest rates. The impact of a 1% fall in rates is predicated on the Council's minimum £10m investment balance.

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 limit	Lower limit
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.

Long-term treasury management investments: 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 prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023/24	2024/25	2025/26	No fixed date
Limit on principal invested beyond year end	£10m	£10m	£10m	£10m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Related Matters

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

Financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the *Local Government and Elections (Wales) Act 2021* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

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 2023/24 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 2023/24 is £6.9 million, based on the known annual cost of existing borrowing plus assumed new borrowing at a rate of 4.65%. 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 CIPFA Code does 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 2022

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 3b - Existing Investment & Debt Portfolio Position

	31/12/2022 **Actual portfolio** **£m**	31/12/2022 **Average rate** **%**
External borrowing:		
Public Works Loan Board	95.8	3.8
LOBO loans from banks	30.0	3.8
Other loans	14.6	1.3
Total external borrowing	**140.4**	**3.6**
Other long-term liabilities:		
Private Finance Initiative	40.7	
Leases	0.1	
Total other long-term liabilities	**40.8**	
Total gross external debt	**181.2**	
Treasury investments:		
The UK Government	11.5	3.1
Local authorities	30.3	3.3
Money market funds	10.0	2.9
Total treasury investments	**51.5**	**3.0**
Net debt	**129.7**	

Appendix 3c – Additional requirements of Welsh Government Investment 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 has invested in, as part of the overall capital programme, a number of energy efficiency related schemes, including LED projects and Solar PV, as well as ultra-low emission vehicles. In addition, new schools are now being constructed on a net carbon zero basis.

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 Council currently has loans totalling £10.6m as at 31st December 2022. These are all developer loans issued to local enterprises and are secured. The current value of loans issued represent approximately 7% of the useable reserve balance held as at 31st March 2022. The authority's aim when issuing loans is to ensure that they do not exceed 15% of total useable reserves as at the end of each financial year and, therefore, the current value of loans is within that self-assessed limit. The authority is also working to the loan limits set out below.

Table C1: Loan limits

Borrower	Cash limit
Local enterprises	£15m
Local charities	£5m
Wholly owned companies	£5m
Joint ventures	£5m
Treasury management investments meeting the definition of a loan	Unlimited

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
Shares in local organisations	£10m
Total non-specified investments	£15m

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. On an assessment as at 31st March 2022, the Authority's investment property portfolio is anticipated to provide security for capital investment, since its fair value totals £12.530m and is likely to exceed the original purchase price (as in a number of cases, the purchases took place a significant amount of time ago). The authority will undertake further work to confirm, wherever possible, that the necessary security exists.

The Authority consider that the scale of its commercial investments including property are proportionate to the resources of the authority since such investments represent just 8% of its £151m useable reserves.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. However, the Council is not actively pursuing a strategy of acquiring investment properties. Therefore, the current level of investment properties, which represents a relatively low proportion of useable reserves, is not likely to increase in the near future. As a result, it is not anticipated that these investments will need to be liquidated in the medium term.

Because the invested funds, if required, would potentially take time to be liquidated, the authority ensures that it holds adequate available cash balances to be able to, for example, repay capital borrowed. In addition, the authority plans to hold a minimum £10m in investments (to meet Mifid II requirements) which could, if needed, be liquidated at relatively short notice, although this would be avoided if possible to ensure that the professional client status could be retained.

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 meetings with them.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the guidance, will only borrow in advance of need as part of a strategy for reducing risk of future interest rate rises and would not undertake such activity purely in order to profit from an investment.

Capacity and skills: The authority ensures that members and statutory officers involved in investment decisions have the appropriate skills, capacity and information to take informed decisions, assess individual investments in the context of strategic objectives and risk profile, and how the quantum of decisions impact upon the overall risk exposure of the authority. Steps taken include relevant training for elected members and a minimum level of qualification for statutory officers, as well as ensuring continuing professional development, via attendance at relevant training courses. Officers will always take advise from its independent advisers regarding investing and borrowing activity.

Commercial deals: Any commercial deals that the Council would be involved in would involve statutory officers in those discussions and any final decisions. This ensures that the core principles of the prudential framework and the regulatory regime of the local authority is adhered to when making such decisions.

Corporate governance: The Council has a clear corporate governance framework set out within its constitution, scheme of delegations and Annual Governance Statement. This ensures that decisions regarding investment are taken at the appropriate level. For example, the overarching treasury strategy and framework is approved by full Council. Operational decisions, such as day to day cashflow management, including borrowing, are delegated to the Head of Finance.

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 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed 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 Welsh 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 (less than 12 months) or 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. The only other scenario whereby MRP would not be charged is where there is unencumbered first charge security, held against separate assets, upon which the loan is secured. For all other capital expenditure loans to third parties, MRP will be charged in accordance with the MRP policy for the assets funded by the loan.

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

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25.

Based on the authority's latest estimate of its Capital Financing Requirement as at 31st March 2023, the estimated cost of MRP in 2023/24, including finance leases and PFI, is as follows:

	31.03.2023 Estimated CFR £m	**2023/2024 Estimated MRP £m**
Supported capital expenditure	161	5
Unsupported capital expenditure	74	4
Finance leases* and Private Finance Initiative	39	2
Total General Fund	**274**	**11**

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Statement of Accounts
2021/22

Newport
CITY COUNCIL
CYNGOR DINAS
Casnewydd

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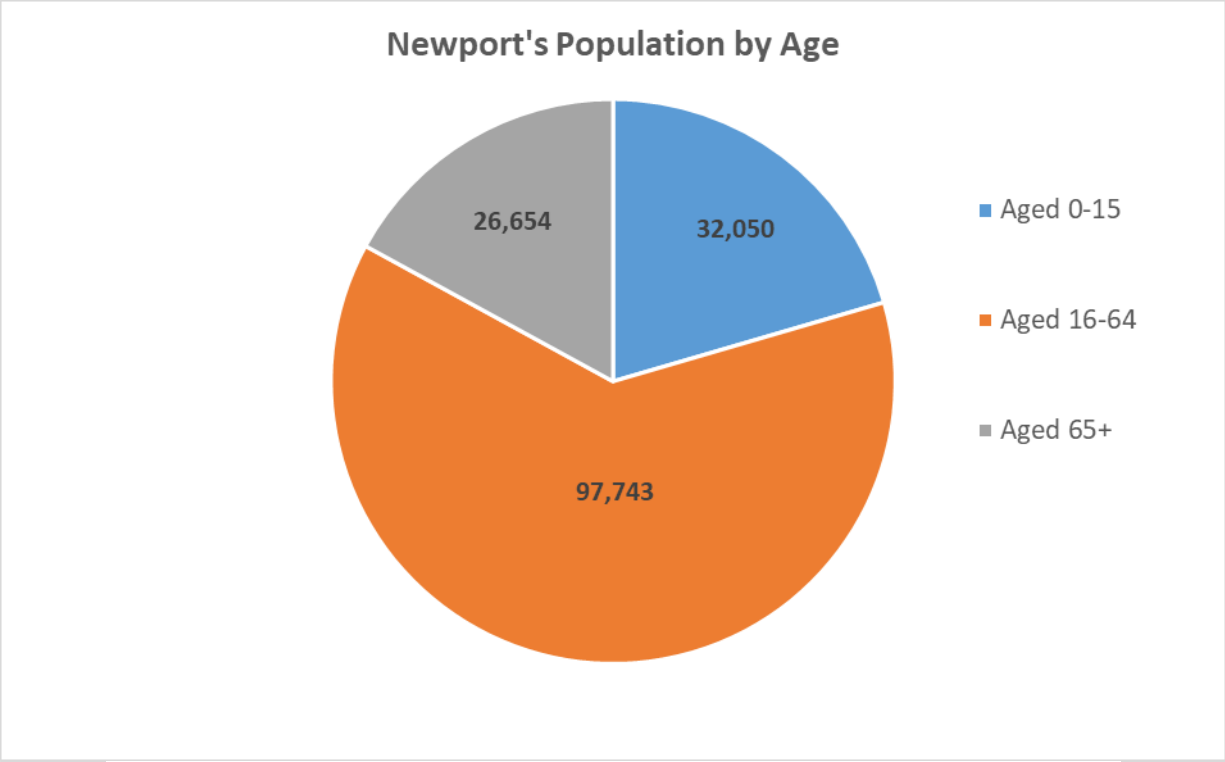
Introduction

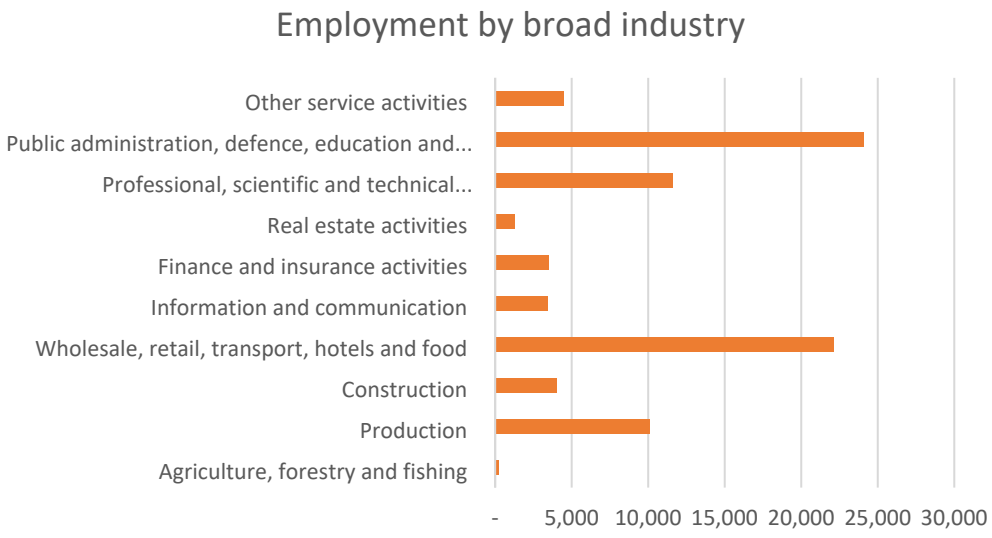
In similar fashion to the previous year, the 2021/22 financial year has been an unconventional one for Newport City Council, as it has been for all other Welsh councils. The COVID-19 pandemic has had a continued impact upon the level, and nature, of expenditure incurred, as well as continuing to affect the level of income generated. Whilst there was a steady recovery from the effects of the pandemic, there were still large parts of the year where services were not able to operate in the traditional manner. A significant reliance upon financial support via the Welsh Government's Hardship Fund, to cover the additional costs incurred and income lost due to Covid 19, continued to be a prominent feature throughout the year. In addition, a range of specific Welsh Government grants were issued during the year, especially in the last quarter, having a significant impact upon the Council's in-year financial position.

In addition to the financial impacts of the pandemic, the Council has seen considerable change in terms of its senior management composition. A management restructure was agreed and implemented, resulting in an overall increase in senior capacity, including a specific emphasis upon transformation of the organisation. As well as this, the Council continues to plan its new way of working, with a hybrid model of operation agreed by Cabinet and due for implementation over the coming 12 months. Furthermore, the final quarter of the year, in particular, has seen the completion of major regeneration schemes, including the refurbished indoor market, which opened in March 2022. Heading into 2022/23, the local elections in May 2022, and the election of a new administration, will result in a new Corporate Plan and strategic priorities for the Council for the next five years. The financial outlook remains uncertain, particularly in light of the current cost of living crisis impacting all services across the authority, meaning the medium-term financial planning process will continue to present a challenge.

1. About Newport and the Council

Newport is a coastal city, covering a geographical area of just over 84 square miles. It has an urban hub with a rural hinterland and is home to one of Wales' most diverse and multi-cultural populations. The city has a population of over 155,000 and has employment in the city of 84,800 across a broad range of industries.





The Council's current Corporate Plan for 2017–2022 – "Building on Success: Building a Better Newport" sets out the key priorities of the Council. The Council has a clear mission statement – "Improving People's Lives", which is aligned to the aspirations set out in the Well Being of Future Generations Act. The plan outlines how we will put this mission into practise, through the well-being objectives, which have been adopted:

- Improve skills, educational outcomes and employment opportunities
- Promote economic growth and regeneration whilst protecting the environment
- Enable people to be healthy, independent and resilient
- Build cohesive and sustainable communities

The Council employs approximately 6,000 members of staff (including teachers and other school-based staff) and every day the mission is executed through the delivery of around 800 discrete activities in various service delivery methods, ranging from services the Council delivers to services delivered in partnerships with a number of other organisations.

2. The Council's Performance and Achievements in 2021/22

Throughout the majority of 2021/22, Newport Council has been responding to the COVID-19 pandemic as services have had to manage increased demand on key frontline services such as Adult and Children services, and preventative services. In addition to this, the cost of living crisis has also emerged, resulting in many households and businesses struggling to meet everyday costs such as energy, fuel and food. Despite these challenges and issues, the Council has continued to respond and support Newport's communities during this period. Towards the end of the financial year, the Ukraine crisis saw the Council's services supporting refugees to safely settle in the city with their sponsors.

Newport City Council launched its Climate Change Plan 2022-27 which sets out the Council's ambition of achieving net zero carbon by 2030. This plan will see an organisation-wide approach to achieving this target. Once again, the Council's waste recycling performance has continued to be above the Welsh Government target and we are continuing to see the purchase of more electric fleet vehicles to support the Council's Climate Change Plan.

The Council's office-based staff continued to work from home throughout 2021/22 in line with the Welsh Government's COVID-19 guidance. Moving forward, the Council's New Normal Project will introduce hybrid / flexible working for the Council's staff. The Council's democratic process has continued to operate virtually enabling the continuation of decision making for the Council and has now moved to a hybrid approach in 2022/23.

The economy and economic resilience of Newport has continued to be a strategic focus for the Council, enabling long term employment opportunities for residents and prosperity for the city and region. In the last year, the opening of Newport Indoor Market, restoration of Market Arcade and opening of a new city centre hotel have contributed towards regeneration of the city centre. In collaboration with Coleg Gwent and Newport Live, the Council approved the development of the Knowledge Quarter in the city centre. This will see the development of a new leisure centre for the city as well as the relocation of Coleg Gwent in the area. The city has also seen significant inward investment from organisations such as Microsoft and ICE, contributing towards Newport becoming a major hub for tech industries.

Throughout the year, the Council and Registered Social Landlords have continued to see increase demand for housing support and assistance. The Council successfully delivered over 55 new affordable homes in collaboration with Registered Social Landlords as part of the £12m Social Housing Grant Programme. The Council, alongside its partners in the city, have continued to support homeless and vulnerable people, enabling them to find long term support and accommodation.

In 2021/22, the Council continued to support households and businesses towards the increasing cost of living. The Council's Revenues (Council Tax, and Non-Domestic Rates) and Housing Benefit teams continued to provide financial support towards Council Tax bills as well as providing additional benefit support. The Council's regeneration team also offered business support towards new and existing businesses throughout the city. The Council has also supported community groups through the Participatory Budget programme offering grants to enable organisations and groups to support their local communities.

The Council's Education services and schools supported children and young people to successfully deliver strong GCSE and A Level results, despite the challenges they faced over the last two years. The Council launched the

Welsh in Education Strategic Plan and has continued the development of new and existing schools throughout the city. The Council's Additional Learning Needs and Special Education Needs team received additional funding and resource to support schools and vulnerable learners in the city.

Further detail and information on the Council's performance will be reported as part of the Council's end of year review of service area performance and as part of its annual Well-being and Self-Assessment report. Looking forward, the Council will be developing a new Corporate Plan that will support the Labour administration to achieve their manifesto aims, the Council's Well-being Objectives and to support ongoing development of regional and national partnership working.

3. Explanation of Accounting Statements

These Statement of Accounts and notes sets out the Council's income and expenditure for the year, and its financial position as at 31 March 2022. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, which in turn is underpinned by International Financial Reporting Standards.

There are 4 key statements together with supporting notes, as follows

- The **Comprehensive Income and Expenditure Statement (CIES)** - this reflects the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area. The bottom half of the statement is concerned with corporate transactions and funding.

- The **Movement in Reserves Statement** - summarises the Council's income and expenditure activity (in the CIES) and shows how this is adjusted back to arrive at the Council's funding/or Council Tax position, and how surpluses/ deficits have been distributed to reserves.

- **The Balance Sheet** - is a snapshot of the Council's assets, liabilities, cash balances and reserves at the year-end date.

- **The Cash Flow Statement** - shows the movements in the cash and cash equivalents of the Council during the reporting period.

The Statement of Accounts also includes consolidated group accounts:

- **The Group Accounts -** are prepared in addition to the single entity accounts where local authorities have material interests in subsidiary and associated companies and joint ventures. The Group Accounts have been prepared to include Newport Transport Limited, a 100% owned municipal bus company and comprise the Movement in Reserves Statement; the Comprehensive & Income Expenditure Statement; the Balance Sheet; the Cash Flow Statement and associated notes.

The **Notes** to these financial statements provide more detail about the Council's accounting policies and individual transactions.

A **Glossary** of key terms can be found at the end of this publication.

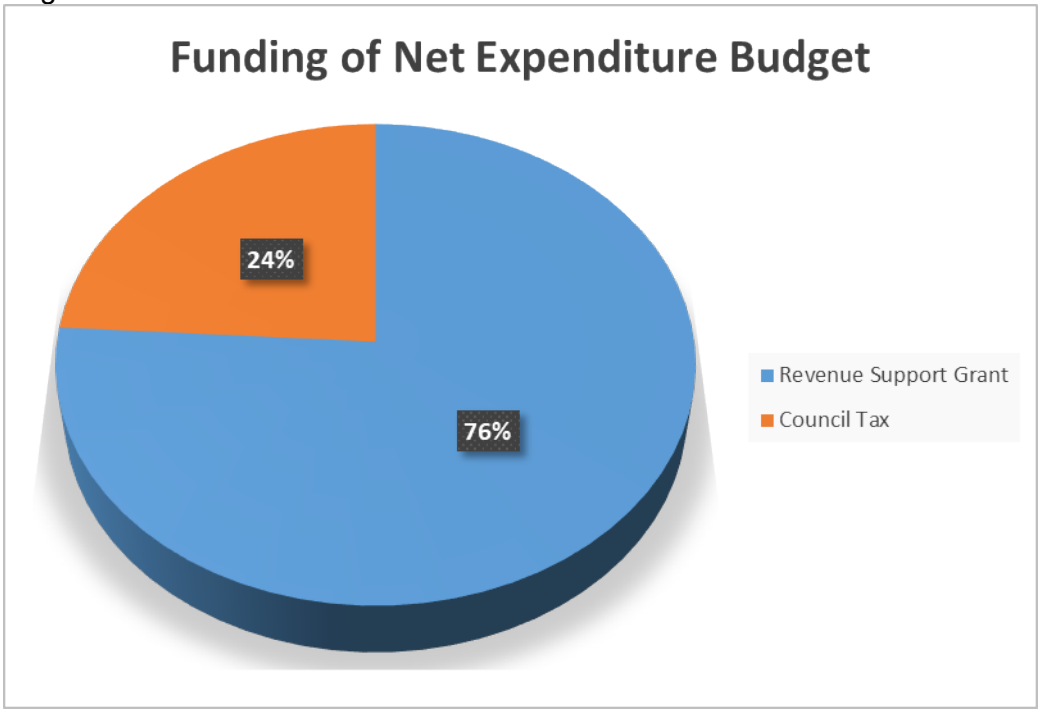
The narrative that follows this now provides some informal commentary on the Council's financial performance, the balance sheet and future financial outlook.

4. Financial Performance 2021/22

The 2021/22 budget and funding

The 2021/22 budget setting process was set against the backdrop of a positive funding settlement from Welsh Government, with a final increase of £12.719m (equating to 5.6%) being received. This final settlement was better than anticipated and allowed the Council, having already funded the identified inflation and demand pressures, to respond to the public consultation by reviewing the savings proposals and investing in some priority policy areas such as economic regeneration, green infrastructure and carbon reduction.

The final approved net budget for 2021/22 was £315.9m, of which 76% was funded via WG Revenue Support Grant and redistributed non-domestic rates. The 24% balance was funded via Council Tax, set locally, as set out in the graphic that follows. It should be noted that, as Council Tax is the only element directly under the Council's control, an overall 1% increase in funding requirement equates to a roughly a 4% increase in Council Tax. To exemplify this, the agreed 3.7% increase in Council Tax only contributed to a £2.9m increase in funding, compared with the WG funding increase of 5.6% which delivered an increase of £12.7m.



The net budget of £315.9m represented an overall increase of £15.6m on the net budget from 2020/21. Financial pressures in relation to inflation and pay totalled £7.7m, and budget investments amounted to £11.8m, resulting in a funding gap of £3.9m. This gap was bridged via a specific grant of £0.5m and savings totalling £3.4m. The aforementioned 3.7% Council Tax increase was broadly in line with the level assumed within the medium-term financial plan, although this meant that the specific Newport Council Tax rate, at £1,242 per Band D property, remained one of the lowest within Wales. This low ranking, coupled with the proportion of properties in the lower bandings, continues to present challenges to the authority, in terms of its funding generating ability when compared with councils across the UK, restricting the level of investment that can be made within services.

Despite the more positive settlement received, the medium-term outlook, at the point of setting the budget, remained a challenge, with a net budget gap provisionally identified for the years 2022/23 to 2024/25. The absence of multi-year funding settlements from Welsh Government made it difficult to forecast with certainty the

level of funding that could be expected in those years, however, even with reasonable funding increases assumed, the predicted inflationary and demand pressures exceeded modelled funding levels.

Financial Performance – "how did we do?" – 2021/22

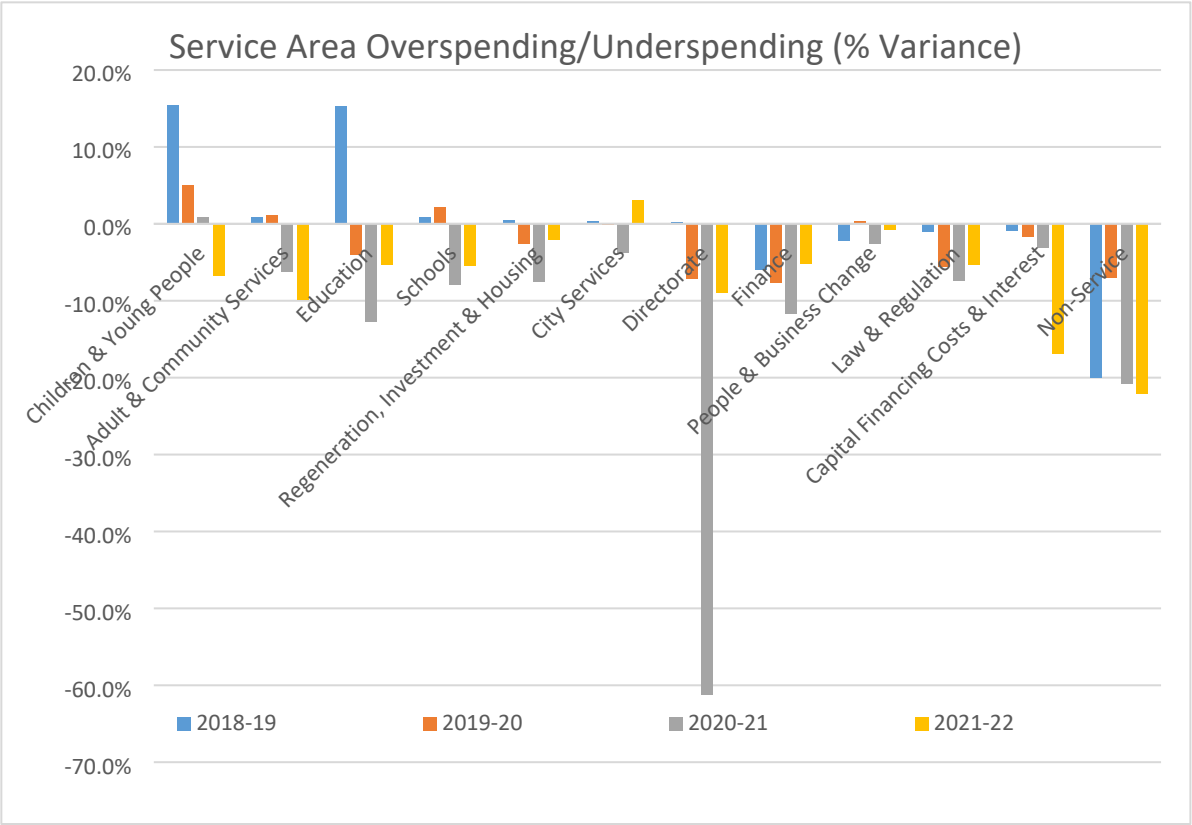
Revenue budget

The 2021/22 revenue outturn produced a net underspend, after core budget contributions to/from reserves and provisions, of £18.4m against the £315.9m budget (6% variance). This variance has arisen for several reasons and individual service analysis of key variances is shown later in this report.

At a high level, the following explains the position:

- Receipt of one-off Welsh Government grant funding, a large proportion of which was received in the final quarter of the financial year, to assist the Council in its response to the COVID-19 pandemic or deliver WG policy priorities.
- Underspends across all services in relation to (i) costs of general administration and service provision due to changes in working practices and (ii) staffing savings due to challenges associated with recruitment and (iii) not undertaking planned/normal services as they were either not required or unable to be carried out as the pandemic response work was prioritised.
- Resulting directly and indirectly from the above, the general revenue contingency budget was not required, there was an underspend against the Council Tax Reduction Scheme and an overachievement against budgeted Council Tax income. Furthermore, there was a significant underspend against the Capital Financing budget, mainly due to the receipt of late capital grants from WG and general slippage against the Capital Programme, deferring the need to borrow for capital schemes.

As in 2020/21, the COVID-19 situation, as well as contributing towards a material underspend, has had a significant impact upon the movements on earmarked reserve balances, including those relating to schools, compared with movements that might be anticipated in a normal year. This is partly the product of unusual spending patterns across services, when compared with the picture pre-pandemic. The graph below demonstrates this by displaying the budget variances for each service across the past four years. The general pattern that can be observed is one of overspending moving towards significant underspending from 2018/19 to 2021/22.



In terms of schools, specifically, a similar trend to that experienced by the rest of the Council was reported. In summary, school balances increased from £9.6m to £15.7m, reflecting late grant awards totalling £4.8m, coupled with general underspending against the budgets agreed for the financial year. This increase in balances is likely to be a temporary one, with the majority of grants anticipated to be used during the 2022/23 financial year.

Capital programme

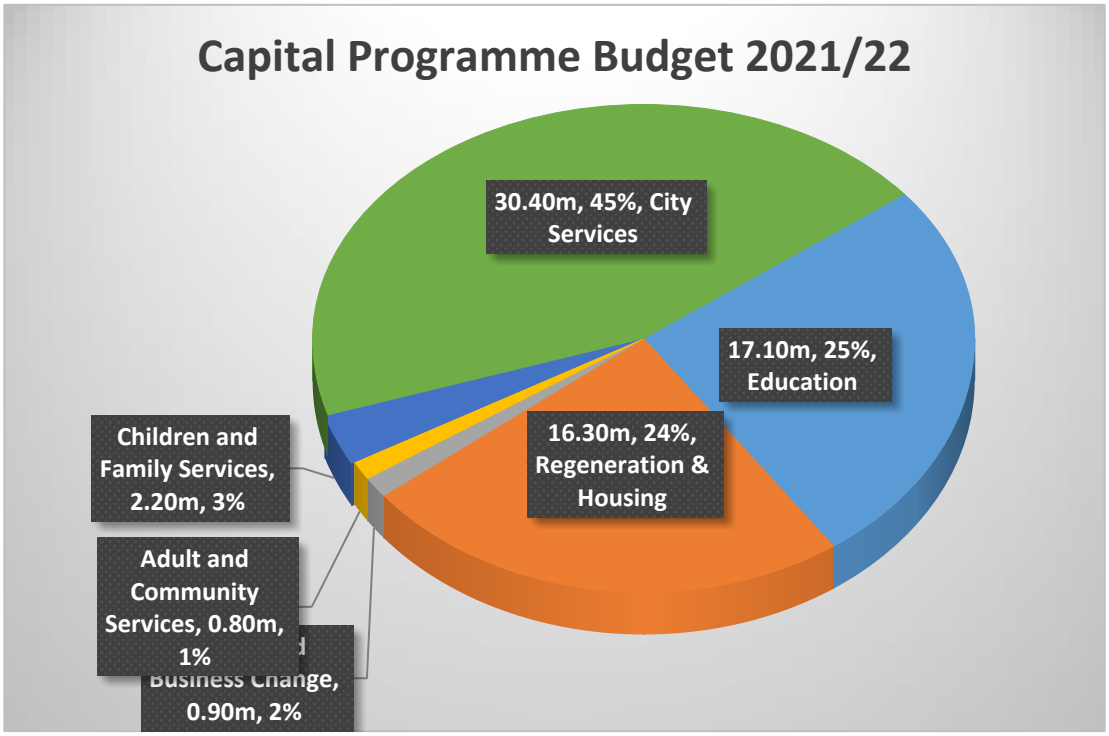
The Council has an ambitious capital programme which started in 2018/19 and was initially intended to run through to 2022/23, although two years have been added to the programme to reflect projects spanning the life of the original programme. The total programme amounts to £298m.

	2018/19 Actual £m	2019/20 Actual £m	2020/21 Actual £m	2021/22 Actual £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	Total 7-year programme **£m**
TOTAL EXPENDITURE	29.5	31.4	26.2	52.7	117.5	34.7	5.6	**297.6**

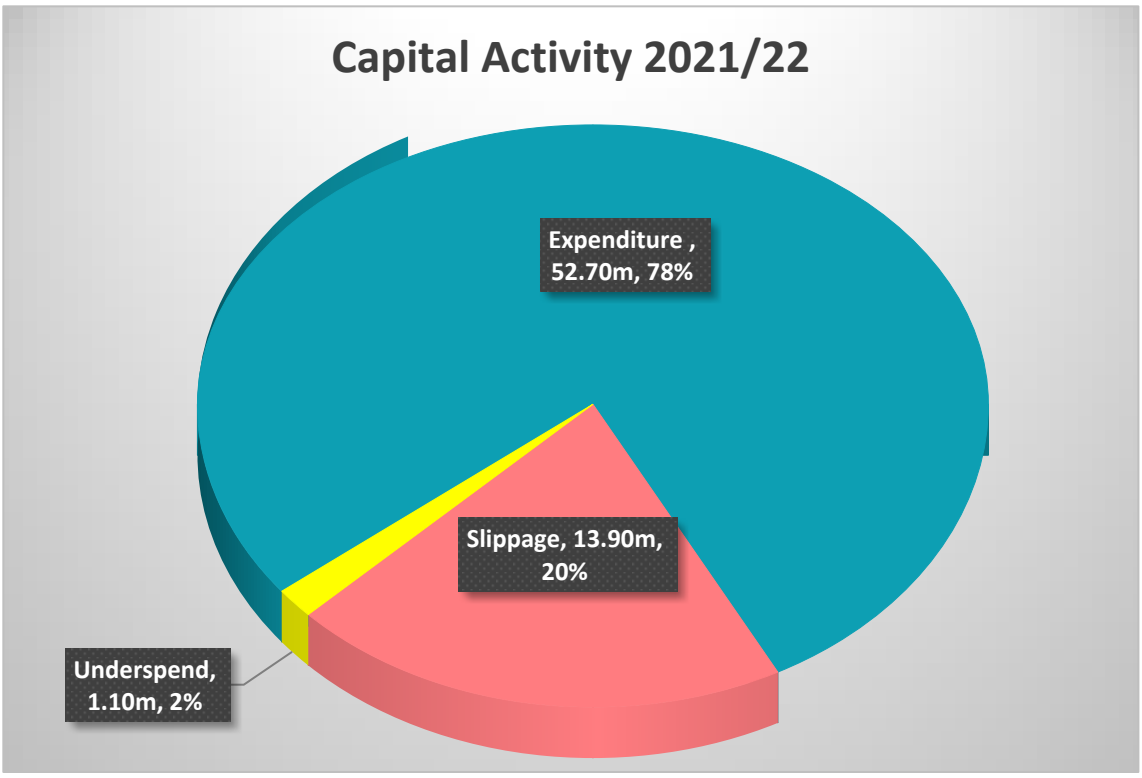
The agreed programme for 2021/22 included:

- £17m investment in schools.
- £30m road, transport and infrastructure works.
- £3m for social care projects.
- £16m investment in regeneration and housing (with £5m facilitating developer loans for city centre buildings).
- A range of energy efficiency schemes including schemes aimed at lowering vehicle emissions
- Commitment to invest in the Transporter Bridge
- Delivery of active travel schemes, including Devon Place footbridge
- Investment into a range of regeneration projects within Newport city centre

Pictorially this was evidenced as follows,



During 2021/22, the Council actually spent £52.7m on Council assets to maintain and improve service delivery and to support regeneration initiatives. The outturn position for capital in 2021/22 showed a total slippage (budget moved into future years of the programme) of £13.9m and a net underspend of £1.1m.



The capital financing for the £52.7m expenditure was as follows,

Capital Expenditure 2021/22		Financed by:	
Education & Schools	£14.2m	Grants	£45.2m
Regeneration, Investment & Housing	£13.1m	Borrowing	£5.5m
People & Business Change	£0.6m	Contributions & S106	£1.2m
Social Services	£2.4m	Council Resources	£0.8m
City Services	£22.4m		
TOTAL	**£52.7m**		**£52.7m**

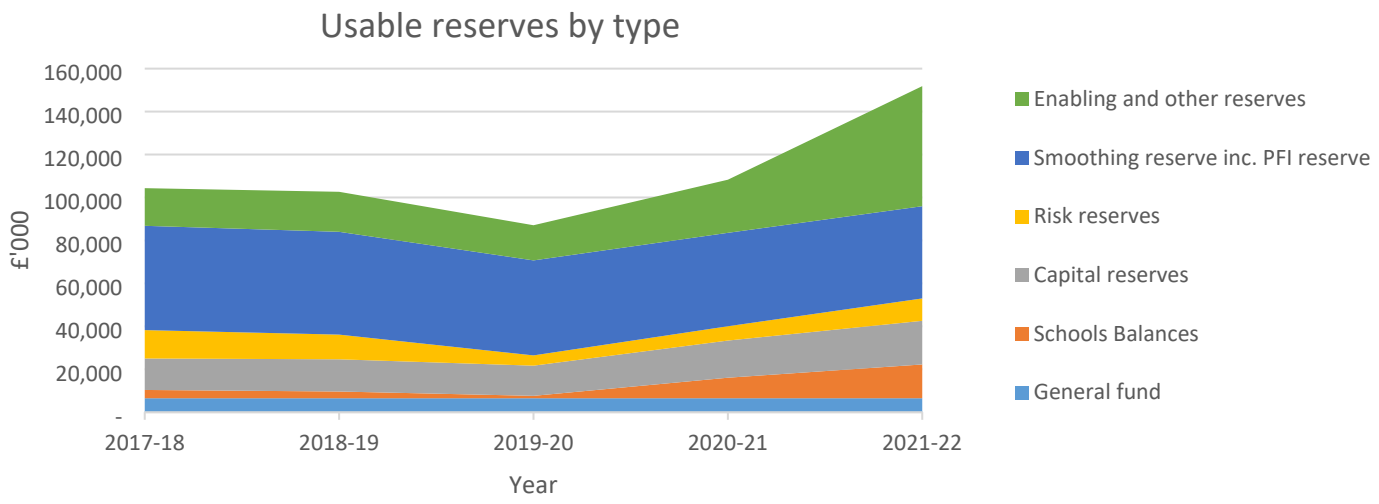
Balance Sheet

The Balance Sheet shows a 'snapshot' of the Council's assets and liabilities as at 31 March 2022, including its reserves. The Council's balance sheet has seen an increase in value between 2020/21 (net liability of £92m) and 2021/22 (net assets of £53m). This movement is mainly due to a reduction in the pension fund liability, an increase in short term investments, and the revaluation of assets reflective of an anticipated increased rebuild cost caused by a volatility in construction inflation. The pension fund liability is now £403m which, if excluded from the balance sheet, would leave net assets of £456m.

Usable reserves (a reserve which can be used to fund cash expenditure of the Council) of £151.9m shows the Council as having strong financial resilience. Most of these are covering specific issues and risks and earmarked for specific purposes. A further breakdown of these reserve balances are shown in the section that follows.

Usable Reserves

The level of Council's usable reserves increased, net, by £43.6m in 2021/22 from £108.3m to £151.9m. The General Fund Reserve remained unchanged at £6.5m (3.2% of net expenditure budget excluding schools). The chart below shows the level of reserves since 2016/17, showing those reserves that cover risk areas, are enabling in their purpose, assist with smoothing expenditure, the General Fund Reserve, Schools reserves and other reserves.



The chart above shows that usable reserves have remained relatively steady during the period shown, before a reduction in 2019/20 and then significant increases in the subsequent two years, with a 25% increase in 2021/22 alone. In breaking down the increase shown in 2021/22, it should be noted that the majority of the increase is reflective of the overall revenue underspend, which has seen the £18.4m surplus distributed across a handful of earmarked reserves. In addition, school balances, which are required by legislation to be held in individual reserves specific to each school, increased by £6.2m and account for the majority of the residual balance.

The reserves as at 31st March 2022 reflect the following:

- General Fund Reserve balance of £6.5m. This is a prudent reserve held to mitigate against the risk of unforeseen circumstance. It is established by Council's Head of Finance and is a product / proportion of the annual budget. It is ultimately the last line of defence once specific earmarked reserves and other contingencies have been utilised.
- Adequate cover for the assessed risks identified by the Council – such as known one-off risks such as the response to the pandemic, self-insurance and investment risks.
- Good level of 'enabling' reserves to fund strategic/transformational programmes and fund other 'cost to change' / savings projects, city centre development fund and support to the Council's Capital Programme.
- Smoothing reserves, in particular those relating to the ongoing costs of the two PFI schemes that the Council is involved in.

Unusable reserves

Also detailed on the balance sheet are unusable reserves which are non-cash backed reserves which allow for significant accounting adjustments as to not impact on the Council Tax payer during the year.

Impact of pension deficit on reserves

The Council participates in the Local Government Pension Scheme. Employees and employers contribute into the fund and, along with investment income and growth generated, the funds are used to pay its pension obligations. The Fund is valued every three years to assess if the assets are sufficient to fund its pension obligations, taking account of actuarial assumptions of members' life expectancy, investment returns, value of pensions paid out etc. The employer contribution rates were 21.2% of pay for 2021/22 and which are due to rise by 1% in 2022/23 to 22.2%. The average employee contribution rate was 6.2% of pay.

The Statement of Accounts for 2021/22 shows an improved pension affordability position on that reported in 2020/21. The headline message being that that the net unfunded liability has reduced by £72m to £403m. The main cause for this improvement is due to the performance of investments during the period, these have been offset in part by changing actuarial assumptions (e.g. increased inflation, decreased discount rate, increasing longevity/age predictions).

It should be noted that the fund is there for the long-term funding of pensions, and annual variations in actuarial assumptions can skew the presentation of figures quite significantly in any one year. This anticipated deficit on the pension scheme and its impact on the Council's overall reserves is also a long-term issue. Helpfully, the deficit and liability would not arise in any single year, and the deficit is being addressed through higher employee and employer contributions, as well as the pension scheme benefits being calculated differently, such as moving to career average salaries as opposed to final salary.

Further details on pension balances and transactions can be found in Notes 41-42.

Provisions & Contingencies

Provisions are funds set aside on the balance sheet to meet likely liabilities. An assessment is made each year on the level of the risks and, if any, what new issues/risks have arisen and require sums to be identified and set aside.

Following our assessment of risks, total short-term provisions increased by a net £513k to £6.5m after £1.2m of historic provision was utilised. The increase, after allowing for the use of historic amounts, is mainly due to the need to add to existing insurance provisions, to reflect likely claims activity and potential legal issues arising from health and safety issues.

Long-term provisions have increased by £786k to £6.9m. The provision in respect of capping and upkeep of Council tips increased by £747k. A survey of potential liability is undertaken every 5 years, and this resulted in an anticipation of extra costs in the new survey undertaken during 2021-22.

Additionally, the Council makes provision for a proportion of the debts it raises not being paid. This is calculated based on historic recovery levels and how long particular debts have remained outstanding. Combined for general debts, housing benefit and Council Tax, this provision has increased by £0.8m. This year, the calculation has prudently taken into account the ongoing effect of the COVID-19 pandemic on likely recovery of debt.

In addition to provisions, a number of contingent liabilities are disclosed in the Statement of Accounts (Note 44). The distinction between a provision and contingent liability is around the uncertainty as to whether the event will occur and if so whether it can be suitably quantified. As such, no specific resources are attributed to affording

contingent liabilities (unlike provisions) and the Council would use its annual resourcing and reserve balances should such pressures materialise.

Details of the movements of individual provisions and contingent liabilities are shown in Note 24 and 44 respectively.

4. Financial Outlook

The final funding settlement from Welsh Government for 2022/23 confirmed that funding would increase by 10.31%, which was better than anticipated, although consistent with the provisional figures received earlier in the year. Such a positive settlement was clearly welcomed, as it enabled the Council to fully cover its estimated inflation and demand pressures, as well as facilitating a lower than previously planned Council Tax increase (2.4%). In addition, a relatively low level of savings was required to balance the budget and there was also scope to fund some policy priority areas.

The most significant investments, in addition to non-schools staffing pressures, were linked to:

- £8.003m investment in school budgets, including estimates for pay inflation and demand pressures.
- £6.502m investment in social care, including funding to pay staff the Real Living Wage and additional provision to cover the higher ongoing costs of the sector, in the wake of the pandemic.
- £1.597m to cover the employers' cost arising from the increase in National Insurance contribution rates.
- £0.5m to assist with managing the ongoing financial impact of the pandemic and associated recovery.
- £0.6m investment in the city centre and maintenance of play areas and equipment.

As in the previous year, despite the positive settlement, uncertainty continues to exist when looking at the medium term picture. Although Welsh Government have provided indicative settlement figures for the following two financial years, an overall medium term budget gap is currently being projected. To provide context, this forecasted gap does not necessarily reflect the full extent of the current cost of living and inflationary challenges. Therefore, there is a risk that this position will worsen over the coming months as the Council reviews it's MTFP and 2023/24 budget in particular and require steps to be taken to ensure a balanced budget for 2023/24.

As well as the specific inflationary challenge, there remains the issue of the pandemic which, whilst not as acute as in recent years, may well have a longer term impact which the Council will need to manage and respond to. There is no guarantee that there won't be further periods of lockdown and the financial impact, through both additional expenditure and loss of income, to contend with. The Council has created financial mitigation, up to a certain level, for the 2022/23 financial year, but will need to consider the longer term impact as part of its 2023/24 budget and consider realigning budgets to reflect the new post-pandemic environment that it will be working within.

There is also a challenge to respond to in terms of the Council's capital programming. Rising costs of construction and issues with supply chains are placing unprecedented constraints on delivery and cost of the programme. This has resulted in both significant levels of slippage and projects overspending, requiring a need to identify additional resources and, in the process, restricting the scope of what can be delivered. As the Council embarks on preparation for a new five-year Capital Programme, close attention will need to be paid to the cumulative impact of increasing levels of capital expenditure on overall affordability and ultimate pressure upon the revenue budget.

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts

The Head of Finance's Responsibility

The Head of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently
- Made judgments and estimates that were reasonable and prudent
- Complied with the Local Authority Code

The Head of Finance has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Head of Finance Certificate

I certify that the Statement of Accounts set out in pages 49 – 144 Give a true and fair view of the financial position of Newport City Council and Newport City Group at 31 March 2022 and its income and expenditure for the year end 31 March 2022.

Signed	Signed
Meirion Rushworth	
Head of Finance (Section 151 Officer)	**Chair of Governance & Audit Committee**
12th July 2022	

What is Corporate Governance?

Corporate governance is the system of rules, practices and processes by which an organisation is directed and controlled. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

What does 'Good' Corporate Governance look like?

Good governance is about the processes for making and implementing decisions. It's not about making 'correct' decisions, but about the best possible process for making those decisions, ensuring that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- leadership and management;
- performance and risk management;
- stewardship of public money; and
- public engagement and outcomes for our citizens and service users.

What this statement will tell you

The Annual Governance Statement is a requirement of the Accounts and Audit (Wales) Regulations 2014. It also takes account of the Local Government and Elections (Wales) Act 2021. This Statement will be incorporated into the Council's Annual Wellbeing and Self Assessment Report. This Statement demonstrates that Newport City Council is compliant with these Regulations for 2021/22.

It describes the governance framework in place within the Council, how the effectiveness of the governance arrangements has been monitored and evaluated during the year with evidence and examples and sets out any changes planned for 2022/23.

This Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE); the 'Delivering Good Governance in Local Government Framework 2016' and 'Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016'. It embraces the elements of internal financial control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

This statement was compiled following the Coronavirus (COVID-19) pandemic which, in the first few months of 2020, resulted in the suspension of all public and non-essential meetings and which continued, to a lesser extent, throughout 2021/22.

The sound governance framework in place at Newport City Council is detailed in the revised Code of Corporate Governance 2019/20 which includes a detailed list of all governance arrangements.

1 Scope of Responsibility

1.1 Newport City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and to proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2 The Council also has a duty under the Local Government (Wales) Measure 2011 and the Local Government and Elections (Wales) Act 2021 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation. The Council is now required to self-assess its governance and performance as outlined in the Local Government and Elections (Wales) Act 2021.

1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

1.4 'CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010)' sets out the governance arrangements which are in place within the Council to ensure sound financial management.

1.5 The Council's Code of Corporate Governance sets out its commitment to good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. This was initially approved by Cabinet and then Council in July 2013 with a further update approved by Cabinet in July 2014. The Code was updated in 2019/20 and approved by Cabinet in April 2021. A copy of the Code can be obtained from the Head of Finance.

1.6 The Code of Corporate Governance outlines the key governance arrangements in place at Newport City Council and as such will be cross referenced to where relevant throughout this Annual Governance Statement.

2 The Purpose of the Governance Framework

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

2.2 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 on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at the Council throughout the year 2021/22, and up to the date of approval of the statement of accounts.

2.4 A review of the governance arrangements around the development, delivery and monitoring of the Council's future 'Transformation Programme' is currently underway and will also include clear responsibilities and arrangements for other key areas, such as financial management, capital programme, major projects etc. It is anticipated this will be put in place in the first quarter of 2022/23.

3 The Governance Framework

3.1 The Council's Governance arrangements are 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

Achieving good governance in the public sector also 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 strong public financial management

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

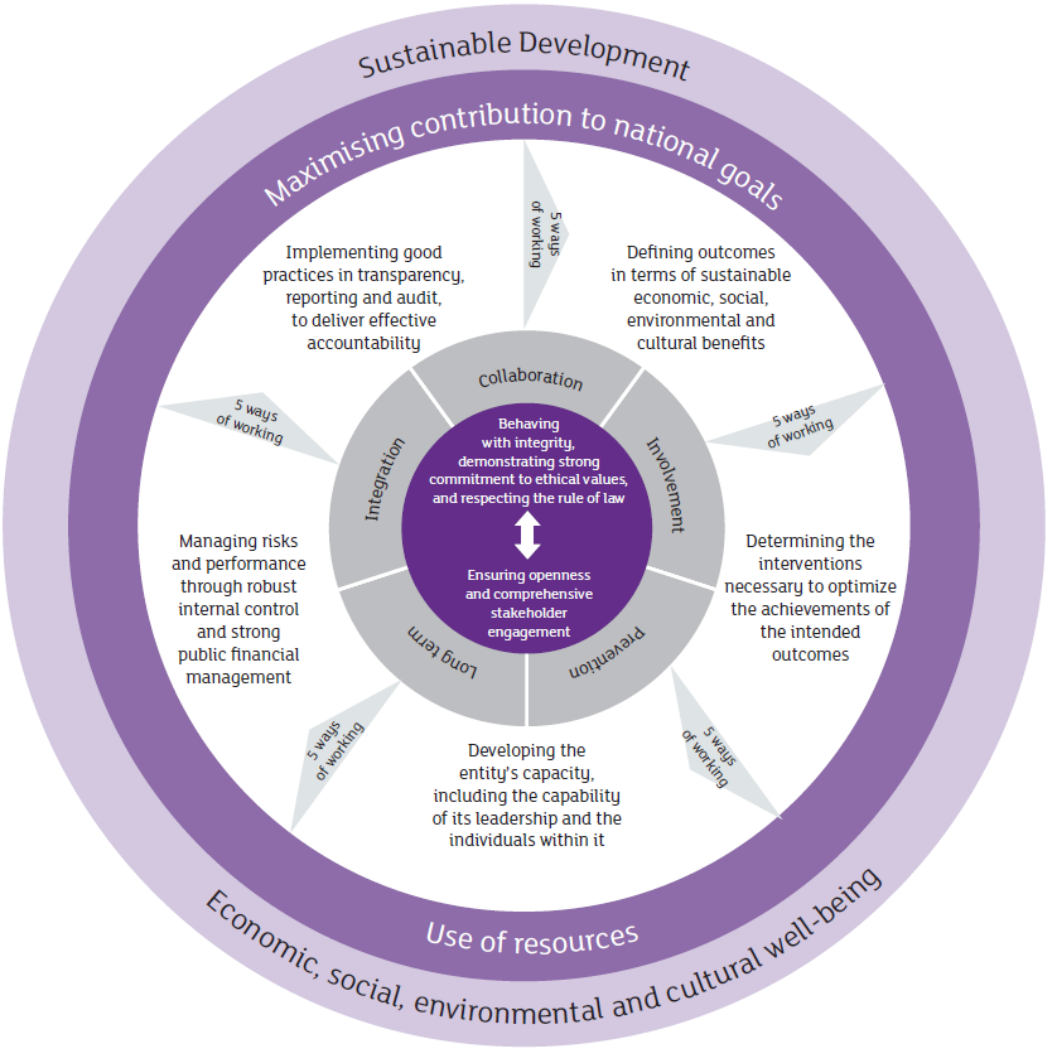
The Statement will cover these principles in more detail from Section 6 onwards.

Wellbeing of Future Generations (Wales) Act 2015

3.2 The diagram on the following page brings together the above principles of good governance with the requirements of the Well-being of Future Generations (Wales) Act 2015; it shows sustainability as all-encompassing, with the core behaviours of:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law; and
- Ensuring openness and comprehensive stakeholder engagement

This needs to be applied to the five ways of working outlined in the 2015 Act. These five ways of working have to permeate all segments of delivering outcomes which, in turn, should ensure effective use of resources as the Council maximises its contribution to the economic, social, environmental and cultural well-being of Wales.



The Three Lines of Defence in effective Risk Management and Control

3.3 Assurance can come from many sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance. These are:

- First Line - functions that own and manage risks e.g. management and supervisory controls;
- Second Line - functions that oversee risks e.g. Governance structures and processes such as Scrutiny Committees, policies and procedures and;
- Third Line - functions that provide independent assurance on the management of risks e.g. Internal Audit along with external providers of assurance such as External Audit and External Inspections & Regulatory Reports (e.g. ESTYN & CIW).

The model helps the Council understand how each area contributes to the overall level of assurance and how good governance can be integrated and supported.

Corporate Plan

3.4 The Council's Corporate Plan for 2017 to 2022 "Building on Success – Building a Better Newport" sets out the 5 year vision and direction for the Council.

3.5 The Corporate Plan forms part of the Council's policy framework, and prior to agreement had been through the necessary consultation with scrutiny and members of staff.

3.6 Within the Corporate Plan twenty commitments for change, relating to the following four key areas have been outlined:

- Resilient Communities,
- Thriving City,
- Aspirational People,
- Modernised Council.

3.7 Newport City Council's Well-being Objectives are:

- To improve skills, educational outcomes and employment opportunities
- To promote economic growth and regeneration while protecting the environment
- To enable people to be healthy, independent and resilient
- To build cohesive and sustainable communities

3.8 The Corporate Plan is delivered through service area plans. Service plans are set in conjunction with Cabinet Members and scrutiny committees to ensure oversight and accountability for the delivery of the actions.

3.9 An annual report of progress against the Corporate Plan is presented to members (Cabinet - October 2021) and published so that it can be shared with all employees and members of the public to present an open and transparent view of how the Council is working towards its vision and objectives and how further work will be focused to ensure further improvement.

Public Service Board

3.10 The One Newport Public Service Board (PSB) Newport merged with other local boards during 2021/22 to form the regional Gwent Public Service Board (Cabinet October 2021). One Newport will continue as a strong Local Delivery Partnership and will deliver the City's Well-being Plan until March 2023.

3.11 PSBs were established by the Well-being of Future Generations (Wales) Act 2015 (WFG) and must work in accordance with the sustainable development principle and achievement of the seven wellbeing goals by:

- assessing the state of the City's economic, social, environmental and cultural wellbeing;
- setting local objectives that are designed to maximise their contribution within the City to achieving those goals;
- taking all reasonable steps to meet those objectives.

3.12 Performance of the Well-being Plan was reported through the Performance Scrutiny Committee – Partnerships during 2021/22, in October 2021 and February 2022. A summary was reported into Cabinet October 2021.

3.13 Newport's stakeholders are encouraged to get involved with shaping the policies and decisions of the PSB through the Involve Newport Citizens' Panel and the One Newport Engagement and Participation Strategy.

Coronavirus (Covid-19) Pandemic

3.14 The Coronavirus pandemic (Wef March 2020) had caused significant organisational disruption including new emergency responsibilities, increased staff absence and a requirement for staff to work from home (where possible) while continuing to ensure statutory services were maintained as expected. For the duration of 2021/22 the majority of office based staff within the Council continued to work from home. This statement assesses the governance in place during 2021/22.

3.15 In accordance with the Council's Corporate Emergency Management Plan (revised March 2019) an Emergency Response Team (ERT) was established along with a regional multi-agency Strategic Co-ordination Group (SCG) to deal with this pandemic. These groups continued to meet throughout 2021/22.

3.16 Once enacted, the Corporate Emergency Management Plan allowed for an emergency management structure and delegation of emergency powers to the ERT Gold Duty Officer in consultation with the Leader of the Council.

3.17 The pandemic impacted on the Council's delivery of services as some staff were diverted to front line duties to ensure that critical services were prioritised. There were also new areas of activity as part of the national response to Coronavirus for example providing emergency assistance to businesses in Newport.

3.18 There has been funding and logistical consequences of delivering the local government response. To ensure appropriate governance and accountability, these costs have been identified by staff and appropriately coded on the Council's Main Accounting System and reclaimed from Welsh Government.

3.19 In line with public health measures to mitigate the spread of Coronavirus and to enable the Council to focus on the delivery of critical services, all public meetings were initially suspended. This included Council meetings, meetings of full Cabinet and all committee and sub-committee meetings, including Scrutiny, Planning and Licensing.

3.20 Urgent decisions were made in accordance with the officer and members' schemes of delegation as detailed in the Council's Constitution and urgent decision-making procedures.

3.21 Using appropriate technology there was minimum disruption to Council democratic business; Cabinet recommenced in June 2020, Council in July 2020, Governance & Audit Committee in September

2020, Democratic Services Committee in October 2020, Scrutiny Committees in September 2020. Virtual and remote meetings were held in line with temporary legislation.

3.22 Moving into 2021/22, Welsh Government restrictions eased. Covid 19 Recovery Updates and Response and Progress continued to be reported through Cabinet monthly. Responding to the New Normal was also reported through Cabinet in July 2021 and December 2021.

3.23 During 2021/22 the coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness.

Internal Audit

3.24 As far as possible, the systems of internal control have continued to operate during the pandemic. The Council's implementation of Office365 and multi-factor authorisation has allowed the majority of employees to successfully work from home without major disruption. For example, the Council's i-Procurement system allows for electronic authorisation from delegated officers with an inbuilt segregation of duties.

3.25 In the Chief Internal Auditor's opinion, adequate assurance was obtained over the course of 2021/22 resulting in an overall '*Reasonable*' assurance audit opinion to be issued for the Council's activities, although this was based on limited work undertaken by the team; the Internal Audit Plan was approved by Governance & Audit Committee in May 2021. Internal Audit normal coverage was adversely affected during the 2021/22 as very few site visits were permissible. 71% of the approved Audit Plan was completed against the target of 82%, with 35 audit opinions issued. Reliance on previous years' audit work has also been taken into consideration in arriving at this year's opinion in that there have been no significant systems or staff changes. Further detail regarding the Internal Audit team's performance is included within the Internal Audit Annual Report 2021/22 which will be presented to the Governance & Audit Committee in May 2022.

4 Review of Effectiveness

4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Management Team within the Council which has responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The processes that have been applied to maintain, review and improve the effectiveness of the governance framework include:

i. periodic reviews of the Constitution and ethical governance arrangements by the Monitoring Officer; Democratic Services Committee in February 2021;
ii. periodic reviews of the financial controls by the Chief Finance Officer; Revised Contract Standing Orders approved by Cabinet in December 2019;
iii. formal risk management and regular on-going review of the processes involved; Cabinet March 2021, September 2021, October 2021, December 2021;

iv. the Internal Audit function, whose work takes account of identified risks through regular audits of the major systems and establishments in accordance with the Annual Internal Audit Plan, and which includes 'follow-up' work to ensure that Heads of Service implement agreed management actions; Annual Report 2020/21 Governance & Audit Committee May 2021;

v. the work of the Performance Scrutiny Committees, Overview & Scrutiny Management Committee, Democratic Services Committee, Standards Committee and Governance & Audit Committee;

vi. the opinions and recommendations of the Council's external auditors and other inspection and regulatory agencies;

vii. regular monitoring of performance against service plans and key targets, and reporting of this to senior management and members, through the Management Information Hub;

viii. the outcomes of the Annual Information Risk Report are monitored quarterly by the Information Governance Group;

ix. progress against the Newport Well-being Plan is monitored by scrutiny and the PSB throughout the year.

Sections 5 to 11 demonstrate how the Council is meeting the key governance principles with evidence and examples.

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

Behaving with integrity

5.1 Standards Committee met throughout 2021/22; received reports on succession planning for Standards Committee Members in line with respective Regulations, updates on complaints against Members, revised Employee Code of Conduct, changes to the Guidance on Members' Code of Conduct.

5.2 In order to monitor all key Council decisions for fairness a 'Fairness Commission' was established. Members of the Fairness Commission were chosen to represent a range of interests, experiences and backgrounds from across the City, including education, trade unions, equality groups, faith communities and the two main political parties in the Council. The Fairness Commission is chaired by an academic from the University of South Wales. Reviews of the Council budget proposals have been undertaken by the Fairness Commission.

5.3 The Council has an agreed Constitution, available on the website, which includes the Council's related codes and protocols.

5.4 A set of Council values 'Courageous, Positive, Responsible' were established following staff feedback. These are regularly communicated with all staff.

5.5 The Council demonstrates, communicates and embeds its operating principles and values through appropriate policies which are reviewed on a regular basis. These policies also place an emphasis on ethical values. Some of the policies in place to support this are:

- Whistleblowing Policy
- Member and Employee Codes of Conduct

- Anti-Fraud, Bribery & Corruption Policy
- Safeguarding Policy
- Complaints Procedure
- Code of Corporate Governance

5.6 The Council's financial management arrangements conform to 'CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010)'.

5.7 The revised Anti-fraud, Bribery and Corruption Policy and the updated Code of Corporate Governance were approved by Cabinet April 2021.

Demonstrating strong commitment to ethical values

5.8 The Council's Ethical Governance Framework includes:

- codes of conduct for officers and members, which are reviewed, updated and tested for compliance;
- a protocol governing Member/Officer relations;
- a whistle-blowing policy widely communicated within the Council and which is periodically reviewed;
- registers of personal and business interests for Members and Chief Officers;
- an agreed policy and associated corporate procedures for ensuring that complaints about services can be properly made and investigated, and for ensuring that any lessons can be applied;
- the Strategic Equality Plan and Equality Objectives 2020-24 were agreed by Cabinet in July 2020 and Council September 2020;
- Strategic Equality Plan Annual Report for 2020/21 went to Council in November 2021.

5.9 In line with the Local Government Measure a separate Democratic Services Committee was established; this committee met throughout 2021/22; it deals with national consultation exercises, national policy and Members' codes and development. Council received a copy of the Democratic Services Committee Annual Report for 2020/21 in November 2021.

5.10 The Standards Committee, which includes a majority of independent representatives, advises on and monitors the Member Code of Conduct, the Protocol for Member/Officer Relations, and any other codes relating to the conduct of Members. Council received a copy of the Standards Committee Annual Report for 2020/21 in November 2021.

5.11 A review of Ethical Standards Framework was taken through Standards Committee in November 2021.

5.12 Induction training for employees covers code of conduct, expected standards of behaviour and the importance of the whistleblowing policy. These documents are also available on the staff intranet.

5.13 The Council looks to ensure that external providers of services on behalf of the Council act with integrity and in compliance with high ethical standards. The Council has signed up to the Welsh Government's Code of Practice – Ethical Employment in Supply Chains. The Code covers modern

slavery and human rights abuses, blacklisting, false self-employment, unfair use of umbrella schemes and zero hours contracts as well as considering paying the living wage.

Respecting the rule of law

5.14 The Council has a strong commitment to the rule of law and adhering to the laws and regulations set by Welsh Government, UK Government and the European Union. There were no "call-in" challenges to decisions on procedural grounds and no judicial review challenges on grounds of legality during the year.

5.15 The Council is required to meet statutory obligations regarding the handling of data; the Digital Strategy incorporates an Information Risk Management Policy which outlines roles and responsibilities for information risk management. This ensures that the requirements of legislation, including the Data Protection Act 2018 (GDPR), Environmental Information Regulations 2004 and the Freedom of Information Act 2000 are met and that the risks around information are managed appropriately. The Annual Information Risk Report 2020/21 was presented through the Information Governance Group for consultation and endorsed by the Cabinet Member in September 2021.

5.16 There were 2 ongoing complaints of Member misconduct made to the Public Services Ombudsman for Wales (PSOW) during 2021/22 involving City Councillors. 3 further complaints against City Councillors were made to the PSOW but he felt there was no breach of the Code and were not accepted for formal investigation. During the year the PSOW reported the outcome of 1 complaint which was upheld and referred to the Standards Committee for a breach of the Member Code and consideration of a sanction.

5.17 The Council's Annual Report on Compliments, Comments & Complaints was taken through Cabinet November 2021. In 2020/21 17 complaints were received by PSOW concerning Newport. Most of the complaints received were discontinued or resolved. Although the Council had to take action on 3 complaints, there were no findings of maladministration, misconduct or public interest reports.

5.18 Following the Local Government elections in May 2017, mandatory training was provided to new Members of the Council along with other training sessions for existing Members. This will be reviewed and updated following Local Government elections in May 2022.

5.19 The Internal Audit team continued to deliver awareness raising sessions on the importance of compliance with Financial Regulations and Contract Standing Orders.

5.20 There was no change in Leadership of the Council in 2021/22; Cllr Mudd continued as Leader of the Council.

5.21 During 2021/22 the Council had the following statutory posts and enables officers to fulfil their responsibilities in accordance with legislative and regulatory requirements:

- Head of Paid Service (Chief Executive)
- Section 151 Officer (Head of Finance)
- Monitoring Officer (Head of Law & Standards)
- Director of Social Services
  - The Director of Social Services post was fulfilled by the Head of Adult & Community Services on an interim basis until the recruitment took place for the Strategic Director (Social Services) who assumed this role in October 2021.

- Head of Democratic Services
  - Following an internal appointment, the role of Democratic Services Manager was filled in May 2021.

5.22 The Corporate restructure saw the appointment of 3 new Strategic Directors during the year:

- Transformation & Corporate
- Environment & Sustainability
- Social Services

In addition, the restructure saw an increase from 8 to 11 Heads of Service. One Head of Service appointment (Head of Housing & Communities) was vacant at the end of the 2021/22 year.

5.23 The Council optimises the use of the full powers available for the benefit of the citizens of Newport, communities and other stakeholders. For example, the Council takes its decisions by way of full Council or the Executive (Cabinet). Decisions are also taken by individual Cabinet Members and Chief Officers. The Scheme of Delegation and the Terms of Reference which are included in the Constitution, make it clear at which level decisions are taken.

5.24 A revised Whistleblowing Policy was updated in 2017, and a confidential helpline set up. In 2021/22 there were no disclosures made under the policy.

5.25 All waivers of Contract Standing Orders and urgent decisions are reported through the Governance & Audit Committee quarterly.

6 Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

6.1 The majority of meetings are held in public as shown from Committee agendas and minutes which are then available on the website. The Council broadcasts Council meetings and Planning Committees live on the internet and is working towards webcasting other formal member meetings. Live tweets are broadcast from Newport City Council's Twitter account.

6.2 Due to the impact of Covid-19 and national lockdown in March 2020 all public meetings were initially put on hold. Throughout 2021/22 virtual and remote meetings were set up which were accessible to the public.

6.3 As part of Newport City Council's commitment to being open and transparent it continues to publish its data on the website which the public is free to view and use www.newport.gov.uk/transparency.

6.4 The Council has responded to Freedom of Information Act requests within the required 20 days:

	2019-20	2020-21	2021-22
No' of FOI requests	1,100	797	953

No' responded to within 20 days	992	724	853
Percentage of FOIs responded to within 20 days	90.2 Target 88%	90.8% Target 88%	89.5% Target 88%

6.5 The Scheme of Delegation sets out responsibilities for decision making. The Council's website includes the Cabinet and Cabinet Member decisions / Member profiles.

6.6 Standing Orders of the Council were amended in July 2017 to include a session for open questions to the Leader of the Council at full Council meetings.

6.7 Agendas, reports, decision schedules and minutes of all meetings of the Council, Cabinet or Cabinet Member are available to the public by way of the Council's website. Minutes or decisions arising from the consideration of such reports are available to the public via the website.

6.8 Every report considered as part of the decision making process by Members must contain comments by the Council's Monitoring Officer, the Section 151 Officer and the Head of People, Policy & Transformation. The report template ensures report authors consider potential risks, equalities, WFG and financial implications of their proposals.

6.9 Public Service Board (PSB) papers are published online on the One Newport partnership website to ensure transparency.

6.10 The Council uses a range of formal and information consultation and engagement exercises to determine the most appropriate and effective intervention / course of action. For instance, the Council undertakes the school reorganisation programme in accordance with the Welsh Government Statutory School Organisation Code. Each consultation is supported by full stakeholder engagement as outlined in the statutory code. Since the pandemic, we have ceased face to face meetings. Instead, and regarding engagement with adult stakeholders, we ask that any questions or comments are submitted to a dedicated email account and are then responded to in a timely manner to enable stakeholders to submit an informed response to the consultation. We have however continued to support pupil engagement through MS Teams. Following each consultation, a consultation report is prepared and published which outlines how the consultation was carried out, who is engaged and the relevant responses. These reports are provided as annexes to the Cabinet Member report which approves moving to the next stage in the process – publication of the statutory notice. The statutory notice is the stage at which legal objections can be lodged against proposals.

6.11 The Director of Social Services' Annual Report 2020/21 was taken through Cabinet in December 2021. The Corporate Safeguarding Annual Report 2020/21 was taken through Cabinet September 2021. The Corporate Risk Register, Covid updates, Brexit updates and the New Normal reports were also taken through Cabinet during the year demonstrating openness and transparency.

6.12 Scrutiny Annual Report 2020/21, Democratic Services Committee Annual Report and the Standards Committee Report went through Council September 2021 and November 2021 respectively.

Engaging comprehensively with institutional stakeholders

6.13 The Council looks to effectively engage with all stakeholders to ensure that the objectives and intended outcomes for each relationship are clear so the outcomes can be achieved successfully and sustainably. For example, the Local Authority works closely with the governing bodies of all schools across Newport and as key stakeholders they are consulted where appropriate on all matters.

6.14 The Council has developed a number of formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively. Some examples of these are the Public Services Board, Newport Live (Leisure Trust) and the Community Safety Partnership.

6.15 All partnerships are based on trust along with a shared commitment to change while promoting challenge among partners.

6.16 The Council has a number of formal appointments onto outside bodies to provide effective challenge. These appointments are agreed at the Council's AGM and at further Full Council meetings when necessary. A list of these appointments can be seen within the Council minutes.

Engaging stakeholders effectively, including individual citizens and service users

6.17 A formal policy for 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 needs to be developed.

6.18 Communication is important to Newport; the Annual Statement of Accounts 2020/21 was taken through the Governance & Audit Committee in 2021/22. All Council decisions, reports and questions asked by Members are available on the website, as are Cabinet Member decisions, Governance & Audit Committee reports and the work of the Scrutiny Committees. Headline figures of the Council's financial position were included in the Council tax leaflets distributed with all bills. Financial information, Council activities, achievements, developments, updates and events were included in Newport Matters, which is distributed to every household in the City, and are also available on the Council's intranet and website.

6.19 The Council looks to communicate via a number of different methods. 'Have Your Say' consultations are on the Council website, along with regular posts on social media and the use of Bus WIFI surveys.

6.20 Members hold Ward meetings and these are supported by Officers of the Council, although these were suspended during 2021/22 due to the pandemic. Social media, Twitter and Facebook for example, is regularly being used to engage local people and communicate the corporate message.

6.21 Dealing with customer complaints helps Newport to identify and deal with failures in service delivery and look for opportunities to improve. The Council's Customer Complaints Policy and procedures are available on the web site; the public can report a problem or concern via the 'Report it' option on the web front page. An Annual Report on Compliments, Comments and Complaints Management for 2020/21 was presented to Cabinet in November 2021. The following table shows the number of complaints received for the past three years:

	2019-20	2020-21	2021-22
Stage 1 Complaints	354	261	271

Stage 2 Complaints	33	39	31
Complaints to PSOW	31	14	24

6.22 The online self-service system made it much easier for customers to make their complaints online, using the website, their customer accounts or through an app.

6.23 Public engagement and consultation is key to the WFG Act. One of the five ways of working is Involvement - *the importance of involving people with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area which the body serves*. This is now considered in all Cabinet Member reports.

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

Defining Outcomes

7.1 The Corporate Plan 2017-2022 "Building on Success - Building a Better Newport" incorporates the Council's wellbeing objectives as required by the WFG Act. The Plan sets out clearly the Council's purpose, priorities and demonstrates its commitment to improving social, economic, environmental and cultural well-being and promoting sustainable development. This provides the basis for the Council's overall strategy and performance.

7.2 Audit Wales issued the Council with its Certificate of Compliance in accordance with the Local Government (Wales) Measure 2009 following its publication of its Corporate Annual Report 2020/21. This went to Cabinet in December 2021, confirming the Council had discharged its duties under section 17 of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

7.3 The One Newport PSB Well-being Plan (Cabinet October 2021) – represents the combined strategic planning intent of a partnership of the key public service providers in Newport which includes the Council – for improving the quality of life in terms of the social, economic, cultural and environmental well-being of the whole community. The priorities have been identified as those where the PSB and other key stakeholders must work together to achieve success and meet the requirements of the WFG Act. The new Gwent Public Services Board came into being in October 2021, merging the 5 regional PSBs.

7.4 Members of the performance team attend each service area's monthly management team meetings to comment on and review the section's performance against key performance indicator targets.

7.5 The Council identifies and manages risk through the Corporate Risk Register (see section 11) and also individual service area plans to ensure the achievement of intended outcomes.

7.6 The Council looks to manage service user expectations with regards to determining priorities and making the best use of the resources available. For instance, regular updates on the Council's Medium Term Financial Plan (MTFP) are presented to Cabinet regularly.

7.7 2021/22 service planning incorporated an understanding of customer needs, service area outcomes and improvement priorities, performance management and monitoring, an action plan to achieve the outcomes, an assessment of service related risk, an acknowledgement of regulators' proposals for improvement and an equalities impact assessment.

Sustainable economic, social and environmental benefits

7.8 Newport City Council considers and balances these combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provisions. Each report considered as part of the decision making process by Members must contain comments by the Council's Monitoring Officer (legal), the Section 151 Officer (economic) and the Head of People, Policy & Transformation (social and environmental).

7.9 Equality Impact Assessments (EIA) are required by law under the Equality Act 2010. Newport's assessments also examine 'Fairness' and the Welsh language to ensure that the needs of other vulnerable people are considered, as well as the effect on different areas within Newport. A range of these were undertaken during 2021/22 which have been published on the Council's website. A Strategic Equalities annual report is published by the Council (Cabinet July 2021).

7.10 The PSB review includes the monitoring of targets to ensure policies are delivering the agreed outcomes to ensure services are effective, focused on local people and improved quality of life in the City. In terms of measuring the environmental impact of policies, plans and decisions, the Council is working with the Welsh Local Government Association as one of 10 lead authorities for sustainability, and this will also form part of the Wellbeing Assessment and Wellbeing Plan work.

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

Determining Interventions

8.1 Decision makers are provided with reports which allow for an analysis of a variety of options including how they would be achieved and the risks associated. Comments are received on each report from the Monitoring Officer, Chief Financial Officer and the Head of People, Policy & Transformation.

8.2 The results of all consultation exercises are considered along with Fairness Equality Impact Assessments when making decisions about service improvements to prioritise the competing demands with the resources available. All reports consider the WFG Act.

Planning Interventions

8.3 The Council's Corporate Plan underpins the strategic objectives of the Council. Each service area also has an operational plan along with their own priorities and targets. Service area plans are approved by the Cabinet Member responsible for the portfolio. Mid and end of year reviews are completed by the Head of Service and reported to Scrutiny; November 2021.

8.4 To ensure the Council continues to meet its statutory duty to demonstrate continuous improvement the monitoring of performance is undertaken through Cabinet, Cabinet Members and Scrutiny Committees.

8.5 Through the Council's communication methods and annual budget consultation internal and external stakeholders are consulted in determining how services and other courses of action are planned and delivered.

8.6 For partner organisations such as the ONE Newport PSB (merged into the Gwent PSB during 2021/22) and Newport Live, the Council collaboratively works together to consider and monitor the risks which may arise while ensuring that any arrangement is flexible so they can be adapted to any change of circumstance.

8.7 The Council has established a number of local performance indicators and monitors these along with the relevant statutory and national performance indicators. These are detailed within individual service plans and reported via the Council's performance management system MI Hub. The year-end Performance Analysis for 2020/21 was taken through Cabinet in September 2021 which showed 55% of performance indicators performed in line with targets.

8.8 Performance management arrangements have improved with regular monitoring by the Cabinet and Cabinet Members as well as at officer level. The Authority had made its targets more difficult to achieve in an effort to push the organisation into improving services.

8.9 Mid-Year Performance Analysis for 2021/22 was taken through Cabinet in January 2022. The report showed that for the first six months of this financial year:

- 63% of performance measures were on target
- 20% of performance measures were short of target
- 13 of performance measures were off target
- 69% of the actions identified in the service plans were reported as being 'In Progress';
- 37% of actions reported as being 'Completed'
- 17% of actions had been reported as 'Amber'; and
- 2% of actions had not yet started.

8.10 Budgets are prepared in accordance with the Council's strategic directives and Corporate Plan. There are robust arrangements for effective financial control through the Council's accounting procedures, Financial Regulations (last updated May 2016). These include established budget planning procedures, which are subject to risk assessment, and regular reports to members comparing actual revenue and capital expenditure to annual budgets. The Council's Treasury Management arrangements follow professional practice and are subject to regular review by the Council's Governance & Audit Committee and Cabinet (July 2021, December 2021) to ensure a sustainable funding strategy is maintained.

Optimising achievement of intended outcomes

8.11 Where value for money of the public pound is concerned, budget proposals were examined by meetings of the Scrutiny Committees. This is to ensure that the service priority, affordability and other resource constraints are balanced.

8.12 Regular budget / outturn reports for revenue and capital were presented to and approved by Cabinet during the year. The updated MTFP and budget monitoring reports were presented to and approved by Cabinet in July 2021, September 2021, November 2021, January 2022 and February 2022, taking into account the full cost of operations. The MTFP report highlights any significant delivery issues or changes to the external environment which arise during the period and have a financial impact.

8.13 The Head of Finance will review the governance arrangements around the capital programme to ensure the decision making, responsibilities and monitoring are robust moving forward.

8.14 The 2022/23 Budget consultation and MTFP were submitted to Cabinet in January 2022 and Council in March 2022; The Council recognises that timely and accurate budget monitoring information is essential for effective decision making purposes. A public consultation exercise was also undertaken to determine the 2022/23 budget proposals.

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

Developing the entity's capacity

9.1 The Council has developed and maintained a People & Culture Strategy 2018 – 2022 as a workforce plan to enhance the strategic allocation of resources.

9.2 Through annual service area plans and mid year reviews, the operations and use of assets are reviewed. Performance is monitored through the service plans and also through the MI Hub performance management system with 6 monthly reports to Cabinet to ensure the continuing effectiveness of operations.

9.3 The Council recognises the benefits of partnerships and collaborative working to add value into the organisation. Examples of these arrangements can be in place locally (within Newport) such as the Newport Live (Leisure Trust), regionally within Gwent – the Education Achievement Service for SE Wales (EAS), regionally within South East Wales - the Cardiff Capital Region City Deal and wider afield through the 'Great Western Powerhouse'.

Developing the capability of the entity's leadership and other individuals.

9.4 The Council has an agreed Member/Officer Protocol within the Constitution which ensures that a shared understanding of the roles and objectives are maintained.

9.5 The Council's senior Leadership Team was strengthened in 2021/22 with the implementation of a new structure which introduced an additional Director role and three Chief Officer roles. All of the Executive Team and Chief Officers will be undergoing relevant training in the Council's decision making and governance arrangements and their own responsibilities and accountabilities. As noted elsewhere here, the scheme of delegation has been updated to reflect this increased and new structure.

9.6 The Constitution also includes a clear scheme of delegated powers for decision taking by Members and Chief Officers. This document details the types of decisions which can be delegated to Cabinet Members, established Sub-Committees or Chief Officers or those which have to be made by the collective body of the full Council.

9.7 The scheme of delegation in the Constitution sets out the various responsibilities of Members and Officers. This is updated as required via the Democratic Services Committee. Standing Orders and the Constitution were updated to take account of the requirements of the Local Authorities (Standing Orders) (Wales) (Amendment) Regulations in July 2014. Also updated in October 2019, and will be further reviewed and updated to reflect the Local Government and Elections (Wales) Act 2021.

9.8 As a necessity, temporary governance measures were in place for some aspects of officer key decision making in 2021/22 given the significant gaps in the Council's Leadership Team and which also impacted on general capacity on performance monitoring and delivery. The new structure and increased resources now allows a new framework to be devised and implemented and this is in progress.

9.9 Appropriate and relevant job descriptions were in place for the Chief Executive, Senior Leadership Team (SLT), Monitoring Officer and Head of Finance. In year the SLT became the Executive Board, which consisted of the Chief Executive, Strategic Director Transformation & Corporate, Strategic Director Environment & Sustainability and Strategic Director Social Services.

9.10 Following the permanent appointment of the Chief Executive in 2020 a restructure of the leadership team was put in place to better manage capacity. Strategic Directors were increased from 2 to 3 with Heads of Service increasing from 8 to 11. As at 31 March 2022 all but one of the posts had been appointed to.

9.11 The Council develops the capabilities of members and senior management to achieve effective shared leadership. This enables the Council to respond successfully to changing legal and policy demands. In addition, the Council ensures that Members and officers have the appropriate skills, knowledge resources and support to fulfil their roles and responsibilities. This is completed by;

- An on-going programme of events and training for Members especially those involved in the Planning & Licensing Committees and Sub Committees.
- A mandatory management programme for all senior managers 'Management in Action' to develop management capacity (2018).
- Further In-house management development modules for middle managers;
- Aspiring Leaders Programme delivered in partnership with the University of South Wales.
- Core Skills training is also available to all employees aligned to our corporate values with specific training available on topics such as Customer Care, Stress Management and Equality and Diversity.

9.12 Embedded Appraisal arrangements for Chief Officers are in place, including:-

- Chief Executive's Annual Appraisal;
- Chief Executive's one to one meetings with Strategic Directors & Heads of Service;
- Strategic Directors one to one meetings with Heads of Service

- Cabinet Member one to one meetings with Heads of Service

9.13 The previously used 'Clear Review' performance management system was replaced by the 'Check-in' process directly recorded onto the i-Trent HR & Payroll System. This forms part of the suite of corporate performance indicators. The system also allows continued professional development (CPD) opportunities to be identified which are needed to improve the skill, knowledge and understanding of employees. This enables ongoing evaluation and encourages all staff to give feedback to colleagues. This ensures that all officers and managers reflect on their objectives and staff are able to link their objectives directly to the organisational goals set within the Corporate Plan and service plan.

9.14 In accordance with its statutory responsibilities, the Council has in place a Health and Safety Policy and related procedures. Newport City Council supports employees and citizens in maintaining both their physical and mental well-being. Information on our workforce can be found in the Strategic Equalities annual report.

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

Managing Risk

10.1 Risk management is an integral part of all activities and is considered in all aspects of decision making. A report template for all formal Member and scrutiny reports requires authors to consider risk and its management or mitigation when writing reports. Each Head of Service incorporate the key risks to their service within service plans which identify the impact, the likelihood and any mitigation in place to manage those risks.

10.2 The Corporate Risk Management Policy was reviewed during 2019/20 and revised to strengthen existing arrangements and support the delivery of the Corporate Plan. The revised Policy was considered by the Governance & Audit Committee in January 2020, approved and endorsed by the Leader in July 2020.

10.3 The Council's Corporate Risk Register was updated and taken through Cabinet and Governance & Audit Committee during 2021/22 on a quarterly basis. Mitigation of risk is incorporated within the risk register, which moves the risk from inherent to residual. 18 corporate risks were identified for the Council and these were recorded on the Corporate Risk Register as of the end of quarter 3 2020/21 which went to Cabinet March 2022; 10 severe, 5 major, 2 moderate, 1 low.

10.4 The Governance & Audit Committee felt that managing the risks faced by service areas was an important aspect of the manager's role and should be part of his / her day to day responsibilities. Risk management is included within the service plans where operational managers have greater responsibility for owning and dealing with the risks identified in their areas. All risks within the Corporate Risk Register have a designated overseeing officer(s) and a lead Cabinet Member(s) assigned.

Managing Performance

10.5 Service delivery is monitored through a number of key performance indicators agreed with targets at the start of each year. These are included on the Council's performance management system MI Hub and challenged by the Policy & Performance team. The planning, specification and delivery of service area work is included within annual service area plans which are approved by the lead Cabinet Member for the service area along with being reviewed through the scrutiny process. These are subject to mid-year and end of year reviews presented to the respective scrutiny committee. This ensures that Members and senior managers have regular reports on progress towards outcome achievement.

10.6 All decisions are based on clear, objective analysis taking into account the Council's financial position, social and environmental implications. Consideration against statutory policies is also made through a review of the WFG Act commitments. The above are considered by the report author when writing the report and also through the comments of the Monitoring Officer, Chief Financial Officer and the Head of People, Policy & Transformation.

10.7 Members of the scrutiny committees review policies and performance and question key decisions made by the Council's Cabinet and Officers to ensure they are open, accountable, transparent and in the best interests of the local area and its residents. Audit Wales reviewed the Council's Overview and Scrutiny functions to determine if they were 'Fit For the Future' in August 2018. They concluded that the Council's leadership was committed to improving its scrutiny function and to meet current and future challenges for scrutiny, but Members need a fuller understanding of their scrutiny role and more effective, timely training.

10.8 Scrutiny committees also review the Council's achievements against planned targets, issues of local concern and services provided by the Council and other public organisations. In Newport City Council there are four scrutiny committees:

- Overview and Scrutiny Management Committee
- Performance Scrutiny Committee - Partnerships
- Performance Scrutiny Committee - People
- Performance Scrutiny Committee - Place and Corporate

Each Committee is politically balanced and the chair persons are allocated in proportion to the number of seats held by political groups.

Robust internal control

10.9 Internal Audit provides assurance to Senior Management and the Governance & Audit Committee on the effectiveness of internal control, risk management and governance.

10.10 The Governance & Audit Committee considers the work of internal and external auditors and the responses to audit recommendations. The Governance & Audit Committee has appointed an independent Chair; who is not part of the political structure of the Council. It also has responsibility for approving the Annual Statement of Accounts and its associated reports (which include this statement). This responsibility has been delegated by Council where the Chair of the Governance & Audit Committee signs the Accounts on behalf of the Governance & Audit Committee.

10.11 Moving forward, from May 2022, the Governance & Audit Committee will have 3 lay members as part of its committee, one of which will be the Chair in accordance with the Local Government & Elections (Wales) Act 2021. The recruitment process for the new lay members took place by means of a cross member panel during 2021/22 in readiness for the Committee's first meeting in 2022/23.

10.12 Governance & Audit Committee meets regularly and its activities can be seen via the Council's website; it met 4 times in 2021/22. Members received:

- The Annual Internal Audit Report 2020/21
- The Annual Internal Audit Plan 2021/22
- Quarterly updates from Internal Audit re opinions / performance
- Standing Order 24 (Urgent Decisions) and Waiving of Contract Standing Orders quarterly reports
- Treasury Management report and updates
- Corporate Risk Register quarterly updates
- Draft and Final 2020/21 Financial Statements, including the Annual Governance Statement
- 6 monthly updates on Internal Audit low assurance opinions
- Audit Wales reports

10.13 The Council has established anti-fraud, bribery and corruption arrangements which provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. The revised Anti-Fraud, Bribery and Corruption Statement was approved by Cabinet in April 2021.

10.14 Internal Audit operate to the standards set out in the Public Sector Internal Audit Standards (PSIAS) and its role and status is set out in the Council's Internal Audit Charter. The Chief Internal Auditor is accountable to the Head of Finance and the Governance & Audit Committee. As required under the PSIAS the Newport City Council Internal Audit team underwent an external quality assessment during 2017/18. The report (issued March 2018) stated that Internal Audit were 'generally compliant' with the PSIAS.

10.15 The Chief Internal Auditor reports, in his own name, to the Governance & Audit Committee a summary of audit findings for each quarter, and also reports annually an opinion on the overall adequacy and effectiveness of the Council's internal control environment, governance arrangements and risk management processes.

10.16 35 Internal Audit opinions were issued in 2021/22. The overall opinion on the adequacy of the internal control environment for 2021/22 was **REASONABLE** (in 2020/21 the opinion was Reasonable).

	2019-20	**2020-21**	**2021-22**
Good	7	5	10
Reasonable	19	23	23
Unsatisfactory	6	1	2
Unsound	0	0	0

Total	**32**	**29**	**35**

10.17 Management have agreed to implement the action points in order to address the weaknesses identified and Internal Audit will follow this up. 82% of agreed management actions for 2020/21 had been implemented by management.

10.18 Reasons why the outcome of some internal audit reviews were deemed to be unsatisfactory were presented to Governance & Audit Committee. The Governance & Audit Committee has the power to call in a Head of Service and Cabinet Member to hold them to account for addressing required improvements to the internal control environment within their service area. There were no call-ins during 2021/22.

10.19 Assurance is provided by Heads of Service who attend Governance & Audit Committee that improvements will be made in the examined areas which will result in a future improvement in the internal control environment and resulting internal audit opinion.

Managing Data

10.20 Following adoption of the Information Risk Management Policy in 2013 the Council has defined roles and responsibilities for information risk as:

- The Senior Information Risk Owner (SIRO) has high level responsibility for controls relating to information security and the role is undertaken by the Head of Law & Regulation (independent of operational responsibilities);
- Information Asset Owners (IAO's) must effectively manage the information assets that they own;
- The Information Management team are the operational lead on information governance in conjunction with the IT Service (SRS);
- The Information Governance Group provides a high level management overview of information governance;

The Council's Information Risk Register is maintained by the Information Management team to document and manage risks, reported annually.

10.21 The Annual Information Risk Report 2020/21 Draft was presented to the Information Governance Group through the year for consultation and endorsed by Cabinet Member for Community and Resources in September 2021.

10.22 There is a Council policy on information sharing along with numerous information sharing protocols with our partners. Information sharing is key to joined up service delivery. The Wales Accord on the Sharing of Personal Information (WASPI) was developed as a practical approach to multi agency sharing for the public sector in Wales, and Newport signed up to this in January 2011. The Council is required to meet statutory obligations regarding the handling and sharing of data, in accordance with the Data Protection Act 2018. The Information Sharing Policy has been developed to ensure information is only shared appropriately, safely and compliantly.

10.23 Through Internal and External Audit reviews the quality and accuracy of data used in decision making and performance monitoring is reviewed.

Strong public financial management

10.24 The Council ensures that its financial management supports both long term achievement of the strategic objectives and outcomes while ensuring that short-term financial and operational performance is monitored. This is completed through the approval of a Medium Term Financial Plan and Capital Programme which are reviewed on a regular basis by Cabinet. On a short term basis, the individual service area budgets are monitored on a risk based programme by Accountancy.

10.25 The Council has a Budget Management System which promotes responsible and good financial management across all service areas of the Council. This system allows officers to highlight and explain any financial risks and controls.

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

Implementing good practice in transparency

11.1 The Council looks to ensure that all reports and communications are in clear English and in a style which is easily understandable. All reports can be accessed via the democracy pages on the Council's website using the modern.gov platform. The Council ensures that the provisions of the Welsh Language Standards are met with its communication to residents.

11.2 All reports are required to have comments from the Monitoring Officer, Chief Financial Officer and the Head of People, Policy & Transformation. These 3 Officers ensure that reports strike the correct balance to ensure the right amount of information is provided to satisfy transparency demands and to enhance public scrutiny. They also ensure that reports are not too onerous and in a language which the users can understand.

Implementing good practices in reporting

11.3 All service areas are required to report annually on performance, value for money and the stewardship of resources through the service plan reviews, which also have a mid year review by Scrutiny.

11.4 All service plans, risks, budgets and performance measures have a designated responsible officer along with the appropriate Head of Service and Cabinet Member.

11.5 The Council has arrangements through this Annual Governance Statement for ensuring robust arrangements for assessing the extent to which the principles contained in the Code of Corporate Governance Framework have been applied to demonstrate good governance.

11.6 The Councils Code of Corporate Governance was revised during 2019/20 and approved by Cabinet in April 2021.

11.7 The preparation of the Council's financial statements are completed as soon as possible after year end. Both the publication of the Draft and Final 2020/21 end of year accounts, whilst not within required deadlines, commensurate with nearly all of the sector across the UK, were reported to the Audit and Governance Committee. The final, audited accounts were approved and signed in November 2021.

Assurance and effective accountability

11.8 Any recommendations made by the Council's external auditors (Audit Wales) are acted upon. Each report contains an action plan and is presented to and monitored by the appropriate scrutiny committee. An end of year 'lessons learnt' exercise was completed for the 2020/21 account closure process and this was reported to the Governance & Audit Committee in January 2022.

11.9 The Council has an Internal Audit service which has unrestricted access to all personnel, documentation and premises of the Council. The Chief Internal Auditor also has unrestricted access to the Chair of the Governance & Audit Committee, Chief Executive and Leader of the Council if required. These provisions are set within the Council's Financial Regulations (part of the agreed Constitution) and are also included within the Internal Audit Charter.

11.10 An Internal Audit follow up review of Corporate Governance across the organisation will be undertaken during 2022/23.

11.11 The Council welcomes all challenge, reviews and inspections from regulatory bodies. A number of external bodies have provided reports on the Council's activities during 2021/22 including Audit Wales, the Care Inspectorate for Wales (CIW) and Her Majesty's Inspector of Education & Training in Wales (ESTYN). The Council looks to implement all recommendations arising from these reports to ensure the necessary controls and improvements are made for the benefit of the citizens of Newport.

11.12 When working in partnership, the Council ensures that arrangements for accountability are clear, whether this is through a memorandum of understanding or contract being in place. This is to ensure that wider public accountability is met.

12 Action Plan

Based on the review of the governance framework, the following issues need to be addressed during 2022/23 to further improve and strengthen the governance arrangements and their effectiveness in future years.

Previous Action Plan

Issue	Action	Responsible Officer
Consultation and Engagement Policy requires review	To review the required policy and seek appropriate approval. *Progress to date*: To be reviewed as part of the implementation plan for the Local Govt. & Elections (Wales) Act during 2021/22.	Head of Law & Standards
The revised Code of Corporate Governance needs to be communicated to all jointly managed and shared service organisations.	Communicate the revised Code of Corporate Governance to all jointly managed and shared service organisations and that assurance on compliance is received for the Annual Governance Statement.	Head of Finance Chief Internal Auditor
Action needs to be taken in response to the 'Corporate Governance' Unsatisfactory Internal Audit report (Finalised December 2020).	Management to agree a response to the report and ensure concerns are addressed. *Progress to date*: Management actions agreed; assurance has been provided that agreed actions have been implemented; Internal Audit to undertake a follow up audit in 2022/23.	Head of People & Business Change [Head of People, Policy & Transformation] Head of Law & Standards Head of City Services

2021/22 Action Plan

Issue	Action	Responsible Officer

A review of the governance arrangements around the development, delivery and monitoring of the Council's future 'Transformation Programme' is currently underway and will also include clear responsibilities and arrangements for other key areas, such as financial management, capital programme, major projects etc	To conclude the review and communicate the outcome to all concerned.	Head of People, Policy & Transformation
New Members have the appropriate skills to effectively undertake their roles	Training and Induction for new Members will be reviewed and updated following Local Government elections in May 2022.	Democratic and Electoral Services Manager
Ideally there should be a formal policy for 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 needs to be developed.	Consideration to be given to developing a formal policy and communicating it to all relevant stakeholders.	Head of People, Policy & Transformation
The Council's Constitution is kept up to date following recent legislation.	Consideration needs to given to further update the Council's Constitution to reflect the Local Government and Elections (Wales) Act 2021.	Head of Law & Standards

13 Conclusion

13.1 In conclusion during 2021/22 the Coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness. There are effective

governance arrangements in place at Newport City Council. This will be monitored during 2022/23 and reviewed as part of Internal Audit work and future Annual Governance Statements.

13.2 We propose over the coming year to continually monitor and review the projects within each service area to mitigate and manage any risks to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that may be identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: .....…….Date…… 2022

Councillor Jane Mudd, Leader of Newport City Council

Signed: …….....…… Date……..…….…… 2022

Beverly Owen, Chief Executive of Newport City Council

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2020/21 Gross Expenditure £'000	2020/21 Gross Income £'000	2020/21 Net Expenditure £'000		Notes	2021/22 Gross Expenditure £'000	2021/22 Gross Income £'000	2021/22 Net Expenditure £'000
35,243	(7,223)	28,020	Children's and Young People Services		39,467	(9,582)	29,885
89,327	(40,931)	48,396	Adults and Community Services		95,987	(47,315)	48,672
30,290	(12,365)	17,925	Education		33,666	(14,211)	19,455
155,238	(30,279)	124,959	Schools		157,030	(35,443)	121,587
37,471	(23,903)	13,568	Regeneration, Investment and Housing		45,512	(29,017)	16,495
54,445	(17,965)	36,480	City Services		60,922	(19,556)	41,366
26,457	(6,437)	20,020	Corporate Services		32,497	(8,853)	23,644
48,363	(45,120)	3,243	Other Non Department Costs		41,260	(42,559)	(1,298)
476,834	**(184,223)**	**292,611**	**Cost of services**		**506,341**	**(206,536)**	**299,806**
25,032	(1,126)	23,906	Other operating expenditure	11	26,813	-	26,813
19,464	(1,055)	18,409	Financing and investment income and expenditure	12	20,762	(1,055)	19,707
-	-	-	(Surplus) / deficit on discontinued operations		-	-	-
-	(326,087)	(326,087)	Taxation and non-specific grant income	13	-	(372,866)	(372,866)
521,330	**(512,491)**	**8,839**	**(Surplus) / Deficit on Provision of services**		**553,916**	**(580,457)**	**(26,540)**
		(33,988)	(Surplus) / deficit on revaluation of Property Plant and Equipment assets				(11,656)
		104,470	Actuarial (gains) / losses on pensions assets / liabilities				(107,175)
		70,482	**Other Comprehensive Income and Expenditure**				**(118,831)**
		79,321	**Total Comprehensive Income and Expenditure**				**(145,371)**

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a key note to the main financial statements. It demonstrates how the funding available to the council (i.e. Council Tax, Rents, Business Rates and Central Government grants) has been used in providing services in comparison with those resources consumed or earned in accordance with Generally Accepted Accounting Practices (e.g. adjustments made for depreciation, revenue afforded impairment costs etc). It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Corporate Services include the services areas Directorate, Finance, People and Business Change and Law and Regulation.

2021/22	**Net Expenditure Chargeable to the General Fund**	**Adjustments between the funding and accounting basis**	**Net expenditure in the CIES**
	£'000	£'000	£'000
Children and Young People	24,955	4,930	29,885
Adults and Community	46,887	1,785	48,672
Education	14,807	4,648	19,455
Schools	111,731	9,856	121,587
Regen Investment + Housing	11,682	4,813	16,495
City Services	28,925	12,441	41,366
Corporate Services	19,009	4,635	23,644
Other Non Department Costs (Non Service)	29,123	(30,421)	(1,298)
Net Cost of Service	**287,119**	**12,687**	**299,806**
Other Income and Expenditure	(293,698)	(32,648)	(326,346)
(Surplus) or Deficit	**(6,579)**	**(19,961)**	**(26,540)**
Opening General Fund as at 31 March 2021	**(6,500)**		
(Surplus) / Deficit on the General Fund	-		
Transfer between Earmarked reserve and general funds	-		
Closing General Fund as at 31 March 2022	**(6,500)**		

2020/21	**Net Expenditure Chargeable to the General Fund**	**Adjustments between the funding and accounting basis**	**Net expenditure in the CIES**
	£'000	£'000	£'000
Children and Young People	26,226	1,794	28,020
Adults and Community	46,224	2,172	48,396
Education	14,511	3,414	17,925
Schools	106,527	18,432	124,959
Regen Investment + Housing	15,284	(1,716)	13,568
City Services	26,606	9,874	36,480
Corporate Services	21,940	(1,920)	20,020
Other Non Department Costs (Non Service)	10,296	(7,053)	3,243
Net Cost of Service	**267,614**	**24,997**	**292,611**
Other Income and Expenditure	(274,971)	(8,801)	(283,772)
(Surplus) or Deficit	**(7,357)**	**16,196**	**8,839**
Opening General Fund as at 31 March 2020	**(6,500)**		
(Surplus) / Deficit on the General Fund	-		
Transfer between Earmarked reserve and general funds	-		
Closing General Fund as at 31 March 2021	**(6,500)**		

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

The (surplus) or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts required to be charged to the Council Fund Balance for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund (surplus) / deficit before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Council Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at the 31 Mar 2020 carried forward	**(6,500)**	**(72,306)**	**(8,259)**	**(87,065)**	**99,554**	**12,489**
Movement in reserves during 2020/21						
(Surplus) / deficit on the provision of services	8,838	-	-	**8,838**	-	**8,838**
Other comprehensive Income and Expenditure	-	-	-	**-**	70,482	**70,482**
Total Comprehensive Income and Expenditure	**8,838**	**-**	**-**	**8,838**	**70,482**	**79,320**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(31,550)	-	1,506	**(30,044)**	30,044	**-**
Net Increase / Decrease before Transfers to Earmarked Reserves	**(22,712)**	**-**	**1,506**	**(21,206)**	**100,526**	**79,320**
Transfer to/ from Earmarked Reserves (Note 10)	22,712	(22,712)	-	**-**	-	**-**
(Increase) / Decrease in 2020/21	**-**	**(22,712)**	**1,506**	**(21,206)**	**100,526**	**79,320**
Balance at the 31 Mar 2021 carried forward	**(6,500)**	**(95,018)**	**(6,753)**	**(108,271)**	**200,080**	**91,809**

Balance at the 31 Mar 2021 carried forward	**(6,500)**	**(95,018)**	**(6,753)**	**(108,271)**	**200,080**	**91,809**
Movement in reserves during 2021/22						
(Surplus) / deficit on the provision of services	(26,540)	-	-	(26,540)	-	(26,540)
Other comprehensive Income and Expenditure	-	-	-	-	(118,831)	(118,831)
Total Comprehensive Income and Expenditure	**(26,540)**	**-**	**-**	**(26,540)**	**(118,831)**	**(145,371)**
Adjustments between accounting basis and funding basis under regulations (Note 9)	(14,401)	-	(2,637)	**(17,038)**	17,097	**59**
Net (Increase) / Decrease before Transfers to Earmarked Reserves	**(40,945)**	**-**	**(2,637)**	**(43,582)**	**(101,734)**	**(145,312)**
Transfer to/ from Earmarked Reserves (Note 10)	40,945	(40,945)	-	**-**	-	**-**
(Increase) / Decrease in 2021/22	**-**	**(40,945)**	**(2,637)**	**(43,582)**	**(101,734)**	**(145,314)**
Balance at the 31 Mar 2022 carried forward	**(6,500)**	**(135,962)**	**(9,390)**	**(151,852)**	**98,346**	**(53,505)**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31-Mar-21 £'000 Restated		Notes	31-Mar-22 £'000
361,730	Property, Plant and Equipment	14	390,758
147,597	Property, Plant and Equipment - Infrastructure	14	151,210
17,354	Heritage Assets	16	17,362
12,945	Investment Property	17	12,530
447	Long Term Investments	18	447
19,514	Long Term Debtors	18	27,216
559,587	**Long Term Assets**		**599,523**
15,294	Short Term Investments	18	56,294
3,046	Assets Held for Sale	22	742
295	Inventories	19	1,032
64,451	Short Term Debtors	20	74,385
141	Deferred Tax Asset	18	131
7,201	Cash and Cash Equivalents	21	5,756
90,428	**Current Assets**		**138,340**
(5,648)	Short Term Borrowing	18	(5,049)
(43,863)	Short Term Creditors	23	(70,064)
(6,001)	Provisions	24	(6,514)
(2,447)	Other Short Term Liabilities	18	(2,257)
(57,959)	**Current Liabilities**		**(83,884)**
(17,629)	Long Term Creditors	18	(15,636)
(6,076)	Long Term Provisions	24	(6,862)
(145,725)	Long Term Borrowing	18	(136,058)
(475,116)	Pension Liability	26	(403,203)
(39,320)	Other Long Term Liabilities	18	(38,716)
(683,866)	**Long Term Liabilities**		**(600,474)**
(91,810)	**Net Assets / Liabilities**		**53,505**
(108,271)	Usable Reserves	25	(151,852)
200,081	Unusable Reserves	26	98,346
91,810	**Total Reserves**		**(53,505)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2020/21 £'000		Note	2021/22 £'000
8,839	Net (surplus) / deficit on the provision of services as shown on the Comprehensive Income and Expenditure Statement		(26,540)
(62,014)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	27	(74,302)
19,720	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	40,975
(33,455)	**Net cash flows from Operating Activities**		**(59,867)**
3,234	Investing Activities	28	50,008
15,830	Financing Activities	29	11,304
(14,391)	**Net (increase) or decrease in cash and cash equivalents**		**1,445**
(7,189)	Cash and cash equivalents at the beginning of the reporting period	21	7,201
7,202	**Cash and cash equivalents at the end of the reporting period**	21	**5,756**

1 ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014, and in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and is supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments which are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council’s cash management.

Discontinued Operations

Discontinued operations arise where an activity has permanently ceased; terminates during the period or within three months of the period end; has a material impact on the Council’s service provision or on the Council's net

expenditure; and the operation has clearly defined assets, liabilities, income and expenditure on operations for operational and financial reporting purposes.

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Statement of Accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Service revenue accounts and central support services are debited with the following amounts to recognise the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Council is not required to raise council tax to cover these charges but instead has to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This charge is known as the minimum revenue provision (MRP) and is calculated in accordance with an annual MRP policy approved by the Council.

Depreciation, impairment losses and amortisations are therefore replaced by the MRP in the Movement of Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account.

Employee Benefits

Benefits Payable during Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or

Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits
Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pension on behalf of the Department for Education.
- The Local Government Pension Scheme, administered by Torfaen County Borough Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Schools and Education lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Torfaen County Borough (Greater Gwent) pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions around areas such as mortality rates and employee turnover rates, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on high quality corporate bonds).

- The assets of the Torfaen County Borough (Greater Gwent) pension fund attributable to the Council are included in the Balance Sheet at their bid value.
  - Equity securities – quoted prices in active markets
  - Real Estate, investment funds and unit trusts, cash & cash equivalents = quoted prices not in active markets

- The change in the net pensions liability is analysed into the following components:

Service Costs

- **current service cost –** the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

- **net interest on the net defined benefit liability (asset)** - the net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements

- **the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Torfaen County Borough (Greater Gwent) pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Full pensions details are included in Notes 41 and 42.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as borrowings and investments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is

managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI), held as a long-term investment.

The Council has made an irrevocable election to designate one of its equity instruments as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes. The asset was transferred to the new asset category on 1 April 2018.

The asset is initially measured and carried at fair value.

The value is based on the principal that the equity shares have no quoted market prices and is based on an independent appraisal of the company valuation.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

The same accounting treatment was adopted previously for the asset which was classified in the Transport Realisation account. The balance on this reserve was transferred to the new Financial Instruments Revaluation Reserve as at 1 April 2018.

Government Grants and Contributions

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income. Capital Grants are reversed out to the capital adjustment account as expenditure is incurred. Grants or contributions requiring return if conditions are not satisfied, are held on the balance sheet within creditors until the conditions are met at which point they are recognised in the Comprehensive Income and Expenditure Statement.

Tangible and Intangible Heritage Assets
(described in this summary of significant accounting policies as heritage assets)

The Council's Heritage Assets are held in a number of collections in varying locations across the Council. The Council holds collections of heritage assets in order to increase the knowledge, understanding and appreciation of the history and culture of the Council's local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some measurement rules are relaxed in relation to heritage assets as detailed below. The Council's collections of heritage assets are accounted for as follows.

Museum Collection
The Museum collection includes paintings (both oil and watercolour) and lithographs which are reported in the Balance Sheet at market value. The collection is generally re-valued every five years by the most appropriately deemed method. On occasion assets will be re-valued outside of this where they are loaned to other organisations. The assets within the collection are deemed to have indeterminate lives, and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations made with reference to appropriate commercial markets for the assets using the most relevant and recent information from sales at auctions.

Library Collection
The Central Library is home to a special book collection, which is reported in the Balance Sheet at market value. The collection is generally re-valued every five years by the most appropriately deemed method. The assets within the collection are deemed to have indeterminate lives, and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static, with acquisitions and donations very rare. Where they do occur acquisitions are recognised at cost and donations are recognised at a valuation made with reference to appropriate commercial markets.

Tredegar House – Property and Contents
Tredegar House is a 17th century Charles II mansion and grounds which is leased to the National Trust to manage and maintain and does not appear on the Councils balance sheet.

Conversely the contents of the property include paintings, furniture and other artefacts of the time period remain in the ownership of the Council. These items are reported in the balance sheet at insurance value which is based on market values. These insurance valuations will generally be updated every five years in line with other heritage asset considerations. The artefacts within the collection are considered to have indeterminate lives; hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static, with acquisitions and donations very rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at a valuation ascertained by the museum's curators in accordance with the Council's policy on valuations of art collections.

Public Art and Features
The Council holds a large number of public art features, such as murals and statues, on public display throughout the local area. These are reported in the Balance Sheet at market value. The collection is re-valued every five years by the Council's internal experts based on anticipated replacement costs of the art, which is considered to closely represent their market value. The assets within the Public Art collection are deemed to have indeterminate lives, and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations made with reference to appropriate commercial markets.

Archaeology
The Council does not consider that reliable cost information can be obtained for the items held within its archaeological collection. This is because of the diverse nature of the assets held and the lack of comparable market values. Consequently, the Council does not generally recognise these assets on the balance sheet. However, where specific costs can be identified, these will be capitalised, for example the freeze drying requirements of the Newport Ship. Depreciation on these items is considered on a case by case basis. The Council's acquisitions principally relate to the ancient ship discovered in the early 1990's. The Council does not normally make any purchases of archaeological items.

Heritage Assets – General
The carrying amounts of heritage assets are reviewed where there is evidence of impairment for these assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see impairment note in this summary of significant accounting policies.

The Council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the Statement of Accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see later notes in this summary of significant accounting policies).

Interest in Companies and Other Entities
The Council has considered the status of its relationships with its partner organisations and where not material these interests in other companies and entities are shown in a disclosure note in the notes to the Statement of Accounts. Newport Transport Ltd are consolidated with Newport City Councils statements in the group accounts.

Inventories and Long Term Contracts
The value of stocks at the year-end is recorded in the Statement of Accounts at historical cost. This valuation is not in accordance with IAS2 or the Code of Practice, which requires the value to be stated as the lower of cost and net realisable value (NRV). Any difference between cost and NRV is considered to be negligible and historical cost has been used for all valuations.

Investment Property
Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Agency Expenditure & Income

Welsh Government can periodically use Councils' administrative mechanisms to distribute resourcing to the electorate or particular business sectors as an alternative to making their own direct payment arrangements. Such measures are known as agency arrangements.

Welsh Government have adopted an accounting treatment that means Grants payable or paid are recorded as expenditure in the period that the underlying event or activity giving entitlement to the grant occurs. However, there can often be a lag in Councils receiving such resourcing that extends over the year end and the Council is not obligated to make any such payments to the electorate in advance of such receipts.

The Council will receive award letter correspondence about any prospective agency requests which should necessitate agreement through the signed acceptance to any terms and conditions and so has reasonable assurance that the grant involved will be received. So where any agency grant has not physically been paid before the year end but the Council has agreed to the terms and conditions, the Council will adopt a debtor and equivalent creditor presentation in the year of signed acceptance for the funding.

Jointly Controlled Operations and Jointly Controlled Assets

Joint operations are arrangements undertaken by the Council in conjunction with other ventures that make use of its assets and resources. Joint Committees are examples of Jointly Controlled Operations. Where material, the relevant proportion of the transactions and balances for Joint Committees are included within the Council's Financial Statements. These reflect the transactions and balances as per the draft accounts prepared for each Joint Committee.

A joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy, where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council utilises external care home facilities to support its customers' needs. In most instances occupancy is relatively small. However, there are two homes of 4 and 6 beds where occupancy is significant. Notwithstanding this, the valuation of these two properties is small compared to the total PPE asset base and therefore is not included in the figures shown in Note 14.

The Council as Lessor

Finance Leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment (PPE), Investment Properties, or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), and matched by a lease (long-term debtor) asset in the Balance Sheet. The Council currently recognises two such lease debtors in the accounts.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the Council Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the Council Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve

in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overhead and Support Service
The costs of overheads and support services are no longer charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Code of Practice. The Statement of Accounts are now disclosed as per the management reporting structure of the Council. The overheads are now reported against where the budget for that spend is sat.

Property, Plant and Equipment
Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council maintains a de minimis cost of £10,000 for any asset to be capitalised. However, where groups of assets e.g. PCs are purchased individually fall below the de minimis level, these will be considered for capitalisation as a group of assets on a case by case basis.

Where the acquisition or creation of IT systems incorporates both physical hardware and licences to use the system, judgement is made as to whether this will be classified wholly as Property, Plant and Equipment or Intangible Assets, as per the CIPFA Code of Practice on Local Council Accounting.

Measurement
Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Land and buildings – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- Non-specialised operational properties – existing use value (EUV);
- Specialised operational properties (such as schools) – depreciated replacement cost (DRC);
- Vehicles, plant and equipment – depreciated historical cost as a proxy for current value on materiality grounds;

- Infrastructure assets – depreciated historical cost or nominal value if unavailable;
- Community assets – historic cost where available, or existing use value (EUV);
- Assets under construction – historical cost; and
- Investment properties and surplus assets – fair value, estimated at highest and best use from a market participant's perspective.

Assets are included in the balance sheet at current value and are re-valued where there have been material changes in the value, but as a minimum every five years. When Assets under Construction are completed, they are valued at the date of completion in line with the appropriate valuation method for the asset type. Valuations are on the basis recommended by CIPFA and in accordance with the statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance the difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive income and Expenditure Account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account. Consequently, these revisions exhibit no impact upon taxpayer funded services.

Valuations are undertaken through an agency arrangement by Newport Norse Ltd.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Adopted roads built by developers are in many respects seen as donated assets. Whilst donated assets are required to be measured at fair value at recognition, infrastructure assets are measured initially at historical cost and subsequently at depreciated historical cost rather than fair value.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance the difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive income and Expenditure Account.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

Asset	Policy	Life
Land	No depreciation charge	
Buildings	Straight line depreciation on estimated remaining life	As advised by Valuer
Infrastructure Assets	Straight line depreciation on estimated remaining life	10 to 60 years
Vehicles & Plant	Straight line depreciation on estimated remaining life or over the term of the lease in the case of assets acquired by finance leases	5 - 7 years
Computer Equipment	Straight line depreciation on estimated remaining life	Usually 5 years

No depreciation is charged in the year of acquisition or enhancement of an asset, and a full year's depreciation is charged in the year of disposal of a depreciating asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation

Assets purchased or re-valued during the year are reviewed to confirm whether any part of the asset will have a significantly different useful life. Where this is the case the asset will be 'componentised' and the differing parts will be depreciated over their respective useful lives.

However, property assets will only be componentised where the total asset value is £2.5m or greater. These assets are componentised into Buildings, Land, Mechanical and Electrical plant and Externals elements on revaluation.

Non-current Assets Held for Sale and Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-

valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Some asset sales, like vehicles, tend to be amalgamated when considering against the £10,000 de minimis capital receipt level. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax. This expenditure does form part of the Council's Capital Financing Requirement.

Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where responsibility for making available the required property, plant and equipment needed to provide services passes to the contractor. The Council is deemed to control the services provided under its PFI schemes and as ownership of the property, plant and equipment passes to the Council at the end of the contract, the Council carries the assets used under the contracts within its own balance sheet as part of property, plant and equipment.

The recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by a liability for amounts due to the scheme operator to pay for the assets. Non-current assets recognised on the balance sheet are re-valued and depreciated in the same way as property, plant and equipment directly owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year which recognises performance achieved – charged to the relevant service in the Income and Expenditure Account;

- Finance cost – an interest charge on the outstanding balance sheet liability, charged to Financing and Investment Income and Expenditure in the Income and Expenditure Account;

- Contingent rent – an amount paid in respect of the property during the contract, charged to Financing and Investment Income and Expenditure in the Income and Expenditure Account;

- Payment toward liability – used to write down the balance sheet liability towards the operator;

- Lifecycle replacement costs – recognising elements of the assets require regular replacement and therefore charged to fixed assets on the balance sheet, or revenue as appropriate.

The Council receives government grants to support its financing liabilities each year. In the early years of such contracts this income exceeds the Council's net expenditure on these schemes. The Council has agreed that it will transfer any consequential Income and Expenditure surpluses arising from its PFI arrangements, together with any additional revenue provision deemed necessary to a PFI Reserve. The reserve funds are released in the later years of the contract when payments exceed available revenue support.

Provisions

Provisions are shown where a past event has placed the Council in a position where it has an obligation that is likely to lead to it incurring a cost. The precise timing and value of the cost may be unknown but can be reliably estimated.

Provisions are charged to the Comprehensive Income and Expenditure Statement to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement.

Estimates are reviewed at the end of each financial year and any changes are reflected within relevant service revenue accounts. When payments related to the obligation are eventually made they are charged to the provision set up in the Balance Sheet.

Contingent Assets / Liabilities

Contingent Assets and Liabilities are obligations or assets arising from past events where:

- The existence or value of the obligation is dependent on future events which are outside the control of the Council;
- It is not probable that a flow of economic benefits will be required to settle the obligation; and
- The obligation/contingent asset cannot be measured reliably.

Contingent Liabilities and Assets are not recognised in the Balance Sheet but are disclosed in Notes 44 and 45. The disclosure sets out the scale of potential costs and likelihood of these being realised.

Reserves

The Council maintains a range of reserves, reflecting both the extent to which its assets exceed its liabilities and any restrictions (statutory or voluntary) which are placed upon the usage of these balances. The main unrestricted reserve used to hold available Council funds is the Council Fund. Expenditure to be financed from an earmarked reserve is initially shown as a cost in the Comprehensive Income and Expenditure Statement. An offsetting transfer is then recorded in the Movement in Reserves Statement to ensure that there is no impact on General Fund or Council Tax.

Council Fund Balance: The Council holds a Council Fund Balance to meet future funding requirements and as a hedge against any unforeseen financial losses. The adequacy of the level of this reserve is reviewed annually by the Chief Finance Officer as part of the Council's budget approval process.

Earmarked Reserves:
The Council has discretion to set aside specific amounts as reserves where they wish to earmark available funds for future policy purposes; to cover contingencies or manage cash flows. These are summarised in Note 10. The most significant reserve is the Southern Distributor Road PFI which will meet future liabilities over the lifetime of the PFI scheme.

Unusable Reserves:
A number of reserves exist to manage the accounting for non-current assets, financial instruments and employee benefits; these do not represent usable funds for the Council, these are explained in the relevant policies and notes and are classed as Unusable Reserves, found in Note 26.

Schools Accounting Policy
The Code confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not in the group accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

Value Added Tax (VAT)
Value Added Tax is excluded from both revenue and capital in terms of both income and expenditure except where the Council is not able to recover VAT on expenditure.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

IFRS 16 is a new International Financial Reporting Standard for lease accounting which came into force on 1 January 2019. It replaced the existing IAS 17 accounting standard.

CIPFA/LASAAC which governs local authority financial standards has deferred formal implementation date and the latest position is a potential adoption date of April 23 or April 24.

The future effect of IFRS 16 will require local authorities that lease/rent assets to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities. There is an exception for low value (£5k) and short life arrangements (1 year or less).

Based on early work, it is currently anticipated that fixed assets, through the creation of on use assets, would be increased by £10.14million if it were applicable to 2021-22 Accounts.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The Statement of Accounts can contain estimated figures, particularly where it is necessary to base costs and income on assumptions made by the Authority about the future or that are otherwise uncertain. So figure work can include an anticipation of future interest rates or inflation and are mitigated through techniques like discounted cash flows or internal rate of return. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. For instance:

- The Government has made fundamental changes in respect of the provision of public sector pensions in recent years, and last year the Council also absorbed the net Newport Transport pension liability for those staff still accessing Superannuation scheme. The LGPS triennial valuation continues to affirm the affordability of the scheme through its revision of current and future contribution rates.

- In line with accounting standards the Authority continues to make a significant provision in respect of final remedial work and future maintenance/monitoring of its major waste disposal site. Assumptions regarding remediation and aftercare costs have been based on legal requirements to monitor the site for a period of 60 years following closure and have been adjusted for the time value of money.

- From an asset point of view, schools remain the most significant class in the portfolio. The Council is required to report any material expenditure, income, assets and liabilities of schools within its primary statements. It may have to rely upon information derived from outside sources. Specific consideration has to be given as to whether the assets from which these schools operate meet the necessary criteria (in terms of access to services and control) to be recognised as Council assets under IAS16.

- In Newport's case it has been judged that faith schools (voluntary aided or controlled) which are not sited on Council land and over which it has no long term guarantees of availability do not meet the criteria for recognition as an asset under IAS16. This results in the exclusion of 9 schools from the Council's non-current assets.

- The Authority also undertook a fundamental review in 2012/13 of its Schools portfolio with a view to both rationalising and significantly improving the quality of school premises available across the City and County (21st Century Schools Programme). In the light of this scheme and the outline timescale for implementation, the useful lives of some school buildings were re-evaluated and considerably reduced from that previously used. The effect of this was to accelerate residual depreciation affecting both the Comprehensive Income and Expenditure Statement and the net book value as shown on the Balance Sheet.

- The Council 's fixed asset valuation process involves a rolling programme of examination over a 5 year period. Consequently, it is necessary to consider whether any changes in valuation experienced in the current year are perceived to also have a bearing upon other classes of assets that weren't examined and their values also adjusted accordingly.

- There remains a high degree of uncertainty about future levels of funding for local government. The Council's Accounts continue to be recorded on the basis of going concern.

4 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Finance on 12th July 2022. Any events taking place after this date are not reflected in the statement of accounts or notes and there are no specific issues or events that are expected to change this.

Since the draft Statement of Accounts was authorised for issue by the Head of Finance on 12th July 2022, the Chartered Institute of Public Finance and Accountancy has amended the regulations governing the accounting treatment for Infrastructure assets. Unusually this applied retrospectively to 2021-22 accounts and necessitated a change to note 14: Fixed assets to amend the presentation of Infrastructure assets to disregard gross book value and accumulated depreciation values.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contain estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
The impact of the Covid-19 pandemic has altered demand, supply and the approach to the provision of services over the last 2 years. It is unclear whether such changes will prove temporary or more permanent, such that any future assumptions and estimation used in the Statement of Accounts which is based upon current activity is potentially less reliable and more volatile than it has been traditionally.

The items in the Council's Balance Sheet at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Provisions	The Council makes a number of provisions for liabilities that it may face where a reasonable estimate of value can be made. In most cases these are subject to legal claims such as Insurance claims and other items as disclosed in the provisions note. Provisions relating to landfill sites, due to their significant value and long life are subject to a high level of estimation of future liabilities, this is detailed further in the provisions note.	The provisions are based on information known at the Balance Sheet date and best estimates and professional internal and external advice is used to determine value and number of provisions. The outcomes of such issues will have an impact on the outturn of the Council in future years, however due to the uncertain nature of these events, these are difficult to quantify.
Provisions in relation to Arrears of Debt	At 31 March 2022, the Council had amounts it was owed for items such as sundry debtors, Council Tax, Non Domestic Rates (NDR) and rents. After taking into account trends in past collection experience and other relevant changes that may impact on collectability such as the economic climate, a level of impairment is assumed which may or may not be deemed to be sufficient.	Beneficial collection activity will improve the future reported outturn position, however where customers are finding it difficult to pay for Council services, this will require increases in the level of provisions currently set aside. Common with 2020/21 the Council continues to make an additional provision for non payment as a result of Covid-19 pandemic/UK economic situation. Future years will necessitate a

		similar consideration as to whether recent cost of living increases felt on other goods and services (e.g. food, utilities, fuel etc) are impactful into the medium term upon disposable income and limits potential payment to the Council, but this will be informed by any uptick in arrears.
Property, Plant and Equipment	Assets are depreciated over their useful lives which are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Uncertainty about the actual useful life of an asset introduces potential volatility in depreciation charges over its life.	The importance of this is that if the useful life of assets is reduced, depreciation increases and the net carrying value of the assets falls. Such revisions are accounted for through the un-useable reserves section of the balance sheet to ultimately exhibit no impact upon taxpayer funded services.
Fair value measurements	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model.) Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the senior external valuer).	The Council uses a selection of valuation methods to measure the fair value of its surplus assets, investment properties and financial assets and liabilities The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement particularly for the investment properties.

Valuation of operational property	Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Consequently, less certainty and a higher degree of caution should be attached to the valuation. Traditionally the Council undertakes a rolling 5 year valuation schedule to review and update the value of the assets held in the balance sheet. This process is managed by RICS qualified personnel through an agency contract. Given the length of time between valuations and the perceived impact of recent construction inflation changes upon replacement cost figures, this introduces an increased uncertainty as to gross book values reported. In order to mitigate this, a desk based exercise has been introduced to revise property values affected by construction inflation annually until that asset receives its next formal RICS revaluation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement. Depreciation charges for operational buildings will tend to fluctuate based on changes in estimated current value.

Fair value measurement of investment property	The Council's external valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available. The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, it has been difficult to value property assets. Values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.	Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. To account for the McCloud Judgement (public service pensions age discrimination cases) the actuary has made an estimated adjustment to these liabilities from the 2019 valuation data to ensure that it is captured in the 31 March 2022 IAS19 balance sheet figures. The final impact on the pension scheme will not be known until the required changes in legislation have been made.	A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The Pensions actuary has provided a table of the variables and the estimated effect upon the fund from a change in current predictions:

Change in assumptions at 31 March 2022:	Approximate effect on liability (£000)	Approximate resultant % increase to Defined Benefit Obligation
0.1% decrease in Real Discount Rate	21,514	2%
1 year increase in member life expectancy	41,858	4%
0.1% increase in the Salary Increase Rate	2,136	0%
0.1% increase in the Pension Increase Rate (CPI)	19,217	2%
Source: Actuarial Report for NCC 31st March 2022		

In order to quantify the impact of a change in the financial assumptions used, the actuary has calculated and compared the value of the scheme obligations at the accounting date on varying bases to derive an average. The approach taken is consistent with that adopted to derive the accounting figures provided in their year end report, based on the profile (average member ages, retirement ages etc) of the Employer as at the date of the most recent valuation.

6 MATERIAL ITEMS OF INCOME AND EXPENSE

Information is material if omitting, misstating or obscuring it could be reasonably expected to alter the reader's decisions/opinion in respect of the financial statements. The Council has captured material transactions within the various notes, it does not consider that there are any other material items of income and / or expense that were incurred and / or received in the normal day to day provision of services.

7 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2021/22	Adjustments for Capital Purposes	Net change for Pension Adjustments	Accumulated Absences	Other Adjustments	Total Adjustments
Adjustments from General Fund to arrive at CIES amounts	£'000	£'000	£'000	£'000	£'000
Children and Young People	1,111	3,492	(41)	369	4,930
Adults and Community	(274)	3,571	(37)	(1,475)	1,785
Education	1,822	1,785	326	716	4,648
Schools	8,546	7,936	-	(6,626)	9,856
Regen Investment + Housing	3,061	2,515	(44)	(719)	4,813
City Services	10,097	3,194	(9)	(841)	12,441
Corporate Services	994	4,266	(68)	(556)	4,635
Other Non Department Costs (Non Service)	24	(1,245)	-	(29,200)	(30,422)
Net Cost of Service	**25,380**	**25,513**	**126**	**(38,332)**	**12,687**
Other Income and Expenditure from Funding Analysis	(46,288)	9,749	-	3,891	(32,648)
Difference between General Fund surplus or deficit and CIES Surplus or Deficit	**(20,909)**	**35,262**	**126**	**(34,441)**	**(19,962)**

2020/21	Adjustments for Capital Purposes	Net change for Pension Adjustments	Accumulated Absences	Other Adjustments	Total Adjustments
Adjustments from General Fund to arrive at CIES amounts	£'000	£'000	£'000	£'000	£'000
Children and Young People	632	1,403	(93)	(149)	1,793
Adults and Community	847	1,459	(104)	(30)	2,172
Education	3,885	690	(50)	(1,111)	3,414
Schools	23,666	3,191	(829)	(7,596)	18,432
Regen Investment + Housing	2,735	1,063	(224)	(5,290)	(1,716)
City Services	11,288	1,293	(98)	(2,609)	9,874
Corporate Services	1,051	1,638	(124)	(4,485)	(1,920)
Other Non Department Costs (Non Service)	31	(5)	-	(7,079)	(7,053)
Net Cost of Service	**44,135**	**10,732**	**(1,522)**	**(28,349)**	**24,996**
Other Income and Expenditure from Funding Analysis	(18,147)	8,084	-	1,263	(8,800)
Difference between General Fund surplus or deficit and CIES Surplus or Deficit	**25,988**	**18,816**	**(1,522)**	**(27,086)**	**16,196**

Adjustments for Capital Purposes

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
    a. Other operating expenditure – adjusts for capital disposals with a transfer of income on the disposal of assets and the amounts written off for those assets
    b. Financing and investment income and expenditure – the statutory charges for capital financing such as Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices

c. Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Changes for Pension adjustments

2) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income
   a. For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service cost
   b. For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES

Adjustments for Accumulated Absences

3) Adjustments for accumulated absences – this column recognises when employees render the services which increase their entitlement to future paid absences. Accumulated paid absences are those that can be carried forward for use in future periods if the current period's entitlement are not used in full, such as carry forward of unused annual leave.

Other Adjustments

4) This column reflects any other differences between the amounts debited / credited to the Comprehensive Income and Expenditure Statement and amounts payables / receivable to be recognised under statue:
   a. For financing and investment income and expenditure the other differences column recognises adjustments to the general fund for the timing differences for premiums and discounts
   b. The other differences that are recognised is any adjustment which is required to be completed to reconcile the reported outturn to Cabinet, to that which is it classified with the accounts. The adjustment of £3,889k under 'Other Non-Department Costs (Non service)' includes adjustments for Levies, Council Tax Reduction Scheme, reserve balances, minimum revenue provision, Private Finance Initiatives and any other income and expenditure.

8 EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

	2020/21	2021/22
	£'000	£'000
Expenditure		
Employee Benefits Expenses	201,961	234,329
Other Services Expenditure	232,325	247,462
Depreciation, Amortisation, Impairment	43,567	24,550
Interest Payments	18,446	20,762
Precepts and Levies	25,032	26,464
(Gain)/Loss on Disposal of assets	-	349
Total Expenditure	**521,330**	**553,917**
Income		
(Gain)/Loss on Disposal of assets	(1,126)	-
Fees, Charges and other service income	(24,575)	(30,804)
Interest and investment income	(1,056)	(1,056)
Income from Council tax and non-domestic rates	(122,903)	(130,256)
Government grants and contributions	(362,832)	(418,341)
Total Income	**(512,492)**	**(580,457)**
(Surplus) or Deficit on the Provision of Services	**8,839**	**(26,541)**

9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions, as being available to the Council to meet future capital and revenue expenditure.

	Usable Reserves		
2021/22	**Council Fund Balance** £'000	**Capital Receipts Reserve** £'000	**Movement in Unusable Reserves** £'000
Adjustments primarily involving the Capital Adjustment Account:	**18,226**	**-**	**(18,226)**
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Account	**7,522**	**-**	**(7,522)**
Charges for depreciation and impairment of non-current assets	(25,513)	-	25,513
Revaluation losses on PPE & Assets Held for Sale	960	-	(960)
Movements in the fair value of Investment Properties & Assets held for sale	(478)	-	478
Capital grants and contributions applied	39,235	-	(39,235)
Revenue expenditure funded from capital under statute	(4,169)	-	4,169
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(2,922)	-	2,922
Cardiff City Region Aggregated Un-useable Reserves (NCC share)	408		(408)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	**10,704**	**-**	**(10,704)**
Statutory provision for the financing of capital investment	10,008	-	(10,008)
Capital expenditure charged against the General Fund	696	-	(696)
Adjustments primarily involving the Capital Receipts Reserve:	**2,655**	**(2,637)**	**- (18)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure statement	2,655	(2,655)	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	18	(18)
Transfer from Deferred Capital Receipts Reserve on receipt of cash	-	-	-
Use of Capital Receipts to fund Premium	-	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:	**-**	**-**	**-**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:	**105**	**-**	**(105)**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	105	-	(105)
Adjustments primarily involving the Pensions Reserve:	**(35,262)**	**-**	**35,262**

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 42)	(54,057)	-	54,057
Employer's pensions contributions and direct payments to pensioners payable in the year	18,795	-	(18,795)
Adjustment primarily involving the Accumulated Absences Account:	**(126)**	**-**	**126**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(126)	-	**126**
TOTAL ADJUSTMENTS	**(14,401)**	**(2,637)**	**17,038**

2020/21 Comparative figures	**Usable Reserves**		
	Council Fund Balance	**Capital Receipts Reserve**	**Movement in Unusable Reserves**
	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:	**(15,441)**	**-**	**15,441**
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Account	**(26,828)**	**-**	**26,828**
Charges for depreciation and impairment of non-current assets	(23,573)	-	23,573
Revaluation losses on Property Plant and Equipment	(18,108)	-	18,108
Movements in the market value of Investment Properties	(77)	-	77
Capital grants and contributions applied	19,935	-	(19,935)
Revenue expenditure funded from capital under statute	(4,681)	-	4,681
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(324)	-	324
Cardiff City Region Aggregated Unuseable Reserves (NCC share)	-	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	**11,387**	**-**	**(11,387)**
Statutory provision for the financing of capital investment	10,888	-	(10,888)
Capital expenditure charged against the General Fund	499	-	(499)
Adjustments primarily involving the Capital Receipts Reserve:	**(1,482)**	**1,506**	**(24)**
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	548	(548)	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	24	(24)
Transfer from Deferred Capital Receipts Reserve on receipt of cash	-	-	-
Use of Capital Receipts to fund Premium	(2,030)	2,030	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:	**-**	**-**	**-**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:	**2,666**	**-**	**(2,666)**

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	2,666	-	(2,666)
Adjustments primarily involving the Pensions Reserve:	**(18,817)**	**-**	**18,817**
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 42)	(35,240)	-	35,240
Employer's pensions contributions and direct payments to pensioners payable in the year	16,423	-	(16,423)
Adjustment primarily involving the Accumulated Absences Account:	**1,522**	-	**(1,522)**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,522	-	(1,522)
TOTAL ADJUSTMENTS	**(31,552)**	**1,506**	**30,046**

10 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund as balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund expenditure in 2021/22.

		Movements between Reserves		Via Comprehensive I&E Account		
	Balance at 31-Mar-21	Transfers Out	Transfers In	Transfers Out	Transfers In	Balance at 31-Mar-22
	£'000	£'000	£'000	£'000	£'000	£'000
Council Fund	(6,499)	-	-	-	(1)	(6,500)
Balances held by schools for future use	(9,558)	-	-	-	(6,179)	(15,737)
Risk Reserves						
Music Service	(127)	-	-	-	-	(127)
Pay Reserve	(1,418)	-	-	-	-	(1,418)
Insurance Reserve	(1,162)	-	-	-	-	(1,162)
MMI Insurance Reserve	(602)	-	-	-	-	(602)
Health & Safety	(16)	16	-	-	-	-
Education Achievement Service	(92)	-	-	-	-	(92)
Schools Redundancies	(985)	-	-	-	(113)	(1,098)
General Investment Risk Reserve	(1,188)	64	-	-	(1,443)	(2,567)
European Funding I2A & CFW	(984)	-	-	36	(450)	(1,398)
Metro Bus	(9)	9	-	-	-	-
GEMS Redundancies	(78)	-	-	-	-	(78)
COVID Risk Reserve	-		(1,884)			(1,884)
Enabling Reserves						
Capital Expenditure	(9,927)	-	-	-	-	(9,927)
Displacement headroom	-	-	-	-	(10,279)	(10,279)
Capital Grants Unapplied	-	-	-	-	(3,210)	(3,210)
Invest to Save	(8,464)	-	-	897	-	(7,567)
Super Connected Cities	(298)	-	-	128	-	(170)
Landfill Reserve	(332)	-	-	-	-	(332)
School Works	(432)	-	-	-	(497)	(929)
School Reserve Other	(27)	-	-	-	-	(27)
Schools ICT Sustainability	-	-	-	-	(50)	(50)
Investment Reserve	(497)	497	-	-	-	-
Usable Capital Receipts	(6,753)	-	-	18	(2,655)	(9,390)
Streetscene Manager Support	(66)	-	-	55	-	(11)
Smoothing Reserves						
Municipal Elections	(164)	-	-	-	(16)	(180)
Local Development Plan	(688)	55	-	118	-	(515)
Glan Usk PFI	(1,607)	-	-	-	-	(1,607)
Southern Distributor Road PFI	(40,392)	-	-	452	-	(39,940)
Building Control	(81)	-	-	-	(43)	(124)
Loan modification IFRS 9	(513)	-	-	-	-	(513)
Kingsway	(64)	-	-	-	-	(64)
Other Reserves						
Works of art	(21)	-	-	-	-	(21)
Theatre & Arts Centre	(232)	-	-	-	-	(232)
Cymorth Income	(25)	25	-	-	-	-
Blaen-y-plant remodelling	(4)	4	-	-	-	-
Homeless Prevention	(38)	38	-	-	-	-
Environmental Health - Improve Air Quality	(49)	-	-	-	-	(49)

Refurbishment of a Children / Older People Homes	(41)	41	-	-	-	-
Apprenticeship Scheme Reserve	(17)	10	-	-	-	(7)
City Economic Development Reserve	(90)	-	-	-	-	(90)
Welsh Language Standards	(129)	2	-	-	-	(127)
Port Health	(16)	-	-	-	(4)	(20)
CRM	(52)	-	-	52	-	-
Financial System Upgrade	(600)	-	-	-	-	(600)
Events	(216)	-		-	(59)	(275)
MTFP Reserve	(5,117)	1,185	-	943	(6,412)	(9,401)
Voluntary Sector Grants	(43)	16	-	-	-	(27)
Bus Wifi	-	-	-	-	-	-
Bus Subsidy	(15)	15	-	-	-	-
Feasibility Reserve	(54)	-	-	-	-	(54)
IT Development	(53)	-	-	-	-	(53)
Leisure Delivery Plan	(103)	-	-	103	-	-
Chartist Tower	(256)	-	-	-	-	(256)
Joint Committee City Deal Reserve	(289)	-	-	-	(373)	(662)
Civil Parking Enforcement	(245)	-	-	52	-	(193)
Community COVID Recovery Fund	(500)	-	-	-	-	(500)
Clean & Green	(500)	-	-	481	-	(19)
Green Recovery Task Force	(1,000)	-	-	-	-	(1,000)
Business Development Grants	(250)	-	-	-	-	(250)
Business Support	(56)	-	-	-	(25)	(81)
Children's Service legal fees	(150)	-	-	150	-	-
Community Occupational Therapy	(53)	-	-	-	-	(53)
Directly Managed Community Centres Maintenance	(50)	-	-	-	-	(50)
IT Infrastructure	(120)	-	(95)	-	(432)	(647)
PSB Contribution	(40)	-	-	-	-	(40)
COVID Reserve	(596)	95	-	75	-	(426)
Highways road repairs [potholes]	(116)	-	-	116	-	-
Homelessness Prevention	(289)	-	(38)	-	-	(327)
Chief Education Grant	(765)	-	-	197	-	(568)
Home to School Transport	(801)	-	-	302	-	(499)
Housing Supply review	(25)	-	-	-	-	(25)
Anniversary tree planting / green canopy	(20)	-	-	17	-	(3)
Cariad Casnewydd	(170)	-	-	-	-	(170)
Soft Loan interest equalisation reserve	(1,861)	-	-	213	-	(1,648)
Community Gardening Schemes	(180)	-	-	-	-	(180)
SS COVID Recovery Reserve	-	-	-	-	(563)	(563)
Market Arcade Owner contributions	-	-	-	-	(51)	(51)
Strategic Development Plan	-	-	(55)	-	(55)	(110)
Parks & Open Spaces	-	-	-	-	(2,500)	(2,500)
Discretionary Rate Relief	-	-	-	-	(900)	(900)
Domiciliary Care Service Capacity	-	-	-	-	(500)	(500)
Social Services PPE Reserve	-	-	-	-	(212)	(212)
Prior year Underspend - 21-22	-	-	-	-	(7,895)	(7,895)
Communications Corporate Requirement	-	-	-	-	(232)	(232)
Decarbonisation Projects	-	-	-	-	(90)	(90)
St Andrew's Primary	-	-	-	-	(305)	(305)
Residential Care Home Equalisation Reserve	-	-	-	-	(940)	(940)
Cost of Living Support Scheme Reserve	-				(1,503)	(1,503)
Total	**(108,270)**	**2,072**	**(2,072)**	**4,405**	**(47,987)**	**(151,852)**

Material reserves to note are:

- **Council fund** – Councils are required prudently to put a proportion of resourcing aside to assist with dealing with unexpected events and emergencies;

- **School reserves** - these are balances held by schools for their future use.

- **Capital Expenditure reserve** - established to fund specific capital schemes and risks included in the Capital Programme.

- **Displacement headroom reserve** – the Council received 3 grants towards the end of 2021-22 that could not be used for intended purpose. Welsh Government required they be used to temporarily reduce Council's borrowing costs, on the proviso that resourcing was earmarked for use on free school meals, maintenance of schools, and public transport electrification in 2022-23.

- **Invest to save reserve** - established to enable funding of specific projects which demonstrate savings to the revenue budget within pay-back period of 3 years.

- **Usable capital receipts reserve** - holds proceeds from sale of property, plant and equipment, used to finance new capital expenditure.

- **Southern Distributor Road and Glan Usk PFI reserves** – the funding for these two projects were received from Welsh Government upfront, and is held in a reserve to pay the annual capital repayments to the contractor over the life of the project.

- **Medium Term Financial Plan (MTFP) reserve** – created to earmark resourcing for the support, facilitation and achievement of the Council's corporate plan.

- **Prior year underspend 21-22** - commonly any year's underspend is attributed by members to further facilitate corporate/political priorities. This year, the year-end closure of accounts process coincided with local authority election in May 22, such the underspend was ring fenced intact for allocation by the incoming political administration.

- **Cost of Living Support Scheme** - alongside requiring Councils to direct £150 to eligible households (known as the main scheme), Welsh Government provided additional resourcing at the end of 2021-22 to develop a discretionary scheme to supplement that programme of support. The amount allotted to the discretionary scheme and an allowance for administering it and the main scheme have been transferred to reserves for use in 2022-23.

11 OTHER OPERATING EXPENDITURE

31-Mar-21 £'000		31-Mar-22 £'000
	Precepts and levies:	
418	Community Councils	437
7,408	South Wales Fire Authority	7,855
755	Natural Resources Wales	755
16,451	Police and Crime Commissioner for Gwent	17,417
(1,103)	(Gains) and Losses on assets held for sale	66
(23)	Loss / (Profit) on the disposal of non-current assets	283
23,906	**Total**	**26,813**

12 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

31-Mar-21 £'000		31-Mar-22 £'000
10,360	Interest Payable and similar charges	11,013
8,084	Pensions interest cost and expected return on pensions assets	9,749
(180)	Interest receivable and similar income	(564)
146	Income and expenditure in relation to investment properties and changes in their fair value	(491)
18,410	**Total**	**19,707**

13 TAXATION AND NON SPECIFIC GRANT INCOME

31-Mar-21 £'000		31-Mar-22 £'000
(76,467)	Council tax income	(80,785)
(46,436)	Non domestic rates	(49,472)
(185,517)	Non-ring fenced government grants	(195,120)
(17,667)	Capital grants and contributions	(47,489)
(326,087)	**Total**	**(372,866)**

National Non-Domestic Rates (NNDR)

The total rateable value for non-domestic rates was £142,849,300 at 31 March 2022 (£142,324,592 at 31 March 2021). The rate poundage for occupied properties was 53.5p per £ of rateable value (53.5p in 2020/21) with empty properties being charged at 53.5p (53.5p in 2020/21).

In 2021/22 Newport received £49.4m from the Welsh NNDR pool in support of its services (£46.4m – 2020/21).

Local Taxation

	31-Mar-21 £'000	31-Mar-22 £'000
INCOME		
Council Taxes (net of Council Tax benefits)	(77,899)	(81,907)
Council Tax benefits	(12,273)	(12,346)
Total income	**(90,172)**	**(94,253)**
EXPENDITURE		
Precepts payable		
- Gwent Police Authority	16,451	17,417
- Community Councils	418	437
Newport Council Fund requirement	72,193	75,134
Council tax written off and provided for	1,432	1,122
Total expenditure	**90,494**	**94,110**
Net surplus for the year	**322**	**(143)**

Council Tax Requirement

	31-Mar-21		31-Mar-22	
	Dwellings	**Tax Base**	**Dwellings**	**Tax Base**
Total number of properties on valuation list	69,295	69,295	69,619	69,619
Adjusted as follows				
Less exempt properties @ 100%	2,044	(2,044)	1,824	(1,824)
Less single discounts @ 25%	25,328	(6,332)	25,124	(6,281)
Less multiple discounts @ 50%	87	(44)	80	(40)
Band D conversion		63		(7)
Losses on collection		(671)		(983)
Tax Base		**60,267**		**60,484**
		£		**£**
Council tax requirement		89,060,765		92,986,892
Less payable to Gwent Police		(16,450,480)		(17,416,973)
Less payable to Community Councils		(417,650)		(436,694)
Net requirement Newport City Council		**72,192,635**		**75,133,225**
Band D tax for the year		**1,205**		**1,249**

This basic amount of £1,249.42 for a band D property (£1,204.81 in 2020/2021) is multiplied by the proportion specified for the particular band to give the individual amount due:

Band:	A	B	C	D	E	F	G	H	I
Multiplier:	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9

14 PROPERTY, PLANT AND EQUIPMENT

Restated	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2021	**350,566**	**43,629**	**179**	**2,636**	**4,826**	**401,836**	**67,720**
Additions	5,714	4,883	222	0	24,530	**35,350**	1,504
Donations	-	-	-	-	-	**-**	-
Re-classifications	993	-	9	1,851	(3,195)	**(341)**	-
Revaluations	7,821	-	-	1,936	-	**9,757**	-
Impairments	(3,590)	(54)	(158)	(0)	-	**(3,802)**	-
Disposals	(320)	(13,208)	-	-	-	**(13,528)**	-
At 31 March 2022	**361,185**	**35,250**	**252**	**6,424**	**26,161**	**429,271**	**69,224**
Accumulated Depreciation							
At 1 April 2021	**(8,346)**	**(31,760)**	**-**	**-**	**-**	**(40,106)**	**(22,802)**
Depreciation Charge in Year	(12,777)	(3,120)	-	-	-	**(15,897)**	(1,709)
Re-classifications	418	-	-	-	(14)	**404**	-
Revaluation Impact	3,817	-	-	-	-	**3,817**	-
Disposals	73	13,196	-	-	-	**13,269**	-
At 31 March 2022	**(16,815)**	**(21,684)**	**-**	**-**	**(14)**	**(38,513)**	**(24,511)**
Net Book Value							
At 1 April 2021	**342,220**	**11,869**	**179**	**2,636**	**4,826**	**361,730**	**44,918**
At 31 March 2022	**344,369**	**13,566**	**252**	**6,424**	**26,147**	**390,758**	**44,713**

	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2020	**370,801**	**41,198**	**179**	**2,636**	**1,780**	**416,594**	**72,880**
Additions	9,288	3,389	31		2,092	**14,800**	1,196
Donations	-	-	-	-	-	**-**	-
Re-classifications	(4,177)	141	-	-	954	**(3,082)**	-
Revaluations	(23,661)	-	-	-	-	**(23,661)**	(6,356)
Impairments	(1,125)	-	(31)	-	-	**(1,156)**	-
Disposals	(560)	(1,099)	-	-	-	**(1,659)**	-
At 31 March 2021	**350,566**	**43,629**	**179**	**2,636**	**4,826**	**401,836**	**67,720**
Accumulated Depreciation							
At 1 April 2020	**(35,041)**	**(29,518)**	**-**	**-**	**-**	**(64,559)**	**(23,867)**
Depreciation Charge in Year	(12,168)	(3,341)	-	-	-	**(15,509)**	1,065
Re-classifications	280	-	-	-	-	**280**	-
Revaluation Impact	38,472	-	-	-	-	**38,472**	-
Disposals	111	1,099	-	-	-	**1,210**	-
At 31 March 2021	**(8,346)**	**(31,760)**	**-**	**-**	**-**	**(40,106)**	**(22,802)**
Net Book Value							
At 1 April 2020	**335,760**	**11,680**	**179**	**2,636**	**1,780**	**352,035**	**49,013**
At 31 March 2021	**342,220**	**11,869**	**179**	**2,636**	**4,826**	**361,730**	**44,918**

The Council also has a number of schools located within the Newport area which are Voluntary Aided and Voluntary Controlled and which are not owned by the Council. Although these schools are recognised as located within the Council's boundary, they are not disclosed within the Balance Sheet as they are not Council owned assets.

14 PROPERTY, PLANT AND EQUIPMENT - INFRASTRCUTURE ASSETS

	2020-21	2021-22
Net Book Value at 1 April	**149,029**	**147,597**
Additions	6,045	10,004
Disposals	-	(87)
Depreciation	(7,015)	(7,115)
Impairment	(513)	(104)
Other movements in Cost	51	915
Net Book Value at 31 March	**147,597**	**151,210**

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 24L Wales of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (as amended) that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Capital Commitments

The Council continued its programme of capital investment in 2021/22 to improve the infrastructure and facilities in Newport. Of this programme, the Council is contractually committed to carry out works as follows:

	31-Mar-21	31-Mar-22
	£'000	£'000
Education	426	29,037
City Services	1,074	556
RIH	31	379
Total	**1,531**	**29,972**

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is re-valued at least every five years. All valuations were carried out externally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Other Land & buildings	Vehicles, Plant & Equipment	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carried at Historic Cost	144	46,480	64	-	26,083	**72,771**
Valued at current value as at:						
31 March 2022	105,295	-	-	6,424	-	**111,719**
31 March 2021	172,815	-	-	-	-	**172,815**
31 March 2020	1,174	-	-	-	-	**1,174**
31 March 2019	61,008	-	188	-	-	**61,196**
31 March 2018	7,811	-	-	-	-	**7,811**
Total Cost or Valuation	**348,247**	**46,480**	**252**	**6,424**	**26,083**	**427,486**

Fair Value Measurement of Surplus Assets

Details of the Council's surplus assets and information about the fair value hierarchy as at 31 March 2022 are as follows:

Recurring fair value measurements using:	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value as at 31 March 2022**
	£'000	£'000	£'000
Residential properties	-	5,809	5,809
Commercial units/Land	-	615	615
Total	**-**	**6,424**	**6,424**

Comparative figures as at 31 March 2021 were:

Recurring fair value measurements using:	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value as at 31 March 2021**
	£'000	£'000	£'000
Residential properties	-	2,021	2,021
Commercial units/Land	-	615	615
Total	**-**	**2,636**	**2,636**

There were no transfers between any of the levels during the year.

Significant Observable Inputs – Level 2: There are no assets included in Level 2.

Significant Unobservable Inputs – Level 3: The remainder of the residential properties and commercial units/land located in the area are measured using the best information available and using the Valuer's experience to make assumptions on how the market would assess the value of the asset. These are therefore categorised as Level 3 in the fair value hierarchy as significant unobservable inputs are used in determining the fair value measurement. In estimating the fair value of the Council's surplus assets, the highest and best use of these assets has been considered. This is not necessarily the existing use and assumptions have been made to arrive at this assessment of value. However, from the list of relevant assets for 2021/22, there has been no change in the valuation techniques used during the year for surplus assets.

The fair value of the Council's surplus assets portfolio is measured annually at each reporting date. All valuations are carried out by an external Valuer, Newport Norse Ltd, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation experts work closely with the Council's Finance Officers.

15 IMPAIRMENT LOSSES

Impairment losses and impairment reversals by class of assets are disclosed within the Property, Plant and Equipment balances consolidated in Note 14. The amounts are charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure dependent on the class of impairment.

During 2021/22 the Council has recognised the following impairment losses:

	31-Mar-21	31-Mar-22
	£'000	£'000
Land & Buildings	1,125	3,590
Community Assets	30	158
Infrastructure Assets	513	104
Vehicles Plant & Equipment	-	54
Total	**1,668**	**3,906**

16 HERITAGE ASSETS

Reconciliation of the carrying value of heritage assets held by the Council

	Museum & Library Collections	Tredegar House & Park	Public Art & Features	Archaeology	Total Heritage Assets
	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation					
At 1 April 2021	**12,914**	**1,280**	**3,057**	**103**	**17,354**
Revaluations / Additions	8	-	-	-	**8**
At 31 March 2022	**12,922**	**1,280**	**3,057**	**103**	**17,362**
Depreciation charge in year	-	-	-	-	-
At 31 March **2022**	-	-	-	-	-
Net Book Value					
At 1 April 2021	12,914	**1,280**	3,057	103	**17,354**
At 31 March 2022	**12,922**	**1,280**	**3,057**	**103**	**17,362**

	Museum & Library Collections	Tredegar House & Park	Public Art & Features	Archaeology	Total Heritage Assets
	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation					
At 1 April 2020	**12,914**	**1,280**	**3,057**	**103**	**17,354**
Revaluations	-	-	-	-	-
At 31 March 2021	**12,914**	**1,280**	**3,057**	**103**	**17,354**
Depreciation charge in year	-	-	-	-	-
At 31 March **2021**	-	-	-	-	-
Net Book Value					
At 1 April 2020	12,914	**1,280**	3,057	103	**17,354**
At 31 March 2021	**12,914**	**1,280**	**3,057**	**103**	**17,354**

Further information on the collections held
Museum Collection

The Council has developed its collection since 1888. The collection now illustrates the changing face of the South Wales rural and industrial landscape and includes donations from the Arts Council of Wales and the Contemporary Art Society for Wales.

Elements of the collection are regularly exhibited at the museum on a rotating basis. Key elements of the collection include:

- 19th and 20th century mainly British oil paintings, watercolours, drawings and prints with particular attention directed to topographical works relating to Newport. The collection represents the work of a large number of artists including James Flewitt Mullock, David Cox, Dame Laura Knight, Stanley Spencer, William Roberts, Merlyn Evans and William Russell Flint;

- Contemporary paintings by Welsh artists or artists living in Wales. These include works by Falcon Hildred, Harry Holland, Thomas Rathmell, Evan Charlton, Felicity Charlton, Ernest Zobole and Jack Crabtree;

- Contemporary prints including work by Patrick Caulfield, Derek Boshier, John McFarlane, Chris Orr, Terry Millington, Anthony Davies and Norman Ackroyd;

- Decorative arts including Staffordshire figures, commemorative ware and studio ceramics. These include the Iris and John Fox collection, the John Wait teapot collection and works by Jane Hamlyn, Lucie Rie, Nicholas Homoky, Geoffrey Swindell and Morgan Hall.

Library Local Studies Collection

The Local Studies Collection stored within the Central Library contains published and archival materials relating to the history, geography and literature of South East Wales. Key elements within the collection are:

A. **The Delaney Letters –** A collection of nine volumes of correspondence containing the bulk of the papers of Mary Delaney (1700-1788). Among the papers are a number by distinguished contemporaries; including three fine autograph letters signed by Mary's friend Jonathan Swift, one by her suitor John Wesley, two by the Anglo

Saxon scholar Elizabeth Elstob and one by the bluestocking Elizabeth Montagu. Also present is an autograph epitaph by Horace Walpole.

B. **Papers of Sir Charles Hanbury Williams (1702 – 1759) –** These comprise some eighteen volumes of Hanbury Williams's secretarial letterbooks and original correspondence from his postings as Minister or Ambassador to Dresden Poland and Russia; plus his autograph "Journal begun at Berlin in June 1750", two volumes of autograph verse, a volume containing twelve autograph letters to him by Horace Walpole (1744-45), as well as by Lord Chesterfield, Hardwicke and others.

C. **The Haines Collection –** A collection of over 2,000 books, pamphlets and manuscripts relating to Monmouthshire, complied by William Haines and donated to the library by Sir Garrod Thomas in 1924.

D. The Chartist Collection – A collection of printed books, pamphlets and manuscripts relating to the uprising of 1839. The key element of the collection is the 25 volumes of original trial depositions.

Tredegar House & Park
Tredegar House is one of the best examples of a 17th century Charles II mansion in Britain. The contents of the property include paintings, furniture and other artefacts of the time period. From 16 March 2012 the property has been leased to the National Trust for Wales. Further information on the preservation and management of this property can be found on their website at http://www.nationaltrust.org.uk.

Public Arts & Fixtures
The Council holds a large number of public art features, such as murals and statues, on public display throughout the local area.

Archaeology
There are a number of archaeological sites within the Council area, and as a result, over the last 25 years this collection has substantially increased in size.

The archaeology collections of the Newport Museum and Art Gallery include:

- Prehistoric material from the old County of Gwent most notably the Severn Estuary;
- Roman material mostly from the Roman sites of Caerwent and Caerleon, Mill Street;
- Medieval material representing mostly castles and abbeys;
- Collections of local and non-local prehistoric flints; and
- Associated archive material.

In addition, some material originating from excavations carried out on historic monuments on behalf of the Welsh Office (CADW), and excavations prior to new developments is held – most significantly, the Newport Ship timbers and associated artefacts.

The management of the collections is overseen by the Museum and Art Gallery Manager. The Museum and Arts Gallery manager manages a small team of professional staff which curates the collections and monitors its wellbeing. A project to establish a full computerised inventory of the collections began in 2006 and encompasses all collections cared for by the Museums & Heritage Service. Completing the documentation plan remains an important goal for the museum, but due to staffing resourcing issues the timetable for completion has slipped drastically and it cannot be determined when it will be completed. This programme of work allows for improvements in storage conditions and highlights specific conservation needs of objects and collections. While the in-house focus is on preventive conservation measures which aim to stabilise an object's condition, specialist active conservation treatment is out-sourced and generally sought before objects are displayed.

The Curatorial team are also responsible for all acquisitions and disposals of collections' objects. Each potential acquisition is assessed against a number of criteria set out in the Museums Acquisitions and Disposals Policy and in some cases specifically approved by the Cabinet Member for Leisure and Culture. Most objects added to the

collections are donated by individuals or organisations. Purchases are few and far between and are often carried out with grant aid from external bodies such as The Art Fund or the V&A Purchase Grant Fund. The disposal process follows ethical guidelines published by the Museums Association, an umbrella organisation for museums and museum professionals in the UK. It favours the transfer of objects to other organisations within the public domain.

17 INVESTMENT PROPERTIES

The following table summarises the movement in the value of investment properties over the year:

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance at start of the year	10,897	12,945
Additions	-	1
Disposals	-	(5)
Net gains/ (losses) from fair value adjustments	(77)	(411)
Transfers:		
- to / from Property, Plant and Equipment	2,847	-
- to / from Assets Held for Sale	(722)	-
- to / from Public Conveniences	-	-
- to / from Commercial Properties	-	-
Balance at end of the year	**12,945**	**12,530**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	31-Mar-21	31-Mar-22
	£'000	£'000
Rental income from investment property	(1,576)	(1,370)
Direct operating expenses arising from investment property	1,642	1,302
Net (gain) / loss	**66**	**(68)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

Fair Value Measurement of Investment Property

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2022 are as follows:

Recurring fair value measurements using:	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2022
	£'000	£'000	£'000
Office units	601	39	640
Commercial units	1,413	7,634	9,047
CCRCD Investment Properties		2,847	2,847
Total	**2,015**	**10,520**	**12,535**

Comparative figures as at 31 March 2021 were:

Recurring fair value measurements using:	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31st March 2021
	£'000	£'000	£'000
Office units	339	273	612
Commercial units	3,262	6,224	9,486
CCRCD Investment Properties	-	2,847	2,847
Total	**3,601**	**9,344**	**12,945**

There were no transfers between any of the levels during the year.

Significant Observable Inputs – Level 2: The fair value for some of the commercial units has been based on an income approach in the current market, having regard to the passing rent being adopted and utilising comparable evidence of other similar lettings in close proximity where rent reviews are due. Where appropriate, rent has been capitalised in line with what the market is currently demanding, following research into appropriate yields and multipliers relevant to local conditions. The level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs – Level 3: The office units and many of the commercial units in the local Council area are also based on rent information where it exists, but in the absence of comparable evidence for specific properties, having to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels and bad debt levels. These properties are therefore categorised as Level 3 in the fair value hierarchy as significant unobservable inputs are used to determine the measurements.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use. There has been no change in the valuation techniques used during the year for investment properties.

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3:

	31-Mar-22 £'000	Valuation technique used to measure fair value	Unobservable inputs and Sensitivity
Office Units	39	Hardcore and Topslice*	Rental growth, Collection of rent, Discount rate, Basis of occupation
Commercial Units	7,634	Term and Reversion, Hardcore and Topslice	Rental growth, Special purchaser, Discount rate

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out by an external valuer, Newport Norse Ltd, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation experts work closely with the Council's finance officers.

*Term and Reversion and Hardcore and Topslice are form of valuation methods

Term and Reversion capitalises the rent received at an appropriate yield derived from comparables up until the next lease event; rent review or lease renewal. Then an ERV (Estimated Rental Value) is determined again from comparables and this is capitalised (usually at a slightly higher yield to reflect the risk of the uncertainty of the ERV) in perpetuity deferred for the amount of time until the next lease event. Both values are added together to give the whole capital value.

Hardcore and Topslice is an alternative method to using term and reversion. The 'Hardcore' or the rent received is capitalised in perpetuity at an appropriate yield. An ERV is assumed and the Hardcore is deducted from this figure

to determine the 'Topslice'. This is then also capitalised in perpetuity at the same yield as the Hardcore and then deferred for the amount of time until the next lease event. Both values are added together to give the whole capital value.

18 FINANCIAL INSTRUMENTS

a) Financial Instruments – Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grant, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year measured at amortised cost comprised:

- Long-term loans from Public Works Loan Board and commercial lenders
- Short-term loans from other local authorities
- Any overdraft facility is also treated in a similar fashion to short term loans
- Finance leases detailed in Note 38
- Private Finance Initiative contracts detailed in Note 39
- Trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year and held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- Cash in hand
- Bank current and deposit accounts with Santander bank
- Loans to companies and individuals as detailed in the note
- Transferred debt from a number of local authorities as a result of local government reorganisation
- Trade receivables for goods and services delivered

Unquoted equity investments held at cost, comprising:

- Equity investments in Newport Transport Ltd

b) Financial Instruments – Balances

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets

	Non-Current		Current	
	31-Mar-21	**31-Mar-22**	**31-Mar-21**	**31-Mar-22**
	£'000	£'000	£'000	£'000
Financial assets at amortised cost:				
- Investments	-	-	15,294	56,294
- Debtors:				
- Financial assets held at contract amount	-	-	9,591	11,825
- Tredegar house lease premium	7,083	8,849	241	241
- Finance Leases	5,825	5,825	-	-
- Other long-term debtors	6,606	12,542	-	-
- Cash & Cash Equivalents	-	-	7,201	5,756
Amortised Cost Total	**19,514**	**27,216**	**32,327**	**74,116**
Financial assets at Fair Value through other comprehensive income - designated equity instrument	447	447	-	-
Total Financial Assets	**19,961**	**27,663**	**32,327**	**74,116**

Financial Liabilities

	Restated			
	Non-Current		Current	
	31-Mar-21	**31-Mar-22**	**31-Mar-21**	**31-Mar-22**
	£'000	£'000	£'000	£'000
Financial liabilities at amortised cost:				
- Borrowing	145,725	136,058	5,648	5,049
- Creditors*	17,629	15,636	18,962	42,081
- PFI & Lease liabilities	39,320	38,716	2,447	2,257
Total Financial Liabilities	**202,674**	**190,411**	**27,057**	**49,387**

*Current debtors excludes £56.8m of non-contractual current debtors that do not meet the definition of financial assets at amortised cost.

Current creditors excludes £28.6m of non-contractual current creditors that do not meet the definition of financial liabilities at amortised cost.

Deferred Tax Asset (CCRCD)	**31-Mar-21**	**31-Mar-22**
	£'000	£'000
Deferred Tax Asset	141	131
Total Deferred Tax Asset	**141**	**131**

c) Financial Instruments – Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2022, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local Council loans.

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity at 31st March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

d) Financial Assets - Fair Value

Fair values of the Council's financial assets is not significantly different to the amortised cost as recognised on the balance sheet.

e) Financial Liabilities - Fair Value

For the purpose of fair value calculations, short term borrowing is comprised of temporary loans and accrued interest and isn't subject to fair value consideration where as PWLB loans that involve equal instalment of principal repayments have been treated as a long term borrowing liability despite appreciating a short term repayment component.

	Fair Value Level	Restated Balance Sheet 31-Mar-21 £'000	Restated Fair Value 31-Mar-21 £'000	Balance Sheet 31-Mar-22 £'000	Fair Value 31-Mar-22 £'000
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	101,973	126,979	97,064	109,542
Long-term LOBO loans	2	30,000	49,578	30,000	44,520
Other long-term loans	2	5,000	7,957	5,000	6,644
Long term interest free loans	2	8,628	7,869	8,432	8,310
Lease payables and PFI liabilities	3	39,320	70,180	38,716	60,852
Total		**184,921**	**262,563**	**179,212**	**229,868**
Liabilities for which fair value is not disclosed*		39,808		60,585	
Total Financial Liabilities		**224,729**		**239,797**	
Recorded on balance sheet as:					
Short-term creditors		18,962		42,081	
Long-term creditors		12,627		15,636	
Short-term borrowing		5,648		5,049	
Long-term borrowing		145,725		136,058	
Other short-term liabilities		2,447		2,257	
Other long-term liabilities		39,320		38,716	
Total Financial Liabilities		**224,729**		**239,798**	

* This predominantly reflects long term creditors and short-term financial liabilities including trade payables assumed to approximate to the carrying amount.

19 INVENTORIES

Inventories are purchased and used by the Council at historical cost. Work in progress is included at cost.

	31-Mar-21 £'000	31-Mar-22 £'000
Stocks		
Building Services	272	269
Leisure & Catering	2	3
Museum Shop	-	-
Printing/Stationery	10	7
Social enterprise (Monwel Hankinson)	11	14
Social Services	-	739
	295	**1,032**

20 SHORT TERM DEBTORS

Short term debtors are shown in the Balance Sheet net of provisions for bad and doubtful debts:

	31-Mar-21			31-Mar-22		
	Gross	Provision	Net	Gross	Provision	Net
	£'000	£'000	£'000	£'000	£'000	£'000
General	14,133	(4,543)	9,590	18,226	(6,401)	11,825
Council tax payers	9,272	(5,482)	3,790	9,877	(6,365)	3,512
NHS bodies	2,862	-	2,862	2,444	-	2,444
Central government bodies*	42,098	-	42,098	53,407	-	53,407
Other local authorities	6,111	-	6,111	3,197	-	3,197
	74,476	**(10,025)**	**64,451**	**87,151**	**(12,766)**	**74,385**

* Central government bodies debtors include grants issued by Welsh Government that were initially issued to other Local Authorities, who act as banking facilities, but relate to funds directly for Newport City Council.

21 CASH AND CASH EQUIVALENTS

The cash held by the Council represents petty cash balances held by numerous establishments throughout the Council and any credit bank balances that are not included within our “pooled account” with Santander.

The bank current accounts includes un-cleared payments within the banking system. In practice, the treasury management policy of the Council is to maintain the pooled bank account balance as near to zero as possible to minimise interest charges on overdrawn balances and maximise interest earned by short-term lending of surplus funds. The actual pooled bank balance at the close of business on 31 March 2022 was £153k in credit, (31 March 2021 – £1,108k in credit).

The balance of Cash and Cash Equivalents is made up of the following elements:

	31-Mar-21	31-Mar-22
	£'000	£'000
Cash held by the authority	14,759	9,760
Bank Current accounts	(7,558)	(4,004)
Total Cash and Cash Equivalents	**7,201**	**5,756**

22 ASSETS HELD FOR SALE

	31-Mar-21 £'000	31-Mar-22 £'000
Assets at the start of the year	1,284	3,046
New Appropriations	94	90
Assets newly classified as held for sale:	722	350
Surplus Assets	-	-
Investment Properties	-	-
Property, Plant and Equipment	-	-
Revaluation losses	(1)	(66)
Revaluation gains	1,104	-
Assets declassified as held for sale:	-	(9)
to Property, Plant and Equipment	-	-
Community Land	-	-
to Surplus Assets	-	-
Assets sold	(157)	(2,669)
Assets at year-end	**3,046**	**742**

23 SHORT TERM CREDITORS

The following is an analysis of the short term creditors shown in the Balance Sheet:

	31-Mar-21 £'000	31-Mar-22 £'000
General	(19,462)	(42,081)
Central government bodies	(13,577)	(13,940)
Prepayments of council tax	(1,397)	(1,449)
NHS bodies	(358)	(583)
Other local authorities	(9,069)	(12,011)
	(43,863)	**(70,064)**

24 PROVISIONS

Provisions represent sums set aside for liabilities or losses which are likely to be incurred or certain to be incurred, but where the amount or timing of such liability is not certain. In the case of each of the provisions listed below, the amount of the liability and the timing of the resulting transfer of economic benefits are uncertain.

	31-Mar-21 £'000	Unused amounts reversed £'000	Amounts used £'000	Further provisions £'000	31-Mar-22 £'000
Current Provisions					
Accumulated absence provision	(2,831)	2,831	-	(2,958)	(2,958)
Social Care Tasks	(230)	230	-	-	-
Insurance / MMI Provision	(2,494)	-	935	(745)	(2,304)
Energy Provision	(30)	-	-	-	(30)
Chartist tower	(264)	-	264	-	-
Other	(152)	152	-	-	-
Health & Safety Fine	-	-	-	(1,100)	(1,100)
Overpaid Court Fees reimbursement	-	-	-	(122)	(122)
	(6,001)	**3,213**	**1,199**	**(4,925)**	**(6,514)**
Long Term Provisions					
Landfill Capping	(5,873)	-	-	(747)	(6,620)
Cardiff City Region	(203)	-	-	(39)	(242)
	(6,076)	**-**	**-**	**(786)**	**(6,862)**

Accumulated Absences	Accounting provision to recognise impact of accruing leave at the end of the year. No payment is made as employees have to take leave prior to leaving the Council. This is therefore not cash backed.
Social Care Settlement	Social Care Tasks provision which was set up in 2017/18 for the estimated liability for Local Authorities to settle historical liabilities stemming from the Supreme Court ruling August 2017 on the funding of tasks performed by a registered nurse. Welsh Government provided additional funding to assist such that no transactions have been drawn from the provision in last 2 years and the potential is remote, so balance has been transferred back to Social Services and provision closed.
Insurance / MMI	Provision for known insurance claims which currently being made against the Council for a variety of incidents. These insurance claims have been assessed as having either a 'likely' or 'reasonable' chance of pay out.
Energy Provision	Estimated value of historic utility bills not yet invoiced by provider.
Chartist Tower	This provision was to recognise the potential liability of non payment of rent 2021/22, this has been utilised in year and the provision exhausted.
Health & Safety Fine	Potential fine in the event of a prosecution by HSE for breaches of the Health & Safety at Work Act.
Court Cost Reimbursement	The Council has received a receipt from HM Courts for the overpayment of court fees between period 2014-2018. Those fees would have been recharged to court attendees, so an exercise will be undertaken to trace individuals affected to make a reimbursement

Landfill Capping	Provision to comply with recommended practice in respect of costs relating to the future capping of Landfill sites once they have been fully utilised. The estimation for the landfill provision is made up of two elements, the estimated cost of capping the site and the aftercare costs once the site has been capped. The Council undertakes a review of potential liability every 5 years, with the last being undertaken in 2021-22.
Friar's Walk	This relates to an income subsidy agreement until 2032, and is split between short and long term consideration
City Deal Joint Venture	Reflects the provisions communicated by the 10 Authority regenerative partnership

In addition to the above the authority also has bad debt provisions in relation to Debtors, Council Tax and Housing Benefits. These are detailed separately within the specific notes.

25 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 10.

26 UNUSABLE RESERVES

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Revaluation Reserve	(197,843)	(208,222)
Capital Adjustment Account	(76,880)	(95,993)
Financial Instruments Adjustment Account	1,150	1,045
Deferred Capital Receipt Reserve	(21)	(21)
Financial Instruments Revaluation Reserve	(251)	(251)
Pensions Reserve	475,114	403,202
Accumulated Absence Account	2,834	2,958
Cardiff City Region Aggregated Unuseable Reserves (NCC share)	(4,022)	(4,371)
	200,081	**98,347**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation or;
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated in the Capital Adjustment Account.

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	**(163,939)**	**(197,843)**
Upward revaluation of assets	(79,933)	(14,794)
Downward revaluation of assets and impairment losses not charged to provision of services	45,948	3,138
Surplus or deficit on revaluation of non-current assets not charged to provision of services	**(33,985)**	**(11,656)**
Difference between fair value depreciation and historic cost depreciation	-	-
Accumulated gains on assets sold or scrapped	81	1,277
Amount written off to the Capital Adjustment Account	**81**	**1,277**
Balance at 31 March	**(197,843)**	**(208,222)**

Capital Adjustment Account

The Capital Adjustment Account is predominantly an accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed. For example, the credit balance on the Account shows that an authority has generally financed capital investment in advance of receiving the benefits of that investment. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	**(96,232)**	**(76,876)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	23,565	25,513
Revaluation losses/gains on Property, Plant and Equipment	18,108	(960)
Amortisation of intangible assets	-	-
Revenue Expenditure Funded from Capital under Statute	4,681	4,169
Amount of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	324	2,922
	46,678	**31,643**
Adjusting amounts written out of the Revaluation Reserve	(81)	(1,277)
Net written out amount of the cost of non-current assets consumed in the year	**46,597**	**30,366**
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	(25)	(18)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing - Non REFCUS	(19,935)	(39,235)
Statutory provision for the financing of capital investment charged against the Council Fund balances	(10,888)	(10,008)
Capital expenditure charged against the Council Fund balance	(499)	(696)
	(31,347)	**(49,958)**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	77	412
Movements in the market value of Assets Held for Sale debited or credited to the Comprehensive Income and Expenditure Statement	-	66
Movement of Cardiff City Region entries to explicit reserve	4,024	-
Balance at 31 March	**(76,876)**	**(95,989)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the Council Fund Balance through the Movement in Reserves Statement. Over time, the expense is posted back to the Council Fund Balance in accordance with statutory arrangements for spreading the burden on the Council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at the end of the year will be charged to the Council Fund over the next 39 years.

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	**3,816**	**1,150**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(2,030)	-
Proportion of premiums incurred in previous financial years to be charged against the Council Fund Balance in accordance with statutory requirements	(636)	(105)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	**(636)**	**(105)**
Balance at 31 March	**1,150**	**1,045**

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gain recognised on the disposal of non-current assets for which a cash settlement has yet to be received. Under statutory arrangements, the Council does not treat these gains as usable for financing capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	**(21)**	**(21)**
Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	-	-
Transfer to Capital Receipts Reserve	-	-
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
Balance at 31 March	**(21)**	**(21)**

Financial Instrument Revaluation Reserve

This reflects the Council's interest in Newport Transport Bus Company. There have been no changes / movements in value during 2021-22.

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	**351,827**	**475,114**
Actuarial gains or losses on pensions assets and liabilities	104,470	(107,175)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	35,240	54,057
Employer's pensions contributions and direct payments to pensioners payable in the year	(16,423)	(18,795)
Balance at 31 March	**475,114**	**403,201**

Accumulated Absences Reserve

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	**4,354**	**2,832**
Settlement or cancellation of accrual made at the end of the preceding year	(4,353)	(2,832)
Amounts accrued at the end of the current year	2,833	2,958
Movement of Cardiff City Region entries to explicit reserve	(2)	-
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1,522)	126
Balance at 31 March	**2,832**	**2,958**

Cardiff City Region City Deal Aggregated Unusable Reserves

Cardiff City Region is a 10 authority regenerative partnership administered by Cardiff County Council on behalf of the other Councils. The following balances have been extracted from the draft City Deal annual accounts reflective of Newport CC share.

	Restated 31-Mar-21 £'000	31-Mar-22 £'000
Balance at 1 April	**-**	**(4,022)**
Capital adjustment account	(4,024)	(331)
Accumulated absences	2	2
Accumulated interest	-	(20)
Balance at 31 March	**(4,022)**	**(4,371)**

27 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	31-Mar-21 £'000	31-Mar-22 £'000
Interest received	(56)	(21)
Interest paid	10,339	11,050
	10,283	**11,029**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	31-Mar-21 £'000	31-Mar-22 £'000
Depreciation	(22,524)	(22,681)
Impairment and downward valuations	(19,157)	(1,872)
(Increase) / Decrease in creditors	(5,402)	(20,803)
Increase / (Decrease) in debtors	1,738	9,363
Increase / (Decrease) in stock	94	737
Pensions liability	(18,817)	(35,262)
Carrying amount of non-current assets sold	(324)	(2,922)
Other non cash adjustments	2,378	(862)
	(62,014)	**(74,302)**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	31-Mar-21 £'000	31-Mar-22 £'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	548	2,655
Any other items for which the cash effects are investing or financing cash flows	19,172	38,320
Net cash flows from operating activities	**19,720**	**40,975**

28 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	31-Mar-21	31-Mar-22
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	19,612	41,710
Purchase of short-term and long-term investments	3,040	41,000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(548)	(2,655)
Other receipts from investing activities	(18,870)	(30,047)
Net cash flows from investing activities	**3,234**	**50,008**

29 CASH FLOW STATEMENT - FINANCING ACTIVITIES

	31-Mar-21	31-Mar-22
	£'000	£'000
Cash receipts of short- and long-term borrowing	(25,775)	(190)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,571	1,038
Repayments of short- and long-term borrowing	40,035	10,456
Net cash flows from financing activities	**15,831**	**11,304**

30 MEMBERS' ALLOWANCES AND EXPENSES

All Councils are required to publish details of the amounts paid to elected Members each year. Information on the amounts actually paid to each Council Member is published on the Council's web site. The Council has 53 Members. The total allowances and expenses paid in the financial year was £964,064 (2020/21 – £951,689). All Members are entitled to the same basic allowance of £14,368 per annum (2020/21 - £14,218). Each Member holding the following positions are also paid additional responsibility allowances as detailed below:

	31-Mar-21	31-Mar-22
	£	£
Leader of the Council	35,232	35,606
Deputy Leader	20,732	20,952
Mayor	8,700	8,793
Deputy Mayor	3,700	3,740
Cabinet Member (x7)	16,232	16,405
Chair of Scrutiny Forum (x4)	8,700	8,793
Chair of Planning (x1)	8,700	8,793
Chair of Democratic Services (x1)	8,700	8,793
Chair of Licensing (x1)	8,700	8,793
Opposition Leader	8,700	8,793

During the 2021/22 financial year, a total of 8 Lay (unelected) Members served for the Authority. 8 of these Lay Members claimed a total of £5,628, including both fees and expenses (2020/21: £2,543 claimed by seven Lay (unelected) Members) to sit on a number of committees.

31 OFFICER REMUNERATION

The remuneration paid to the Council's senior employees was as follows:

2021 / 22 Post Holder Information	Salary/ Payment* £	Car Allowances & Mileage £	Termination Benefits £	Pensions contributions £	Total £
Chief Executive	133,754	-	-	28,356	162,110
Strategic Director - Environment & Sustainability (appointed 11th Oct 2021)	51,380	-	-	9,621	61,001
Strategic Director - Social Services (appointed 11th Oct 2021)	51,380	-	-	10,892	62,272
Strategic Director - Transformation & Corporate Centre (appointed 11th Oct 2021)	51,380	-	-	10,892	62,272
Chief Education Officer (post redesignated to Head of Education on 29th June 2021)	20,778	-	-	4,405	25,183
Head of Education	65,499	-	-	13,886	79,385
Head of Law and Regulation (Monitoring Officer) (post redesignated to Head of Law & Standards on 29th June 2021)	20,778	-	-	4,405	25,183
Head of Law & Standards	65,499	-	-	13,886	79,385
Head of Finance (Section 151 Officer)	86,277	-	-	18,291	104,568
Head of People & Business Change (post redesignated to People, Policy & Transformation on 29th June 2021)	21,450	-	-	4,547	25,998
Head of People, Policy & Transformation, appointed to Strategic Director - Transformation & Corporate Centre (11th Oct 2021)	24,007	-	-	5,090	29,097
Head of People, Policy & Transformation (appointed 22nd Feb 2022)	8,585	-	-	1,820	10,404
Acting Head of Regeneration, Investment & Housing Services - (post split between Head of Regeneration & Economic Development and Head of Housing & Communities 13th Feb 2022)	74,518	-	-	15,798	90,316
Head of Regeneration & Economic Development (appointed 14th Feb 2022)	7,610	-	-	1,613	9,223
Head of Housing & Communities (no appointment made during remainder of 21-22)	-	-	-	-	-
Head of Environment & Public Protection (appointed on 21st Feb 2022)	8,585	-	-	1,820	10,404
Head of Adult & Community Services * (post redesignated to Head of Adult Services on 29th June 2021)	23,527	-	-	4,988	28,515
Head of Adult Services * # (left Authority of 31st Oct 2021)	34,110	-	-	6,884	40,994
Head of Adult Services (appointed on 1st Nov 2021)	33,384	-	-	7,077	40,462
Head of Children & Young People Services # (post redesignated to Head of Children Services on 29th June 2021)	21,450	-	-	4,547	25,998
Head of Children Services (appointed to Strategic Director - Social Services 11th Oct 2021)	24,007	-	-	5,090	29,097
Head of Children Services (appointed on 21st Feb 2022)	8,585	-	-	1,820	10,404
Head of Prevention & Inclusion (appointed on 28th Feb 2022)	6,915	-	-	1,466	8,381
Head of City Services ** (appointed to Strategic Director - Environment & Sustainability 11th Oct 2021)	45,458	-	-	8,221	53,679
Head of City Services - No appointment made during remainder of 21-22	-	-	-	-	-
TOTAL	**888,915**	**-**	**-**	**185,415**	**1,074,330**

2020 / 21 Post Holder Information	Salary / Payment*	Car Allowances & Mileage	Termination benefits	Pensions contributions	Total
	£	£	£	£	£
Chief Executive - (Appointed 29 July 2020)	86,068	525	-	18,246	104,839
Strategic Director - Place - (appointed to Chief Executive 29th July 2020)	37,809	300	-	8,016	46,125
Chief Education Officer	85,001	605	-	18,020	103,626
Head of Law and Regulation (Monitoring Officer)	85,001	403	-	18,020	103,424
Head of Finance (Section 151 Officer)	85,001	-	-	18,020	103,021
Head of People & Business Change	85,001	605	-	18,020	103,626
Head of Regeneration, Investment & Housing Services - (left Authority 7th September 2020)	37,070	471	37,407	7,859	82,807
Acting Head of Regeneration, Investment & Housing Services - (appointed 11th May 2020)	69,710	-	-	14,779	84,489
Head of Adult & Community Services *	92,001	605	-	19,504	112,110
Head of Children & Young People Services #	85,001	968	-	18,020	103,989
Head of City Services **	85,001	605	-	16,453	102,059
TOTAL	**832,664**	**5,087**	**37,407**	**174,957**	**1,050,115**

Note* There were no employees whose salary, excluding pension contributions, exceeded £150,000 per annum.

Note** Social Care staff have been provided with additional payment by Welsh Government during 2021-22. For clarity and consistency, these amounts have been excluded from the calculation to complete the above table.

Note*** The Head of Adult & Community Service / Head of Adult Services was paid additional sums (£6,414 Salary and £1,360 Pension Contribution) for undertaking the additional Statutory role of Director of Social Services (£7,000 salary and £1,484 Pension Contribution during 2020-21). The Statutory role of Director of Social Services is ordinarily undertaken by the current vacant post of Strategic Director - People.

Note**** Salary for the Strategic Director - Environment & Sustainability are recorded Gross. Included within these figures are the effective salary sacrifice for the purchase of a car (Salary £12,675.24) during 2021/22, (in 2020/21 salary of £7,393.89).

In addition to the above the Chief Executive acts as the Returning Officer. During 2021/22 the Chief Executive received £9,529.48 for their role as the Authorities Returning Officer. (In 2020/21, the position received £0.00).

The ratio between the Council's highest paid employee and the median position for 2021/22 was 1:5.5 (2020/21 was 1:5.3). The median position for the Council for 2021/22 is £24,920 (2020/21 was £24,012). These figures do not include taxable expenses and benefits in kind as this is not likely to make a material difference to the ratios.

The Council's other employees, these exclude those posts mentioned in the previous table, receiving more than £60,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts, the figures below include amounts that are paid to employees on redundancy.

	31-Mar-21		31-Mar-22	
	Teaching	Other	Teaching	Other
£110,000 - £114,999			1	-
£105,000 - £109,999	2	-	2	-
£100,000 - £104,999	1	-	2	-
£95,000 - £99,999	3	-	2	-
£90,000 - £94,999	1	-	1	-
£85,000 - £89,999	3	-	3	-
£80,000 - £84,999	5	-	9	-
£75,000 - £79,999	10	1	12	1
£70,000 - £74,999	11	-	13	1
£65,000 - £69,999	20	4	17	2
£60,000 - £64,999	14	2	18	6
Total	**70**	**7**	**80**	**10**

Note: Social Care staff have been provided with additional payment by Welsh Government during 2021-22. For clarity and consistency, these amounts have been excluded from the calculation to complete the above table.

The number of exit packages, with the total cost per band and the total cost of the compulsory and other redundancies are set out below:

The table below shows the cost of redundancies that took place during the 2021/22 financial year.

	Number of compulsory redundancies 31-Mar-22	Number of other departures agreed 31-Mar-22	Total number of exit packages 31-Mar-22	Total Cost of exit packages in each band 31-Mar-22 £
£0 - £20,000	6	49	55	376,406
£20,001 - £40,000	4	17	21	559,198
£40,001 - £60,000	1	3	4	185,771
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	-	-	-
Total	**11**	**69**	**80**	**1,121,375**

	Number of compulsory redundancies 31-Mar-21	Number of other departures agreed 31-Mar-21	Total number of exit packages 31-Mar-21	Total Cost of exit packages in each band 31-Mar-21 £
£0 - £20,000	1	26	27	229,767
£20,001 - £40,000	-	12	12	369,281
£40,001 - £60,000	1	5	6	275,598
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	-	-	-
Total	**2**	**43**	**45**	**874,646**

32 TERMINATION BENEFITS

The Council completed redundancies of 80 employees in 2021/22, incurring liabilities of £1.1m (45 employees at £0.9m in 2020/21). See Note 31 for the number of exit packages and total cost per band. All balances were payable to Council officers, as part of the Council's general services rationalisation and efficiencies programme.

33 EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and for any non-audit services provided by the Council's external auditors:

	31-Mar-21	31-Mar-22
	£'000	£'000
Fees payable with regard to external audit of accounts	192	198
Fees payable in respect of local government measure	103	106
Fees payable for the certification of grant claims and returns for the year	56	56
Fees payable for other financial audit work	1	1
Total	**352**	**361**

34 GRANTS INCOME

The Council credited the following grants, contributions and donations to the Revenue Comprehensive Income and Expenditure Statement in 2021/22:

	31-Mar-21	31-Mar-22
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	181,641	194,380
Other Non-ring fenced government grants	3,876	740
Contribution from Non-Domestic Rate	46,436	49,472
Total	**231,953**	**244,592**

	31-Mar-21	31-Mar-22
Credited to Services	£'000	£'000
Education Grants		
COVID19 Related Grants	6,523	5,250
Education Improvement Grant	5,989	6,498
Post 16	6,481	8,154
Pupil Deprivation	5,697	5,687
LA Education Grant	3,804	9,672
Teachers' Pensions Grant	109	-
Maintenance Grant	2,387	2,446
Accelerated Learning Programme	1,967	-
Other	1,181	1,375
Education Contributions		
Gwent Music	1	327
Other	2,289	3,809
Education Donations	205	200

Social Services		
COVID19 Related Grants	9,233	9,247
Supporting People	6,464	8,003
Substance Misuse	6,184	5,225
Children & Communities Grant - Families First Preventions	575	615
Children & Communities Grant - Families First	909	1,032
Youth Offending Service	395	435
Regional Domestic Violence	636	804
Home First	1,101	1,799
Sustainable Social Services	2,008	4,538
Training	375	389
Other	2,180	2,978
Social Services Contributions		
Section 28A funding	2,095	2,095
Intermediate care fund	2,497	2,802
Substance Misuse	1,728	1,784
Other	2,957	3,065
Regeneration, Investment & Housing Grants		
COVID19 Related Grants	1,685	3,429
Children & Communities Grant - Communities First Grants	534	459
Childcare Offer Delivery	8,805	8,320
Children & Communities Grant - Flying Start	5,691	5,851
Children & Communities Grant - Families First Youth	303	308
Communities for Work	1,214	1,357
Inspire to Achieve	859	1,646
Inspire to Work	238	493
Adult Education	398	361
Other	2,678	3,298
Regeneration, Investment & Housing Contributions	649	2,518
Regeneration, Investment & Housing Donations	5	-
City Services Grants		
COVID19 Related Grants	4,336	4,209
Housing Benefit Subsidy	652	666
Sustainable Waste	911	995
Concessionary Fares	2,518	2,614
Other	2,719	2,958
City Services Contributions	63	145
Corporate Services Grants		
COVID19 Related Grants	2,017	2,801
Housing Benefit Subsidy	41,352	38,287
NNDR	331	317
Other	4,751	3,651
Corporate Service Contributions		
Other	1,419	3,497
	160,098	**176,409**

Where grants, contributions and donations are given, subject to conditions being met, they are held as Capital Grants Received in Advance (Unapplied) until the conditions are met.

35 AGENCY EXPENDITURE AND INCOME

The Council acted as an agent on behalf of the following in the provision of goods and services:

Non Domestic Rates collection.

A net debtor of £1.532m at 31 March 2022 (£2.875m at 31 March 2021) is included in the balance sheet which represents the amount by which the cash paid over to Welsh Government exceeds the amount collected from ratepayers.

Covid 19 Hardship Support Grants

The Council received a Covid hardship grant payment from Welsh Government totalling £19.75million, the majority of which is reported in note 34. However, there are 3 items in below table that have been separated out of that holistic sum as being agency arrangements where the Council is not providing services directly but instead is being used by Welsh Government as a means of distributing its support to recipients. Where an admin fee has been provided for this service by Welsh Government that income is shown as grant under note 34. There were no specific awards agreed in respect of these 3 aspects, and grant is paid in arrears based on claim expenditure. As at 31st March the final claims of the year hadn't been settled and the debtor balance is reflective of the level of funding accrued and not yet paid.

The below table details the financial extent of each grant based agency scheme operated on behalf of Welsh Government.

Grant scheme	Narrative	Amount Received in 2021/22 £'000	Amount Spent in 2021/22 £'000	Debtor 2021/22 £'000	Creditor 2021/22 £'000
Social Care					
Social care bonus scheme (£500 and £735)	Bonus payment for individual care workers.	(3,117)	3,116	-	1
Cost of Living Support Scheme	£150 cost-of-living support payment for households who live in properties in council tax bands A-D; and all households who are recipients of the Council Tax Reduction Scheme in properties in council tax bands A-I.	-	7,343	7,343	-
Non Domestic Rates Reliefs & Business Grants					
NDR rate relief grants	Additional funding given to LAs to provide the relief so essentially a grant to businesses. Relief given to retail, leisure and hospitality sector	(19,158)	18,476	-	682
Business Grants	Grants to support businesses during lockdown closures.	(4,867)	3,707	-	1,160
Freelancer grants culture	Payment available for freelancers in the culture sector of up to £2.5k	(75)	75	-	-
Covid Hardship Grant					
SSP Enhancement	To top up to full salary where employees only receive statutory sick pay when off sick with Covid or having to self isolate as an infection control measure.	(132)	244	111	-
Self isolation payments	£500 for eligible individuals who have to self isolate.	(661)	1,416	754	-
Winter fuel support payment	A payment of up to £200 per eligible households to put towards their on-grid fuel bills.	(623)	1,705	1,082	-

Grant scheme	Narrative	Amount Received in 2020/21 £'000	Amount Spent in 2020/21 £'000	Debtor 2020/21 £'000	Creditor 2020/21 £'000
Social Care					
Social care bonus scheme (£500 and £735)	Bonus payment for individual care workers.	(1,720)	1,720	-	-
Non Domestic Rates Reliefs & Business Grants					
NDR rate relief grants	Additional funding given to LAs to provide the relief so essentially a grant to businesses. Relief given to retail, leisure and hospitality sector	(20,287)	20,004	-	283
Business Grants	Grants to support businesses during lockdown closures.	(40,653)	40,421	-	231
Freelancer grants culture	Payment available for freelancers in the culture sector of up to £2.5k	(580)	580	-	-
Covid Hardship Grant					
SSP Enhancement	To top up to full salary where employees only receive statutory sick pay when off sick with Covid or having to self isolate as an infection control measure.	(54)	108	54	-
Self isolation payments	£500 for eligible individuals who have to self isolate.	(253)	312	47	-
Winter fuel support payment	A payment of up to £200 per eligible households to put towards their on-grid fuel bills.	-	-	-	-

36 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Welsh Government

The Welsh Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in the analysis in Note 34.

Other Public Bodies

Precepts and Levies – details of precepts collected on behalf of other organisations and an analysis of amounts levied on the Council by other bodies can be found in Note 11 to these accounts.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2021/22 is shown in Note 30. During 2021/22, works and services to the value of £21.5m were commissioned from or paid to companies in which 20 Members had an interest. This would include

Wastesavers Ltd, Newport Live, Newport Norse, Newport City Homes and Newport Transport as detailed below. (2020/21: £23.7m where 22 Members had an interest). As at 31st March 2022, the balances outstanding for related parties were debtors of £1.99m (2020/21 £1.96m) and creditors of £3.64m (2020/21 £2.49m).

Newport Norse has invited one Member of the Council on the board in their capacity as an elected Member, not as a private individual. Financial information in relation to Newport Norse is disclosed in the table on the next page

There were payments of £3.8m made to Waste Savers Ltd in 2021/22 (£3.8m in 2020/21). This company is independent from the Council. As at 31st March 2022, the balances outstanding for Wastesavers were debtors of £0 (£10k in 2020/21) and creditors of £270k (2020/21 £110k). There are no Members on the board of Wastesavers Ltd but, there is one Member of the Council on the board of Wastesavers Charitable Ltd, the parent company of Wastesavers Ltd. The council contract with the company for waste recycling services.

Newport City Council also made payments to Newport Live amounting to £618k excluding the subsidy in 2021/22 (2020/21 £405k), this is a company that has charitable status and is independent from the Council. The company has invited three Members of the Council on the board, in their capacity as elected Members, not private individuals. Newport Live is contracted by the Council to run its sport and leisure services. As at 31st March 2022, the balances outstanding for Newport Live were debtors of £236k (£26k in 2020/21) and creditors of £1.70m (2020/21 £364k).

Officers

There are two Senior Officers (Chief Executive and Strategic Director of Corporate Services) who have been elected to the board of Newport Norse and NPS Newport Limited. The Chief Executive was also director of CSC Foundry Ltd until 15th July 2021. No other Senior Officers hold any other positions of seniority within any other Public Sector body.

Entities Controlled or Significantly Influenced by the Council

Entities which are controlled or significantly influenced by the Council include two limited companies. The South East Wales Education Achievement Service Ltd and Newport Norse Ltd. The South East Wales Education Achievement Service Ltd is a company limited by guarantee, with the five Local Authorities in the Gwent area each being a member of the company. The objectives of the company are to provide services to the participating authorities in relation to their functions in the field of education and, subject to the participating authorities' unanimous prior approval, to other local authorities and other persons exercising functions in the field of education.

Newport Norse Ltd oversees the Council's property maintenance, estates, facilities management and capital projects design functions. Newport Norse and their subsidiary NPS Newport Limited, are Joint Venture Companies in which the Council has a 20% share and minority representation on the Board. The Council has a 50% "gain share" in the profits, which reduces the Council's service charge.

The Council has two pooled budget arrangements in the form of Section 33 Partnership Agreements between the five local authorities in the Gwent area and the Aneurin Bevan Local Health Board. The first of which is The Gwent Wide Integrated Community Equipment Service (GWICES) which is for the provision of an efficient and effective integrated community equipment service to users who are resident in the partner localities. This agreement came into effect on 1 October 2008.

The second is The Gwent Frailty Programme for the delivery of a range of services to avoid hospital admissions, facilitate early discharge and help individuals remain "happily independent". The Community Resource Teams (CRTs) provide integrated Urgent Response, Re-enablement and Falls services within each locality in line with agreed Locality Annual Commissioning Plans (LCPs).

The Council also participates in four joint ventures;

- Gwent Joint Records Committee which is the official archive service for the local authorities in the Monmouthshire area, the recognised place of deposit for public records and ecclesiastical parish records for the Diocese of Monmouth.

The Greater Gwent Cremation Committee oversees the management of the Gwent Cremation facilities.

The Project Gwyrdd is a partnership between, Caerphilly Borough County Council, The County Council of the City and County of Cardiff, Monmouthshire County Council, Newport Council and Vale of Glamorgan Council. This partnership has been set up to deliver long term, environmental, sustainable and cost effective solution for waste after recycling and composting has been maximised through economy of scale.

The Cardiff Capital Region City Deal was entered into by the Council in 2017. This is a £1.28 billion programme which will aim to achieve a 5% uplift in the region's Gross Value Added (GVA) by delivering a range of programmes which will increase connectivity, improve physical and digital infrastructures, as well as regional business governance.

The table below shows the receipts and the payments that Newport City Council has with each related party throughout the 2021/22 financial year. It also shows any outstanding balances as at 31st March 2022.

	2020/21			2021/22		
	Receipts	Payments	Outstanding Balances/ Commitments	Receipts	Payments	Outstanding Balances/ Commitments
	£'000	£'000	£'000	£'000	£'000	£'000
Limited Companies						
The South East Wales Education Achievement Service Ltd	(370)	991	(370)	-	1,083	-
Newport Norse	(1,486)	11,021	131	(1,756)	11,688	1,472
Pooled Budgets						
The Gwent Wide Integrated Community Equipment Service (GWICES)	-	388	-	-	414	-
The Gwent Frailty Programme	(1,793)	1,846	-	(1,834)	1,824	-
Joint Ventures						
Gwent Joint Records Committee	-	289	-	-	289	-
Greater Gwent Cremation Committee	(518)	536	-	(394)	239	-
Project Gwyrdd	-	2,106	-	-	2,096	-
Cardiff Capital Region City Deal (from 2017/18)	-	411	(303)	(489)	114	-

Subsidiary Company

Newport Transport Ltd is a company wholly owned by the Council. Newport Transport's board includes five Council Members nominated by the Council. As at 31st March 2022, the balances outstanding for Newport Transport Ltd were debtors of £0 and creditors of £213k and expenditure of £3.3m and income of £269k. There was also a bad debt provision balance of £206k.

Trust Funds and Third Party Assets

The Council passed a number of its trust fund holdings to the Community Foundation in Wales and with the agreement of the Charities Commission, passed the management of a number of other dormant funds to schools

in 2008/09. The Council acts as sole trustee for the remaining Education trust funds which had a value of £33,434 as at 31 March 2022. (2021: £38,964).

The Council operates 184 (2020/21: 179) appointee bank accounts holding £1,511,483 (2020/21: £1,593,374). These relate to third party monies held by the Council on behalf of its Social Service clients. These figures have been excluded from cash and cash equivalent figures reported in the accounts.

37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	31-Mar-21	31-Mar-22
	£'000	£'000
Opening Capital Financing Requirement	**277,704**	**274,278**
Capital investment		
Property, Plant and Equipment	20,972	46,096
Heritage Assets	-	8
Short term lease liability		323
Revenue Expenditure Funded from Capital Under Statute	4,681	4,169
Long Term Debtors (Loans to external companies)	2,268	4,688
Sources of finance		
Capital receipts	(25)	(18)
Government grants and other contributions	(19,935)	(49,442)
Sums set aside from revenue	(462)	8,932
Direct revenue contributions	(37)	(600)
Minimum Revenue Provision	(10,888)	(10,008)
Closing Capital Financing Requirement	**274,278**	**278,426**
Explanation of movements in year		
Increase in underlying need to borrow:		
Supported by government financial assistance	4,097	4,072
Un-supported by government financial assistance	1,729	8,330
Assets acquired under finance leases	447	251
Bullet Repayment of PFI Liability	-	-
Assets acquired under PFI contracts	1,196	1,504
Minimum Revenue Provision	(10,888)	(10,008)
Increase/ (Decrease) in Capital Financing Requirement	**(3,419)**	**4,149**

38 LEASES

Council as Lessee

Finance Leases

The Council has acquired a number of vehicles and equipment under finance leases. The assets acquired under these leases are included in Property Plant and Equipment in the balance sheet at the following net amounts as these are cancellable.

	31-Mar-21 £'000	31-Mar-22 £'000
Vehicle, Plant, Furniture	725	725
Equipment		245
	725	**970**

The Council is committed to making minimum payments under these leases, comprising settlement of the long-term liability for the interest in the asset acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The outstanding minimum lease payments are made up of the following amounts:

	31-Mar-21 £'000	31-Mar-22 £'000
Finance lease liabilities (net present value of minimum lease payments)		
-current	320	134
-non current	81	136
Finance costs payable in future years	5	19
Minimum lease payments	**406**	**289**

The minimum lease payments will be payable over the following periods:

	31-Mar-21 £'000	31-Mar-22 £'000
Not later than one year	321	141
Later than one year and not later than five years	85	148
	406	**289**

Operating Leases

The Council has acquired some of its buildings and fleet by operating leases. All vehicles acquired are now within the secondary rental period of the lease agreement and therefore payments due are excluded from the table below. The minimum lease payments due on properties under non-cancellable leases in future years are:

	31-Mar-21 £'000	31-Mar-22 £'000
Not later than one year	1,260	1,198
Later than one year and not later than five years	3,536	3,585
Later than five years	8,210	7,591
	13,006	**12,374**

NB. These figures have not been adjusted for future inflation or any anticipation of the outcome of a future rent review.

Council as Lessor

Finance Leases

The Council has finance leases with the Kingsway Shopping Centre with a remaining term of 238 years and for Chartist Tower with remaining life of 246 years. The Council has a gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31-Mar-21 £'000	31-Mar-22 £'000
Finance lease debtor (net present value of minimum lease payments)		
- current	-	-
- non-current	5,824	5,824
Unearned finance income	122,719	122,190
Unguaranteed residual value of property	-	-
Gross Investment in the lease	**128,543**	**128,014**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Minimum Lease Payment 31-Mar-21 £'000	Gross Investment in the Lease 31-Mar-21 £'000	Minimum Lease Payment 31-Mar-22 £'000	Gross Investment in the Lease 31-Mar-22 £'000
Not later than one year	-	529	-	529
Later than one year and not later than five years	-	2,116	-	2,116
Later than five years	5,824	125,898	5,824	125,369
	5,824	**128,543**	**5,824**	**128,014**

Operating Leases

The Council leases out some property under operating leases for the following purposes:

- to enable the Council to provide services for the local community; or
- to provide an income stream to help support the council tax levy.

The future minimum lease payments receivable under non-cancellable leases in future years are:

The Council leases out a number of farms on a life tenancy basis. These leases have been assumed to have a 99 year lease term.

	31-Mar-21 £'000	31-Mar-22 £'000
Not later than one year	900	876
Later than one year and not later than five years	2,898	2,751
Later than five years	12,039	11,556
	15,837	**15,183**

Tredegar House Lease

Tredegar House is managed by National Trust under a lease arrangement from the Council. This results in the Council making periodic contributions to assist with the repairing responsibilities. The payments due to the National Trust over the remaining life of the lease are as follows:

	31-Mar-21 £'000	31-Mar-22 £'000
Not later than one year	2,005	-
Later than one year and not later than five years	-	-
Later than five years	472	472
	2,477	**472**

39 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Southern Distributor Road PFI Scheme

Newport City Council entered into a 40 year contract with Morgan Vinci Ltd to design, build, operate and finance the Southern Distributor Road. The contract specifies minimum standards of performance over a range of areas including reductions in journey time, reduction in the level of congestion, accident levels, improvements in road safety and road availability. The contractor took on the obligation to construct and maintain the road to an acceptable minimum standard.

The road was opened on 13th December 2004 and the agreement has a 40 year life.

Property Plant and Equipment
The assets used to provide services on the Southern Distributor Road are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 14.

Payments
The Council makes an agreed annual payment which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments, remaining to be made under the PFI contract at 31 March 2022 (excluding any estimation of inflation and availability/ performance deductions), are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2022/23	808	1,632	4,884	7,323
Payable within two to five years	3,444	7,255	19,715	30,414
Payable within six to ten years	5,004	10,677	24,948	40,629
Payable within eleven to fifteen years	5,477	12,203	25,494	43,173
Payable within sixteen to twenty years	6,338	13,107	24,118	43,562
Total	**21,071**	**44,874**	**99,159**	**165,101**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding is as follows:

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance outstanding at start of year	**33,761**	**33,351**
Net payments during the year	(410)	(1)
Balance outstanding at year-end	**33,351**	**33,350**

Glan Usk Primary School

2021/22 was the thirteenth year of a 25 year PFI contract for the construction and facilities management of Glan Usk Primary School.

The school operates its core areas 44 weeks per annum including a multi-use gaming area and an artificial turf pitch. The multi-use gaming area and the artificial turf pitch are also available to the community during non-school hours.

The contract operates minimum standards for the services to be provided by the contractor, with deductions from the fees payable being made if facilities are unavailable or performance is below minimum standards.

Property Plant and Equipment

The assets used to provide services on the Glan Usk Primary School are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 14.

Payments

The Council makes an agreed annual payment which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2022 (excluding any estimation of inflation and availability/ performance deductions) are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total
	£'000	£'000	£'000	£'000
Payable in 2022/23	742	625	751	2,119
Payable within two to five years	4,030	2,015	2,699	8,744
Payable within six to ten years	5,164	2,870	3,558	11,591
Payable within eleven to fifteen years	2,606	1,843	2,066	6,516
Total	**12,542**	**7,353**	**9,074**	**28,970**

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding is as follows:

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance outstanding at start of year	**8,540**	**7,971**
Net payments during the year	(569)	(619)
Balance outstanding at year-end	**7,971**	**7,352**

40 CAPITALISATION OF BORROWING COSTS

There was no capitalisation of borrowing costs in 2020/21 or 2021/22

41 PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore, accounted for on the same basis as a defined contribution scheme.

In 2021/22 the Council paid £14.1m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 23.67% of pensionable pay. The figures for 2020/21 were £13.5m and 23.68% of pensionable pay. As at the 31 March 2022 contributions of £1.2m were payable (31 March 2021: £1.1m).

42 DEFINED BENEFITS PENSIONS SCHEMES

Participation in Pension Scheme
As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Torfaen County Borough Council – this is a funded defined benefit salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets over the long term.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement (Unfunded Teachers Discretionary Benefits) – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions Relating to Post-employment Benefits
The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme 31-Mar-21	Unfunded Teachers Discretionary Benefits 31-Mar-21	Local Government Pension Scheme 31-Mar-22	Unfunded Teachers Discretionary Benefits 31-Mar-22
	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	27,081	-	44,061	-
Past service cost (including curtailments)	75	-	247	-
Effect of settlements	-	-	-	-
Financing and Investment Income and Expenditure				
Interest income on plan assets	(10,411)	-	(12,123)	-
Interest cost on defined benefit obligation	18,284	211	21,683	189
Total Post Employment Benefit Charged to the Surplus/Deficit on Provision of Services	**35,029**	**211**	**53,868**	**189**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
Changes in Demographic Assumptions	14,232	134	(5,641)	(83)
Return on assets excluding amounts included in net interest	(128,078)	-	(24,017)	-
Changes in financial assumptions	230,387	817	(78,628)	(217)
Other experience	(8,298)	(46)	1,742	(331)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**108,243**	**905**	**(106,544)**	**(631)**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services post employment benefits in accordance with the Code	35,029	211	53,868	189
Actual amount charged against the Council Fund Balance for pensions in the year				
Employer contributions	16,616	-	17,554	-
Contributions in respect of unfunded benefits	1,345	(916)	1,241	(840)
Effect of business combinations and disposals	(1,538)	-	-	-
	16,423	**(916)**	**18,795**	**(840)**

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme	Unfunded liabilities: Teachers Discretionary Benefits	Funded liabilities: Local Government Pension Scheme	Unfunded liabilities: Teachers Discretionary Benefits
	31-Mar-21	31-Mar-21	31-Mar-22	31-Mar-22
	£'000	£'000	£'000	£'000
Opening balance at 1 April	**(806,996)**	**(9,647)**	**(1,071,254)**	**(9,847)**
Current service cost	(27,081)	-	(44,061)	-
Interest cost on defined benefit obligation	(18,284)	(211)	(21,683)	(189)
Plan participants contributions	(4,800)	-	(5,031)	-
Actuarial gains and losses arising on changes in financial assumptions	(230,387)	(817)	78,628	217
Changes in Demographics Assumptions	(14,232)	(134)	5,641	83
Other experience	8,298	46	(1,742)	331
Benefits paid	21,657	916	21,862	840
Past service cost (including curtailments)	(75)	-	(247)	-
Effect of business combinations and disposals	646	-	-	-
Closing balance at 31 March	**(1,071,254)**	**(9,847)**	**(1,037,887)**	**(8,565)**

Reconciliation of fair value of scheme assets

Local Government Pension Scheme

	31-Mar-21	31-Mar-22
	£'000	£'000
Opening balance at 1 April	**464,815**	**605,986**
Interest income on plan assets	10,411	12,123
Return on assets excluding amounts included in net interest	128,078	24,017
Employer contributions	17,961	18,795
Contributions by scheme participants	4,800	5,031
Benefits paid	(22,573)	(22,702)
Effect of business combinations and disposals	2,494	-
Closing balance at 31 March	**605,986**	**643,250**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years' dependent on assumptions about mortality rates, salary levels, etc. The Actuary will periodically review its assumptions about how long fund beneficiaries will live to be able to predict scheme

obligations. Simplistically this equates to benefit obligations being provided until 87.65 years on average. Both the Teachers' Discretionary Benefits and Greater Gwent (Torfaen) Pension Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Greater Gwent (Torfaen) Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Unfunded Teachers Discretionary Benefits	
	31-Mar-21	31-Mar-22	31-Mar-21	31-Mar-22
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men (years)	20.7	20.5	20.7	20.5
- Women (years)	23.4	23.2	23.4	23.2
Longevity at 65 for future pensioners:				
- Men (years)	22.1	21.8	22.1	21.8
- Women (years)	25.4	25.1	25.4	25.1
Other Assumptions:				
Rate of CPI Inflation	2.85%	3.20%	2.85%	3.20%
Rate of increase in salaries	3.15%	3.50%	N / A	N / A
Rate of increase in pensions	2.85%	3.20%	2.85%	3.20%
Rate for discounting scheme liabilities	2.00%	2.70%	2.00%	2.70%
Take-up of option to convert annual pension	50.00%	50.00%	N / A	N / A

The Teachers' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme assets consist of the following categories.

	31-Mar-21	31-Mar-22
	£'000	£'000
Equity Securities	89,632	-
Real Estate	15,252	14,721
Investment Funds & Unit Trusts	495,777	625,120
Cash	5,326	3,409
	605,986	**643,250**

43 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a number of financial risks:

- Credit risk - failure to receive amounts due to the Council;
- Liquidity risk - insufficient funds to meet its commitments;
- Market risk - financial instability arising from changes in interest rates and stock markets.

The economic impact of the Covid-19 pandemic presents challenges to the financial services industry and its institutions. The main risk to the Council is credit risk, its ability to raise finance and to a limited degree the interest rate payable and receivable on new loans and investments. However, these risks are mitigated as described in this note.

The Council's overall risk management programme focuses on unpredictability of financial markets and minimises any adverse effects on the resources available to fund services. Risk management is undertaken by the central treasury team, under policies approved by the Council in its treasury management and investment strategy. Specifically, it manages the risks listed as follows:

Credit Risk
The assessment of credit losses is based on information about past events, current conditions but also future forecasts. The economic outlook for the Councils' financial assets (investments and debtors) as a result of the COVID-19 pandemic must be taken into account when making this assessment, based on the available information. The Council needs to consider the risk of default of its financial assets, the exposure to that default risk and the estimated loss as a result of the default. This will be dependent on the nature of the financial assets held at amortised cost and the impact of the pandemic in its local area (as well as national economic events). Note 18 indicates that majority of financial assets are short term in nature such that their carrying value and fair value remain aligned.

Arising from deposits with banks and financial institutions, as well as credit exposure to the Council's customers, this risk is minimised by only making deposits with financial institutions once they meet minimum credit criteria. Details are included in the annual investment strategy. The strategy requires the Council to invest its funds prudently and to have regard to security and liquidity of its investments before seeking the highest rate of return or yield. The Council's objective when investing funds is to strike an appropriate balance between risk and return minimising the risk of incurring losses from default and the risk of receiving unsuitably low investment income. This Council has no recent experience of non-payment of its investments and therefore assesses its credit risk in this area as negligible.

The Council formally reviews its approved counterparties which are formalised in its treasury management strategy. In addition, the approved counterparties credit ratings are regularly reviewed in conjunction with the treasury management advisors, Arlingclose Ltd.

Arlingclose provides the Council with credit services which use sophisticated modelling approaches with credit ratings from the major credit rating agencies. These counterparty listings are based on credit ratings and by counterparty type (Secured and Unsecured banks, Government, Corporate and Registered Providers).

The Annual Investment Strategy documents the maximum amounts and time limits in respect of each financial institution. The credit limits were not exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not currently apply credit ratings to its council tax and trade debtors although this is always under review. Its exposure to non-payment of these debts is summarised as:

	Estimated Exposure at 31 Mar 2021	Amount at 31 Mar 2022	Historic experience of default	Estimated Exposure to non-repayment Mar 2022
	£'000	£'000	%	£'000
Council tax debts	213	9,877	2.30	227
Trade debtors	75	9,515	0.80	76
	288			**303**

The Council expects repayment of its general debt within 30 days. However, £4m (42%) of £9.5m trade debt is past this due date. The equivalent 2020/21 comparison indicated 40% of debts exceeded 30 day period. Reasonable forbearance in recovery action has been applied whilst the electorate cope with the economic effects of Covid 19 pandemic. The trade debt is analysed as:

	31-Mar-21	31-Mar-22
	£'000	£'000
Less than thirty days	5,476	5,491
Less than three months	803	801
Three months to one year	1,192	1,414
More than one year	1,966	1,809
	9,437	**9,515**

Additionally, the Council has also provided loan agreements to third party organisations who are undertaking city regeneration, currently this amounts to £10.6m. These loans are subject to the usual commercial warranties to ensure security of assets. The Council are not aware of any historical default issues. These loans are expected to be paid back in full on the agreed dates, but in mitigating against longer term credit/investment risk the Council also has access to a general risk reserve for investments, totalling £2,567k.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready borrowing access to the money market and the Public Works Loans Board to cover short term unforeseeable events. However, there is a risk that the Council may need to replenish significant borrowings at a time that interest rates are not favourable. Consequently, under its Treasury Management Strategy it sets limits on the proportion of variable rate borrowings in accordance with CIPFA's Treasury Management recommended practice, currently all of the borrowing is on fixed rate.

	31-Mar-21	31-Mar-22
Loan maturity	£'000	£'000
Less than one year	12,401	4,406
Between one and two years	4,102	4,250
Between two and five years	32,495	35,155
More than five years	102,316	96,685
	151,314	**140,497**

All trade and other payables are repayable in less than or equal to one year.

Market Risk

Market risk comprises interest rate, price and foreign exchange considerations.

Interest Rate Risk
The Council is exposed to risk in terms of its exposure to changes in interest rates on its borrowings and investments. These are very complex to the extent that an increase in interest rates would have the following effects:

- Borrowing at variable rates will see an increase in the expenses interest charged to the Income and Expenditure account;

- Investments at variable rates will see an increase in the income interest shown on the Income and Expenditure account.

In terms of the financial impact of the Covid-19 situation it has been recognised that it will have a significant impact upon ongoing operations and the finances associated with providing services. The Council will continue to work closely with partnering organisations such as Welsh Government, other councils and bodies which help it to deliver the services.

The impact of interest rate changes in borrowing and investment held at variable interest rates will impact on the Council's Income and Expenditure account and therefore it's Council Fund Balances.

The Council has a number of strategies to manage the interest rate risk, as contained within its treasury management and investment strategy. Where it is economically sound to do so the Council will, during falling interest rates, repay early high cost fixed rate loans to limit loss exposure.

The treasury management team actively assesses the Council's interest rate exposure and feeds this into its medium term financial planning process. This minimises any adverse effects. The Council does not currently have any borrowing at variable interest rates.

Price Risk
The Council does not generally invest in equity shares and therefore has no exposure to movement in share price.

Foreign Exchange Risk
The Council has a small Euro bank account of approximately €2,000. The exposure to losses arising from movement in exchange rates is therefore negligible.

44 CONTINGENT LIABILITIES

There are a number of contingent liabilities identified as at 31 March 2022:

- **MMI Insurances -** The Council manages the residual insurance fund of the former Gwent County Council on behalf of Torfaen, Blaenau Gwent, Caerphilly and Monmouth Councils. Municipal Mutual Insurance Limited (MMI) covers some of the claims of both ex- authorities (Gwent CC and Newport Borough Council). Following a High Court case in March 2012, MMI has now confirmed that they will be unable to settle the remaining claims in total, and each Council is now required to meet a balance of the remaining claims.

  In April 2013, Ernst & Young, the Scheme Administrators advised that the levy to be paid by Members had been set 15% of the Council's claim value. In 2013/14 a levy of £463k was paid (based on claims value of £3.1m). In 2016/17 an additional levy of £347k (10% levy) was required by the scheme administrators, making the total levy paid to date (£810k) 25%. There is a risk that a further levy could be applied, the Council holds an earmarked reserve to mitigate this risk. No transactional activity was evident against that reserve in 2021/22.

- **Insurance Claims -** The Council manages current insurance claims made against it on an on-going basis. There are a number of claims against the Council that are not included within its general insurance cover. These relate to discrimination, employment tribunals, copyright claims and civil litigation. As at 31 March 2022 the total claims outstanding particular to NCC is estimated at £3.7m. A provision has been made for claims totalling £2.3m as detailed in Note 24, as these have been assessed as being probable in terms of likely settlement.

  The Council also has an insurance reserve to mitigate against a percentage of the balance of claims as it is difficult to quantify the amount of these claims and the likelihood of the liability, and the Council is disputing all of the claims.

- **Newport City Homes** - As part of the legal agreements associated with the transfer of the housing stock in 2008, the Council provided a number of property-related, employment, planning, environmental and other warranties to Newport City Homes and its funders which are for a period of 35 years from the date of transfer. The property-related warranties are limited to £9,000 per property (as at 2008 index linked to RPI), and cover 9,144 separate properties. Other warranties and indemnities would only apply after Newport City Homes has committed pre-determined levels of expenditure within its Business Plan. To date there has been no call on these warranties.

- **Financial Guarantees** – The Council has entered into a number of agreements to act as guarantor; in particular regarding the safeguarding of former employees' pension rights when their employment was transferred to third party organisations. There is no quantifiable liability to the Council; however, there remains a potential liability in future years.

- **Council Investments** – The Council have made loans to a small number of external developers. Despite the financial uncertainty which surrounds the impact of Covid-19, repayment of any outstanding debt is still expected. However, due to the fact that is it difficult to quantify the long term impact of Covid-19, there is a risk attached to the repayment of this debt. The council will closely monitor the situation over the next 12 months.

- **Landfill Tax (WRA)** - In July 2019, the Welsh Revenue Authority (WRA) opened an enquiry into the 2018/19 financial year in relation to Landfill Tax and the Loss of Ignition (LOI) tests required as part of the return. Newport City Council have worked with WRA to provide all information requested and have been issued with an assessment in relation to unpaid tax, part of which has been settled. The balance of the assessment remains subject to an ongoing legal process and, therefore, there is still uncertainty as to whether any further payments will be required and to what value those payments may amount. In addition to the WRA enquiry, HMRC have also opened their own enquiry and have issued the Council with an assessment of Landfill Tax to be repaid in relation to the 2017/18 financial year. As with the WRA assessment, until the legal process has been concluded, it will not be known whether any repayment will be made and to what value it could amount.

45 CONTINGENT ASSETS

No Contingent Assets were identified at 31 March 2022

INTRODUCTION

The group accounts that follow comply with the requirement of the 2021/22 Code that a Local Council with interests in subsidiaries, associates and joint ventures should prepare group accounts in addition to its single entity accounts. These accounts consolidate the operating results and balances of Newport City Council and its subsidiary Newport Transport Limited. At the point of consolidation, the draft accounts were available and are what are included within the Group Accounts.

Where a note is identical to Newport City Councils individual accounts, no further disclosure has been made.

For 2020/21, the group accounts have been restated. This is due to the fact that the final audited set of Newport Transports accounts were not published until after the deadline for Local Authorities final 2020/21 accounts. All notes have been restated where necessary to correspond to the final 2020/21 Newport Transport Accounts.

ACCOUNTING POLICIES APPLICABLE TO THE GROUP ACCOUNTS

Basis of Consolidation

The group accounts have been prepared on the basis of full consolidation of the financial transactions and balances of Newport City Council and Newport Transport Ltd. Inter-group transactions and balances between the Council and its subsidiary have been eliminated in full.

Accounting policies

The accounting policies for both Newport City Council and Newport Transport are materially aligned.

Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Group Statement of Accounts and associated notes have been prepared using unaudited draft accounts provided by Newport Transport. A degree of estimation and assumption was required to complete these Group accounts within the required timescales.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

Restated Group Total 2020/21 Gross Expenditure	Restated Group Total 2020/21 Gross Income	Restated Group Total 2020/21 Net Expenditure Restated		Group Total 2021/22 Gross Expenditure	Group Total 2021/22 Gross Income	Group Total 2021/22 Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
35,243	(7,223)	28,020	Children's and Young People Services	39,467	(9,582)	29,885
89,327	(40,931)	48,396	Adults and Community Services	95,987	(47,315)	48,672
30,290	(12,365)	17,925	Education	33,666	(14,211)	19,455
155,238	(30,279)	124,959	Schools	157,030	(35,443)	121,587
37,471	(23,903)	13,568	Regeneration, Investment and Housing	45,512	(29,017)	16,495
54,159	(24,177)	29,982	City Services	63,446	(28,582)	34,864
26,457	(6,437)	20,020	Corporate Services	32,497	(8,853)	23,644
48,363	(45,120)	3,243	Other Non Department Costs	41,260	(42,559)	(1,298)
5,947	-	5,947	Newport Transport Operating Expenditure	5,575	-	5,575
482,495	**(190,435)**	**292,060**	**Cost of services**	**514,440**	**(215,562)**	**298,879**
25,032	(1,126)	23,906	Other operating expenditure	26,813	-	26,813
19,477	(1,055)	18,422	Financing and investment income and expenditure	20,838	(1,055)	19,783
-	-	-	(Surplus) / deficit on discontinued operations	-	-	-
-	(326,087)	(326,087)	Taxation and non-specific grant income	-	(372,866)	(372,866)
527,004	**(518,703)**	**8,301**	**(Surplus) / Deficit on Provision of services**	**562,091**	**(589,483)**	**(27,391)**
		(33,989)	(Surplus) / deficit on revaluation of Property Plant and Equipment assets			(11,656)
		104,470	Actuarial (gains) / losses on pensions assets / liabilities			(107,175)
		-	Other gains / losses required to be included in the Comprehensive Income and Expenditure Statement			-
		-	Share of other comprehensive income and Expenditure of Subsidiaries			-
		70,481	**Other Comprehensive Income and Expenditure**			**(118,831)**
		78,782	**Total Comprehensive Income and Expenditure**			**(146,222)**

GROUP BALANCE SHEET AS AT 31 MARCH 2022

Restated

Total 2020/21 £'000		Notes	Total 2021/22 £'000
368,724	Property, Plant and Equipment	5	401,223
147,597	Property, Plant and Equipment - Infrastructure	5	151,210
17,354	Heritage Assets		17,362
12,945	Investment Property		12,530
196	Long Term Investments		196
19,514	Long Term Debtors		27,216
566,330	**Long Term Assets**		**609,737**
15,294	Short Term Investments		56,294
3,046	Assets Held for Sale		742
476	Inventories		1,305
65,200	Short Term Debtors	8	76,054
141	Deferred Tax Asset		131
11,462	Cash and Cash Equivalents	10	7,293
95,619	**Current Assets**		**141,819**
(5,648)	Short Term Borrowing		(5,049)
(46,603)	Short Term Creditors	9	(71,896)
(6,001)	Provisions		(6,514)
(7,331)	Other Short Term Liabilities		(4,125)
(65,583)	**Current Liabilities**		**(87,585)**
(19,479)	Long Term Creditors	7	(17,251)
(6,076)	Long Term Provisions		(6,862)
(145,725)	Long Term Borrowing		(136,058)
(475,116)	Pension Liability		(403,203)
(39,320)	Other Long Term Liabilities		(43,783)
-	Deferred tax liability		-
(685,716)	**Long Term Liabilities**		**(607,158)**
(89,350)	**Net Assets**		**56,814**
(108,271)	Usable Reserves		(151,852)
197,622	Unusable Reserves	16	95,036
89,351	**Total Reserves**		**(56,814)**

GROUP MOVEMENTS IN RESERVE STATEMENT FOR YEAR ENDING 31 MARCH 2022

GROUP Restated	Council Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	**Total Usable Reserves** £'000	Unusable Reserves £'000	**Total Reserves** £'000
Balance at the 31 Mar 2020 carried forward	**(6,500)**	**(72,306)**	**(8,259)**	**(87,065)**	**98,864**	**11,799**
Movement in reserves during 2020/21						
(Surplus) / deficit on the provision of services	8,838	-	-	8,838	(538)	8,300
Other comprehensive Income and Expenditure	-	-	-	-	69,250	69,250
Total Comprehensive Income and Expenditure	**8,838**	**-**	**-**	**8,838**	**68,712**	**77,550**
Adjustments between accounting basis and funding basis under regulations	(31,550)	-	1,506	(30,044)	30,044	-
Net Increase / Decrease before Transfers to Earmarked Reserves	**(22,712)**	**-**	**1,506**	**(21,206)**	**98,756**	**77,550**
Transfer to/ from Earmarked Reserves	22,712	(22,712)	-	-	-	-
(Increase) / Decrease in 2020/21	**-**	**(22,712)**	**1,506**	**(21,206)**	**98,756**	**77,550**
Balance at the 31 Mar 2021 carried forward	**(6,500)**	**(95,018)**	**(6,753)**	**(108,271)**	**197,620**	**89,349**
Balance at the 31 Mar 2021 carried forward	(6,500)	(95,018)	(6,753)	(108,271)	197,620	89,349
Movement in reserves during 2021/22						
(Surplus) / deficit on the provision of services	(26,540)	-	-	(26,540)	(851)	(27,391)
Other comprehensive Income and Expenditure	-	-	-	-	(118,831)	(118,831)
Total Comprehensive Income and Expenditure	**(26,540)**	**-**	**-**	**(26,540)**	**(119,682)**	**(146,222)**
Adjustments between accounting basis and funding basis under regulations	(14,401)	-	(2,637)	(17,038)	17,097	**59**
Net (Increase) / Decrease before Transfers to Earmarked Reserves	**(40,945)**	**-**	**(2,637)**	**(43,579)**	**(102,585)**	**(146,163)**
Transfer to/ from Earmarked Reserves	40,945	(40,945)	-	-	-	-
(Increase) / Decrease in 2021/22	-	**(40,945)**	**(2,637)**	**(43,579)**	**(102,585)**	**(146,163)**
Balance at the 31 Mar 2022 carried forward	**(6,500)**	**(135,963)**	**(9,390)**	**(151,852)**	**95,036**	**(56,814)**

GROUP CASH FLOW STATEMENT FOR YEAR ENDING 31 MARCH 2022

Total 2020/21 £'000		Note	Total 2021/22 £'000
8,301	Net (surplus) / deficit on the provision of services as shown on the Comprehensive Income and Expenditure Statement		(27,391)
(57,335)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	12	(70,549)
19,697	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	12	40,886
(29,337)	**Net cash flows from Operating Activities**		**(57,054)**
6,427	Investing Activities	13	54,437
4,906	Financing Activities	14	6,785
(18,004)	**Net (increase) or decrease in cash and cash equivalents**		**4,168**
(6,541)	Cash and cash equivalents at the beginning of the reporting period	10	11,462
11,463	**Cash and cash equivalents at the end of the reporting period**	10	**7,293**

The notes to the Council's Core Financial statements apply also to the Group Accounts with the following additions and exceptions.

1 REMUNERATION

The number of employees of the Council and its subsidiary whose remuneration is over £60,000 per annum is shown below.

	31-Mar-21	31-Mar-22
£135,000 - £139,999	-	-
£130,000 - £134,999	-	1
£125,000 - £129,999	-	-
£120,000 - £124,999	-	-
£115,000 - £119,999	1	-
£110,000 - £114,999	-	1
£105,000 - £109,999	2	3
£100,000 - £104,999	1	2
£95,000 - £99,999	3	2
£90,000 - £94,999	2	1
£85,000 - £89,999	3	3
£80,000 - £84,999	5	10
£75,000 - £79,999	12	13
£70,000 - £74,999	11	14
£65,000 - £69,999	24	20
£60,000 - £64,999	17	24
Total	**81**	**94**

Further information regarding the remuneration of the employees of Newport Transport is contained within the company's 2021/22 Financial Statements.

The disclosure for Members allowances is the same as for the single entity accounts.

2 RELATED PARTY DISCLOSURE

Related party transactions and balances of the group are as contained in Note 36 to the single entity financial statements.

3 EXTERNAL AUDIT COSTS

In 2021/22 the following fees were paid by the council and its subsidiary in respect of audit and inspection.

	31-Mar-21	31-Mar-22
	£'000	£'000
Fees payable with regard to external audit of accounts	207	213
Fees payable in respect of local government measure	103	106
Fees payable for the certification of grant claims and returns for the year	57	57
Fees payable for other financial audit work	1	1
Total	**368**	**377**

4 LEASES

Operating leases

The Group has acquired some of its buildings and fleet by operating leases. Newport Transport also has commitments under non-cancellable operating leases. The minimum lease payments due under non-cancellable leases in future years for the Group are:

	31-Mar-21 £'000	31-Mar-22 £'000
Not later than one year	1,875	1,797
Later than one year and not later than five years	5,716	5,634
Later than five years	12,109	11,188
	19,700	**18,619**

Finance Leases

Both the Council and Newport Transport have acquired a number of vehicles and equipment under finance leases. The assets acquired under these leases are included in Property Plant and Equipment in the balance sheet at the following net amounts as these are cancellable:

	31-Mar-21 £'000	31-Mar-22 £'000
Vehicle, Plant, Furniture	766	725
Equipment	-	245
	766	**970**

Both the Council and Newport Transport are committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31-Mar-21 £'000	31-Mar-22 £'000
Finance lease liabilities		
(net present value of minimum lease payments)		
- current	361	134
- non-current	81	136
Finance costs payable in future years	5	19
Minimum lease payments	**447**	**289**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-21 £'000	31-Mar-22 £'000	31-Mar-21 £'000	31-Mar-22 £'000
Not later than one year	366	153	361	134
Later than one year and not later than five years	81	136	81	136
	447	**289**	**442**	**270**

5 PROPERTY, PLANT & EQUIPMENT

2021/22	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Surplus Assets	Assets Under Construction	**Total Property, Plant and Equipment**	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2021	352,417	58,508	179	2,636	4,826	**418,566**	67,720
Additions	5,714	5,021	222	0	28,891	**39,849**	1,504
Donations	-	-	-	-	-	**-**	-
Re-classification	993	275	9	1,851	(3,470)	**(341)**	-
Revaluations	7,821	-	-	1,936	-	**9,757**	-
Impairments	(3,590)	(54)	(158)	(0)	-	**(3,802)**	-
Disposals	(320)	(14,867)	-	-	-	**(15,187)**	-
At 31 March 2022	**363,035**	**48,883**	**252**	**6,424**	**30,247**	**448,841**	**69,224**
Accumulated Depreciation and Impairment							
At 1 April 2021	(8,346)	(41,495)	-	-	-	**(49,841)**	(22,802)
Depreciation Charge in Year	(12,851)	(3,991)	-	-	-	**(16,842)**	(1,709)
Re-classification	418	-	-	-	(14)	**404**	-
Revaluation Impact	3,817	-	-	-	-	**3,817**	-
Disposals	73	14,772	-	-	-	**14,845**	-
At 31 March 2022	**(16,889)**	**(30,714)**	**-**	**-**	**(14)**	**(47,617)**	**(24,511)**
Net Book Value							
At 1 April 2021	344,071	17,013	179	2,636	4,826	**368,725**	44,918
At 31 March 2022	**346,146**	**18,169**	**252**	**6,424**	**30,233**	**401,224**	**44,713**

Total - Restated

2020/21	Other Land & Buildings	Vehicles, Plant & Equipment	Community Assets	Surplus Assets	Assets Under Construction	**Total Property Plant and Equipment**	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2020	372,362	53,037	179	2,636	1,792	**430,006**	72,880
Additions	9,291	6,580	31	-	2,092	**17,994**	1,196
Donations	-	-	-	-	-	**-**	-
Re-classification	(4,177)	154	-	-	942	**(3,081)**	-
Revaluations	(23,374)	-	-	-	-	**(23,374)**	(6,356)
Impairments	(1,125)	-	(31)	-	-	**(1,156)**	-
Disposals	(560)	(1,263)	-	-	-	**(1,823)**	-
At 31 March 2021	**352,417**	**58,508**	**179**	**2,636**	**4,826**	**418,566**	**67,720**
Accumulated Depreciation and Impairment							
At 1 April 2020	(35,898)	(38,653)	-	-	-	**(74,551)**	(23,867)
Depreciation Charge in Year	(12,256)	(4,095)	-	-	-	**(16,351)**	1,065
Re-classification	280	-	-	-	-	**280**	-
Revaluation Impact	39,417	-	-	-	-	**39,417**	-
Disposals	111	1,253	-	-	-	**1,364**	-
At 31 March 2021	**(8,346)**	**(41,495)**	**-**	**-**	**-**	**(49,841)**	**(22,802)**
Net Book Value							
At 1 April 2020	336,464	14,384	179	2,636	1,792	**355,455**	49,013
At 31 March 2021	**344,071**	**17,013**	**179**	**2,636**	**4,826**	**368,725**	**44,918**

5 PROPERTY, PLANT & EQUIPMENT - INFRASTRUCTURE

	2020-21	2021-22
Net Book Value at 1 April	**149,029**	**147,597**
Additions	6,045	10,004
Disposals	-	(87)
Depreciation	(7,015)	(7,115)
Impairment	(513)	(104)
Other movements in Cost	51	915
Net Book Value at 31 March	**147,597**	**151,210**

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The authority has determined in accordance with Regulation 24L Wales of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 (as amended) that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

6 FINANCIAL INSTRUMENTS

Newport Transport only enters in basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payables, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

7 LONG TERM CREDITORS

	Restated **31-Mar-21**	**31-Mar-22**
	£'000	£'000
Other long term creditors	(14,477)	(17,251)
	(14,477)	**(17,251)**

In addition to the financial instruments disclosures in the single entity accounts it should be noted, on consolidation, the Council's shareholding in Newport Transport ceases to be a financial instrument, as the consolidation balance sheet includes the net assets of the subsidiary and their corresponding net worth. The increase in the fair value is eliminated in the consolidation process.

8 DEBTORS

	Restated 31-Mar-21			31-Mar-22		
	Gross	Provision	Net	Gross	Provision	Net
	£'000	£'000	£'000	£'000	£'000	£'000
General	14,882	(4,543)	10,339	19,895	(6,401)	13,494
Council tax payers	9,272	(5,482)	3,790	9,877	(6,365)	3,512
NHS bodies	2,862	-	2,862	2,444	-	2,444
Central government bodies *	42,098	-	42,098	53,407	-	53,407
Other local authorities	6,111	-	6,111	3,197	-	3,197
	75,225	**(10,025)**	**65,200**	**88,820**	**(12,766)**	**76,054**

9 CREDITORS

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
General	(22,202)	(43,913)
Central government bodies	(13,577)	(13,940)
Prepayments of council tax	(1,397)	(1,449)
NHS bodies	(358)	(583)
Other local authorities	(9,069)	(12,011)
	(46,603)	**(71,896)**

10 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash equivalents is made up of the following elements;

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Cash held by the authority	14,759	9,760
	14,759	**9,760**
Bank Current accounts	(3,297)	(2,467)
Total Cash and Cash Equivalents	**11,462**	**7,293**

11 PROVISIONS

There are no provisions to include, other than those detailed in the Single Entity accounts.

12 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Interest received	(56)	(21)
Interest paid	10,326	10,974
Loss on disposal of tangible assets	(10)	(13)
	10,260	**10,940**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Depreciation	(23,366)	(23,626)
Impairment and downward valuations	(19,157)	(1,872)
(Increase) / Decrease in creditors	(5,489)	(20,545)
Increase / (Decrease) in debtors	2,040	9,458
Increase / (Decrease) in stock	126	829
Pensions liability	(18,817)	(35,262)
Carrying amount of non-current assets sold	(324)	(2,922)
Other non cash adjustments	7,652	3,392
	(57,335)	**(70,548)**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	548	2,655
Any other items for which the cash effects are investing or financing cash flows	19,149	38,231
Net cash flows from Operating activities	**19,697**	**40,886**

13 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	22,806	46,209
Purchase of short-term and long-term investments	3,040	41,000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(548)	(2,655)
Other receipts from investing activities	(18,871)	(30,117)
Net cash flows from investing activities	**6,427**	**54,437**

14 CASH FLOW STATEMENT - FINANCING ACTIVITIES

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Cash receipts of short- and long-term borrowing	(27,866)	545
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,739	1,079
Repayments of short- and long-term borrowing	40,035	10,456
Government Grant Income	(9,002)	(5,295)
Net cash flows from financing activities	**4,907**	**6,785**

15 TAXATION

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - higher than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	Restated 31-Mar-21	31-Mar-22
	£'000	£'000
Profit / (Loss) on Ordinary Activities before Tax	**538**	**851**
Profit / (Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	102	162
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	7	11
Capital allowances for year in excess of depreciation	15	13
Changes in deferred tax rate	-	-
Adjustments to tax charge in respect of prior periods	-	-
Rate difference regarding other comprehensive income	-	-
Deferred tax not recognised	(124)	(186)
Other timing differences leading to an increase (decrease) in taxation	-	-
Changes in provisions leading to an increase (decrease) in the tax charge	-	-
Total tax charge for the year	**-**	**-**

16 UN-USABLE RESERVES

	31-Mar-21	31-Mar-22
	£'000	£'000
Profit and loss - Newport Transport	(1,478)	(2,334)
Revaluation Reserve - Newport Transport	(1,232)	(1,227)
Revaluation Reserve - Newport City Council	(197,843)	(208,222)
Capital Adjustment Account	(76,880)	(95,993)
Financial Instruments Adjustment Account	1,150	1,045
Deferred Capital Receipt Reserve	(21)	(21)
Pensions Reserve	475,114	403,202
Accumulated Absence Account	2,834	2,958
Cardiff City Region Aggregated Un-useable Reserves (NCC share)	(4,022)	(4,371)
	197,622	**95,037**

GLOSSARY OF TERMS

- **Accruals Basis**
  The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

- **Actuarial Gains and Losses Re-measurement of Net Defined Benefit Liability**
  Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because events have not coincided with the actuarial assumptions made for the last valuation and the actuarial assumptions have changed.

- **Agency Services**
  These are services that are performed by or for another Council or public body, where the principal (the Council responsible for the service) reimburses the agent (the Council carrying out the work) for the costs of the work.

- **Appointed Auditors**
  The Audit Commission appoints external auditors to every Local Council, from one of the major providers of registered auditors. The Welsh Audit Office is the Council's appointed Auditor.

- **Authorised Limit**
  This represents the legislative limit on the Council's external debt under the Local Government Act 2003.

- **Balances**
  The balances of the Council represent the accumulated surplus of income over expenditure on any of the Funds.

- **Capital Adjustment Account**
  The Account accumulates (on the debit side) the write-down of the historical cost of Property, Plant and Equipment as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

- **Capital Expenditure**
  This is expenditure on the acquisition of property, plant and equipment, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.

- **Capital Financing Charges**
  This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals.

- **Capital Receipts**
  Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

- **Carrying Amount**
  The Balance Sheet value recorded of either an asset or a liability.

- **Chartered Institute of Public Finance and Accountancy (CIPFA)**
  CIPFA is the leading professional accountancy body for public services.

- **Community Assets**
  This is a category of Property, Plant and Equipment that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.

- **Contingency**
  This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.

- **Contingent Liabilities or Assets**
  These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's Statement of Accounts.

- **Council Tax Requirement**
  This is the estimated revenue expenditure on General Fund services that needs to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

- **Creditors**
  Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

- **Current Service Cost**
  Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

- **Debtors**
  These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

- **Deferred Capital Receipts**
  These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.

- **Depreciation**
  This is the measure of the wearing out, consumption, or other reduction in the useful economic life of Property, Plant and Equipment.

- **Derecognition**
  Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

- **Discounts**
  Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.

- **Earmarked Reserves**
  The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

- **External Audit**
  The independent examination of the activities and accounts of Local Authorities to ensure the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

- **Fair Value**
  Fair value is the price at which an asset could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.

- **Financial Regulations**
  These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

- **Housing Benefit**
  This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Council's own tenants are known as rent rebate and that paid to private tenants as rent allowance.

- **Impairment**
  A reduction in the value of a fixed asset below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

- **Infrastructure Assets**
  A category of Property, Plant and Equipment which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.

- **International Financial Reporting Standard (IFRS)**
  These are the defined Accounting Standards that must be applied by all reporting entities to all Statement of Accounts in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with Statement of Accounts of the other entities.

- **Joint Venture**
  A Joint Venture is an arrangement under which two or more parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

- **Lender Option Borrower Option (LOBO)**
  A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

- **Liabilities**
  These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

- **Materiality**
  An item would be considered material to the Statement of Accounts if, through its omission or non-disclosure, the Statement of Accounts would no longer show a true and fair view.

- **Minimum Revenue Provision (MRP)**
  MRP is the minimum amount which must be charged to a Council's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government and Housing Act 1989. Net debt is the Council's borrowings less cash and liquid resources.

- **Precept**
  The amount levied by various Authorities that is collected by the Council on their behalf.

- **Premiums**
  These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

- **Prior Period Adjustments**
  These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

- **Private Finance Initiative (PFI)**
  A Central Government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

- **Public Works Loan Board (PWLB)**
  An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities

- **Related Parties**
  Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:

  - members of the close family, or the same household; and
  - partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

- **Reporting Standards**
  The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Council. It is based on International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

- **Revaluation Reserve**
  The Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

- **Service Reporting Code of Practice (SERCOP)**
  Prepared and published by CIPFA, the Service Reporting Code of Practice (SERCOP) is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SERCOP establishes proper practices with regard to consistent financial reporting for services in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

- **Treasury Management**
  This is the process by which the Council controls its cash flow and its borrowing and lending activities.

- **Trust Funds**
  These are funds administered by the Council on behalf of charitable organisations and/or specific organisations.

- **Unsupported (Prudential) Borrowing**
  This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

CAA	Capital Adjustment Account
CERA	Capital Expenditure charged to Revenue Account
CFA	Capital Financing Account
CIPFA	Chartered Institute of Public Finance & Accountancy
Code	CIPFA Code of Recommended Accounting Practice
EIB	European Investment Bank
ERDF	European Regional Development Fund
ERV	Estimated Rental Value
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Practice
GAVO	Gwent Association of Voluntary Organisations
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LMS	Local Management of Schools
LOBO	Lender Option Borrower Option
MRP	Minimum Revenue Provision
NCA	Notional Credit Approval
NNDR	National Non-Domestic Rates
NPV	Net Present Value
NRV	Net Realisable Value
PFI	Private Finance Initiative
PWLB	Public Works Loan Board
RICS	Royal Institute of Chartered Surveyors
RSG	Revenue Support Grant
SERCOP	Service Reporting Code of Practice
SEWREC	South East Wales Racial Equality Council
TTF	Treasury Task Force
WIP	Work In Progress
WRA	Welsh Revenue Authority

Further Information

Further information about the Statement of Accounts is available from:

Head of Finance
Civic Centre
Newport
South Wales
NP20 4UR

This is part of the Council's policy of providing full information about the Council's affairs. In addition, interested members of the public have a statutory right to inspect the Statement of Accounts before the audit is completed. The availability of the Statement of Accounts for inspection is advertised in the local press, as is the notice of completion of the audit.

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Final
Annual accounts 2021/22

Summary Process

- Audit Committee are asked to note;
  - The draft set of accounts were authorised for publication on 12th July, rather than 30th June as initially agreed with auditors
  - Councils are required to work to statutory 31st May deadline, but it isn't common yet that many Councils have streamlined/refined their processes sufficiently to comply. Consequently a notice was placed on the website stating the reasons for the delay as required by the legislation.
  - Draft accounts were provided to this Committee on 28th July, 2022
  - Accounts went on display and were available for public to inspect for a month commencing 2nd week in August. No requests for further information or explanation were received.
  - The audit process effectively concluded on 10th January, with confirmation that the audit team was happy with how the Council had refined the accounts for the issues it raised during the process. Those issues are captured in a document known as ISA260 which is being considered at this same meeting.
  - There remains a collective motivation amongst Councils and auditors to provide a set of Accounts that are clear, informative and would not mislead any audience.

Summary Process

- That collective motivation isn't without its "rub" points, and certainly shorter statutory production timescales can be inconsistent with a wish for greater technical refinements and more detailed presentation. So there is always a balance to be struck.
- The audit process will always advocate refinements and changes, even on things that have previously been audited as acceptable. Public interest issues change over time, national consideration affects the focus for priorities, regulations can change, and the audit quality assessment process can introduce thematic considerations for following year.
- The audit report will detail the changes advocated and whether the Council has chosen to amend that presentation
- This results in a final set of accounts which reflects agreed amendments made following that exercise.
- Governance & Audit Committee are required to consider/approve these final Accounts, which will result in them being certified by Head of Finance and Chair on your behalf.
- It is important that members appreciate both the auditor judgement and Committee's consideration is one of a "true and fair view" assessment, and not vouching for 100% accuracy of the Accounts.

Trends and challenges

- Change in personnel and reduced team capacity
- Accounts assumptions and transactions still affected by Covid-19 Considerations
- Throughout the year the council received significant cash from Welsh Government in the form of new grants and financial, much of that being explicit covid 19 grant streams.
- Related there is a complicated agency note first introduced last year within the statement of accounts which details what schemes we have classified as constituting an agency relationship which requires those costs and receipts to be removed from Council's CIES statement
- Fair value measurement of Property (particularly investment property) continues to exhibit valuation uncertainty – as the longevity and severity of the impact of Covid-19 on the economy have introduced non traditional practices, impacting demand and supply and depressing benchmark rental values below traditional levels.
- The traditional rolling valuation of operational property was supplemented by a desk based uplift in cost to reflect an uptick in construction inflation
- CIPFA and central government issued retrospective legislation and guidance to fundamentally affect the traditional reporting of infrastructure assets after the accounts were prepared in draft.
- The Council has had to bring forward its review of nil value assets which was programmed as part of new financial system data migration for 2023-24
- City Deal incorporation is becoming more significant as the volume of activity picks up
- A greater degree of audit recommendations has been accommodated whilst the ledger has remained open to deal with the anticipated fixed asset changes.

Asset Accounting & Valuation Techniques

- Various classes of fixed assets
- Valued differently and over different periods
- Methods of valuation - existing use, depreciated (equivalent) replacement cost, depreciated historic cost, historic cost, fair value
- Results – enhancing valuation or impairment
- Depreciation

Key Messages

- Fixed assets will always remain a key audit line of enquiry given the significance of the figures when viewed against materiality tolerances
- Significant churn and volatility in fixed asset administration

- Other areas like the reporting of senior staff remuneration or reporting on the sufficiency of member declarations will always be reputational important as a key line of audit enquiry and governance indicator even though figures in the accounts aren't as material to overall spends.

- May's election impacted declaration returns and necessitated a "workaround" in the approval of earmarked reserve movements.
- Colleagues have also been working upon facilitating the move to a new financial administration system alongside the traditional Statement of Accounts work

Key Messages

Revenue Budget

Active underspend on revenue budget prior to reserve movements - £18.4m as reported to Cabinet in June 2021

This was due to;

- Receipt of one-off Welsh Government (WG) funds to compensate Council services to support its enhanced service delivery to Newport's communities in response to Covid; and lost income from Covid restrictions; meant these costs were not borne by the Council;

- Underspends across all services in relation to (i) costs of general administration and service provision due to changes in working practices and (ii) not undertaking planned/normal services, as they were not required or unable to be carried out due to Covid response work being prioritised

- Resulting directly and indirectly from the above, the general revenue contingency budget was not required, there was an underspend against the Council Tax Reduction Scheme and an overachievement against budgeted Council Tax income. Furthermore, there was a significant underspend against the Capital Financing budget, mainly due to the receipt of late capital grants from WG and general slippage against the Capital Programme, deferring the need to borrow for capital schemes.

- Underspent on its general revenue contingency budget, council tax reduction scheme and council tax income

Conversely the CIES shows a surplus on provision of services of £26.5m, the difference is due to net accounting adjustments undertaken as part of year end process including transfers to reserves.

Key Messages

Capital Programme / budget

Capital spend on programme of £52.7m, carried forward £13.9m due to slippage

Reserves

Reserves increased by net £43.6m, notable movements being

- Schools – underspend of £6.2m transferred to school specific reserves
- General Fund - underspend of £7.9m transferred to reserves
- Various earmarked reserve top ups agreed by Cabinet
- Capital receipts balance increased by £2.7m
- “Displacement” reserve of £10m created to reflect capital grant payments received from Welsh Government in 2021-22 to be spent in 2022-23
- £1.5m Discretionary cost of living support grant received by Welsh Government in 2021-22 to be used in 2022-23

Financial Accounting vs Management Accounting

<u>These Accounts are not prepared on the same premise as management information received during the year</u>

Management accounting/reports

- Commonly internal to the organisation
- Focussed on a future date, by predicting outturn based on current activity and known trends/activities
- Compares activities of interest against a predicted level (budget)

So there is no prescribed format, they are a management tool to influence decision making, and can be catalyst to change activity/performance before year end.

Financial Accounting vs Management Accounting

Financial accounting/statement of accounts

- Backwards facing,
- Historic in nature,
- Not able to influence the activity reported.
- They are prescriptive in format and design (Accounting policies and standards). They tend to be public focussed, and involve a degree of external assessment/validation.
- There is no budgetary or variance component, and the accounts are assessed on a “true and fair view” basis rather than absolute accuracy.
- The balance sheet, movement in reserves and cashflow statement are unique to Statement of Accounts presentation and not a feature of management accounts reporting.

The Comprehensive Income and Expenditure Statement CIES and Expenditure and Financing Analysis (EFA) has the same roots as the Council management accounting revenue performance at month 12, but includes additional entries/adjustments to the balance sheet that have a revenue impact but are not afforded by charge to the taxpayer e.g. Impairment of fixed assets, depreciation, pension fund accounting, amalgamation of City Deal and Newport Transport entries

Key Statements (1)

Five key statements together with supporting notes detail the financial performance, these are:

- **The Comprehensive Income and Expenditure Statement (CIES):** showing the accounting cost in year of providing services in accordance with generally accepted accounting practices.

- **The Expenditure and Funding Analysis (EFA**): details the movement between the Council's Income and expenditure position as reported internally and the accounting adjustments made as per proper accounting practices presented in the CIES.

- **The Movement in Reserves Statement**: summarises the Authority's income and expenditure activity and shows how this is adjusted to arrive at the Authority's funding, or council tax position, and how surpluses/ deficits have been distributed to reserves.

- **The Balance Sheet**: shows the value as at the 31 March 2022 of the assets and liabilities held and recognised by the Authority.

- **The Cash Flow Statement:** shows the movements in cash and cash equivalents of the Authority during the reporting period.

Summary - finances

Usable Reserves 31/03/2021		**108,270**
Transfers actioned during the year to/(from) reserves		22,735
Transfers recommended in outturn report to/(from) reserve		18,404
Audit based additions		2,443
Usable Reserves 31/03/2021		**151,852**
Made up of:		
Council Fund Balance		6,500
Balances Held by Schools		15,737
Earmarked Reserves – risk, smoothing, enabling, other – (PFI makes up c£42m)		120,225
Capital Receipts Reserve (enabling)		9,390
Total Usable Reserves 31/03/21		**151,852**

Audit Enquiries Checklist 2021/22

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee. Management, with the oversight of those charged with governance, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how the Audit Committee exercises oversight of management's processes. We are also required to make enquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

Enquiries of management - in relation to fraud		
Question	**2020-21 Response**	**2021-22 Response**
1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?	Low. The Internal Audit Team have a comprehensive audit plan which incorporates the key financial systems and services provided by NCC; the transactions of which feed into the financial statements. The transactions are audited at an operational level on a sample basis throughout the year. No material errors or cases of fraud were identified during the 2020/21 audit work. The Council has Financial Regulations and Contract Standard Orders in place, which are to be adhered to across the authority. These regulations detail the financial control and supervision that is required, as well arrangements for budgeting and budgetary control/monitoring, banking arrangements including bank reconciliations and income reconciliations and audit arrangements. These monitoring arrangements are undertaken across finance including procurement, internal audit and accountancy staff. These arrangements are in place to keep the risk of fraud to a minimum Internal Audit were involved with counter fraud work in relation to Welsh Govt Covid 19 grants – no material frauds identified	Low. The Internal Audit Team have a comprehensive audit plan which incorporates the key financial systems and services provided by NCC on a cyclical basis; the transactions of which feed into the financial statements. The transactions are audited at an operational level on a sample basis throughout the year. No material errors or cases of fraud were identified during the 2021/22 audit work. The Council has Financial Regulations and Contract Standard Orders in place, which are to be adhered to across the authority. These regulations detail the financial control and supervision that is required, as well arrangements for budgeting and budgetary control/monitoring, banking arrangements including bank reconciliations and income reconciliations and audit arrangements. These monitoring arrangements are undertaken across finance including procurement, internal audit and accountancy staff. These arrangements are in place to keep the risk of fraud to a minimum
2. What processes are employed to identify and respond to the risks of fraud more generally and specific	Established anti-fraud, bribery and corruption arrangements provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to combat money-laundering,	Established anti-fraud, bribery and corruption arrangements provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to

Enquiries of management - in relation to fraud		
Question	**2020-21 Response**	**2021-22 Response**
risks of misstatement in the financial statements?	the anti-fraud, bribery and corruption policy and the whistleblowing policy.	combat money-laundering, the anti-fraud, bribery and corruption policy and the whistleblowing policy.
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	Fraud investigated by the Internal Audit team is reported to the Audit Committee, although due regard to DP Act needs to be considered along with the impact on any potential disciplinary process. No material fraud identified therefore nothing to report to the Governance and Audit Committee	No material fraud identified in 2021/22, therefore nothing to report to the Governance and Audit Committee.
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	The Council has a Code of Governance that has seven key principles, this is outlined in the Annual Governance Statement which is updated annually. The Corporate Plan also outlines the values of the authority and outlines three values of expected behaviour. There is also an ethical governance framework which includes code of conduct for officers and members, which are reviewed, updated and tested for compliance; a protocol governing Member/Officer relations; a whistle blowing policy; register of personal interest and anti-fraud arrangements. There is mandatory training for new members on Code of Conduct and Governance as well as other training.	The Council has a Code of Governance that has seven key principles, this is outlined in the Annual Governance Statement which is updated annually. The Corporate Plan also outlines the values of the authority and outlines three values of expected behaviour. There is also an ethical governance framework which includes code of conduct for officers and members, which are reviewed, updated and tested for compliance; a protocol governing Member/Officer relations; a whistle blowing policy; register of personal interest and anti-fraud arrangements. There is mandatory training for new members on Code of Conduct and Governance as well as other training.
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2021?	Yes – low key frauds investigated by Internal Audit – no significant or material frauds identified	Yes – low key frauds investigated by Internal Audit – no significant or material frauds identified in 2021/22.

Enquiries of management - in relation to fraud		
Question	**2020-21 Response**	**2021-22 Response**
6. Are you aware of any fraud within any service organisations employed by the Council since 1 April 2021?	No	No

Enquiries of those charged with governance – in relation to fraud		
Question	**2020-21 Response**	**2021-22 Response**
1. How does the Audit Committee, exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?	Minutes of Cabinet, Scrutiny and Governance & Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance.	Minutes of Cabinet, Scrutiny and Governance & Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance.
2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2021?	Yes – very low key – not significant or material.	Yes – very low key – not significant or material. All less than £50k for 2021/22.

Matters in relation to laws and regulations

International Standard for Auditing (UK and Ireland) 250 covers auditors' responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of those charged with governance (the Audit Committee), is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

What are we required to do?

As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the Council is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Enquiries of management – in relation to laws and regulations		
Question	**2020-21 Response**	**2021-22 Response**
1. How have you gained assurance that all relevant laws and regulations have been complied with?	The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which go through the democratic process which gives assurance on compliance.	The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which go through the democratic process which gives assurance on compliance.
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2021, or earlier with an ongoing impact on the 2021-22 financial statements?	No.	No.
3. Are there any potential litigations or claims that would affect the financial statements?	Not aware of any in addition to those which are either detailed as provisions or contingent liabilities in the financial statements.	Not aware of any in addition to those which are either detailed as provisions or contingent liabilities in the financial statements.
4. Have there been any reports from other regulatory bodies, such as HM Revenue and Customs which indicate non-compliance?	No.	No.
5. Are you aware of any non-compliance with laws and regulations within any service organisations since 1 April 2021?	No.	No.

Enquiries of those charged with governance – in relation to laws and regulations		
Question	**2020-21 Response**	**2021-22 Response**
1. How does the Audit Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	Minutes of Cabinet, Scrutiny and Governance & Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance.	Minutes of Cabinet, Scrutiny and Governance & Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance.
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	No	No

Matters in relation to related parties

International Standard for Auditing (UK and Ireland) 550 covers auditors responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

What are we required to do?

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Enquiries of management – in relation to related parties

Question	2020-21 Response	2021-22 Response
1. Confirm that you have disclosed to the auditor: • the identity of any related parties, including changes from the prior period; • the nature of the relationships with these related parties; • details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.	Yes, confirmed.	Yes, confirmed.
2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	Related parties are disclosed in the annual financial statements. A signed declaration is requested from all senior officers on an annual basis to identify any related parties. This is the same is required for all elected members.	Related parties are disclosed in the annual financial statements. A signed declaration is requested from all senior officers on an annual basis to identify any related parties. This is the same is required for all elected members.

Enquiries of those charged with governance – in relation to related parties

Question	2020-21 Response	2021-22 Response
1. How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	As above.	As above.

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Archwilio Cymru
Audit Wales

Audit of Accounts Report – Newport City Council and Newport City Council Group

Audit year: 2021-22

Date issued: January 2023

Document reference: 3325A2023

Contents

We intend to issue an unqualified audit report on your Accounts. There are some matters to report to you prior to their approval.

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Audit of Accounts Report

Introduction

1 We summarise the main findings from our audit of your 2021-22 Statement of Accounts in this report.

2 We have already discussed these issues with the Head of Finance/Section 151 Officer.

3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.

4 We set this level at £5.6 million for this year's audit.

5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:

- Related party transactions (with individuals): £1,000
- Senior officer remuneration: £1,000

6 We have now substantially completed this year's audit.

7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between us and yourselves that we believe could undermine our objectivity and independence.

Impact of COVID-19 on this year's audit

8 The COVID-19 pandemic has had a continuing impact on how our audit has been conducted. We summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year's audit

Timetable	Given the continuing impact of COVID-19 and its ongoing impacts on workloads, the Welsh Government provided flexibility in terms of accounts preparation and audit deadlines: • the timescale for completing your accounts was revised by the Welsh Government from 31 May to 31 August 2022; • we received the approved draft accounts on 12 July 2022; • our deadline for completing our audit was extended by the Welsh Government from 31 July to 30 November 2022, then again to 31 January 2023, largely due to a technical accounting issue arising on infrastructure assets affecting all councils this year (further details of this issue are provided in **Exhibit 2** below); and • we expect your audit report to be signed on 30 January 2023.
Electronic signatures	We are currently continuing to use electronic signatures to certify the final Statement of Accounts. We will liaise with management to arrange this, in line with practice followed in prior years.
Audit evidence	Audit Wales staff continue to work remotely from Council offices. As a result, we have not had direct access to certain systems such as the Council's financial ledger, payroll systems and 'Information @Work' system, which we use to directly review financial records and obtain invoices. Consequently, we have continued to request such information from Finance staff for the 2021-22 audit, although all information requested has been provided as required.

Proposed audit opinion

9 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.

10 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

11 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

12 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

13 There are no misstatements arising from the audit which remain uncorrected in the final Statement of Accounts.

Corrected misstatements

14 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention, and they are set out with explanations in **Appendix 3**.

Other significant issues arising from the audit

15 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year as shown in **Exhibit 2**:

Exhibit 2 – significant issues arising from the audit

Uplifts to property assets valued under 'depreciated replacement cost' methods	The Council normally values its property asset portfolio every five years on a rolling basis, in line with CIPFA's Code (the Code). However, the Code also requires Councils to verify that there have been no material movements in the value of assets between valuations. Given recent inflationary pressures, assets valued under the depreciated replacement cost method would likely be subject to material increases in value during 2021-22. As a result, the Council (in line with many other Councils in Wales) has undertaken an exercise to uplift the value of affected assets in 2021-22 using appropriate industry indices. We are satisfied that by following this approach, the Council has continued to ensure that values of such property assets in the 2021-22 accounts are materially reasonable. The values of the adjustments arising from this exercise are set out for completeness in **Appendix 3,** to detail changes from the draft account figures.	No further action required – matter disclosed for information only.

Changes to accounting and disclosure of infrastructure assets	At a late stage in the audit process, the 2021-22 accounting requirements for infrastructure assets were retrospectively updated for all councils: • firstly, in December, the Code was updated to remove the need to disclose such assets within the main Property, Plant and Equipment disclosure (Note 14). Instead, the net book value of infrastructure assets is now disclosed separately in the Balance Sheet with a further reconciling table of their net book value included in Note 14. • a further statutory instrument was then issued by the Welsh Government, requiring that where the above change has been made, the Council deems any replaced infrastructure assets to be valued at zero. The instrument requires that councils should disclose in the accounts that this is the case. Subsequent audit work has confirmed that revisions to infrastructure assets disclosures in the final accounts comply with the above updated requirements.	No further action required – matter disclosed for information only.
Review of assets with zero Net Book Value	Note 14 of the draft accounts (Property, Plant and Equipment) included £23.0 million of non-current assets with a residual Net Book Value of zero. Our audit identified that £12.8 million of those assets were no longer in use by the Council, and therefore needed to be removed from the 2021-22 accounts. While we are satisfied that there is no material issue with the remaining nil-Net Book Value of assets held in the 2021-22 accounts, we recommend that the Council carry out a detailed review of these assets going forward to provide assurance that they remain in use.	See recommendation 1
Declarations of Interest from Members	Council staff did not receive updated declarations of interest from 16 Council Members for the 2021-22 financial year in support of the Council's related party disclosures. The process was complicated this year given the May 2022 Council elections. We have performed other audit work to provide assurance over the completeness of these disclosures in the final accounts, but we recommend that the Council ensure declarations of interest returns are obtained for all Council members to support the annual accounts and audit process.	See recommendation 2

Reconciliation of Movement in Reserves Statement	Prior to the audit we were notified by officers that the Movement in Reserves Statement could not be reconciled, with an immaterial difference of £893,000 arising. This Statement is not drawn from the Council's financial ledger – instead, it derives from the remainder of the Council's accounts to summarise the year-end reserves position. Many accounting transactions made during the year which are included in the main financial statements (for example, depreciation of fixed assets, or accruals for annual leave outstanding) have no impact on the taxpayer, and as such are removed when confirming the Council's year-end reserves. Neither we nor management have identified the reason for this discrepancy, but without a compensating adjustment the MiRS would not balance. Management have therefore adjusted the net expenditure of the 'non-departmental expenditure' service area in the Comprehensive Income & Expenditure Statement, which in turn provides a balanced MiRS. The amount involved is immaterial and does not affect our overall audit opinion, but it is raised for your attention and we recommend that this is reviewed after certification to understand how this discrepancy arose.	See recommendation 3
Disclosure of senior officer remuneration	The Strategic Director (Environment and Sustainability) is in receipt of a car paid for via salary sacrifice – this is appropriately disclosed in Note 31 of the accounts (Officer Remuneration). It is our view that this salary sacrifice arrangement also gives rise to a Benefit in Kind for this individual, which is not disclosed in the accounts. Under legislation, a Benefit in Kind is defined as 'any benefits received…by the person in respect of their employment'. As the car is paid for via a salary sacrifice scheme provided by the Council (which would not otherwise be available to the individual), our view is that a Benefit of Kind of £806 in 2021-22 should be disclosed. In response, the Council believes that as the car is not provided directly by the Council as an additional benefit it does not constitute a Benefit in Kind. As such, this has not been disclosed in the accounts. However, as the value of any disclosure would not be material, its omission does not affect our audit opinion.	No further action required – matter disclosed for information only.

Recommendations

16 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

26 January 2023

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Newport City Council and Newport City Council Group for the year ended 31 March 2022 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021-22; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence;
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects Newport City Council and Newport City Council Group and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements;
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

There are no material differences between the accounting policies of Newport City Council and Newport City Council Group.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Representations by the Governance and Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Governance and Audit Committee on 26 January 2023.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:	**Signed by:**
Meirion Rushworth	Gareth Chapman
Head of Finance/Section 151 Officer	Chair, Governance and Audit Committee
Date: 26 January 2023	Date: 26 January 2023

Appendix 2

Proposed Audit Report

The independent auditor's report of the Auditor General for Wales to the members of Newport City Council

Opinion on financial statements

I have audited the financial statements of:

- Newport City Council; and
- Newport City Council Group

for the year ended 31 March 2022 under the Public Audit (Wales) Act 2004.

Newport City Council's financial statements comprise the Expenditure and Funding Analysis, the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes, including a summary of significant accounting policies.

Newport City Council Group's financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of Newport City Council and Newport City Council Group as at 31 March 2022 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Council and the Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I

believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's and Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial

statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Council and Group and their environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including Newport City Council Group's financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Council's and Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the Council's Chief Internal Auditor and those charged with governance, including obtaining and reviewing supporting documentation relating to the Council's and Group's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud;
- obtaining an understanding of the Council's and Group's framework of authority as well as other legal and regulatory frameworks that the Council and Group operate in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Council and Group.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Council's and Group's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Newport City Council and Newport City Council Group in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Adrian Crompton	24 Cathedral Road
Auditor General for Wales	Cardiff
30 January 2023	CF11 9LJ

Appendix 3

Summary of Corrections Made

During our audit, we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. The three exhibits below show those corrections which:

- affect the Council's year-end reserve balances;
- do not affect the Council's year-end reserve balances;
- relate to presentational or disclosure matters only.

Exhibit 3: corrections which affect the Council's reserve balances

Area of correction	Nature of correction	Reason for correction
Comprehensive Income & Expenditure Statement (CIES): Inclusion of 'Cost of Living Support Scheme' grant funding.	To ensure that the grant income is recorded in the correct accounting period, as per the Code.	Our audit identified that the Welsh Government 'Cost of Living Support Scheme' funding had not been included in the 2021-22 draft accounts. This funding comprised: • an 'agency' element of £7.6 million to be passed on directly to relevant households; and • a 'principal' discretionary element of £1.5 million, which the Council could allocate as it wishes. As the funding is to be paid out by the by the Council based on the Council Tax status of households on 15 February 2022, it should be accounted for in 2021-22. The Council has therefore corrected as follows: • the 'agency' element has been disclosed in Note 35 (Agency Income), with a corresponding debtor and creditor to reflect the funds receivable and payable; and • the 'principal' element has been recorded as income in the CIES, with a corresponding transfer to earmarked reserves being made to cover the expenditure to be made in future years.

Area of correction	Nature of correction	Reason for correction
Comprehensive Income & Expenditure Statement (CIES): Inclusion of accrued income for care home services.	To ensure that the income is accrued for as care home services are provided, as required by the Code.	In the draft accounts, the Council disclosed care home services income as a contingent asset – that is, not accruing for any income until care services ceased and charges could be made against residents' assets. Our review determined that this treatment was incorrect, and income should instead be accrued while care home services are being provided. The Council has performed an exercise to identify £2.9 million of gross income to be recognised in 2021-22 under this method, as well as a provision for irrecoverable debtors of £2.0 million. The resulting £0.9 million of net income has been transferred to an earmarked reserve in the final accounts. We are satisfied that these corrections have been appropriately made in the final accounts.

Exhibit 4: corrections which do not affect the Council's year-end reserve balances

Area of correction	Nature of correction	Reason for correction
Note 8 (Nature of Expenses): Overstatement of income and expenditure.	To ensure that income and expenditure are appropriately recorded.	Our audit identified that £1.8 million of income relating to the sale of land had been incorrectly recorded in the Council's ledger, leading to both income and expenditure being overstated by this amount. This correction has now been made in the final accounts.
Property Plant & Equipment (Note 14): Removal of assets no longer in Council use with a zero net book value.	To ensure that only assets still in use by the Council are included in the accounts.	As per **Exhibit 2**, our audit identified £23.0 million of property, plant and equipment assets with a net book value of zero in the draft accounts. £12.8 million of those assets were confirmed as no longer in use by the Council, and so therefore needed to be removed from the 2021-22 accounts. This correction has now been made in the final accounts.
Property Plant & Equipment (Note 14):	To ensure that asset values held in the Balance Sheet are	As per **Exhibit 2**, and in line with many other councils in Wales, the Council has undertaken an exercise to uplift the value of assets valued using the 'depreciated replacement cost' method in 2021-22 using appropriate industry indices. This results in asset values being

Area of correction	Nature of correction	Reason for correction
Uplifts to values of 'depreciated replacement cost' assets.	materially reasonable for 2021-22.	increased by £11.6 million in the final accounts when compared with the draft accounts. We are satisfied that by following this approach, the values of such assets in the 2021-22 accounts are materially reasonable in the final accounts.
Note 18 (Financial Instruments): Correction of Tredegar House Lease debtor.	To ensure that the long-term debtor is accurately reflected in line with the Code.	Our audit identified that the long-term debtor for the prepayment of a lease amount to the National Trust for Tredegar House had been overstated by £472,000. This debtor has now been corrected in the final accounts.
Short-Term Creditors (Note 23): Removal of balances relating to 2022-23.	To ensure that balances included in the accounts relate to 2021-22 activity.	Our audit identified £798,000 of creditors relating to homelessness accommodation in 2022-23 that should not have been accounted for in 2021-22. A corresponding debtor was also set up to recognise Welsh Government Hardship Funds receivable to cover this expenditure. These balances have now been correctly removed.
Group accounts (Note 5): Removal of historic valuation adjustment for Newport Transport Ltd. depot.	To ensure that the valuation of the depot is appropriately recorded.	Our audit identified that the Newport Transport Ltd. depot was revalued at 31 March 2021, in line with the Group's accounting policies. However, a historic valuation adjustment of £413,000 was retained in the group accounts working papers, inflating the value of the asset. This historic adjustment has now been removed in the final group accounts.

Exhibit 5: corrections relating to presentation/disclosure matters only

Area of correction	Nature of correction	Reason for correction
Property, Plant & Equipment (Note 14): Reclassification of in-year asset additions.	To ensure that asset additions are correctly classified in the accounts.	Our audit identified that £409,000 of 'vehicles, plant and equipment' additions had been incorrectly classified as 'assets under construction' in the draft accounts. This amount has now been correctly classified in the final accounts.

Area of correction	Nature of correction	Reason for correction
Capital Commitments (Note 14): Reduction in value of commitments.	To ensure that capital commitments are accurately disclosed in the final accounts.	Our audit identified that for one contract commitment within the City Services section, the value of that contract was overstated by £629,000 within working papers. The value of this commitment has now been correctly reduced in the final disclosure.
Capital Commitments (Note 14): Amendments to comparative figures.	To ensure that comparative figures accurately reflect the audited 2020-21 accounts.	Our audit identified a number of differences to the comparative capital commitments disclosures for 2020-21 in this year's draft accounts, totalling £11.9 million. These comparatives have now been corrected to bring the figures in line with the audited 2020-21 accounts.
Note 18 (Financial Instruments): Misclassification of short-term and long-term borrowings.	To ensure that balances are appropriately disclosed in line with the Code.	Our audit identified that £4.4 million of borrowings had been incorrectly disclosed as long-term borrowings in the Balance Sheet, as they were due within 12 months and therefore were short-term in nature. This classification has now been corrected.
Provisions (Note 24): Reclassification of income subsidy liability.	To ensure that liabilities are correctly classified in line with the Code.	During the audit, we were informed that the income subsidy obligation to the owners of the Friars Walk shopping centre (£500,000 per annum) had been transferred to a third party and was now payable under a fixed contract. Therefore, the remaining balance of £5.0 million (classified as a provision in the draft accounts) should be classified as a creditor. This amount has now been appropriately reclassified.
Note 31 (Officer Remuneration): Amendment of Council disclosures on senior employees.	To accurately present these disclosures in line with the Accounts and Audit Regulations (Wales) 2014.	Our audit identified a number of required amendments in this note relating to senior officer remuneration and grouped pay bandings, to ensure that disclosures complied with the requirements of underlying legislation. These amendments have been made and we are satisfied that the final disclosure is appropriate.
Note 35 (Agency Income): Removal of receipts and payments for prior years.	To ensure that the disclosure only includes income relevant to 2021-22.	Our audit identified that £36.7 million of receipts and payments of business support grants relating to 2020-21 activity had been incorrectly recorded in this disclosure. These amounts have now been correctly removed from this stand-alone disclosure in the final accounts.

Area of correction	Nature of correction	Reason for correction
Note 36 (Related Parties): Corrections to various areas of the disclosure.	To ensure that related parties are appropriately disclosed in line with the CIPFA Code.	Our audit identified a number of required corrections to the related parties disclosure note, such as: • the amount of trade commissioned from companies in which Members had an interest, and the number of Members who had an interest in such companies; • disclosure of which members and officers have CSC Foundry Ltd. as a related party; and • disclosure of correct totals and balances for the Cardiff Capital Region City Deal. These amendments have been made and we are satisfied that the final disclosure is appropriate.
Group accounts (Note 16): Reclassification of revaluation reserve for Newport Transport Ltd.	To ensure that the revaluation reserve is correctly classified in the final group accounts.	Our audit identified that the revaluation reserve applicable to Newport Transport Ltd. (totalling £1.2 million) had been incorrectly included within the 'profit and loss' row within Note 16 of the group accounts. This amount has now been correctly re-classified within the 'revaluation reserve' row in the final accounts.
Group accounts (CIES): Reclassification of Newport Transport Ltd. administrative expenses.	To ensure that such expenditure is correctly classified in the group accounts in line with the Code.	Our audit identified that £5.6 million of administrative expenses for Newport Transport Ltd. had been incorrectly classified as 'other operating expenditure'. This is the incorrect classification under the CIPFA Code. This amount has now been separately disclosed in the group CIES in the final accounts, meeting the requirements of the CIPFA Code.
Group accounts (Balance Sheet): Reclassification of deferred government grants.	To ensure that such liabilities are correctly classified as 'short-term' or 'long-term'.	Our audit identified that £5.0 million of long-term deferred government grants relating to Newport Transport Ltd. had been incorrectly consolidated as 'other short-term liabilities' in the group Balance Sheet. This amount has now been correctly reclassified as 'other long-term liabilities' in the final accounts.
Various: Other presentational changes to supporting notes.	To ensure that all disclosures are accurately presented.	A number of other narrative, presentational and minor amendments were made to supporting notes throughout the final financial statements.

Appendix 4

Recommendations

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

Exhibit 6: matter arising 1

Matter arising 1 – assets with a residual Net Book Value of zero	
Findings	There were £23.0 million of non-current assets with a residual Net Book Value of zero as at 31 March 2022. Our audit identified that £12.8 million of those assets were no longer in use by the Council, and so therefore needed to be removed from the 2021-22 accounts. We are satisfied that these amounts have been removed from the final accounts, and that there is no material issue with the remaining nil-Net Book Value assets held in the 2021-22 accounts.
Priority	Medium
Recommendation	We recommend that the Council carry out a detailed review of any remaining similar assets in the 2022-23 financial year to provide assurance that they remain in use by the Council.
Benefits of implementing the recommendation	Such a review will provide assurance that all assets disclosed by the Council in its accounts remain in place and are still in use.
Accepted in full by management	Yes
Management response	This is an area of work that the Council had intended on undertaking as part of the preparatory work for migrating to a new financial system during 2023/24. A full review of remaining similar assets will, therefore, be undertaken imminently.
Implementation date	31st March 2023.

Exhibit 7: matter arising 2

Matter arising 2 – related party relationships	
Findings	Council staff did not receive updated declarations of interest from 16 Council Members for the 2021-22 financial year as part of our work over related party disclosures. We have performed other audit work to provide assurance over the completeness of these disclosures in the final accounts, but we emphasise the importance of these returns to the annual accounts and audit process.
Priority	Medium
Recommendation	We recommend that the Council reaffirm to Members the importance of making these annual submissions to Finance staff, and that it reviews the process overall to determine any potential efficiencies that can be gained in future (for example, by merging the requirement for related party information for the accounts with the need for annual declarations of interest for Council business).
Benefits of implementing the recommendation	A higher response rate from Members will provide greater assurance over the completeness and accuracy of future disclosures over related parties.
Accepted in full by management	Yes
Management response	Despite additional measures being introduced in an effort to increase the percentage of returns received, this did not prove wholly successful. Officers will review the process again and identify options for potentially achieving a higher response rate. These options will need to go beyond simply reiterating the importance of submitting the returns. The recommended options will be discussed with the Executive Board for acceptability prior to being introduced.
Implementation date	31st March 2023.

Exhibit 8: matter arising 3

Matter arising 3 – Movement in Reserves Statement not reconciling by £893,000	
Findings	Prior to the audit we were notified that the Movement in Reserves Statement (MiRS) could not be reconciled, with an immaterial difference of £893,000. This Statement is not drawn from the Council's financial ledger – instead, it derives from the remainder of the Council's accounts to summarise the year-end reserves position. Many accounting transactions made during the year (for example, depreciation of fixed assets, or accruals for annual leave outstanding) have no impact on the taxpayer, and as such are removed when confirming the Council's year-end reserves. Neither we nor management have identified the reason for this discrepancy, but without a compensating adjustment the MiRS would not balance. Management have therefore adjusted net expenditure of the 'non-departmental expenditure' service area in the Comprehensive Income & Expenditure Statement, which in turn provides a balanced MiRS. The amount involved is immaterial and does not affect our overall audit opinion, but it is raised for your attention and we recommend that this is reviewed after certification to understand how this discrepancy arose.
Priority	Medium
Recommendation	We recommend that the Council continue to review this discrepancy to understand what it relates to, and to determine how it has arisen.
Benefits of implementing the recommendation	Understanding how this discrepancy has arisen in 2021-22 will allow management to learn how to avoid similar issues arising in future.
Accepted in full by management	Yes
Management response	The Council intends on undertaking a review of the 2021/22 accounts process following certification. This will involve a review of the production of the MIRS and will seek to identify the discrepancy, ideally, or, as a minimum, provide reassurance that the process undertaken in completing the MIRS is robust.
Implementation date	31st March 2023

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

Report

Governance & Audit Committee

Part 1

Date: 26th January 2023

Subject Response to ISA260 Report and Statement of Accounts Authorisation

Purpose This report is to provide Governance & Audit Committee with an overview of the key aspects of Audit Wales' ISA260 Report, as well as the Council's response to any issues raised. This is to enable the committee to approve the signing of the accounts and complete the 2021/22 Statement of Accounts process.

Author Head of Finance / Assistant Head of Finance

Ward **All**

Summary The 2021/22 ISA260 Report, prepared by Audit Wales, outlines the fact that an overall unqualified audit opinion has been given. There were no uncorrected misstatements, as the Council was able to work through and process revisions whilst the ledgers remained opened for longer in anticipation of retrospective legislation and national accounting changes affecting fixed asset presentation. The appendices to this report provide context to the errors and misstatements identified, as well as outlining initial lessons learned and the Council's responses to questions raised at the previous Governance & Audit Committee meeting.

Proposal To note the contents of the ISA260 Report, the Council's response and to recommend approval of the 2021/22 Statement of Accounts.

Action by Head of Finance / Assistant Head of Finance

Timetable Immediate

This report was prepared in consultation with:

- Audit Wales
- Head of Finance

Signed

Background

This paper is to be read in conjunction with the final 2021/22 Statement of Accounts and Audit Wales' ISA260 report, with the further information being contained in the appendices attached, detailed as follows:

Appendix A – Briefing Note on the Statement of Accounts Audit Process 2021/22

This briefing note provides an overview of the context surrounding the 2021/22 accounts and audit process, before detailing the specific issues raised within the ISA260 Report and the Council's initial response to them. It should be noted that a more detailed lessons learned exercise will be reported to a future Governance & Audit Committee meeting.

Appendix B – Statement of Accounts 2021/22 – Queries Received and Responses

This appendix provides a summary of the queries raised in the previous Governance & Audit Committee, at which the draft accounts were considered, and the Council's responses to those queries.

After consideration of this report, the final Statement of Accounts and the ISA260 Report, the Governance & Audit Committee are requested to authorise the Chair and Head of Finance to sign the 2021/22 Statement of Accounts.

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 Governance & Audit Committee do not approve the Statement of Accounts and the Council is unable to meet a statutory obligation.	High	Low	The Council has ensured the necessary controls are in place to be able to produce an accurate Statement of Accounts. Officers have worked closely with external auditors reviewing the accounts and have, wherever possible, amended the accounts in line with their recommendations.	Head of Finance, Assistant Head of Finance, Chief Accountant and wider Accountancy section.

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities
The Council has a statutory duty (as set out in the Accounts and Audit (Wales) Regulations 2018) to produce an annual statement of accounts, which details the overall financial performance and financial position of the Council over the last two years.

Options Available and considered
1. Authorise the Chair and Head of Finance to sign the 2021/22 Statement of Accounts.
2. Do not authorise the Chair and Head of Finance to sign the 2021/22 Statement of Accounts.

Preferred Option and Why
Option 1 – the Statement of Accounts have been audited and an unqualified audit opinion has been issued, meaning the accounts show a true and fair reflection of the Council's financial position and are free from material misstatement.

Comments of Chief Financial Officer

The report and attached appendices provide an overview of the process for completing the 2021/22 Statement of Accounts and external audit process. It confirms that, although elongated largely due to external factors, the process has been successfully concluded and an unqualified audit opinion has been given by the external auditor. It is, therefore, recommended that the accounts are approved.

It is noted that the ISA260 report contains three specific recommendations arising from the external auditor's work. An initial response has been provided against those three recommendations and officers will continue working through these, in collaboration with Audit Wales where relevant, to implement any necessary changes in advance of the 2022/23 closure of accounts process.

Comments of Monitoring Officer
There are no legal implications arising. The Council is fulfilling its statutory and regulatory requirements by seeking approval of the final accounts.

Comments of Head of People and Business Change
There are no staffing implications arising from the report which is a key part of our regulatory framework and reflects sound financial management.

Comments of Cabinet Member
N/A

Local issues
N/A

Scrutiny Committees
N/A

Fairness and Equality Impact Assessment:
- ☐ Wellbeing of Future Generations (Wales) Act
- ☐ Equality Act 2010
- ☐ Socio-economic Duty
- ☐ Welsh Language (Wales) Measure 2011

For this report, a full Fairness and Equality Impact Assessment has not been undertaken. This is because this covering report and associated documents are not seeking any strategic decisions or policy changes, with their purpose being to report historical financial information. The Wellbeing of Future Generations (Wales) Act 2015 forms an integral part of the financial management of the Council.

Consultation
N/A

Background Papers
Statement of Accounts 2021/22

Appendix A – Briefing Note on the Statement of Accounts Audit Process 2021/22

Background

1. As part of the external audit process, and finalisation of the annual Statement of Accounts process, Audit Wales have issued the Council with its draft ISA260 Report. This report provides their overriding audit opinion on the accounts, as well as drawing attention to the corrections that have been agreed and reflected in the accounts, as well as any misstatements that remain uncorrected. All of these matters have been discussed and agreed with the relevant Council officers.

2. This briefing note identifies key aspects of the ISA260 Report, provides context to the issues identified and outlines the steps being taken by the Council to address these issues, as well as considering other lessons to be learned. It should be noted that a more full discussion on the lessons learned is provided prior to the following year's Statement preparation concluding.

Overview

3. Whilst restrictions have relaxed in 2022/23, the production of the 2021/22 Statement of Accounts was still set against the continued backdrop of the COVID-19 pandemic, which impacted on the completion of the accounts in a number of ways. This included resource challenges within the small team primarily responsible for producing the accounts. The 2021/22 revenue outturn position was significantly more favourable than anticipated, resulting in a large underspend, partly driven by the late allocation of grant funding by WG to local authorities across Wales. This underspend requires annual Member approval for its allocation and despite keeping the bottom line intact for subsequent allocation by Members after the May election this derived no significant time saving in the production of the accounts as colleagues still allocated other resourcing to specific reserves prior to the calculation of the net underspend and those still required approval. The reserve position only crystallised in the last week in May, and whilst the team was able to proceed on limited aspects of the balance sheet preparation in the meantime, reserves presentation certainty is fundamental to many notes. The accruals process (the creation of debtor and creditor balance) also overran from the date agreed within the timetable. Part of this remains due to the volume of necessary housekeeping undertaken during year end on outstanding purchase orders. Meeting the statutory deadlines remains extremely difficult and those Councils that manage to do so, are only able to, having moved much of that housekeeping and administration to during the year rather at the year end, so they can more quickly progress the Accounts preparation and production at year end.

   The team has also been facilitating the move towards a new ledger system, so it has needed to balance its time effectively through the audit process to progress both key priorities. Unhelpfully there has also been a need to accommodate significant movements in fixed asset reporting so it is very pleasing to note that the auditors intend to issue an unqualified opinion.

   Less satisfactory was a need to concede a compensatory entry of £893,000 to movement in reserves statement to allow that to balance. This was discussed with auditors as the Council had exhausted its review and it was hoped by making that adjustment and allowing the audit process to kick off, that a fresh pair of eyes and insight might better identify the cause, and whilst that has not

proved the case, nevertheless the adjustment is well below audit material levels and as such does not compromise the quality of the accounts.

4. The draft ISA260 Report identifies a total of 8 areas (either core statements or notes to the accounts) where corrections were agreed and reflected in the final accounts. In some cases, there may have been more than one correction required, albeit the theme of the corrections within those areas is broadly similar. Whilst this may seem like a high number, this is broadly comparable with the number in 2020/21, despite the considerable external volatility caused to fixed asset reporting subsequent to the draft accounts being prepared. In addition, 12 corrections of a presentational nature were addressed which did not materially alter the extent of information disclosed in the draft accounts.

5. Usually there are some corrections volunteered by Audit Wales that are not corrected. However, for 2021-22 **ALL** corrections were addressed and resolved. This is because the audit process has been longer than normal, and rather open ended as both the auditors and Council awaited an understanding of the national changes introduced retrospectively to asset reporting. At the time of writing this reprt CIPFA have still not issued its accounting bulletin on infrastructure assets, and the Council has amended its entries on the basis of the discussion taking place between auditors and CIPFA,. So it is pleasing that both the Council and auditors have reached agreement to be able to close off the audit so quickly to get the final accounts to this Committee.

Recommendations provided in the ISA260

9. Auditors identify 3 areas which haven't impacted upon their ability to make a true and fair view judgement, but which it regards important for the Council to address subsequently

   These include

   - Review of those net nil book assets not addressed during the 2021/22 exercise
   - Deficiencies in the volume of annual member declaration
   - Further examination into £893k compensatory balancing adjustment affecting the Movement in Reserves Statement

   Senior Council colleagues have provided a response to these in the draft ISA 260 together with indicative timescales.

Corrected misstatements

10. As outlined previously, there were a number of areas of the accounts which contained entries which have been revised between draft and final version. These changes are listed in Appendix A1. Whilst the volume may initially appear high, it should be noted that the majority of these related to either presentational or classification issues and the impact upon the accounts was minimal. As well as listing these below, commentary has been added to explain the reasons for the misstatement being made in the first instance and any steps taken to reduce the chance of similar misstatements being made in the future.

Appendix A1 – Corrected Misstatements

Exhibit 3: corrections which affect the Council's reserve balances

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
Comprehensive Income & Expenditure Statement (CIES): Inclusion of 'Cost of Living Support Scheme' grant funding.	To ensure that the grant income is recorded in the correct accounting period, as per the Code.	Our audit identified that Welsh Government 'Cost of Living Support Scheme' funding had not been included in the 2021-22 draft accounts. This funding comprised: • an 'agency' element of £7.6 million to be passed on directly to relevant households; and • a 'principal' discretionary element of £1.5 million, which the Council could allocate as it wishes. As the funding is to be paid out by the by the Council based on the Council Tax status of households on 15 February 2022, it should be accounted for in 2021-22. The Council has therefore corrected as follows: • the 'agency' element has been disclosed in Note 35 (Agency Income), with a corresponding debtor and creditor to reflect the funds receivable and payable. • The 'principal' element has been recorded as income in the CIES, with a corresponding transfer to earmarked reserves being made to cover the expenditure to be made in future years.	The Council was following previous audit advice which required us to remove debtor and creditor accruals from the 2020-21 accounts on the basis that the Council had no obligation/responsibility to incur any expense until it had received the resourcing. We thought that equally applied to this agency arrangement, as similarly we hadn't received the resourcing within 2021-22. However the audit view was that Minister's public statement in February was sufficient to convey a responsibility upon local authorities within 2021-22. In note 1 to the Accounts an additional section (page 61) has been added in respect of agency grant administration to the effect that *"where any agency grant has not physically been paid before the year end but the Council has agreed to the terms and conditions, the Council will adopt a debtor and equivalent creditor presentation in the year of signed acceptance for the funding."*

Comprehensive Income & Expenditure Statement (CIES): Inclusion of accrued income for care home services.	To ensure that the income is accrued for as care home services are provided, as required by the Code.	In the draft accounts the Council disclosed care home services income as a contingent asset - that is, not accruing for any income until care services ceased and charges could be made against residents' assets. Our review determined that this treatment was incorrect, and income should instead be accrued while care home services are being provided. The Council has performed an exercise to identify £2.9 million of gross income to be recognised in 2021-22 under this method, as well as a provision for irrecoverable debtors of £2.0 million. The resulting £0.9 million of net income has been transferred to an earmarked reserve in the final accounts. We are satisfied that these corrections have been appropriately made in the final accounts.	The contingent asset approach was agreed between auditors and Social Care service accountancy colleagues as part of the previous year's audit. So the 2021-22 draft presentation naturally followed that approach. Both contingent assets and liabilities notes are simply memorandum entries that are not backed by transactions in the ledger. Auditors have reviewed their previous recommendation and Instead favour a more tangible presentation of the income involved, matching it against the costs of providing the service in the year of occurrence. The revised presentation was calculated by accountancy staff appreciating an urgency to resolve, but Social care colleagues are still considering how the change could be embedded in their practices (e.g. using the corporate debtor or Social Care specific billing system, implications to annual statements, what is appropriate bad debt provision etc.) as an alternative to having to manually calculate the consequence as a year-end activity.

Exhibit 4: corrections which do not affect the Council's year-end reserve balances

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
Note 8 (Nature of Expenses): Overstatement of income and expenditure.	To ensure that income and expenditure is appropriately recorded.	Our audit identified that £1.8 million of income relating to the sale of land had been incorrectly recorded in the Council's ledger, leading to both income and expenditure being overstated by this amount. This correction has now been made in the final accounts.	The Council records all sales receipts against a revenue code during the year, and at year end journals to reserves those that are significant enough to be capital receipts. Because any transfer to reserves is a debit, that transaction has been picked up as expenditure within the nature of expenses table, such that both income and expenditure in the CIES are overstated by the same amount. Going forward, colleagues instead need to debit the income code where it is moving such capital receipts thereby reducing the level of income recorded and avoiding the creation of an extra expense.
Property Plant & Equipment (Note 14): Removal of assets no longer in Council use with a zero net book value.	To ensure that only assets still in use by the Council are included in the accounts.	As per Exhibit 2, our audit identified £23.0 million of property, plant and equipment assets with a net book value of zero in the draft accounts. £12.8 million of those assets were confirmed as no longer in use by the Council, and so therefore needed to be removed from the 2021-22 accounts. This correction has now been made in the final accounts.	The Council planned to undertake that assessment as part of its data cleansing exercise when migrating to a new fixed asset register. The headline statements aren't overstated as the balance sheet reflects the asset value net of accumulated depreciation, and so with these assets where the economic life of these assets has been fully utilised they derive no value in the accounts, however in note 14 the gross book value and accumulated depreciation ought to be written out of fixed asset register when disposed of., and the audit issue identifies an historic weakness in the disposal notification process.

			An extraordinary exercise was carried out which had the effect of reducing overstatement uncertainty to below auditor materiality levels, but there are still some assets that due to time constraints it wasn't possible to establish whether the Council was still using or had disposed of. One of the 3 audit recommendation is that that review should continue during 2022-23.
Property Plant & Equipment (Note 14): Uplifts to values of 'depreciated replacement cost' assets.	To ensure that asset values held in the Balance Sheet are materially reasonable for 2021-22.	As per **Exhibit 2**, and in line with many other Councils in Wales, the Council has undertaken an exercise to uplift the value of assets valued using the 'depreciated replacement cost' method in 2021-22 using appropriate industry indices. This results in asset values being increased by £11.6 million in the final accounts when compared with the draft accounts. We are satisfied that by following this approach, the values of such assets in the 2021-22 accounts are materially reasonable in the final accounts.	During the audit process, auditors explained that their quality assessment process from the previous year had highlighted a need for them to check with those Councils that used a rolling periodic basis of valuation how or if it considered latest valuation results and whether they ought to also affect assets valued previously in the 5 year cycle. As part of the annual valuation report provided by surveying staff, their professional opinion indicates whether there is any interrelation, commonly for instance schools valuations versus community assets has very little natural overlap other than where there is a fundamental change in building regulation affecting all classes. However this year's accounts preparation period coincided with a significant perceived increase in construction inflation, and so the Council undertook a subsequent desk based exercise during the audit process to inflate the carrying value of all assets where the valuation methodology reflected replacement cost and the last valuation preceded 2021-22.

			It intends to continue to do this annually whilst construction inflation remains so volatile.
Note 18 (Financial Instruments): Correction of Tredegar House Lease debtor.	To ensure that the long-term debtor is accurately reflected in line with the Code.	Our audit identified that the long-term debtor for the prepayment of a lease amount to the National Trust for Tredegar House had been overstated by £472,000. This debtor has now been corrected in the final accounts.	This remains quite a technical consideration. During the draft account preparation, in a change from the historic presentation, to aid transparency for the reader the obligation to pay National Trust a repairing contribution in the future was treated as a creditor as it is an outflow of resourcing from the Council. Auditors reminded accounting staff of their previous belief that such a contribution should be treated as lease incentive and therefore be annualised before being taken off any rental due to derive a net income/debtor. The accounting entry was reversed to revert to historic presentation and the matter is closed in respect of 2021/22 accounts Senior colleagues are reviewing whether the historic reporting adequately reflects the substance of the legal agreement rather than its legal form as the debtor balance reported doesn't in fact relate to net rent as there is no actual rental due from National Trust under the agreement. But any change in presentation would affect future years
Short-Term Creditors (Note 23):	To ensure that balances included in the accounts relate to 2021-22 activity.	Our audit identified £798,000 of creditors relating to homelessness accommodation in 2022-23 that should not have been accounted for in 2021-22. A corresponding debtor was also set up to recognise	The issue arose as Welsh Government forward funded 2022-23 homelessness expenditure as part of the 2021-22 grant process. This introduced a degree of confusion amongst service colleagues in

Removal of balances relating to 2022-23.		Welsh Government Hardship Funds receivable to cover this expenditure. These balances have now been correctly removed.	the treatment, which has been corrected as described in the preceding column.
Group accounts (Note 5): Removal of historic valuation adjustment for Newport Transport Ltd. depot.	To ensure that the valuation of the depot is appropriately recorded.	Our audit identified that the Newport Transport Ltd. depot was revalued at 31 March 2021, in line with the Group's accounting policies. However, a historic valuation adjustment of £413,000 was retained in the group accounts working papers, inflating the value of the asset. This historic adjustment has now been removed in the final group accounts.	An oversight when amalgamating the accounting statement for the two organisations.

Exhibit 5: corrections relating to presentation/disclosure matters only

Area of correction	Nature of correction	Reason for correction	Reason for misstatement and steps taken to avoid similar future misstatements
Property, Plant & Equipment (Note 14): Reclassification of in-year asset additions.	To ensure that asset additions are correctly classified in the accounts.	Our audit identified that £409,000 of 'vehicles, plant and equipment' additions had been incorrectly classified as 'assets under construction' in the draft accounts. This amount has now been correctly classified in the final accounts.	This relates to the incorporation of Newport's share of City Deal's activities and where the officer followed the previous year's convention in amalgamating the records, not appreciating that the asset had moved its operational status and therefore was no longer "under construction".
Capital Commitments (Note 14): Reduction in value of commitments.	To ensure that capital commitments are accurately disclosed in the final accounts.	Our audit identified that for one contract commitment within the City Services section, the value of that contract was overstated by £629,000 within working papers.	Transposition error derived from a calculation of payment still due, which would not have been reconcilable with any equivalent figure on the ledger.

		The value of this commitment has now been correctly reduced in the final disclosure.	
Capital Commitments (Note 14): Amendments to comparative figures.	To ensure that comparative figures accurately reflect the audited 2020-21 accounts.	Our audit identified a number of differences to the comparative capital commitments disclosures for 2020-21 in this year's draft accounts, totalling £11.9 million. These comparatives have now been corrected to bring the figures in line with the audited 2020-21 accounts.	Oversight, colleague picked up the comparative figure from an earlier rather than final version of the working paper from the previous year. There is always potential to have multiple versions of the same note but staff have been reminded about the discipline to rename older file version accordingly or archive them , so that the latest version is always apparent
Note 18 (Financial Instruments): Misclassification of short-term and long-term borrowings.	To ensure that balances are appropriately disclosed in line with the Code.	Our audit identified that £4.4 million of borrowings had been incorrectly disclosed as long-term borrowings in the Balance Sheet, as they were due within 12 months and therefore were short-term in nature. This classification has now been corrected.	The definition of long term borrowing for Statement of Accounts purposes and for treasury management purposes are subtly different. For instance, in treasury management terms, long term borrowing equates to any loan with a maturity profile greater than one year, which is a consideration at the outset of the arrangement and is retained as a classification for the life of the loan. Shor term borrowing will instead be those loan arranged and redeemed within a year. Conversely the accounts reflects the passage of time and so long term borrowing which is due to be redeemed within the next 12 months is more accurately reported to the reader as short term borrowing.
Provisions (Note 24): Reclassification of income subsidy liability.	To ensure that liabilities are correctly classified in line with the Code.	During the audit we were informed that the income subsidy obligation to the owners of the Friars Walk shopping centre (£500,000 per annum) had been transferred to a third party and was now payable under a fixed contract. Therefore, the remaining	The change in arrangement hadn't been communicated to the staff preparing the accounts who continued to report it on its historic basis.

		balance of £5.0 million (classified as a provision in the draft accounts) should be classified as a creditor. This amount has now been appropriately reclassified.	
Note 31 (Officer Remuneration): Amendment of Council disclosures on senior employees.	To accurately present these disclosures in line with the Accounts & Audit Regulations (Wales) 2014.	Our audit identified a number of required amendments in this note relating to senior officer remuneration and grouped pay bandings, to ensure that disclosures complied with the requirements of underlying legislation. These amendments have been made and we are satisfied that the final disclosure is appropriate.	It is often one of the more complicated notes to prepare. The format of the senior officers' note changed markedly in 2021-22 reflective of a new structure. This resulted in many individuals being reported in multiple lines as their job titles changed. In some case the job titles were very similar. Despite increased review, unfortunately errors in presentation were not spotted.
Note 35 (Agency Income): Removal of receipts and payments for prior years.	To ensure that the disclosure only includes income relevant to 2021-22.	Our audit identified that £36.7 million of receipts and payments of business support grants relating to 2020-21 activity had been incorrectly recorded in this disclosure. These amounts have now been correctly removed from this stand-alone disclosure in the final accounts.	The agency note reflects costs incurred on behalf of Welsh Government. The volume and costs included in that table are the amounts excluded from the Council's activities. The table was a new note the previous year, and it was mistakenly assumed that it would be ok to amalgamate 2020-21 and 2021-22 exclusions into the one table rather than report separately. The solution was instead to provide two separate tables.
Note 36 (Related Parties): Corrections to various areas of the disclosure.	To ensure that related parties are appropriately disclosed in line with the CIPFA Code.	Our audit identified a number of required corrections to the related parties disclosure note, such as: • the amount of trade commissioned from companies in which Members had an interest, and the number of Members who had an interest in such companies;	Simple error

		• disclosure of which members and officers have CSC Foundry Ltd. as a related party; and • disclosure of correct totals and balances for the Cardiff Capital Region City Deal. These amendments have been made and we are satisfied that the final disclosure is appropriate.	
Group accounts (Note 16): Reclassification of revaluation reserve for Newport Transport Ltd.	To ensure that the revaluation reserve is correctly classified in the final group accounts.	Our audit identified that the revaluation reserve applicable to Newport Transport Ltd. (totalling £1.2 million) had been incorrectly included within the 'profit and loss' row within Note 16 of the group accounts. This amount has now been correctly re-classified within the 'revaluation reserve' row in the final accounts.	As per note 5
Group accounts (CIES): Reclassification of Newport Transport Ltd. administrative expenses.	To ensure that such expenditure is correctly classified in the group accounts in line with the Code.	Our audit identified that £5.6 million of administrative expenses for Newport Transport Ltd. had been incorrectly classified as 'other operating expenditure'. This is the incorrect classification under the CIPFA Code. This amount has now been separately disclosed in the group CIES in the final accounts, meeting the requirements of the CIPFA Code.	Council staff have agreed a more appropriate classification with auditors
Group accounts (Balance Sheet): Reclassification of deferred government grants.	To ensure that such liabilities are correctly classified as 'short-term' or 'long-term'.	Our audit identified that £5.0 million of long-term deferred government grants relating to Newport Transport Ltd. had been incorrectly consolidated as 'other short-term liabilities' in the group Balance Sheet. This amount has now been correctly reclassified as 'other long-term liabilities' in the final accounts.	As note 5

Various: Other presentational changes to supporting notes.	To ensure that all disclosures are accurately presented.	A number of other narrative, presentational and minor amendments were made to supporting notes throughout the final financial statements.	

Appendix B - Statement of Accounts 2021/2022 - Received Queries & Responses

This paper records the nature and extent of queries raised in relation to the Statement of Accounts.

- There have been no queries raised by members of the public during the inspection process.
- The queries raised by auditors are captured above and have all been responded to, and
- the following reflects the minutes of the Governance and Audit Committee that received the draft accounts in July.

Councillor Jordan went through the total expenditure for 2022-23 on page 88 and asked why the amount was £11.5M, whereby previous years, the sum was quite low, by comparison.

Response The Assistant Head of Finance advised that there was an actual cost and budgeted cost. One of the main aspects of capital finance and capital reporting was that there was slippage, therefore a capital programme could extend across multiple years. Finance set a budget with a five year window based on the anticipated spend each year. Ultimately, schemes would slip, the pandemic was a factor and could also include factors such as weather and school building project if there was a delay, or underestimating the planning for the period. Slippage was a common occurrence and what had happened on this occasion was that we had an ambitious capital programme which had seen an increase in the anticipated spend because of the delivery of a number of high profile schemes which had pushed on the spending a number of years. This was the highest spending by the Council in 2022-23 and this was acknowledged, at the moment we're looking at re-profiling to reduce to a more realistic deliverable figure in this financial year. When we report our first capital monitoring position, which would go to Cabinet in September, what you would see is a product of that re-profiling exercise. As a result that would go down and shifted into future years. One of the high-profile schemes was Bassaleg High school scheme and this would be monitored and adjusted accordingly.

Councillor Cocks referred to page 86 regarding the staff savings during the pandemic where some services not running at the time.

Response: It was explained that ….In light of this, was there a backlog of services and projects because of the pandemic and what was the process of looking at this and a strategy in place to address this. The Revenue underspend would not be rolled forward as it would with capital underspend however funding would be ear marked for specific purposes, in terms of where there might be a backlog. There was a process around this and for the 2022- 23 revenue budget there was a covid risk mitigation fund. For the previous two years, the WG had provided a hardship fund to cover those additional costs and that ended for 2022- 23. The Council therefore created its own internal fund which would be used on a priority basis to address legacy issues, one of which was backlog issues in service delivery additional funding could be applied for and funding could be allocated. This was seen in some of the schools. There was a mixed approached but was being acknowledged and monitored.

D Reed, Co-opted Member referred to pensions on page 92 and the £72M dip for this financial year was this a one off occurrence or was it a trend.

Response: The Assistant Head of Finance advised that some of the explanation was there was a reduction in liability, which was a positive move. A lot of this was around performance and investments, going forward it was difficult to see how it would go, with the current economic situation. Interest rates had started to incrementally increase and it was anticipated to increase further and there was a potential for funding would perform well. There were two elements, the other element was future liability as life expectancy increased, liability increases, it was therefore reasonable to say that investment might not perform as they had. The Head of Finance advised that this would be a long term liability looking at a 20 year horizon in terms of employer/employee contribution rates and in terms of managing the funds over that time horizon. It was important to say that we would be looking at this over the long term in dealing with the evaluation at present.

The Co-opted Member asked if that had any impact on the usable reserves.

Response: The Chief Accountant and Project Manager advised that this was a long term commitment to liability. This year was unusual on the back of the previous financial year, this was therefore a rebalancing of the equity portfolio based on the Stock Market crash as a result of pandemic. This was however bouncing back into a state of normality but taking into context the previous dip from the last year.

The Chair asked given that the draft Statement of Accounts was submitted to Audit Wales, was there a notice published by Newport City Council that if anyone wanted to raise any issues about the statement of accounts they could so with Audit Wales through Newport City Council?

Response: The Chief Accountant and Project Manager advised that Finance were in the process of putting formal notification on the notice board at main reception and through the customer contact centre and published on internet signposting people on how to access this.

Whilst not recorded in the minutes, there was a subsequent debate about why the Accounts at the end of the year exhibited different values to the revenue monitoring received by Members during the year. It was explained that the Accounts,

- Are prescriptive in format and design (Accounting policies and standards). They tend to be public focussed, and involve a degree of external assessment/validation.
- There is no budgetary or variance component, and the accounts are assessed on a “true and fair view” basis rather than absolute accuracy.
- The balance sheet, movement in reserves and cashflow statement are unique to Statement of Accounts presentation and not a feature of management accounts reporting.

It was explained that the Comprehensive Income and Expenditure Statement (CIES) has the same roots as the Council management accounting revenue performance at month 12, but includes additional entries/adjustments to the balance sheet that have a revenue impact but are not afforded by a charge to the taxpayer e.g. Impairment of fixed assets, depreciation, pension fund accounting, amalgamation of City Deal and Newport Transport entries, treatment of year end surpluses and deficits etc.

The Expenditure and Funding analysis is the sector’s attempt to bridge the gap between management accounting reporting and the statutory accounting report, but unfortunately it doesn’t do that in a particularly intuitive fashion. Finance colleagues agreed to look at whether they could make the presentation any simpler. It has not been possible to make any material changes to the presentation during the audit process this year due to the significant efforts necessary to and fixed asset reporting, other than to reorder the main CIES table presentation ahead of details of expenditure and funding analysis so that the reader at least gets an understanding of the overall position before any explanation of how it was derived.

That concludes the extent of queries raised during the audit process. Alongside the work of Audit Wales, who can also volunteer refinements in presentation, Members of Governance & Audit Committee can derive a reassurance that a continual learning and improvement environment exists and that the final Statement of Accounts presented here reflects a true and fair view, and it is requested that the Accounts be endorsed and approved as such.

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Report

Governance and Audit Committee

Part 1

Date: 26 January 2023

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 Governance & 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 Governance and 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 Governance & 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.

30 March 2023
WAO Annual Report on Grants Works 2022-23
Annual Corporate Self-Assessment
Audit Wales and Regulatory Bodies 6-month update
Audit Wales Annual Report on Grants Works 2021-22 Draft
Annual Governance Statement (draft statement)
Referrals to Audit Committee

25 May 2023
Appointment of Chairperson
Treasury Management Year End Report 2022/2023
Corporate Risk Register Quarter 4
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, January to March)
Audit Wales Annual Report on Grants Works 2022-23 Draft
Internal Audit Annual Report 2022-2023
Internal Audit Annual Plan 2023-2024
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)

30 March 2023
WAO Annual Report on Grants Works 2022-23
Annual Corporate Self-Assessment
Lessons Learned 2021-2022
Audit Wales Annual Report on Grants Works 2021-22 Draft
Annual Governance Statement (draft statement)
Referrals to Audit Committee

25 May 2023
Appointment of Chairperson
Treasury Management Year End Report 2022/2023
Corporate Risk Register Quarter 4
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, January to March)
Audit Wales Annual Report on Grants Works 2022-23 Draft
Internal Audit Annual Report 2022-2023
Internal Audit Annual Plan 2023-2024
Audit Wales Annual Audit Summary 2022
Audit Wales Annual Audit Plan 2023
Referrals to Audit Committee

27 July 2023
Corporate Risk Register (Quarter 1 April to June)
Statement of Accounts 2023/24
Audit of Financial Statements Report 2022/23
SO24/Waiving of Contract Sos: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract Sos (Quarter 1, April to June)
Audit Wales and Regulatory Bodies 6-month update
Referrals to Audit Committee

28 September 2023
Progress Against Internal Audit Plan 2023/24 Quarter 1
Annual Report on Compliments, Comments and Complaints Management 2023
Corporate Risk Register (Quarter 2 July to Sept)
Audit of Financial Statements Report 2021/22
Audit Enquiries Letter 2021/22
Referrals to Governance and Audit Committee

26 October 2023
Internal Audit Plan – Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Treasury Management Report

Lessons Learned 2022/23

25 January 2024
Internal Audit Plan – Progress (Quarter 3)
Financial Memorandum on the 2021-22 Financial Audit
Audit Wales and Regulatory Bodies 6-month update
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Referrals to Audit Committee

28 March 2024
Corporate Risk Register (Quarter 3)
WAO Annual Report on Grants Works 2022-23
Annual Governance Statement (draft statement)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

30 May 2024
Appointment of Chairperson
Treasury Management Year End Report 2023/2024
Corporate Risk Register Quarter 4
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4, January to March)
Audit Wales Annual Report on Grants Works 2023-2024 Draft
Internal Audit Annual Report 2022-2023
Internal Audit Annual Plan 2024-2025
Audit Wales Annual Audit Summary 2023
Audit Wales Annual Audit Plan 2024