

Agenda



Governance and Audit Committee

Date: Thursday, 26 October 2023

Time: 5.00 pm

Venue: Council Chambers - Civic Centre

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

Item	Wards Affected
1	<u>Apologies for Absence</u>
2	<u>Declarations of Interest</u>
3	<u>Minutes of the Previous Meetings (Pages 3 - 28)</u> To agree the Minutes of 27 July and 28 September 2023.
4	<u>Verbal Update: Internal Audit Team</u>
5	<u>Internal Audit - Progress against audit plan 2023/24 Q2 (Pages 29 - 40)</u>
6	<u>2023-24 Half Year Treasury Management Monitoring Report (Pages 41 - 58)</u>
7	<u>Forward Work Programme (Pages 59 - 64)</u>
8	<u>Date of Next Meeting</u> 23 rd November 2023 at 5pm.

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Date of Issue: Friday, 20 October 2023

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Minutes



Governance and Audit Committee

Date: 27 July 2023

Time: 5pm

Present: G Chapman (Chair), D Reed, Dr Barry, Councillors G Horton, J Harris, R Mogford and J Jordan

In attendance: R Cornwall (Strategic Director: Transformation and Corporate), M Rushworth (Head of Finance), R Green (Assistant Head of Finance), L Mahoney (Senior Finance Business Partner: Chief Accountant), T McKim (Head of People, Policy and Transformation), P Flint (Performance and Programme Manager), S Jenkins (Strategic Director: Social Services)

Part 1

The Chair congratulated Pamela Tasker, Governance Officer on her promotion within the Council and thanked Pamela, along with colleagues for her support.

The Chair also announced that Dona Palmer, Audit Manager would be leaving the Council and thanked Dona, along with colleagues for her support.

1. Apologies for Absence

Councillor Cocks

Natalie Poyner (Head of Children Services)

2. Declarations of Interest

D Reed – Director / Trustee, Citizens Advice Southeast Wales Ltd.

3. Minutes of the Previous Meeting

- 3.1 D Reed appreciated the numbering of the paragraphs in the Minutes, which would be the new format going forward.
- 3.2 Dr Barry referred to the Action Table and mentioned that there should be a separate column included and that every action should have a date.
- 3.3 The Chair raised an issue within the recommendations as he considered there were several in the recommendation table that should have been addressed at this meeting, with a follow up, therefore the timetable and dates were essential. Another

example was the Governance and Audit Annual Report, which was on the Work Programme, when would it be dealt with and by whom.

4. Call-in the Director of Social Services and Head of Service re the Internal Audit of Adoption Allowances resulting in a Third Consecutive Unsatisfactory Opinion

- 4.1 The Strategic Director for Social Services gave an update to the committee. The Director provided reassurance that steps been taken to support the completion of outstanding changes and recommendations.

Comments of the Committee

- 4.2 The Committee discussed the report and asked questions of Officers to clarify understanding.
- 4.3 Dr Barry raised concerns that this was the third unsatisfactory report and queried why the work had not been transferred to another team earlier in proceedings.
- 4.4 The Strategic Director for Social Services explained that it was not a simple procedure and there are several criteria to be considered, including complex calculations in the means testing. The Strategic Director for Social Services confirmed that the work had previously moved as part of restructuring in Adult/Children Services and Business Support some years ago and therein lay some of the challenges, which in hindsight could have been reconsidered earlier.
- 4.5 Dr Barry queried whether the deadline of December 2023 was urgent enough. The Strategic Director for Social Services reminded the committee of the previous discussions concerning realistic deadlines and affirmed that the deadline of December gave the team time to ensure that they were addressed correctly, promptly, and accurately.
- 4.6 The Strategic Director for Social Services advised that the Cabinet Member for Social Services for Children was aware and the executive board, including Cabinet, had agreed for additional support to be put in place.
- 4.7 Councillor Horton asked whether the report could be referred to audit for review in relation to the low staff numbers in Audit. The Chair advised that staffing levels in audit was another issue to be discussed under the relevant agenda item later in the meeting.

Recommendation:

The Governance and Audit Committee considered the following options:

- i) accept the explanations and assurances of the Strategic Director and the Head of Service, which will be confirmed via a follow up internal audit
or,
ii) do not accept the explanations and assurances provided and escalate concerns to the Chief Executive and Executive Board, which includes Cabinet.

The Governance and Audit Committee resolved that option ii) should be taken forward.

5. Call-in the Strategic Director and Head of Service re the Unsound Opinion for Children Services Safeguarding Children's Money

- 5.1 The Strategic Director for Social Services provided some background relating to safeguarding of children's money to the Committee and the complexities due to the different nature in the types of monies being held for the children and the changes in the lives of children in care.
- 5.2 The Strategic Director for Social Services approached Andrew Wathan, former Principal Auditor to conduct an audit because of the complexities involved and as the process also crossed several service areas. It was also equally important for those children no longer in care that the money should go with them.
- 5.3 The Director pointed out that another intricate factor was where the money was held, depending on whether it came from compensation, criminal injuries payments, baby bonds, monies held in trusts or other sources. Much of it was in share foundation which only had reference numbers and not names of the children which made cross-referencing difficult. The Strategic Director for Social Services felt the unsound opinion was disappointing but was grateful that there was an opportunity to ensure the system was correct. This had been discussed with the Executive Board and the Cabinet Member, and it was proposed that two additional posts be created. In addition, there was a clear action plan which would be managed by a service manager; and they would also oversee the full process, working in conjunction with business support and colleagues in other areas of the Council.
- 5.4 The Chair congratulated the Strategic Director for Social Services for raising this issue for audit and thanked her on behalf of the committee.

Comments of the Committee:

- 5.5 The Committee discussed the report and asked questions of Officers to clarify understanding.
- 5.6 Cllr Mogford queried why this needed to be brought to audit for resolving if the officers already knew there were issues. The Strategic Director for Social Services confirmed that whilst steps were taken to address it was considered that an independent and objective view from audit would be beneficial. The Director confirmed that the challenge around the complexities of safeguarding children's money was not isolated to Newport, and similar audits were now being conducted in other councils following Newport City Council's audit.
- 5.7 Dr Barry asked how long this had been an issue. The Strategic Director for Social Services advised that there were several factors that raised this as a concern, including payments being processed through family courts, savings related to a judicial review and the work of the Share Foundation which triggered Social Services to look at the whole thing.
- 5.8 Councillor Horton asked whether the money was being held in the best accounts that generated interest for the children/young adults. The Strategic Director for Social Services advised that it was held in The Share Foundation partly for this reason, and the Foundation handled the money on behalf the Council and other Local Authorities.
- 5.9 The Chair mentioned that it was reported in the press that there was £1.7Bn held in trust funds for children where it was not known who the funds belonged to. The Strategic Director for Social Services confirmed awareness of this and further

challenges for young people with disabilities who may not be able to attend the court of protection in person to access their money.

- 5.10 The Chair thanked The Strategic Director for Social Services and expressed their confidence that this would be resolved.

Recommendation:

The Governance and Audit Committee considered the following options:

- i) accept the explanations and assurances of the Strategic Director and the Head of Service, which will be confirmed via a third follow up internal audit, or
- ii) do not accept the explanations and assurances provided and escalate concerns to the Chief Executive and Executive Board, and Cabinet Member

The Governance and Audit Committee resolved to take forward the second recommendation ii) Do not accept the explanations and assurances provided and escalate concerns to the Chief Executive and Executive Board.

6. Update for Committee from the Head of Service on PTU Taxi Contracts resulting in a Second Unsatisfactory Opinion

- 6.1 As agreed by the Committee in the last meeting, the Head of City Services would be coming to Committee in person in September to provide a full update on progress and shared the interim written update in the agenda papers in the meantime.

Recommendation:

The Governance and Audit Committee was encouraged to see the progress noted in the briefing note provided by the Head of City Services and looked forward to receiving the full update in person in September.

7. Corporate Risk Register Quarter 4

- 7.1 The Head of People, Policy and Transformation presented to the Committee an update on the Corporate Risk Register.
- 7.2 At the end of Quarter 4, there were 14 risks recorded in the Corporate Risk Register that were considered to have a significant impact on the achievement of the Council's objectives and legal obligations.
- 7.3 Overall, there were eight Severe risks (risk scores 15 to 25); six Major risks (risk scores seven to 14); that were outlined in the report. In comparison to the Quarter 3 corporate risk register, two risks decreased their risk score, and there was no change with the remaining 12 risks. One risk was escalated from the children's social service area risk register, and one Environment and Public Protection risk was de-escalated from the corporate risk register to be monitored on a service area level. As set out in the Council's Risk Management Policy, the Governance and Audit Committee reviewed the Corporate Risk Register on a quarterly basis ensuring adequate procedures were in place to monitor the management of significant risks.

Comments of the Committee:

- 7.4 The Committee discussed the report and asked questions of Officers to clarify understanding.
- 7.5 Dr Barry asked if anything was being done nationally to address the impacts of the Eliminate Programme. The Performance and Programme Manager advised that this was an ongoing programme in Children services through the region and that the Strategic Director for Social Services and Head of Children Services were in constant contact with Welsh Government. The Strategic Director, Transformation and Corporate advised that the escalated risk itself was not within the remit of the committee, as this would be considered through Scrutiny, however a written response could be provided for information only to Governance and Audit Committee.
- 7.6 D Reed thanked the Performance and Programme Manager on the improvements within the report based on previous feedback given by the Committee. D Reed raised queries in relation to Pages 87, 93 and 94 concerning the risk mitigation action plan, which referred to estimated completion dates as being 31 March 2023. D Reed sought clarification on whether this had been completed or if there had been any slippage as a verbal update. The Performance and Programme Manager agreed to confirm this as part of Quarter 1 and Quarter 2 reports so that it was clearer. The Strategic Director reminded the Committee that their role was about the assurances of the system in place around risk management rather than the detail of individual risks. The Director referred to a live system, My Hub, used for risk monitoring and management, and offered to arrange a brief demonstration before the next committee.
- 7.7 D Reed mentioned that there was one risk that stated a shortfall of £27M in relation to the Medium-Term Financial Plan (MTFP). This appeared to be a major risk, therefore how was this being mitigated. The Head of People, Policy and Transformation advised that this was covered by p79, concerning balancing the Council's medium-term budget. Whilst this had been a risk on the corporate register for some time, this was a snapshot as at the end of last year but not the position for next year, therefore the figures would be kept under review and as such would be subject to change.
- 7.8 The Committee raised the issue of capacity for the next quarter regarding the Internal Audit Team. There has been a significant number of staff who have left the audit team, which would leave one remaining member of audit staff. Councillor M Howells, Chair Performance and Scrutiny Committees – Place and Corporate has written to the Chair raising this as a concern. The Chair therefore wanted to put this to be addressed as a matter of urgency and having referred to the Terms of Reference considered that the Committee should seek the assurance of the Leader of the Council through recommendation.
- 7.9 Part of this year's Internal Audit plan would be delivered by way of using an external contract and in the short term the agency would be asked to increase the number of days of support. It would therefore still be a challenge and in the longer term, development of a regional audit service is being considered.
- 7.10 Dr Barry asked if exit interviews were carried out, considering the service had lost five members of staff over four months, and if there were any plans to engage young graduates or retirees to cover this. The Director confirmed that exit interviews are offered to all leavers, and although individual responses are confidential, trends are monitored. The Strategic Director for Transformation and Corporate confirmed that

traineeships, apprenticeships, and graduate programmes are offered. Recruiting retirees could be explored, as well as offering market supplements in certain circumstances. Given the potential to move towards a regional service, the Director confirmed that the dilemma is whether to recruit now or hold the posts until more information is available.

- 7.11 D Reed referred to the provision of external consultants, which was confirmed at a previous meeting as costing 50% more than employing staff directly and queried what the revised cost of delivering 70% of the audit plan in this way would be. The Head of Finance will provide a full update including daily costs at the next meeting in September.
- 7.12 Councillor Horton, referred to the regional service and asked if the potential pool of auditors who may apply for the currently advertised roles smaller, as some officers in the wider region may be being paid more at other Councils. The Head of Finance advised that the regional service was made up of four Councils and two more Councils, including Newport, were having informal conversations about joining. The Head of Finance agreed it would make the pool smaller, and the South Wales Regional Service Consortium was Newport's preference, as creating salary-based competition across local government was counter-productive.
- 7.13 Councillor Horton asked for assurance that vacant posts would not be deleted. The Strategic Director for Transformation and Corporate clarified that the Council would need to make savings to meet an expected budget gap in 2024/25, however any further reductions of resource in the audit team again would create an issue concerning risk management.
- 7.14 The Chair wanted to declare his position in chairing two Governance and Audit Committees within two Local Authorities that are serviced by the Regional Consortium. The Chair confirmed that there were universal challenges regarding delivery of audit functions and these other LAs were carrying vacancies as well.
- 7.15 The Chair considered that the Section 151 Officer and Chief Executive had a statutory duty to report to council if they are unable to deliver a service. In addition, the Chair stated that the Internal Audit Service had a statutory basis covered by the Accounts and Audit Wales Regulation 2018.
- 7.16 The Chair's recommendation therefore was to suggest that the Head of Finance prepared a comprehensive report for September meeting in respect of what actions he intended to take to deliver the audit plan for 2023/2024 given the current staffing issues.

Secondly, that the Leader of the Council be invited to the next meeting to address this issue, with the reason being that the Leader had a responsibility for this and in accordance with the Terms of Reference, the Chair was seeking an assurance on the matters in relation to the Internal Audit Team and given the seriousness of this issue and delivering the internal audit plan.

- 7.17 The Strategic Director for Transformation and Corporate advised that whilst the Committee could take a vote on this recommendation, his advice would be that the Leader does not attend the next Committee, as this was a delegated Section 151 officer matter.
- 7.18 The Chair felt that the Cabinet had responsibilities for strategic and operational issues and if the Strategic Director for Transformation and Corporate advised the

Leader not to attend, the Chair would take advice from another source. The Strategic Director for Transformation and Corporate advised that Council delegated responsibility of maintaining staffing levels to officers, not Cabinet. The Chair felt this was legally wrong and that the Strategic Director for Transformation and Corporate should take advice from the Monitoring Officer.

- 7.19 Councillor Mogford wondered what outcome would be achieved by inviting the Leader to the meeting given that the Head of Finance was the Section 151 Officer. The Chair considered that the Leader was named in the risk register as the Cabinet Member responsible.
- 7.20 The Chair moved that the Section 151 Officer prepare a comprehensive report for September's Committee to address the audit plan and that the Leader of the Council be invited to the meeting to address the issue, to be voted on separately by the Committee.

Recommendation:

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

That the following be put to a vote in the two parts, both of which were carried.

1. The Committee unanimously agreed that the Section 151 Officer would prepare a comprehensive report for September's Governance and Audit Committee summarising the action plan that will address the current staffing issues and deliver the audit plan for 2023/24.
2. And secondly that the Leader of the Council be invited to the Governance and Audit Committee to address the matter of staffing issues within Internal Audit, with four Committee Members voting in favour and two against.

8. Audit Wales and Regulatory Body Six-Month Update

- 8.1 The Performance and Programme Manager advised the Governance and Audit Committee that they were required under the terms of reference to receive and consider inspection reports from external regulators and inspectors and to make recommendations; where necessary, the Committee are required to monitor implementation and compliance with agreed action plans.
- 8.2 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.
- 8.3 The report covered the regulatory reports / inspections completed by each body between December 2022 and March 2023 including a summary of the Council's response (where applicable) and any additional actions which the Council was undertaking to respond to the recommendations.

Comments of the Committee:

- 8.4 The Committee discussed the report and asked questions of Officers to clarify understanding.
- 8.5 D Reed referred to page 113, second para, under the Newport City Council action table. The Working Group concluded that there were not sufficient resources to undertake self-evaluations as recommended by Audit Wales and assumed that Audit Wales was aware of this. The Performance and Programme Manager advised that this was not correct, and that once Audit Wales published a report it was up to the Council how to implement. The working group felt it would be better to establish a cost-of-living steering group through the Strategic Director for Social Services to consider factors such as the Marmot review and public services board, and to prioritise and determine actions going forward. The Performance Programme Manager confirmed that this was a national report, and the Council chose to make alternative arrangements. Gareth Lucy, Audit Wales added that because this is a national report, Audit Wales would maintain contact in terms of recommendations and ongoing discussions.
- 8.6 Dr Barry mentioned sought clarity on whether some of the recommendations were in progress or completed. The Performance and Programme Manager noted the comments and would make this clearer.
- 8.7 The Chair stated that the Committee could not be assured that the Council was fulfilling its duties in this area without seeing the recommendations of the CIW inspection. The Chair considered that any confidential information could be anonymised for this purpose. The Performance and Programme Manager took comments on board and would seek clarification from the Monitoring Officer to ensure that there was no breach in legislation if this information was divulged. The Chair understood and would not want confident information to be divulged, however the ability to identify any trends would support continuous improvement.

Recommendations:

The Governance and Audit Committee considered the regulatory activity completed within the report and accepted that where recommendations have been raised the Council was taking necessary action.

9. Draft Statement of Accounts 2022/23

- 9.1 The Senior Finance Business Partner (Chief Accountant) presented the report to the Governance and Audit Committee who was required to approve the final audited Statement of Accounts. The report provided a copy of the draft accounts, signed by the Section 151 Officer, that have been passed over to Audit Wales to undertake their own audit of the accounts. The Committee will be presented with a final set of accounts for approval when the external audit has concluded,

Comments of the Committee:

- 9.2 The Chair thanked the Senior Finance Business Partner and team for the comprehensive set of accounts.
- 9.3 Dr Barry asked why the Council was unsuccessful in securing monies through the Levelling Up Fund. The Assistant Head of Finance explained that this was a decision taken by Central Government.

- 9.4 D Reed asked the Chair if it would be appropriate for the Chair to be copied into responses from the Committee. It was agreed that the Senior Finance Business Partner (Chief Accountant) could collate responses from members of the Committee and send to the Chair.

Recommendations:

The Governance and Audit Committee noted the draft 2022/23 Statement of Accounts.

10. Annual Governance Statement Draft 2022/23

- 10.1 The Head of Finance presented the report explaining to the Committee that to meet the requirements of the Accounts and Audit (Wales) Regulations 2014, Newport City Council needed to prepare and present an Annual Governance Statement with its Annual Statement of Accounts. This Statement was based on how well the Council met its own Code of Corporate Governance. A review of Governance was also a requirement of the Local Government Measure and the Local Government and Elections (Wales) Act 2021. The recommendations and actions from this Statement would be integrated into the Council's Annual Well-being and Self-Assessment Report.

Comments of the Committee:

- 10.2 The Committee discussed the report and asked questions of Officers to clarify understanding.
- 10.3 Councillor Harris referred to page 274 where overall volumes of complaints had increased as well as the number of complaints being forwarded to the Public Service Ombudsman for Wales (PSOW). The Head of People, Policy and Transformation advised that there would be a more detailed report on complaints within the coming months to the Committee. The Head of People, Policy and Transformation confirmed that the Council had become better at recording and categorising complaints and the associated increase in recording of complaints was a positive rather than a negative.
- 10.4 Dr Barry sought assurance beyond the evidence presented that there were appropriate policies and processes in place, as there was more information required to confirm that good governance arrangements were in place. Dr Barry was concerned that in some areas there were no further actions, which did not provide assurance to the committee. Dr Barry also considered that the timetable for completing actions should be shorter than those documented.
- 10.5 The Head of Finance advised that this was the first report under the new legislation and would be happy to look at other approaches if Dr Barry could give specific examples. The Governance Statement is about Newport's processes and how had they been operating. The Corporate Management Team has provided feedback on this report prior to the Committee having sight of it, and the Audit Plan in 2022/23 also provided assurances in several areas that governance arrangements were in place and operating appropriately.
- 10.6 The Chair suggested that any questions raised could be forwarded to the Head of Finance to take into consideration for the Annual Governance Statement. The Head of Finance would need the feedback for the accounts by Friday 18 August in time to forward to the external auditors.

Recommendations:

The Governance and Audit Committee noted the draft 2022/23 Statement of Accounts and would provide appropriate comments by to the Head of Finance by 18 August 2023.

11. Work Programme

- 11.1 The Chair requested a brief update from the Strategic Director for Social Services be taken to the next meeting in September, and this could be done via a memorandum for the two items discussed at this meeting rather than being presented in person.
- 11.2 The Governance and Audit Committee Annual Report needed to be discussed with the Strategic Director for Transformation and Corporate before 28 September meeting.

12. Date of Next meeting

The next meeting would take place on 28 September 2023 at 5pm in the Council Chambers.

Minutes

Governance and Audit Committee

Date: 28 September 2023
Time: 5:00pm
Venue: Council Chambers - Hybrid Meeting
Present: Mr G Chapman (Chair), Mr D Reed, Dr N Barry, Councillors G Horton, J Jordan and S Cocks

In attendance: Councillor D Batrouni (Cabinet Member for Organisational Transformation), R Cornwall (Strategic Director: Transformation and Corporate), M Rushworth (Head of Finance), D Newens (Audit Manager), T McKim (Head of People, Policy and Transformation), P Flint (Performance and Programme Manager), S Powell (Transformation and Intelligence Manager), B Edwards (Complaint Resolution Manager), M Bleazard (Digital Services Manager), R Green (Assistant Head of Finance), P Jones (Strategic Director: Environment and Sustainability), S Jarret (Head of City Services), E Bryant (Head of Law and Standards), L Rowlands (Democratic and Electoral Services Manager), T Strange (Governance Officer), A Jenkins (Governance Team Leader)

1. Apologies for Absence

Councillor Harris.

2. Declarations of Interest

None received.

3. Minutes of the Last Meeting

3.1 Mr Reed considered that the Minutes should not be agreed at this point and should be amended and deferred to the next meeting for approval.

3.2 Dr Barry agreed with the comments.

3.3 The Chair put it to a vote and the Committee unanimously agreed.

Resolved:

That the Minutes of 27 July be deferred and ratified at the next meeting.

Verbal Update on the Unsatisfactory Audit Opinion – Passenger Transport Unit (PTU)

- 3.4 The Chair requested that the Strategic Director for Environment and Sustainability and the Head of Infrastructure be invited to provide a verbal update on the progress in the Passenger Transport Unit (PTU).
- 3.5 The Head of City Services updated Committee members on the final audit that had taken place to review progress made against the agreed recommendations. The review had found that the actions had been followed up and that there were no further concerns raised by Audit.
- 3.6 The Head of City Services was also pleased to report that following the review, the Audit team had provided PTU with a Substantial rating which was the highest rating that could be received from Audit.
- 3.7 Additionally, the PTU team had met with the Audit team and agreed any further minor management actions required.
- 3.8 The Chair thanked the Strategic Director for Environment and Sustainability and the Head of Infrastructure for attending and congratulated them on their hard work and wanted to extend his thanks to the team.

Resolved:

The Committee noted the update provided by Infrastructure on PTU and the positive progress that had been made.

4. Corporate Risk Register Quarter 1

- 4.1 The Head of People, Policy and Transformation and the Performance and Programme Manager presented to the Committee the Council's Corporate Risk Register, which monitored those risks that may prevent the Council from achieving its strategic priorities or delivering services to its communities and service users in Newport.
- 4.2 At the end of Quarter 1, there were 15 risks recorded in the Corporate Risk Register considered to have a significant impact on the achievement of the Council's objectives and legal obligations.
- 4.3 Overall, there were 9 Severe risks (risk scores 15 to 25) and 6 Major risks (risk scores 7 to 14) outlined in the report. In comparison to the Quarter 4 Corporate Risk Register, there was no change to the risk scores. One risk (failure to achieve the completion of the annual Internal Audit plan) was escalated from the Finance service area risk register.
- 4.4 As set out in the Council's Risk Management Policy, the Governance and Audit Committee reviewed the Corporate Risk Register on a quarterly basis ensuring procedures were in place to monitor the management of significant risks.

Committee Member Comments:

- 4.5 The discussion that followed clarified the difference between inherent risk score and residual risk score, and how these scores are assessed considering impact and likelihood. Further context was shared by Officers regarding the risk score in some of the individual risks, reflecting that the monitoring of performance regarding risk sits within the remit of the relevant Scrutiny Committee.

- 4.6 The Head of Policy, Performance and Transformation had previously mentioned that it would be advantageous to arrange a session before the next committee to demonstrate the risk management system itself, including how the risk register was compiled, assessed, and escalated. The Chair agreed that this would be helpful, and the recommendation was agreed.
- 4.7 Dr Barry highlighted that there were no mitigation actions for highways infrastructure. The Performance and Programme Manager confirmed that a risk assessment was carried out last year and presented to the executive board. The scale of the work needed to maintain the highway requires considerable capital funding, which would be considered by Welsh Government as a pressure for Newport. All actions that can be taken to address the risk is being carried out within these constraints. In the report, Committee members would see the existing governance in place and this management, or mitigation, of risk could be explored as part of the training session on the risk management system.

Recommendation:

Training Session would be arranged for the Governance and Audit Committee before the next Meeting in October, demonstrating the risk management system and explaining how the Corporate Risk Register is completed.

The Governance and Audit Committee considered the contents of the report and assessed the risk management arrangements for the Authority, providing additional commentary and recommendations to Cabinet.

5. Internal Audit Update

The Head of Finance provided an update on the plan for 2023/24 seeking to deliver as much of the annual plan as possible, and summarise the progress made on recruitment.

- 5.1 Two Audit Officer positions had been offered following recruitment. The Principal Auditor advert had not resulted in a shortlist of potential candidates, as there was a poor response to the advert. The Audit Manager role is being shortlisted next Monday.
- 5.2 Considerations are being made concerning the structure of the team to create opportunities for succession planning, to reflect current responsibilities and to encourage recruitment and retention.
- 5.3 Discussions regarding regional collaboration are ongoing.
- 5.4 The Head of Finance also introduced Daniel Newens who was joining Newport for an interim period as Audit Manager.
- 5.5 D Newens, Audit Manager introduced himself to the Committee.
- 5.6 The Chair welcomed D Newens.

Committee Member Comments:

- 5.7 The Committee explored the timeline surrounding recruitment, the impact of local market factors and the long-term solutions being explored by Officers to create resilience in the service.

- 5.8 Councillor Jordan asked about the challenges concerning attracting Principal Auditor applications. The Head of Finance explained that the market for recruitment is difficult at present, in Newport and other local authorities. Short-term arrangements may not provide job security, when considering the potential regional consortium collaboration. There is, however, a general recruitment challenge across the board.
- 5.9 The Chair added that there is an evident shortage of suitable candidates for professional roles in local authorities and considered that the Head of Finance was in a difficult position. The Chair stated that the report from the Head of Finance dealt with the issues addressed and a regular update from the Head of Finance would be helpful to receive that ongoing reassurance. The Chair therefore thanked the Head of Finance for the report.

Recommendation:

That Governance and Audit Committee noted the position and impacts described in the report and the action being taken to mitigate in both the short and longer term.

Head of Finance to provide a verbal update at the next meeting on the progress made in recruitment to Audit vacancies.

6. Annual Corporate Self-Assessment

- 6.1 The Head of People, Policy and Transformation presented the report to the Committee. Newport City Council is required to self-assess the extent to which it has met the performance requirements under the Local Government and Elections (Wales) Act 2021. This Annual Report provides an overview of the Council's 2022/23 performance including the progress made in delivering against its Corporate Plan Well-being Objectives and making consideration to the Well-being of Future Generations (Wales) Act 2015). In compiling the assessment, other strategic and statutory reports published by the Council for 2022/23 have been considered. Governance is also considered as part of the report as part of the controls and arrangements that underpin good decision making and support continuous improvement.
- 6.2 The role of the Council's Governance and Audit Committee s to ensure the self-assessment has been completed in accordance with the Act; review the draft report with its considerations and actions; and propose recommendations for change. The final report will be presented to Council in November for approval.

Committee Member Comments:

- 6.3 The committee appreciated the Amendments to the style and structure of the report that have been made based on previous feedback given by the committee.
- 6.4 Dr Barry considered that the focus should be on how well the Council is performing, how the Council knows how well it is performing and how the Council can do better. Dr Barry referred to the Wellbeing Objectives and could not see how the achievements related them within the report. Dr Barry went on to say that the Performance measures were all quantitative and there should be more qualitative data included in the report. The Head of People, Policy and Transformation noted the points in reference to the challenges and explained that the report attempted to cover the qualitative data.

- 6.5 Dr Barry raised concerns about the rate of sickness absence. The Strategic Director for Transformation and Corporate noted the feedback and confirmed that the Performance Measures had been considered by the Corporate Performance and Scrutiny Committee under their remit of monitoring performance. The Strategic Director went on to say that there was a reported increase of sickness nationwide, this was therefore a global workforce issue. The service plans showed how the Council would meet the wellbeing objectives. Dr Barry referred to other authorities' self-assessments and made comparisons. The Strategic Director for Transformation and Corporate confirmed they had looked at other authorities' reports and there were strengths and weaknesses and appreciated comments which were taken on board. Dr Barry was happy to give her time to support the process.
- 6.6 The Chair advised that the report had gone through the relevant Scrutiny Committee and the comments from Governance and Audit Committee were taken on board as part of the process. The Chair suggested that N Barry could create an example document for next year's reporting cycle for discussion and comments.

At this point, Mr Chapman gave apologies and left the meeting and Mr Reed took over as Chair as pre-arranged.

- 6.7 The Chair considered that it was not clear why there were amber markings, and it would be advisable to add this into the narrative going forward.
- 6.8 Councillor Cocks referred to conflicting information about Highways on page 91 and page 97. The Strategic Priority 5. Regarding Highways was considered to be green, however, the performance measures showed highways as red. This contradiction in assessment also applied in a number of other areas. The Performance and Programme Manager agreed that this was a good point and would explore this with the relevant Head of Service. To provide context, however, there is a balance between examples of positive work being delivered versus risk and performance measures.
- 6.9 Councillor Cocks stated that he could not see any monitoring of equality, data for Education in the report. The Head of People, Policy and Transformation explained that most of that was covered by the Strategic and Equalities Annual report, which was currently being drafted before being taken through the appropriate scrutiny and governance processes. By the time this reached the final version both reports would dovetail.
- 6.10 The Chair considered noted the positive improvements in the report format and content as part of the development on the first legislative report prepared last year.

Recommendation:

The Governance and Audit Committee agreed that Dr Barry would put together a written piece supporting the work of the Policy and Transformation Team.

The Governance and Audit Committee was provided with an overview of the Council's Annual Corporate Well-being Self-Assessment Report 2022/23 and the Committee put forward their comments and recommendations for consideration.

7. Draft Annual Governance Statement (AGS) 2022/23

- 7.1 The Head of Finance presented a report on the draft 2022/23 AGS that was considered by the Committee in their July meeting. general feedback was received indicating that further internal review and assessment was required. Feedback from

committee has been incorporated into the report, concerning improvements to the processes, policies and procedures that make up organisational governance. There is a new introduction to the report which provides more focus, along with a summary on how the council is structured and how decisions are made. The report also explains how governance arrangements are reviewed and identified new developments and initiatives. This report has been improved based on the feedback received and welcomed further comment from the Governance and Audit Committee, which would be fed into the annual statement of accounts in 2022/23.

Committee Member Comments:

- 7.2 The Committee referred to the comments regarding ward meetings. The report covered 2022/23 and the first ward meeting took place in 2023/24, it should therefore read as the re-introduction of ward meetings.

Resolved:

To consider the updated draft of the 2022/23 AGS and provide recommendations for reflection before the document was finalised.

8. Annual Report on Compliments, Comments and Complaints Management 2022/23

- 8.1 The Annual Report was introduced by the Complaints Resolution Manager, confirming that the focus is very much on capturing and recording complaints received through various channels, and how this feedback is used by the organisation to improve service delivery. With this in mind, the increase in number of complaints recorded is a positive step in improving that feedback process. The Complaints Resolution Manager outlined the key information set out in the report to the Committee, including the statistics, trends, challenges, progress made and future actions.
- 8.2 The report reflected on lessons learned for the Council to improve and actions to deliver these improvements. For 2022/23 there was significant engagement with managers following the update of the Customer Feedback Policy: Compliments, Comments and Complaints. Complaint handling workshops and bespoke service area training sessions were delivered throughout 2022/23 to support service areas in their approach to recording and responding to complaints.

Committee Member Comments:

- 8.3 The Committee explored the definition of a complaint, which was confirmed to be that which is set by the Public Service Ombudsman for Wales and reflected in the policy as being 'an expression of dissatisfaction'.
- 8.4 There was further discussion regarding the new addition of data concerning the demographics of complainants and how this could be developed and utilised in future reports. This is a benchmark year from which further data analysis can be considered as more statistics are available. This can be considered in future to understand if feedback the Council receives is representative of all Newport residents.
- 8.5 Councillor Jordan asked if there was an increase in complaints regarding the three-weekly bin collections. The Complaints Resolution Manager advised that the changes did not come into effect until April and so are not in this report. The Complaints Resolution Manager advised that there is a specific category on the

database to allow reporting on this and there is currently a review underway of how Councillors can report complaints on behalf of residents.

- 8.6 The Chair felt that it was difficult to build a picture of data as the service was starting from ground zero and wondered whether the team would be in the same position next year because they were still developing the process. The Digital Services Manager advised that the year after next would have a better comparison in terms of the data. The Chair asked if there was a road map setting out development that shows the direction of travel. The Head of People, Policy and Transformation advised that there are actions in the service plan relating to improvements and future updates would look back on the complaints report in order to develop the understanding of trends year on year. Within the Council's wide developing change programme, there was a commitment to review customer contact and experience. What comes out of that will form road map for improvement.
- 8.7 Councillor Horton referred to spikes in complaints in the first quarter, and whether such anomalies in the data would be analysed to find the root cause. The Transformation and Intelligence Manager advised that they produced data analytic tools for services areas to look at complaints, such as missed bins, drilling down to street level, timelines, and areas so that any correlation could be identified. This would then be used to focus on a resolution to reduce complaints regarding that issue.
- 8.8 Councillor Horton also asked if staff on the ground saw this data. The Transformation and Intelligence Manager mentioned that the crew and shift managers could see the data, but a key part of the role was about relationships, feedback, and insight and it was more to do with effectively feeding back the information in order to make changes to improve the service.

Resolved:

Governance and Audit Committee considered the contents of the report regarding the process and performance of the Council's Compliments, Comments, and Complaints Annual Report 2022/23 and made recommendations for improvement to the annual report and management of complaints.

9. Progress Against Internal Audit Plan 2023/24 Quarter 1

- 9.1 The Audit Manager presented the report which set out the progress made against the 2023/24 audit plan and the internal performance indicators. The original audit plan was based on 862 audit days.

Committee Member Comments:

- 9.2 The Chair referred to paragraph 6 in the report regarding Public Sector Internal Audit Standards (PSIAS) being delayed and asked if there were ramifications as a result. The Audit Manager explained that the plan in place to deliver the PSIAS would be sufficient to be able to address any questions concerning the approach.
- 9.3 The Chair also referred to the mention of further training which would be offered to service areas. The Chair asked if this was still achievable due to the depleted numbers in the team. The Audit Manager advised that all current training with dates planned in would be completed, with further training sessions on hold for the time

being. The Chair asked if D Newens thought that training on a self-nominated basis was an effective way of getting training. The Audit Manager did not consider that this was good and would carry out a slight alteration on the template.

Resolved:

The Governance and Audit Committee noted the report.

10. Audit Wales Detailed Audit Plan 2023/24

- 10.1 The Audit Manager for Audit Wales introduced B Hopkins, Performance Audit Lead at Audit Wales.
- 10.2 The Audit Manager for Audit Wales outlined the detailed audit plan for 2023, which covers the financial and performance audit work being carried out and included key details such as timetable for work, work programme, officers, and proposed costs.
- 10.3 The outline plan was presented to Committee in Spring, however details on financial audit risk and associated fee are not available at present. Audit Wales are now working to a new auditing standard which changed the focus of the work.
- 10.4 As a result, the team are not in a position to hand over the final plan but are able to present the final risk at this time.
- 10.5 The Audit Manager for Audit Wales highlighted key areas within the report for the Committee.

Committee Member Comments:

- 10.6 The Chair thanked the Audit Manager and Audit Leader, Audit Wales for their update.

Resolved:

The Governance and Audit Committee noted the report.

11. Audit Wales Fee Consultation 2024/25

- 11.1 Each year, Audit Wales was required by legislation to consult on fee scales for work over local government bodies, before submitting proposals to the Senedd's Finance Committee. The consultation on fees to apply during the upcoming 2024-25 year was now open and would run until 10 October. The report set out and summarised the details of this consultation.
- 11.2 The Head of Finance gave members of the Committee the option to provide their comments at this meeting or reply to the Head of Finance via email by Friday 6 October.

Resolved:

The Governance and Audit Committee may provide feedback to Head of Finance by Friday 6 October via email.

12. Forward Work Programme

12.1 The Chair requested that the alternative format of the Work Programme be displayed as landscape, not portrait and have narrow margins.

Resolved:

The Committee endorsed the proposed schedule for future meetings, confirmed the list of people it invited for each item, and indicated that no additional information or research was required at this time.

12. Date of Next Meeting

The next meeting would take place on 26 October 2023 at 5pm.

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Date Raised	Item	Recommendation	Responsible Officer	Status	
23/05/23	<p data-bbox="450 268 801 400">Agenda Item 10:</p> <p data-bbox="450 336 752 400">Internal Audit Annual Report 2023/24</p>	<p data-bbox="824 300 1218 568">1. The Strategic Director for Transformation and Corporate, along with the Audit Manager contact the Chief Education Officer to discuss auditors entering schools during industrial disputes.</p> <p data-bbox="824 911 1263 1078">2. The Strategic Director for Social Services be Called in regarding the Unsound Audit Opinion for Children Services Safeguarding Children Money</p> <p data-bbox="824 1214 1263 1310">3. The Monitoring Officer be contacted to see if this should be discussed as Part 2 item.</p>	<p data-bbox="1294 300 1503 496">Strategic Director for Transformation and Corporate / Acting Chief Internal Auditor</p> <p data-bbox="1294 911 1503 1007">Strategic Director for Social Services</p> <p data-bbox="1294 1182 1503 1378">Strategic Director for Transformation and Corporate /Head of Law and Standards</p>	<p data-bbox="1541 300 1839 871">Ongoing resource challenges within the Internal Audit team has required the focus of delivery to be on areas deemed to be High risk. With schools being classed as Medium risk, no work has been performed in 2023/24 to this point. Contact with schools is planned for the coming weeks to seek to commence audit work</p> <p data-bbox="1541 911 1816 1110">2. COMPLETED Strategic Director for Social Services provided update to Committee on 27th July 2023</p> <p data-bbox="1541 1214 1783 1342">3. COMPLETED If considered, this should be Part 2 report.</p>	

		<p>4. Report taken to GAC at a future meeting regarding staffing / auditing resources and capacity in the Audit Team in relation to the regional consortium.</p> <p>5. Consider making changes to Appendix 3 so that areas are grouped as per their status under the risk column</p> <p>6. Consider adding an indicator to service areas that have been assessed by themes in wider audits.</p>	<p>Head of Finance</p> <p>Acting Chief Internal Auditor</p> <p>Acting Chief Internal Auditor</p>	<p>4. In Progress – Update report on Internal Audit team to be considered by Committee in September. Further updates on developments regarding regional consortium to be shared when available.</p> <p>5. COMPLETED this will be actioned for the 23/24 Annual Report. It has also been actioned for Appendix B of the quarterly reports.</p> <p>6. COMPLETED this will be actioned for the 23/24 Annual Report.</p>	
23/07/23	Agenda Item 7: Corporate Risk Register Quarter 4	<p>1. Provide an information only written update on the work being undertaken to manage the impact of the Eliminate Programme.</p>	<p>Strategic Director for Social Services</p>	<p>1. In Progress – written update to be shared with Committee as an information only update</p>	

		<p>2. Clarification to be provided in Quarter 1 and Quarter 2 reports estimated completion dates of 31 March (Q4) on Pages 87, 93 and 9 of the risk mitigation action plan.</p> <p>3. Provide brief demonstration of My Hub and how it was used to manage risks in real-time prior to next meeting.</p>	<p>Performance and Programme Manager</p> <p>Performance and Programme Manager</p>	<p>2. COMPLETED Following Quarter 4 and end of year process, service areas reviewed their service plans and risk mitigation action</p> <p>3. COMPLETED Invitation issued to session on 23rd November</p>	
23/07/23	<p>Agenda Item 8:</p> <p>Audit Wales and Regulatory Body Six-Month Update</p>	<p>1. Make amendments in future reports to make it clearer on whether the recommendations were completed or in progress (e.g. Carbon Reduction 114, Equality Impact Assessment 116, Asset Management 117).</p> <p>2. Anonymised recommendations from the Care Inspectorate for Wales inspections to be shared with the Committee, subject to the approval of the Monitoring Officer.</p>	<p>Performance and Programme Manager</p> <p>Performance and Programme Manager / Head of Law and Standards</p>	<p>In Progress</p> <p>Both actions will be reviewed and considered in preparation of the next 6 monthly update which will be presented in January 2024.</p>	Jan 2024

28/09/23	Agenda Item 4: Corporate Risk Register Quarter 1	Provide brief demonstration on how the Corporate Risk Register is completed.	Transformation and Intelligence Manager	COMPLETED – Invitation issued to session on 23 rd November	
28/09/23	Agenda Item 5: Internal Audit Team Update	Head of Finance to provide a verbal report at the next meeting on the progress made in recruitment to Audit vacancies.	Head of Finance	COMPLETED – agenda item for 26 th October 2023	26 th October 2023
28/09/23	Agenda Item 6: Annual Corporate Self-Assessment Report 2022/23	<ol style="list-style-type: none"> 1. Dr Barry, Co-opted Member to provide an example document ahead of next year's Annual Corporate Self-Assessment reporting cycle for discussion and comments. 2. Consider providing more explanation in the report concerning amber ratings in future assessments. 	<p>Dr Barry, Co-opted Member</p> <p>Strategic Director for Transformation and Corporate / Head of People, Policy and Transformation</p>	<p>2. In Progress Recommendation will be reviewed and considered in preparation of the next Annual Self-Assessment which will be presented in 2024.</p>	
28/09/23	Agenda Item 7: Draft Annual Governance Statement (AGS) 2022/23	Wording in report should be amended to say 're-introduction of ward meetings' rather than 'ward meetings'	Head of Finance	COMPLETED – The AGS was amended	
28/09/23	Agenda Item 8: Annual Report on Compliments, Comments and	Future annual reports to build on the data outlined in the report and		In Progress – this will be considered in	2024

	Complaints Management 2022/23	include demographics of residents providing feedback, and roadmap of planned improvements.	Complaint Resolution Manager	preparation of the next Annual Report which will be presented in 2024.	
28/09/23	Agenda Item 11: Audit Wales Fee Consultation 2024/25	Committee Members to provide feedback on report to Head of Finance.	Committee Members	COMPLETED	6 th October 2023
28/09/23	Agenda Item 12: Forward Work Programme	The alternative format of the work programme to be displayed in landscape orientation and have narrow margins	Democratic and Electoral Services Manager	COMPLETED – format has been revised.	26 th October 2023

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Report



Governance and Audit Committee

Part 1

Date: 26 October 2023

Subject Internal Audit – Progress against audit plan 2023/24
Quarter 2

Purpose This reports updates Members of the Governance & Audit Committee on progress in the completion of the 2023/24 agreed audit plan up to the end of the second quarter, by providing information on audit opinions given to date and progress against key performance targets.

Author Interim Chief Internal Auditor

Ward General

Summary The attached report identifies that the Internal Audit Section is making progress against the 2023/24 audit plan and internal performance indicators.

The original audit plan was based on 862 audit days.

Proposal 1) The report be noted by the Council's Governance & Audit Committee

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

1. This report aims to inform Members of the Governance & Audit Committee of progress made on the completion of the agreed Internal Audit plan. Progress against the audit plan for the first 6 months of the year is reported here along with the performance of the team for that period.
2. The report also gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by showing the audit opinions given on work undertaken at the end of Q2.

Internal Audit Staffing

3. The team currently operates with an establishment of 6.5 audit staff. The Committee will be aware of the ongoing resourcing issues within the team. A verbal update will be provided at the Committee alongside this report.
4. The relationship with South West Audit Partnership (SWAP) continues, who provide external support with the undertaking of the audit plan. This currently consists of interim management support for two days per week, along with 130 days of audit delivery.

Internal Audit Plan Delivery

5. The 2023/24 Internal Audit Plan was agreed by the Governance & Audit Committee on the 25th May 2023 and was based on 862 audit days. This included 48 new opinion related jobs, as well as 13 ongoing opinion jobs from 2022/23. All audit jobs which were ongoing at year end 2022/23 have now been completed.
6. 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 targets for each of the indicators were set internally by the previous Chief Internal Auditor. The performance for Quarter 2 2023/24 is outlined within **Appendix A**, which shows 23% of the plan has been completed (against a 30% target), whilst promptness of draft report issue (8 days vs. 10 day target) and report finalisation (3 days vs. 5 day target) remain within their targets.
7. Due to the resourcing challenges within the team, the delivery of opinion audit reviews has been prioritised. See **Appendix B** for an outline of all completed and live opinion jobs within 2023/24 and their current delivery status. Some outstanding non-opinion work was also completed within the quarter, as shown within **Appendix C**, however future non-opinion work has now been paused to enable greater focus upon opinion jobs.
8. Based on the current known staffing arrangements, it is expected that a total of 34 of the 48 new opinion jobs for 2023/24 will be completed by the end of March 24. This number will be able to increase should further recruitment activities be successful.
9. Audit opinions provided relate 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. It is pleasing to note that there have been no *Limited* or *No Assurance* opinions provided in the current financial year.
10. Where *Limited* or *No Assurance* opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. Two Follow Up reviews were completed within the

quarter, PTU Taxi Contracts, and Corporate Governance, both of which have now been provided with *Substantial* audit opinions following work to address weaknesses and improve control frameworks.

11. Definitions of the audit opinions used are shown at **Appendix D**.

Quality Control

12. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. These questionnaires are returned in confidence to the Internal Audit team, with the information assessed and any negative comments addressed. Feedback received from service managers via these questionnaires has been very positive; this will continue to be collated throughout the year and fed into the annual audit report for 2023/24.

Financial Training

13. Three financial training sessions have been held so far this year. Future sessions are currently on hold to enable the prioritisation of opinion job delivery.

Public Sector Internal Audit Standards (PSIAS)

14. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 (updated March 2017) which the team needs to ensure it is compliant with as it carries out work in line with the audit plan.

15. 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 most recent 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 was due to take place at the end of 2023, however resourcing issues will require this to be delayed into 2024.

Service Management Responsibilities

16. 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.

17. Although Heads of Service are responsible for implementing and maintaining adequate internal controls within service areas, operational managers are responsible for working within those controls and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

Financial Summary

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

Risks

19. If the plan is not completed to an adequate level due to a lack of resource in the team, the Interim Chief Internal Auditor may have to qualify the year end assurance opinion provided to the Governance & Audit Committee. The audit plan has been reprioritised to help mitigate this risk.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	M	M	Audit work has been prioritised and an external provider (SWAP) are providing support.	Interim Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

20. 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

21. 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.
22. 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

23. N/A

Comments of Chief Financial Officer

24. This is a regular update report on the delivery of the annual audit plan. Staffing/resourcing challenges are having an impact on the delivery of this year's plan and external consultancy is assisting in this regard. The prospect of a limited assurance from the Chief Internal Auditor based on what opinion jobs have been completed is a potential prospect.

The Head of Finance and interim Chief Internal Auditor monitor the delivery of the plan closely to manage and mitigate, as far as possible the above risk.

A verbal update on recruitment and resourcing within the internal audit team will be given to the Committee.

Comments of Monitoring Officer

25. 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

26. Providing management assurance on systems gives the Council confidence that there is sound financial and operational management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. This supports delivery of the Council's Corporate Plan 2022-2027 and Annual Governance Statement.

Local issues

27. N/A

Scrutiny Committees

28. N/A

Equalities Impact Assessment and the Equalities Act 2010

29. 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.

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

Children and Families (Wales) Measure

31. N/A

Wellbeing of Future Generations (Wales) Act 2015

32. 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.

Crime and Disorder Act 1998

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

Consultation

34. N/A

Background Papers

35. N/A

Dated:

Appendix A

Newport City Council Internal Audit Service Performance Indicators

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%	77%	[Profiled Target Q2 30%]
Directly chargeable time against total time available	50%	50%	56%	52%	54%	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	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	3	5	8	10	Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	3 days	5 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	2 days	Cumulative figures

2023/24	23/24 Target	1st Qtr 23/24	2nd Qtr 23/24	3rd Qtr 23/24	4th Qtr 23/24	Comments
Proportion of planned audits complete	82%	12%	23%			[Profiled Target Q2 30%]
Directly chargeable time against total time available	50%	42%	**			Quarterly performance
Directly chargeable time against planned	100%	54%	**			Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%			Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	2	3			Cumulative figures
Staff turnover rate (number of staff)	0	3.5 (63%)	1 (50%)			Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	6 days	8 days			Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	3 days	3 days			Cumulative figures

** Figures not calculated due to levels of external support being provided.

Appendix B Q2 Opinions

(not inclusive of 2022/23 carry forward reviews)

Substantial	4
Reasonable	4
Limited	0
No Assurance	0
Total	8
Unqualified	2

Internal Audit Services - Management Information for 2023/24

Outstanding From 2022/23						
Job Number	Service Area	Section or Team	Job Title	Risk Rating	Status	Opinion Given
F2324-F4	People, Policy & Transformation	Climate Change	Health & Safety (Occupational Health) (2022/23)	H	Final	Substantial
F2324-F7	Children Services	Fostering & Adoption	Fostering Panel (2022/23)	M	Final	Substantial
F2324-F9	Education Services	Primary Schools	Gaer Primary School (2022/23)	M	Final	Substantial
F2324-F10	Education Services	Primary Schools	Malpas Park Primary School (2022/23)	M	Final	Substantial
F2324-F1	Finance	Accountancy	Capital Programme (2022/23)	H	Final	Reasonable
F2324-F2	Finance	Benefits	Housing Benefits (Follow Up) 2021/22	H	Final	Reasonable
F2324-F3	People, Policy & Transformation	Digital Services & Complaints	Internal Mobile Telephony (Follow Up) 2021/22	H	Final	Reasonable
F2324-F13	Environment & PP	Public Protection	Newport City Dogs Home (Follow Up) 2021/22	H	Final	Reasonable
F2324-F5	Law & Standards	Registration	Registration Services (2022/23)	M	Final	Reasonable
F2324-F8	Education Services	Inclusion / ALN	Education Psychology (2022/23)	M	Final	Reasonable
F2324-F11	Education Services	Primary Schools	Malpas Church in Wales Primary School (2022/23)	M	Final	Reasonable

F2324-F6	Social Services	Childrens Services	Adoption Allowances Follow Up #2	H	Final	Limited
F2324-F12	Infrastructure (City Services)	Transport	PTU – Taxi Contracts Follow Up #1	H	Final	Limited
2023/24 Reviews						
Job Number	Service Area	Section or Team	Job Title	Risk Rating	Status	Opinion Given
P2324-P33	Infrastructure (City Services)	Transport	PTU – Taxi Contracts Follow Up #2	H	Final	Substantial
P2324-P50	People, Policy & Transformation	General	Corporate Governance Follow Up	H	Final	Substantial
P2324-P6	Education Services	Resources & Planning	School Admissions & Appeals	M	Final	Substantial
P2324-P15	Education Services	Special Schools	Ysgol Bryn Derw	M	Final	Substantial
P2324-P3	Regen & Economic Development	Planning, Building Control & Development	Planning Obligations (S106)	M	Final	Reasonable
P2324-P8	Education Services	Resources & Planning	Breakfast Clubs	M	Final	Reasonable
P2324-P32	Infrastructure (City Services)	Transport	Parking Services	M	Final	Reasonable
P2324-P60	Children Services	Residential & Operations	Rosedale	M	Final	Reasonable
P2324-P24	Housing & Communities	HSG/ Supporting People	Housing Support Grant 2022/23	M	Final	Unqualified
P2324-P29	Environment & PP	Public Protection	Scambusters Grant Claim 2022/23	M	Final	Unqualified
P2324-P22	Housing & Communities	Strategic Housing	Private Sector Leasing	H	In Progress	-
P2324-P54	Law & Standards	Democratic Services	Democratic Services & Governance	H	In Progress	-
P2324-1	Regen & Economic Development	City Regeneration	Regeneration Initiatives	M	In Progress	-

P2324-P2	Regen & Economic Development	Economic Development	Skills & Work Contract	M	In Progress	-
P2324-P16	Education Services	Grants	School Improvement Grant 2022/23	M	In Progress	-
P2324-P17	Education Services	Grants	Pupil Development Grant 2022/23	M	In Progress	-
P2324-P65	Adult Services	Adult Social Work Teams	Occupational Therapy Service	M	In Progress	-
P2324-P37	Finance	Accountancy	Treasury Management Strategy	H	Scoping	-
P2324-P41	Finance	Cross Cutting	Authorisation Processes (Creditors/Treasury/ Payroll)	H	Scoping	-
P2324-P48	People, Policy & Transformation	Transformation & Intelligence	Risk Management	H	Scoping	-
P2324-P25	Housing & Communities	Environmental Health Housing	Private Sector Housing (HMO)	M	Scoping	-
P2324-P34	Infrastructure (City Services)	Fleet	Fleet/Vehicle Management	M	Scoping (Delivery in Jan 24)	-
P2324-P47	People, Policy & Transformation	Transformation & Intelligence	Database System Administration	M	Scoping	-
P2324-P58	Children Services	Children's Social Work Teams	Asylum Seekers Imprest Account	M	Scoping	-
P2324-P72	Prevention & Inclusion	Integrated Family Support Service	Community Connectors & Carers	M	Scoping	-

Appendix C

Non Opinion work 2023/24 Q2

Job number	Service Area	Section or Team	Job Title
N/A	N/A	Cross Cutting	Financial Regulations Training
P2324-P42	T&C	Finance	Annual Governance Statement

Appendix D

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

SUBSTANTIAL	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited
REASONABLE	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited
LIMITED	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
NO ASSURANCE	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited

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

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Report

Governance and Audit Committee

Part 1

Date: 26 October 2023

Subject **Half Yearly Report on Treasury Management for the period 2023/24**

Purpose This report is to inform Governance & Audit Committee of treasury activities undertaken within the financial year 2023/24 and confirms that all treasury and prudential indicators have been adhered to. The Committee is asked to make any comments or observations, as needed, which will be included in this report when subsequently sent to Cabinet / Council.

Author Assistant Head of Finance / Chief Accountant

Ward All

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

Up to the end of September 2023, the Council's net borrowing is £80.8m, a decrease of £10.6m on 31 March 2023 levels.

Proposal To note the report on treasury management activities during the first half year period of 2023-24 and offer Governance & Audit Committee an opportunity to provide feedback on this situation in the subsequent report to Cabinet/Council.

Action by Head of Finance / Assistant Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Signed

Background

1. Treasury risk management within Newport City Council 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). The revised edition had a number of key changes which the Authority has adopted in the 2023/24 financial year. The key changes are;
 - It particularly highlights the requirement that local authorities must not borrow to invest primarily for financial return.
 - The forward-looking prudential indicators must be monitored and reported to members at least quarterly (currently half-yearly) as part of the normal budget monitoring reports.
 - The Authority will also have to explicitly document a formal and comprehensive knowledge and skills schedule to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision-making and compliance with legislative requirements.

2. CIPFA defines Treasury Management as

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

3. The 2023/24 Treasury Management Strategy was approved by the Council as part of the Capital Strategy in February 2023 and can be viewed at the following location.

<https://democracy.newport.gov.uk/documents/s25059/05%20Council%20Report%20-%20Capital%20Strategy%20Treasury%20Strategy%202023-24.pdf?LLL=0>

4. This report presents the following information:

- details of capital financing, borrowing, any debt rescheduling and investment transactions
- reports on the risk implications of treasury decisions and transactions
- details the monitoring position on treasury management transactions
- compliance with treasury limits set and Prudential Code

BORROWING STRATEGY / ACTIVITY

Short and Long Term Borrowing

5. Whilst the Council has significant long-term borrowing requirements, the Council's current strategy of funding capital expenditure is through the concept of 'internal borrowing', where the Council seeks to use its existing cash balances to afford its capital expenditure prior to taking out external borrowing i.e. deferring taking out new long term borrowing and funding capital expenditure from the Council's own cash resources for as long as is possible, which it has because of its 'cash-backed' reserves and, to a lesser extent, day to day positive cash-flows. The Council may undertake borrowing early if there is a clear underlying need for future borrowing and it feels it can minimise the risk of future interest rate rises while providing value for money. Any such action will be in line with advice from our treasury advisors.
6. There has been a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022. Following the September Monetary Policy Committee, the Council's treasury advisors, Arlingclose, modestly

revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

7. By using an internal borrowing strategy, the Council can also minimise cash holding at a time when counterparty risk remains relatively high, especially within the current economic climate. The interest rates achievable on the Council's investments are also lower than the current rates payable on long-term borrowing so this remains a sensible consideration in operating an 'internal borrowing' arrangement – i.e., it would cost more to borrow than it would to utilise existing investment balances and forego interest receivable. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased.
8. Given current investment levels, and whilst a couple of longstanding loans fall due for redemption between now and the financial year end, it is anticipated that the year-end position will still be a net investment balance of circa £22.8m. This also prudently assumes that capital spending is in line with the capital programme, when instead commonly service managers will identify an increasing need to slip capital budgets into following year as the year progresses, which in turn defers the need to borrow still further.
9. The following table compares the borrowing levels at the end of September with the equivalent from March 2023. A minimal amount of new long-term borrowing was required to be taken out in the first half of the financial year totalling £300k. This borrowing was from Salix which was interest free and was linked to a specific energy efficiency project. However, despite this there was still a net reduction in borrowing of £3.1m during 2023-24. This was due to the redemption of two small PWLB loans at the end of September, which have not been refinanced, plus there are a number of loans which are Equal Instalments of Principal (EIP) loans, which pays back principal over the life of the loan, so the borrowing levels decline naturally over the life of the loan as an alternative to maturity based loans where the amount borrowed is only repaid when the loan period expires.

Comparison	2023-24	2022-23
Public Works Loan Board	90,552,301	93,089,897
Interest Free Borrowing	9,947,012	9,905,757
LOBOs	30,000,000	30,000,000
Ex LOBO	5,000,000	5,000,000
Accrued Interest		606,212
	135,499,313	138,601,866

10. As well as traditional external borrowing via the Public Works Loans Board (PWLB), the Council has LOBO (Lender Option / Borrower Option) borrowing totalling £30m. One of the more unusual features of a LOBO is that the lender can volunteer a change in rate at certain intervals, and this is more probable in an environment of rising interest rates, as currently experienced. Therefore, all £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans). No such calls have been made in the first 6 months of 2023/24, and should a change of interest rate be requested, a decision on how to proceed considering other financing options would be made in conjunction with our treasury advisors.

INVESTMENTS ACTIVITY / POSITION

11. The Council's strategies in this area of Treasury Management are:

- to be a short term and relatively low value investor, consistent with the pursuit of an ‘internal borrowing strategy’ and
 - investment priorities should follow the priorities of security, liquidity and yield, in that order.
12. The following table compares the investment levels at the end of September 2023 with the equivalent from the end March 2023 and the previous year. This indicates a net increase in investment activity of £7.4m since March 2023, although it is anticipated that investment balances will naturally reduce as the year progresses.

Comparison	2023-24	2022-23
Investment	- 54,680,000	- 47,231,574
	- 54,680,000	- 47,231,574

13. The January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where treasury consulting firms were obliged to treat all local authorities as retail clients unless they opted up to professional client status and met certain criteria. Those criteria included holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. In February 2023, the Council invested in three covered bonds to satisfy this requirement; Santandar (£3.5m), Lloyds (£4m) and Cie de Financement Foncier (£2.5m). These are longer term investments which helps diversify our investment portfolio and provide a high level of investment security.

NON-TREASURY INVESTMENTS

14. The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government’s (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
15. The Authority held such investments in:
- directly owned property such as office and commercial units of £10.6m
 - loans to developers £10.3m
 - shareholding in subsidiaries £0.3m (Newport Transport)
16. Directly held property is subject to annual valuation review which can change the value of the holding.
17. The developer loans activity reflects those regenerative partnership projects that are included within the capital programme to assist developers with cash flow loans on particular projects and which are required to be repaid plus interest.

OTHER TREASURY CONSIDERATIONS FOR 2023-24

Economic background and Counter Party Update

18. Appendix A outlines the underlying economic environment as provided by the Council’s Treasury Management Advisors, Arlingclose. This is very useful context in informing annual strategy and assisting in effective treasury decisions.

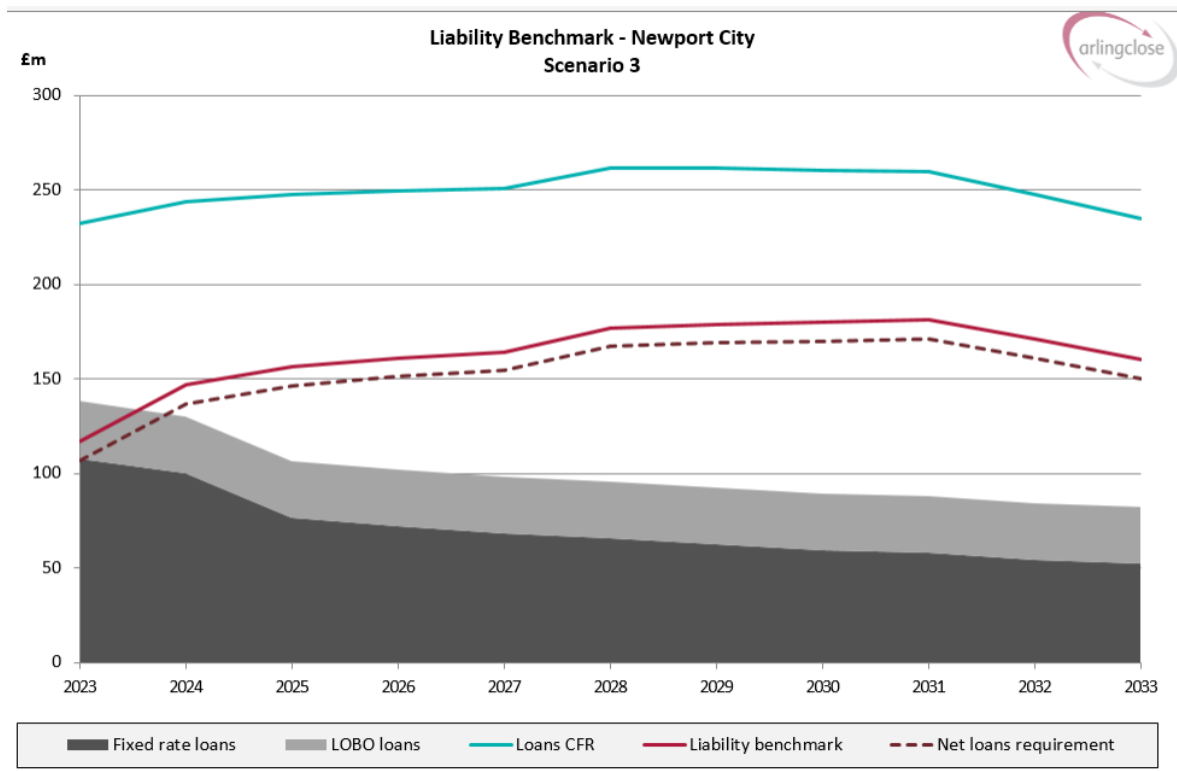
19. Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.
20. Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Compliance with Prudential Indicators approved by Council

21. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for the first half of 2023/24, set in February 2023 as part of the Treasury Management Strategy.

Liability Benchmark Indicator

22. CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e. all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the authority is exposed to interest rate, liquidity and refinancing risks. Conversely, where external loans exceed the Liability Benchmark then this will highlight an over borrowed position which will result in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry. The treasury strategy should explain how the treasury risks identified by the Liability Benchmark are to be managed over the coming years.
23. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow. It is often denoted in pictorial form using the following graph:



24. In the chart above, the blue line reflects the accumulated value of historic, and future, unfunded capital expenditure – i.e. expenditure initially funded by borrowing and then funded via the revenue budget, over time, in the form of MRP (Minimum Revenue Provision). In effect, this line represents the gross amount of borrowing required.

The solid red line is the calculated actual/real level of borrowing required, taking into account the Council’s internal borrowing capacity (i.e. the value of balance sheet resources at any point in time). The gap between the blue and red lines represents the internal borrowing capacity.

The grey shaded areas represent the actual borrowing undertaken by the Council as of 30 September 2023 and shows how these loans reduce as they are scheduled for repayment.

The white gap between the solid red line and the grey shaded areas represents the estimated amount of new borrowing required over the next ten years. A large proportion of this new borrowing would be to replenish existing maturing borrowing, with the remainder being required as a result of the Council’s capital expenditure plans.

Outlook for short to medium term

25. As outlined in the Liability Benchmark graph, and elsewhere in the report, the Council has a longer term underlying need to borrow. This is driven by the increasing expenditure on the Capital Programme, with a significant peak expected during 2023/24 and 2024/25, as well as the need to refinance existing borrowing. It is anticipated that the need to borrow will crystallise towards the first half of the 2024/25 financial year. In the intervening period, the Council should be able to manage its cashflow requirements through its internal borrowing strategy and gradually reducing the level of investments held. If there are any short term cashflow needs, these can be addressed via short term borrowing.

26. Aside from LOBOs, which could potentially see interest rate rises, all of the external borrowing is on a fixed rate basis. Therefore, and in line with advice from the treasury advisors, the intention is to hold off undertaking any borrowing until absolutely necessary, in anticipation that rates will reduce,

even if not to the levels available in recent years. This position will be reviewed on a regular basis in conjunction with the treasury advisors, especially in light of the volatile economic context and the regularly changing borrowing rates.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High, but depending on investment value.	Low	The Council only invests with institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk. Colleagues also monitor financial circulars and Treasury consultants advice to be able to respond in a timely fashion, and withdrew its investment from one local authority recently.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Medium	Medium	Interest rates are currently volatile, however the Council's external borrowing is based on fixed interest rates, although there is a degree of risk in relation to LOBOs. The Council will continue to monitor interest rates in anticipation of a medium term need to borrow and will work with its treasury advisors to identify the optimum time to undertake any new borrowing.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

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

Options Available and considered

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

Preferred Option and Why

The approach required by statute is quite prescriptive, such that there aren't many choices/options. This report is a regular half yearly event. The Governance and Audit Committee acts as the main scrutiny mechanism before a similar report is received by Cabinet/Council. The approach remains unchanged in advocating that the Committee notes the contents of the report in relation to Treasury activities and indicators and provides endorsement or feedback pertinent to add to the Cabinet/Council report.

Comments of Chief Financial Officer

Decisions made on treasury matters will be made with a view to comply with the Treasury Management Strategy, Prudential Indicators, taking advice, where needed, from our treasury advisors.

The report reflects a relatively stable period from a treasury management perspective. Borrowing levels have reduced slightly, as expected and investment balances have actually increased, although it is expected that this trend will reverse during the second half of the year, as would traditionally be the case. As highlighted in previous reports, and confirmed by the Liability Benchmark indicator, there remains an underlying, medium-term, need to borrow, which is currently anticipated to crystallise during the first part of 2024/25.

The indications are that interest rate volatility has now calmed, with our treasury advisors forecasting that rates will remain broadly in line with current levels, before starting to steadily reduce. Because of this, and the fact that there is not an imminent need to borrow, there is not an intention to undertake new long-term external borrowing until absolutely necessary, unless there are financial advantages of doing so. Rates will continue to be closely monitored on a regular basis, to identify any change in circumstances.

It may be necessary to undertake some short-term borrowing to assist with managing day to day cashflow requirements and, if that is required, I have the necessary delegated authority to undertake this. The same also applies should any existing LOBOs be repaid and require refinancing. However, should any LOBOs be redeemed, it is anticipated that it will be possible to manage this from existing short-term investment balances, without the need to commit to new long-term borrowing.

Comments of Monitoring Officer

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

Comments of Head of People and Business Change

There are no direct HR implications associated with the report.

The Well-being of Future Generations Act requires public bodies to balance short-term needs with the needs to safeguard the ability to meet long-term needs as outlined in the approach taken.

Comments of Cabinet Member

N/A

Local issues

N/A

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**

For this report, a full Fairness and Equality Impact Assessment has not been undertaken. This is because this report is not seeking any strategic decisions or policy changes, with its purpose being to update on the treasury management activities for the year retrospectively. However, fairness and equality are considered as part of service delivery and will feature in annual finance reports, such as the Treasury and Capital Strategy.

In terms of the Wellbeing of Future Generations (Wales) Act, and the five ways of working contained within it, this report highlights examples of these being supported. This report is a backwards looking report of the treasury management activities of the Council. It shows that we followed the treasury management strategy and the compliance with prudential code and treasury management indicators. This links into the long-term objectives of the authorities and ensures that the Councils' activities are carried out in an affordable, prudent and sustainable manner.

In the case of the Welsh Language, the service will continue to ensure that, wherever possible, services or information is available in the medium of Welsh.

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. Nothing in this report is considered to have a direct equality impact.

Consultation

N/A

Background Papers

Report to Council February 2023: Capital Strategy and Treasury Strategy.

Dated: 19th October 2023

APPENDIX A

Introduction

The Authority's treasury management strategy for 2023/24 was approved at a meeting on 28th February 2023. 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 risk remains central to the Authority's treasury management strategy.

External Context (Provided by the Council's Treasury Management Advisors)

Economic background: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.2%. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

Financial markets: Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit review: Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

APPENDIX B

Local Context

On 30th September 2023, the Authority had net borrowing of £80.8m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.23 Actual £m	31.03.24 Forecast £m
General Fund CFR	270.9	280.0
Less: *Other debt liabilities	38.5	36.1
Borrowing CFR	232.4	243.9
Less: Usable reserves	-139	-104
Less: Working capital	-2	-4
Net borrowing	91.4	136.2

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

The treasury management position on 30th September 2023 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	30.9.23 Balance £m	30.9.23 Rate %
Long-term borrowing	128.7	(3.1)	125.6	3.6
Long term interest free borrowing	9.9	0.0	9.9	-
Short-term borrowing	0.0	-	-	-
Total borrowing	138.6	(3.1)	135.5	3.6
Long-term investments	(10.0)	0.0	(10.0)	4.3
Short-term investments	(30.2)	(11.3)	(41.5)	-
Cash and cash equivalents	(7.0)	3.8	(3.2)	0.3
Total investments	(47.2)	(7.4)	(54.7)	4.6
Net borrowing	91.4	(10.6)	80.8	8.2

A minimal amount of new long-term borrowing was taken out in the first half of the financial year totalling £300k. This borrowing was from Salix which was interest free and was linked to a specific energy efficiency project. However, the Council also have a number of other loans with Salix which are EIPs which is why long term interest free borrowing has not increased. The Council have also redeemed two small PWLB loans at the end of September, which have not been refinanced, plus we have a number of loans with PWLB which are Equal Instalments of Principal (EIP) loans as well.

Short term investments have increased during the period but this is part of the normal day to day treasury management activity of managing cashflows.

Borrowing

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

The Authority has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority. It has no plans to do so in the future.

Borrowing strategy and activity

As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

UK gilt yields were volatile, mainly facing upward pressure since early April following signs that UK growth had been more resilient, inflation stickier than expected, and that the Bank of England saw persistently higher rates through 2023/24 as key to dampening domestic demand. Gilt yields, and consequently PWLB borrowing rates, rose and broadly remained at elevated levels. On 30th September, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

At 30th September the Authority held £135.5m of loans, a decrease of £3.1m to 31st March 2023, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th September are summarised in Table 3A below.

Table 3A: Borrowing Position

	31.3.23	Net Movement	30.9.23	30.9.23	30.9.23
	Balance		Balance	Weighted Average	Weighted Average
	£m	£m	£m	Rate %	Maturity (years)
Public Works Loan Board	93.1	(2.5)	90.6	3.6	18.0
Banks (LOBO)	30.0	-	30.0	4.4	31.0
Banks (fixed-term)	5.0	-	5.0	3.8	54.7
Local authorities (long-term)	-	-	-	-	-
Local authorities (short-term)	-	-	-	-	-
Other inc. WG loans	9.9	0.0	9.9	-	0.4
Accrued interest	0.6	(0.6)	-	-	-
Total borrowing	138.6	(3.1)	135.5	3.6	21.3

The Authority's borrowing decisions are not predicated on any one outcome for interest rates

LOBO loans: On 1st April 2023, the Authority held £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 and terms or to repay the loan at no additional cost.

As market interest rates rose, there was increased probability of call options on the LOBOs being exercised by lenders. £30m of LOBO loans had annual/semi-annual call option dates during the six-month period to September 2023, no LOBO loans were called

The Authority has £30m LOBO loans with call dates within the next 12 months, some of which will occur during the remainder of the financial year. The Authority has liaised with treasury management advisors Arlingclose over the likelihood of the options being exercised. If the option is exercised and an increased rate proposed, the authority will consider its options at that particular point, in conjunction with advice from Arlingclose. It may choose to repay the loan from existing short term investment balances and, in doing so, mitigate the risk of future interest rate rises on that particular loan. Alternatively, depending upon the availability of cash and the new rate being proposed, the Authority may decide to accept the new interest rate.

Other Debt Activity

Although not classed as borrowing, the Authority previously raised capital finance to afford Glan Usk School and the Southern Distributor Road. The Accounts for 2022-23 an outstanding liability of £39m to pay to the operator.

Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority’s cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Authority’s investment balances ranged between £47.2 and £80.9 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23		30.09.23	30.09.23	30.09.23
	Balance	Movement	Balance	Income Return	Weighted average maturity
	£m	£m	£m	%	Years
Banks & building societies (unsecured)	-	(0.9)	(0.9)	1.5	On Call
Government (incl. local authorities)	(30.2)	(11.3)	(41.5)	5.2	0.3
Money Market Funds	(7.0)	4.8	(2.3)	3.7	On Call
Covered Bonds	(10.0)	0.0	(10.0)	4.3	4.3
Total investments	(47.2)	(7.4)	(54.7)	5.0	1.0

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum 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.

As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

Bank Rate increased by 1%, from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12-month rates to nearly 6%. The rates on DMADF deposits also rose, ranging between 4.8% and 5.4% by the end of June and Money Market Rates between 4.1 and 5.2%.

The £10m that is available for longer-term investment is invested in covered bonds, which has been maintained since the last report and no change is expected in the medium term.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025, but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken, although it should be noted that the Council currently has no long-term pooled fund investments.

Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority also held investments in

- directly owned property such as office and commercial units of £10.6m
- loans to developers £10.3m
- shareholding in subsidiaries £0.3m

These investments generated £0.45m in 2022/23 of investment income for the Authority after taking account of direct costs.

Compliance

The Head of Finance reports that all treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 7 below.

Table 7: Investment Limits

Sector	Time limit	Counterparty limit	Sector limit	30.09.23 Actual	Complied? Yes / No
The UK Government	50 years	Unlimited	n/a		✓
Local authorities & other government entities	25 years	£10m	Unlimited	41.5	✓
Secured investments *	25 years	£10m	Unlimited	10.0	✓
Banks (unsecured) *	13 months	£10m	Unlimited	0.9	✓
Building societies (unsecured) *	13 months	£10m	£10m		✓
Registered providers (unsecured) *	5 years	£10m	£25m		✓
Money market funds *	n/a	£10m	Unlimited	2.3	✓
Strategic pooled funds	n/a	£10m	£25m		✓
Real estate investment trusts	n/a	£10m	£25m		✓
Other investments *	5 years	£10m	£5m		✓

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	2023/24 Maximum	30.09.23 Actual	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes / No
Borrowing	138	135.5	150	246	✓
PFI and Finance Leases	38	36.2	39	39	✓
Total debt	176	171.7	189	285	✓

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

Treasury Management Prudential Indicators

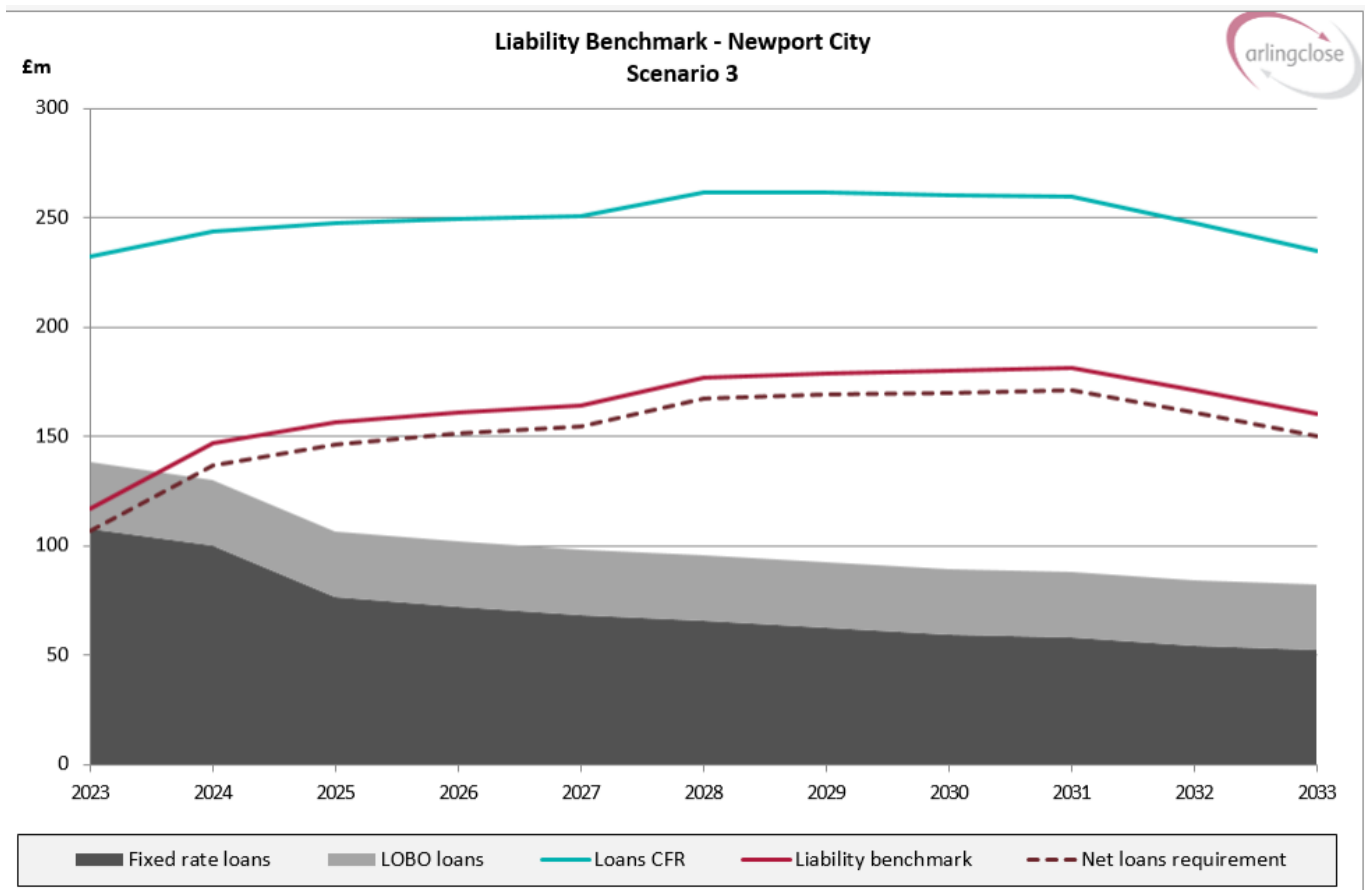
As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

1. Liability Benchmark:

This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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. It 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 of £10m required to manage day-to-day cash flow.

	31.3.23 Actual	31.3.24 Forecast	31.3.25 Forecast	31.3.26 Forecast
Loans CFR	232.2	243.9	247.6	249.7
Less: Balance sheet resources	-125.3	-107.2	-101.1	-98.6
Net loans requirement	106.9	136.7	146.5	151.1
Plus: Liquidity allowance	10	10	10	10
Liability benchmark	116.9	146.7	156.5	161.1
Existing borrowing	-137.2	-159.3	-135.4	-130.9

Following on from the medium-term forecast above, the long-term liability benchmark assumes no new capital expenditure funded by borrowing until 2028/29 (other than that already approved as part of the Capital Programme), minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



Whilst borrowing may be above the liability benchmark, strategies involving borrowing which is significantly above the liability benchmark carry higher risk.

2. **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 all borrowing were:

	30.09.23 Actual	Upper limit	Lower limit	Complied

Under 12 months	27%	60%	0%	✓
12 months and within 24 months	17%	40%	0%	✓
24 months and within 5 years	8%	40%	0%	✓
5 years and within 10 years	9%	40%	0%	✓
10 years and within 20 years	17%	30%	0%	✓
20 years and within 30 years	3%	20%	0%	✓
30 years and within 40 years	15%	20%	0%	✓
40 years and within 50 years	0%	20%	0%	✓
50 years and above	4%	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.

3. 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 limits are:

	2023/24	2024/25	2025/26	No fixed date
Actual principal invested beyond year end	10	10	10	10
Limit on principal invested beyond year end	£10m	£10m	£10m	£10m
Complied	✓	✓	✓	✓

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. Bank Rate rose by 1.25% from 4.25% on 1st April to 5.25% by 30th September.

Interest rate risk indicator	Limit	30.09.23 Actual	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£200,000	13,714	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£100,000	31,800	✓

For context, the changes in interest rates during the first half of the year were:

	<u>31/3/23</u>	<u>30/9/23</u>
Bank Rate	4.25%	5.25%
1-year PWLB certainty rate, maturity loans	4.78%	5.69%
5-year PWLB certainty rate, maturity loans	4.31%	5.22%
10-year PWLB certainty rate, maturity loans	4.33%	5.26%
20-year PWLB certainty rate, maturity loans	4.70%	5.64%
50-year PWLB certainty rate, maturity loans	4.41%	5.43%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at new market rates.

Report

Governance and Audit Committee

Part 1

Date: 26 October 2023

Subject Draft Work Programme

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

Author Governance Officer

Ward General

Summary The purpose of a forward work programme is to help ensure Committee Members achieve organisation and focus on the undertaking of enquiries through the Governance and 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 on 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 meetings until June 2024.

The Audit of Financial Statements Report is being deferred to November in line with Audit Wales' timetable for completing the external audit.

The Lessons Learned paper will be brought to the meeting following the Committees' consideration of the Audit of Financial Statements Report, to allow time to reflect on the accounts and audit process once completed.

The Risk Management Policy is currently being reviewed in consultation with senior managers ahead of a report to next Committee.

Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item, and indicate whether any additional information or research is required.

26 October 2023

Verbal Update: Internal Audit Team

Internal Audit Plan – Progress (Quarter 2)

Treasury Management Report

SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September) – No SO24 reports considered by Cabinet or Cabinet Members during the reporting period

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

There are no legal implications arising from this report.

Comments of Head of People, Policy and Transformation

The sustainable development principle of the Wellbeing of Future Generations Act will need to be addressed in individual reports, along with any human resources implications.

Background Papers

None.

Appendix 1

Forward Work Plan; agenda set out in a table for each meeting.

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

23 November 2023 (Extra Committee)

Statement of Accounts 2022/2023

Update from the Strategic Director of Social Services re the Unsound opinion for Children Services Safeguarding Childrens Money

Update from the Strategic Director of Social Services re the internal Audit of Adoption Allowances resulting in a Third Consecutive Unsatisfactory Opinion

Risk Management Policy

Audit of Financial Statements Report 2022/23

Governance and Audit Committee Annual Report

25 January 2024

Internal Audit Plan – Progress (Quarter 3)

Corporate Risk Register Quarter 2

Audit Wales and Regulatory Bodies 6-month update

Capital and Treasury Management Strategy 2024/25
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Audit Wales Annual Report on Grants Works 2020-21 and 2021-22 Draft
Lessons Learned 2022/23

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
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3)

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

Appendix 2

Forward Work Plan; agenda set out in alternative format.

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Governance and Audit Committee Work Programme 2023-24

Area	Thursday 26 October 2023 (5pm)	Thursday 23 November 2023 (5pm)	Thursday 25 January 2024 (5pm)	28 March 2024 (5pm)	30 May 2024 (5pm)
Internal Audit	Internal Audit Plan – Progress (Quarter 2)		Internal Audit Plan – Progress (Quarter 3)		Internal Audit Annual Report 2022-2023
	Verbal Update: Internal Audit Team		Internal Audit Unsatisfactory Audit Opinions (6 monthly report)		Internal Audit Annual Plan 2024-2025
Finance	Treasury Management Report	Statement of Accounts 2022/23	Capital and Treasury Management Strategy 2024/25		Treasury Management Year End Report 2023/2024
		Audit of Financial Statements Report 2022/23			
			Lessons Learned 2022/23		
Audit Wales			Audit Wales and Regulatory Bodies 6-month update	WAO Annual Report on Grants Works 2022-23	Audit Wales Annual Audit Summary 2023
			Audit Wales Annual Report on Grants Works 2020-21 and 2021-22 Draft		Audit Wales Annual Audit Plan 2024
					Audit Wales Annual Report on Grants Works 2023-2024 (Draft)
Risk Management		Risk Management Policy	Corporate Risk Register (Quarter 2)	Corporate Risk Register (Quarter 3)	Corporate Risk Register (Quarter 4)
Referrals and		Update on progress re: the Unsound			

Governance and Audit Committee Work Programme 2023-24

Call in Updates (Operational/Other)		opinion for Children Services Safeguarding Childrens Money			
		Update on progress re: the internal Audit of Adoption Allowances resulting in a Third Consecutive Unsatisfactory Opinion			
Governance	SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2)	Governance and Audit Committee Annual Report		SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3)	SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 4)
				Annual Governance Statement (draft statement)	Appointment of Chairperson
				Member Development Self Evaluation Exercise	