Pecyn Dogfennau

Agenda

Pwyllgor Archwilio

Dyddiad: Dydd Mercher, 29 Ionawr 2020

Amser: 5.00 pm

Lleoliad: Committee Room 1 - Canolfan Dinesig

At: Cynghorwyr: Mr J Baker (Cadeirydd), J Jordan, L Lacey, H Thomas, M Whitcutt, K Thomas, R White, D Williams and P Hourahine

Eitem		Wardiau Dan Sylw
1	Ymddiheuriadau dros Absenoldeb	
2	Datganiadau o ddiddordeb	
3	Cofnodion y Cyfarfod Diwethaf *(Tudalennau 3 - 12)*	
4	Cynllun Archwilio Mewnol Chwarter 3 *(Tudalennau 13 - 24)*	
5	Adroddiad Rheoli Trysorlys *(Tudalennau 25 - 86)*	
6	Gofrestr RIsg Gorfforaethol (Chwarter 2) & Polisi Rheoli Risg *(Tudalennau 87 - 138)*	
7	Archwilio Mewnol Barn Archwilio Anfoddhaol *(Tudalennau 139 - 152)*	
8	Dyddiad y Cyfarfod Nesaf 26 Mawrth 2020	

Person cyswllt: Pamela Tasker, Swyddog Llywodraethu
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Dyddiad cyhoeddi: Dydd Mercher, 22 Ionawr 2020

Mae'r dudalen hon yn wag yn

Minutes

Audit Committee

Date: 21 November 2019

Time: 5:00pm

Venue: Committee Room 1

Present: Mr J Baker (Chair), J. Jordan, H. Thomas, K Thomas, R. White and D. Williams

In attendance: Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Jan Furtek (Principal Auditor), Ramim Khan (WAO Audit Lead), Owen James (Assistant Head of Finance), Laura Campbell (Senior Finance Business Partner), Meirion Rushworth (Head of Finance), Anthony Veale (Engagement Director WAO), Paul Flint (Performance & Risk Business Partner), Lana Picton (Headteacher of Caerleon Comprehensive School), Kathryn Bevis (Chair of Governors-Caerleon Comprehensive School) (Pamela Tasker (Governance Support Officer).

Apologies: Councillors L Lacey, J. Guy

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1. **Declarations of Interest**
   Councillor D. Williams declared an interest in relation to item 4 on the Agenda.

2. **Apologies for Absence**

   Councillor L. Lacey, Councillor J. Guy

3. **Minutes of the Last Meeting**

   The Chair stated that on Page 9 of the minutes from the last meeting, that in the last paragraph, the Chair confirmed that this advice was erroneous as being caught within IR35 did not mean that a contract of employment existed. IR35 is tax law not employment law. They did not need an employment contract for this individual but the worker was still caught by IR35.

   On Page 8 the Chair confirmed that a letter had been sent to the Headteacher of Caerleon Comprehensive School requesting a written response in relation to the audit report and this had been subsequently received by the Audit Committee. Also on page 8 it was agreed at the previous Audit Committee for a verbal update on financial progress of Caerleon Comprehensive School to be provided by the Head of Finance which is to be provided in agenda item 4.

4. **Call in of the Headteacher and Chair of Governors of Caerleon Comprehensive School re the Internal Audit Unsatisfactory Opinion.**

The Chair reiterated for the Committee that the Headteacher of Caerleon Comprehensive School had requested for the item agenda to be presented first which had been agreed by the Chair.

The Chief Internal Auditor stated that following the presentation of Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee agreed to escalate their concerns and call the Headteacher and Chair of Governors of Caerleon Comprehensive in to provide assurances to the Audit Committee that there were proper controls in place.

The Chief Internal Auditor stated that it was important to note that the Internal Audit Opinion was based on a balance of strengths and weaknesses identified within the internal control environment and that this was the case for all audits undertaken.

It was further stated by the Chief Internal Auditor that various tests were undertaken to verify whether or not there was compliance with Council or School policies/procedures/sound financial management. All of the conclusions within the Internal Audit report were based on evidence, much of which was provided or obtained from the school site at the time when the audit was undertaken.

The Chief Internal Auditor also confirmed that information was requested during the Audit which was not forthcoming and that this itself was a weakness, and this was recorded within the report. Other conclusions within the report were supported by evidence, all of which were previously discussed with the Headteacher and the Internal Audit team. The report presented to Audit Committee contains the Headteacher's comments previously provided to Internal Audit along with her comments provided directly for Audit Committee; these differ slightly.

The draft report was issued on 15th March 2019 to the Headteacher and was subsequently finalised on 17th October 2019; the delay was due to ongoing discussions with the Headteacher who was given every opportunity to provide additional evidence to support the audit findings.

The timeline provided by the Headteacher and included in her comments provided directly to Audit Committee contained inaccuracies.

The Chief Internal Auditor stated that the summary of weaknesses was shown in Appendix B.

The Chair explained to the Committee that the key concerns of the original draft report were presented to the Audit Committee in June 2019 as per normal protocol. Usually the Audit Committee would not call the Manager/Headteacher into Audit Committee unless there were 2 consecutive unsatisfactory audit opinions; however, if the issues identified were potentially significant then Members could call in the Headteacher to the Audit Committee earlier and this was the case in this instance.

The Chair provided context for the Audit Committee that it considered discussing this school agenda item in September 2019, but it was advised by the Chief Internal Auditor that as it was a new school term the agenda item was moved to October 2019; subsequently this was moved to November 2019.

The Chief Internal Auditor stated that Appendix B showed that there was 1 Critical weakness and 26 significant issues and that the Headteacher's response in Appendix C provided the School's version of a timeline regarding the reporting process.
The third column provided a response to the Audit Committee from the Headteacher and it was noted that there was a slight difference in responses.

The report also contained the original issues identified by the Internal Audit Team along with the Headteacher's original responses

The forecasted financial position as of December 2018 for Caerleon Comprehensive School was a projected amount of £1.6 million deficit. The Headteacher had provided a response for the Audit Committee and Caerleon School welcomed the fact that the School would be re-audited in 6-12 months' time.

- The Head of Finance provided a verbal update to the Audit Committee that Caerleon School had a forecasted overspend of £1.2 million which would change between now and March 2020.

The Headteacher commented that in relation to the critical risk 6.01 on page 19 showing a projected deficit of £1.6 million, that they did not know where this figure came from or that it was the figure projected deficit at the time.

The Chief Internal Auditor confirmed that the details contained in the audit report were a result of what was provided to the Internal Audit Team at the time of the audit from the School. This evidence was used to forecast this projected figure and that there was no recovery plan in place.
The Headteacher suggested that a working spread sheet was provided to the Audit team at the time of the Audit taking place.
The Headteacher stated that this figure of £1.6 million deficit had not been reported to the school or to the local Authority.

The Chief Internal Auditor confirmed to the Committee that in March 2019 this deficit was reported to the School Governors and that they had been made aware of what had been projected and were kept aware through deficit recovery plans. The Chief Internal Auditor showed the Headteacher an email she had sent to his team following the audit with an attachment which showed an extract of a report to the Governors which stated that the School was forecast to have a £1.63 m deficit position at the end of 2019/20.

The Headteacher explained that Caerleon Comprehensive School was the lowest funded school in Wales and had received more budget cuts between the years 2017-2019. The Headteacher confirmed that the school was working with the Local Authority, the Chief Education Officer and the Finance team to work with a restructure plan

A Member questioned the school's loan repayment of £500,000 and it was confirmed that this loan repayment had not been paid by the school but did not form part of the deficit balance. It was questioned as to whether this figure would be added to the £1.2 million deficit and it was also questioned that if it was a separate balance how the school paid for it, and does the Local Authority ask for it. It was confirmed that this figure was a separate figure and was not part of the school balance.

A Member commented on the statement that Caerleon Comprehensive School had the seventh lowest pupil funding in Wales. The Headteacher confirmed that these were recent national figures from the 'My Local School' government website.

The Chair stated that there was a plan agreed at the start of the year and questioned why this plan was not delivered, as this is what the Audit team looked at.
The Headteacher confirmed that there was a recovery plan in place but due to budget cuts and unforeseen costs such as rising staff costs and costs of employing existing staff, full recovery was not possible.

The Chair stated that they did not understand these unforeseen costs, and would the education team not see these incremental costs.

The Headteacher stated that they had not received any report from Finance about these increased staff costs.

- The Headteacher stated that the issues at point 1.05 have been addressed.

The Chief Internal Auditor stated that in relation to the recovery plan in place the Headteacher's comments on the report did not state what actions were being taken to address the situation.

The Headteacher confirmed that these details were being discussed with the Education department and the Finance team but that it could not be discussed at this time due to people's jobs being involved. There was a meeting at the end of this month to look at updating the deficit every 3 months. The Headteacher confirmed that there would be regular meetings and phone calls so there was an increased level of support.

- Issues at 1.06 had been agreed

- At issue 1.07 a new business manager was now appointed and at the time they did not have the relevant documents. The Business manager now meets the needs of the school and the policy was approved
- At point 2.09 in relation to procurement, the School Governors were presented with options, but the options were not put forward and minutes were not detailed. The Chair commented that minutes should be present from previous meetings and key issues and actions should be noted and that there were quite a few gaps present.
  The Headteacher stated that minute takers were not trained at the time but that they were now satisfied with the training. The Appendix papers were not enough previously, and the Audit team had pointed this out.
- There were no questions on point 2.10.
- Point 3.04 the staffing structure was requested and a spreadsheet was provided. The Headteacher stated that the staffing structure was not asked for and a list of names was not provided as structures could change with different staffing levels and post changes. The Chair commented that if the Audit report stated that the staff structure was not available then it should have been made available to the Audit team at that time. The Chief Internal Auditor stated that if the staff structure had been made available to Audit then it could have been looked at in full as Audit could have examined names, supporting documents, and teacher responsibilities, for example; how many teachers in a certain department. However, this information was not forthcoming. The Chief Internal Auditor also stated that this was a normal request of information and had been readily provided by all other schools which had been audited.
- A Member questioned whether the school's large deficit was down to the unexpected increase in costs regarding staffing and if the staff structure was made available to Audit this would have been helpful to the audit team. The Headteacher commented that costs were a small part and structures were made available to the Audit team, but the information was kept in two places and the business manager in post at the time was new in post and gave out what information they thought was correct. This was put into a flow chart form by the Project Team and the schools kept it in a list. The Chief Internal Auditor confirmed that conversations were ongoing between Audit and the Headteacher about this issue.

The Chief Internal Auditor stated that the information requested was not made available to Audit on an Audit visit in December 2018 and January 2019. It was commented that this information was always obtained from other schools during the Audit process.

The Chair questioned as to whether the list of school staff positions would all be on a spread sheet somewhere in the school and that the data should be there to be analysed. It was commented that the budget was wrapped up in staffing and so this was a very important issue and questions should be asked about how this information is kept on a staff level. The Chair also commented that this would be part of the normal dialogue between the Audit team and the

school and were the auditors not making themselves clear or was it the school?
A Member asked as to whether there was any requirement for this to be done as since 2015 the Teaching and Learning Responsibility (TLR) job roles in the school would have changed and would this be part of the sub-committee term meetings.
The Headteacher commented that to review the entire structure would be very different and there had been an agreement with unions that it would not be reviewed. The Headteacher also confirmed for the Audit committee that the TLR roles were being reviewed at the school now.

A Member remarked that the school received a budget every year but since 2016 the school was getting into debt every year following but was stable in 2016 and there have been 3 budgets since then; was there £250,000-£500,000 lost or misplaced? The Headteacher confirmed that there were half termly sub-committee meetings held where there were finance statements and a report on every line of budget, this involved government money coming into school as well as money going out and every line of the budget was interrogated. A Member commented that it was expected that the school was aware of this problem that needed to be resolved and it was the governing body that needed to be sorting this deficit, to make difficult decisions and for staff to be let go. The Headteacher confirmed that cleaners, Learning Support Staff and other staff had left Caerleon School and cuts have been made where possible.

A Member felt that cuts needed to be done and it was a difficult thing to do but that this was not being done by Caerleon Comprehensive School.
The Headteacher confirmed that 8 teachers have been lost and the National Figures showed that Caerleon Comprehensive School has the 8th biggest set of class sizes in Wales and the school was working on different models to address this. The school was trying to reduce the deficit and they were getting advice from the local authority and that not a penny was being wasted.

The Chair commented that all the relevant points had been made and that the Audit Committee needed more feedback on these points in future.

- The Chair referred the Committee to point 3.05 regarding DBS checks in relation to Employee A. The Headteacher confirmed that the employee was not in class with children until their DBS was in place and a risk assessment was also in place at that time.

The Chair commented that a DBS covered everyone that was working in a school and the Headteacher stated that it was a late appointment. It was pointed out by the Chief Internal Auditor that the risk assessment was dated the same date as the DBS check so it was not in place prior to the employee starting with the School. The Headteacher stated that the DBS check for Employee B was straightforward.
In relation to Employee C their DBS check should have been checked within 4 weeks of the employee’s arrival. The Chief Internal Auditor stated that a check was required and was not in place at the time of starting employment.

- In relation to point 3.06 the Headteacher confirmed for the Committee that the toil policy was developed after the Audit team visited.
- A Member expressed their concern regarding point 3.09 and said that they found that staff taking out young people in fleet vehicles who did not have their licenses reviewed very worrying. The Headteacher confirmed that the Business Manager has acted on this and checks have been carried out.

The Chair commented that the Audit of Caerleon Comprehensive School was carried out in December 2018 with the Draft report being issued in March 2019. The Chair asked why the final Audit report took so long for it to be agreed and the Headteacher stated that communications were staggered. The Headteacher also stated that their responses for the Audit Committee still stand. The Chief Internal Auditor stated that although responses were provided to Internal Audit they were justifications of why things were wrong as opposed to the expected management actions to take in order to address the weaknesses identified.

The Chair mentioned that in the Internal Audit plan the outliers got reported to the Audit Committee and could the Audit team explain the delay in finalising. The Chief Internal Auditor stated that after the draft report was issued there was a lot of going back and forth with the school as the school produced additional information for the Audit team. The Headteacher stated that there were management actions provided which changed but there were no significant changes in the final report. The Chief Internal Auditor repeated that responses to the draft report provided by the Headteacher were mainly justifications of the situations identified rather than management actions to address the identified weakness.

The Chair expressed disappointment at the length of time it took to finalise the Audit report.

Summary:

- The Chair stated that they were satisfied with the responses from the Headteacher and the Chief Internal Auditor and with plans going forward, enquired as to whether enough progress had been made.
- The Chief Internal Auditor stated there would be a follow up Audit in 2020/21 which would be undertaken early in that financial year. This would review the issues identified in this School report to determine if expected improvements had been made by the School and reported back to Audit Committee.
- The Chair requested a regular update to be provided to the Audit Committee on the progress of Caerleon Comprehensive School.

The Chief Internal Auditor stated that the school had accused the Internal Audit Team of filing an inaccurate Audit report but that in 70-80% of the Headteacher's responses to the Audit Committee, stated that the actions were agreed so this suggested issues identified were accurate despite what the Headteacher had previously stated.

As stated above other comments from the Headteacher were justifications for the situations identified. The Headteacher agreed that the report was not full of inaccuracies.

The Chair stated that it was concurred that the Internal Audit report was not inaccurate and expressed thanks to the Chief Internal Auditor and his team for the hard work completed.

5. Internal Audit Plan 2019/20- Progress (Quarter 2)

The Chief Internal Auditor requested the Committee to view the Internal Audit Plan. The report's aim was to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Team against the agreed Audit plan as at 30th September 2019.

The attached report identified that the Internal Audit Section was making good progress against the 2019/20 audit plan and internal performance indicators.

- Appendix A on page 46 showed that in 2019/20, 33% of the planned audits were completed which was ahead of the 30% target.
- The promptness of issuing draft reports averages at 6 days which was well within the target time of 10 days.
- The promptness of report finalisation averaged 1 day which was well within the target time of 5 days.
- It was flagged up that this year depended on sufficient audit resources being available to complete the audit plan.

Audit opinions issued so far in 2019/20 were shown at Appendix B. It was explained to Committee Members that the term 'unqualified' and the full set of opinion definitions was explained in Appendix D and that an unqualified opinion was favourable as it meant that the terms and conditions have been complied with.

Questions:

A Member questioned Appendix A regarding work planned and whether this was chargeable time and it was confirmed that this was charged work.
The Chief Internal Auditor explained that planned audits to be completed was 84% and 80% was achieved due to staff not taking leave in the first half of the year but in the second and that there had been a lot of sickness leave taken this year and interim support had been taken on board.

The target would be updated in the following 2 quarters.

Agreed:

The Audit Committee noted and endorsed the Internal Audit report.

6. **Treasury Management Report**

The Committee was requested to view the Treasury Management report and it was explained that the report indicated that during the first half of the financial year, the Council continued to be a short-term investor of cash and borrower to manage day to day cash flows.

- As shown in Appendix B, Table 2, during the first half of the year the amount of borrowing was reduced by £42million to a balance of £150.8million.
- Early borrowing was completed and as this loan was taken a few weeks earlier than needed it was temporarily invested and then used to repay the bond which led to a small net reduction which was a small amount of borrowing.
- A small amount of long term borrowing of £1.5million was taken out in the first half of the financial year. The Council would also need to undertake additional borrowing on a short term basis to cover normal day to day cash flow activity. It was estimated that the Council would also need to take on some long term borrowing in this financial year.

The Treasury Management report to be presented to January's 2020 Audit Committee would aim to inform how risks were taken and the benefits of doing so.

A Member asked about long term investments and money left and the Assistant Head of Finance confirmed that it involved the cash that we hold in terms of how it affects the budget which is what this item was discussing.

The Chair commented that this report looked at mid-term, so will be examined further in January 2020's Audit Committee.

Agreed:

The Audit Committee noted and endorsed the Treasury Management Report.

7. **Lessons Learned 2018/19**

This report presented the findings of an initial lessons learned review carried out by finance officers and examined what went well and what didn't.

- Draft accounts came to the Audit Committee on the 6th June 2019 which were signed by the Head of Finance.
- Early testing was carried out which helped to reduce the burden allowing the team to meet tighter timeframes.
- Early discussions have taken place with the Wales Audit Office and a meeting has taken place to discuss lessons learned and to review work that could be undertaken earlier.

- There was an improvement in the coding of expenditure and income from 2017/18.
- There were a number of risks highlighted- with changes to accounting policies- IFRS 16 leases and work has started on this on the 2020/21 accounts.
- A quality review was being completed every year.

External Audit also picked up on a number of Declaration of Interests from Council Members which were not received so this needed to be improved. The Chair stated that this needed to be challenged on the day of the accounts and that Audit were not involved in this process and so the Committee did not know what Audit thought about this process and this could be fed into the self-evaluation exercises.

A Member stated that the Declaration of Interests was mentioned in a recent Standards Committee previously and the Audit Team would be involved with the Head of Law and Regulation to address the matter.

8. Financial Memorandum on the 2018/19 Financial Audit

The Engagement Director of the Wales Audit Office confirmed that a report was not completed for this item as it has been reported in the previous item of Lessons Learned 2018/19 and as there was a full engagement by Finance officers with the WAO it was felt that it was the case of producing a document for the sake of it.

9. Date of Next Meeting

The Chair requested for the meeting date to be put back one week to the 30 January 2020.

Report

Audit Committee

Part 1

Date: 29 January 2020

Item No: 4

Subject **Internal Audit – Progress against audit plan 2019/20 Quarter 3**

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2019/20 agreed audit plan for the first 9 months of the year by providing information on audit opinions given to date and progress against key performance targets.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies that the Internal Audit Section is making good progress against the 2019/20 audit plan and internal performance indicators.

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

Action by The Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

Signed

Background

1. This report aims to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first 9 months of the year will be reported along with the performance of the team for that period.

2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q3.

Internal Audit Staffing

3. The team currently operates with an establishment of 8 audit staff. At the start of the year there were 7 audit staff in the team.

4. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured and reduced in numbers in 2016/17.

5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

Audit Plan

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 (updated March 2017) which the team needs to ensure it is compliant with as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).

7. A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Newport's peer review took place in 2017/18; the outcome being that the team is generally compliant with the Standards, with no significant areas of non-compliance; this is the highest standard of compliance.

8. The 2019/20 Draft Audit Plan was agreed by the Audit Committee on the 28th March 2019 with the Final being approved on the 6th June 2019.

Performance

9. The Audit Section's performance is measured against planned work, which incorporates externalities like special investigations, financial advice and financial regulations training. Where actual time taken for the review exceeds planned time there will be an impact on the audit plan. Ad-hoc reviews requested by management cannot be planned for but will have an immediate impact on the achievement of the audit plan; we will endeavour to minimise these throughout the year. The section has been involved with some special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; there have also been a few unplanned reviews.

10. The section's performance is measured against performance indicators set and agreed by the Welsh Chief Auditors' Group. Performance against these indicators is reported to the Audit Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.

11. The performance for Quarter 3 2019/20 is summarised below with the detail shown at **Appendix A**:

    a. 51% of the audit plan has been achieved so far which is in line with the profiled target of 50%;

    b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 5 days, well within the target time of 10 days;

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

12. Coverage of the plan at this stage of the year is in line with expectations; the target being 50% for Quarter 3, despite the team being involved with some special investigations and unplanned reviews. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan.

13. 51 days have been spent finalising 22 2018/19 audit reviews, all of which have now been finalised.

14. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire. The team has taken on additional external professional support to enable it to achieve the 2019/20 audit plan.

15. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year. Some planned work may be deferred by service managers to either later in the year or the following financial year.

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

<u>Quality Control</u>

17. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. This gives the manager who has been audited an opportunity to comment on the audit review itself, confirming (or not) that it was of benefit to their service and that the main risks had been covered; the staff, their approach, constructiveness and helpfulness; the report, covering the benefits of discussing the draft report, whether the balance was right via the inclusion of strengths and weaknesses, whether management comments were correctly reflected and if the report format was easy to follow. These questionnaires are returned in confidence to the Chief Internal Auditor who will assess the comments and address any criticisms. Generally, there has been positive feedback from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2019/20.

<u>Financial Training</u>

18. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders is offered to all service areas. An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self-nomination basis, quarterly, as part of the Corporate Training Programme. Feedback from staff who have attended courses has been positive. 4 Training sessions have been held with 70 delegates attending.

Audit Opinions 2019/20

19. Audit opinions issued so far in 2019/20 are shown at **Appendix B.** Definition of audit opinions currently given is shown at **Appendix D**.

20. 21 jobs completed to at least draft report stage by 31 December 2019 warranted an audit opinion: 6 *x Good, 12 x Reasonable, 3 x Unsatisfactory.* In addition, 7 grant claim audits have been undertaken during the year; all were *Unqualified.* Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), provision of financial advice and training (**Appendix C**). Audits in draft at the year end (31/3/19) have also been finalised.

21. The audit opinion relates to the adequacy of internal controls within the system or establishment being reviewed. The opinion is derived from the balance of strengths and weaknesses identified from evidence obtained, and testing undertaken, during the audit. Where the auditor believes that any issues identified are the result of a deliberate action and may be in breach of the Disciplinary Code or Employee Code of Conduct, further investigations will be carried out and action taken as appropriate.

Service Management Responsibilities

22. 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.

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

Follow up audit reviews

24. Where unsatisfactory and unsound opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These are reported separately to this Audit Committee on a six-monthly basis.

Financial Summary

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

Risks

26. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Audit Committee.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	M	L	Passed potential management issues back to management ; Will take on interim external support to cover long term vacancy	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

27. 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

28. 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.

29. The Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

Preferred Option and Why

30. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

32. There are no legal implications. The Report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

Comments of Head of People and Business Change

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

Comments of Cabinet Member

34. N/A

Local issues

35. N/A

Scrutiny Committees

36. N/A

Equalities Impact Assessment and the Equalities Act 2010

37. 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.

38. 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

39. N/A

Wellbeing of Future Generations (Wales) Act 2015

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

- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan
- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives

management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

Crime and Disorder Act 1998

41. 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

42. N/A

Background Papers

43. N/A

Dated:

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

2018/19	2018/19 Target	1st Qtr 18/19	2nd Qtr 18/19	3rd Qtr 18/19	4th Qtr 18/19	Comments
Proportion of planned audits complete	82%	20%	36%	53%	83%	[Profiled Target 82%]
Proportion of planned audits complete within estimated days	65%	50%	56%	47%	65%	Cumulative figures
Directly chargeable time against total time available	50%	59%	59%	58%	62%	Quarterly performance
Directly chargeable time against planned	84%	92%	92%	87%	91%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	3	6	7	9	Cumulative figures
Staff turnover rate (number of staff)	1	0	1	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	3 days	9 days	11 days	11 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	3 days	3 days	3 days	Cumulative figures

2019/20	2019/20 Target	1st Qtr 19/20	2nd Qtr 19/20	3rd Qtr 19/20	4th Qtr 19/20	Comments
Proportion of planned audits complete	82%	18%	33%	51%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	100%	25%	27%		Cumulative figures
Directly chargeable time against total time available	50%	58%	54%	54%		Quarterly performance
Directly chargeable time against planned	100%	86%	80%	72%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	0	3	4		Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	6 days	5 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	1 day	2 day		Cumulative figures

Appendix B
Opinions as at 31 December 2019, Qtr 3

Good	6
Reasonable	12
Unsatisfactory	3
Unsound	0
Total	21

Internal Audit Services - Management Information for 2019/20 Q3

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1920-3	CE	Finance	Accountancy	Paye.net	High	Good
P1920-4	CE	Finance	Income Collection	National Non Domestic Rates (NNDR)	Medium	Good
P1920-5	CE	Finance	Income Collection	Sundry Debtors	Medium	Good
P1920-25	People	Children & Young People Serv	Safeguarding, Quality Assurance & Child Protection	Adults at Risk	Medium	Good
P1920-31	People	Adult & Comm Serv	First Contact	Hospital Team	High	Good
P1920-75	People	Education Serv	Primary Schools	St Patricks RC Primary	Medium	Good
P1920-6	CE	Finance	Strategic Procurement	Purchasing Cards (Transactions)	Medium	Reasonable
P1920-11	CE	People & Bus Change	Digital Services	Data Protection (General Data Protection Regulation) - Follow-up	High	Reasonable
P1920-13	CE	People & Bus Change	Human Resources	Employment Status	High	Reasonable
P1920-21	People	Children & Young People Serv	Child Protection & Family Support	Child Protection & Family Support (x 4 Teams)	High	Reasonable
P1920-39	Place	Law & Regulation	Democratic Services & Communications	Destination Development (Inc City Events)	Medium	Reasonable
P1920-42	Place	Law & Regulation	Public Protection	Licensing (Premises)	High	Reasonable
P1920-59	Place	City Services	Highways & Engineering	Drainage	Medium	Reasonable

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1920-64	Place	City Services	Waste & Cleansing	Street Cleansing - Follow-up	High	Reasonable
P1920-73	People	Education Serv	Primary Schools	Millbrook Primary	Medium	Reasonable
P1920-74	People	Education Serv	Primary Schools	Ringland Primary	Medium	Reasonable
P1920-79	People	Education Serv	Primary Schools	Maesglas Primary (2018/19)	Medium	Reasonable
P1920-81	People	Education Serv	Secondary Schools	The John Frost School	Medium	Reasonable
P1920-56	Place	City Services	Environment & Leisure	Grounds Maintenance (2018/19)	Medium	Unsatisfactory
P1920-62	Place	City Services	Highways & Engineering	Passenger Transport Unit - Taxi Contracts (2018/19)	High	Unsatisfactory
P1920-67	People	Education Serv	Engagement & Learning	Music Support Service	Medium	Unsatisfactory
P1920-34	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Finances)	Medium	Unqualified
P1920-35	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Outcomes)	Medium	Unqualified
P1920-43	Place	Law & Regulation	Public Protection	Scambusters Grant Claim 2018/19	Medium	Unqualified
P1920-48	Place	RI&H	Community Regeneration	30 Hours Free Childcare	Medium	Unqualified
P1920-49	Place	RI&H	Community Regeneration	Flexible Funding Grant 2018/19	Medium	Unqualified
P1920-71	People	Education Serv	Education Grants	School Improvement Grant (SIG) 2018/19	High	Unqualified
P1920-72	People	Education Serv	Education Grants	Pupil Development Grant (PDG) 2018/19	Medium	Unqualified

Appendix C

Non Opinion work 2019/20 Q3

Job number	Group	Service Area	Section or Team	Job Title	Opinion
P1920-7	CE	Finance	General	Annual Governance Statement	Not applicable
P1920-8	CE	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1920-9	CE	Finance	General	Financial Advice	Not applicable
P1920-18	CE	People & Bus Change	General	Financial Advice	Not applicable
P1920-19	CE	People & Bus Change	General	Financial Regulations Training	Not applicable
P1920-28	People	Children & Young People Serv	General	Financial Advice	Not applicable
P1920-36	People	Adult & Comm Serv	General	Financial Advice	Not applicable
P1920-45	Place	Law & Regulation	General	Financial Advice	Not applicable
P1920-53	Place	RI&H	General	Financial Advice	Not applicable
P1920-63	Place	City Services	Highways & Engineering	Civil Parking Enforcement (Consultancy)	Not applicable
P1920-65	Place	City Services	General	Financial Advice	Not applicable
P1920-83	People	Education Serv	Other - School Related	CRSA's / Heathcheck - Secondary / Primary / Nursery	Not applicable
P1920-85	People	Education Serv	General	Financial Advice	Not applicable
P1920-87	External	Ext Audits	SWCAG	SWCAG Training Programme	Not applicable

Appendix D

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

	GOOD	**Well controlled with no critical risks identified which require addressing; substantial level of assurance.**	**Green**
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

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

Report

Audit Committee

Part 1

Date: 29 January 2020

Item No: 5

Subject **DRAFT 2020/21 Capital Strategy and Treasury Management Strategy**

Purpose This report includes both the DRAFT Capital Strategy and Treasury Management Strategy for approval by the Council and confirms the capital programme. The revenue impacts of both strategies are included within the Medium Term Financial Projection (MTFP) which were approved separately by Cabinet as part of the 2020/21 budget report.

Author Head of Finance

Ward General

Summary The Council has ambitious plans for the city as set out in its new Corporate Plan and the promises set out within it. A key enabler to deliver on this ambition is the capital programme. Significant progress has been made to date and the current capital programme, ending 2024/25 is ambitious with £202m of capital spend on projects. The Council is investing over c£70m in its schools, in its historical and cultural assets such as the Transporter bridge, supporting city centre redevelopment, providing modern, fit for the future 'neighbourhood hubs' and creating capacity in its recycling and waste facilities. Progress is being made in the delivery of these.

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

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

The main recommendations arising from the two strategies are summarised in the report below. These have been updated following comments from Audit Committee.

Proposal Audit Committee is asked to note an provide comment on:

- the updated current capital programme ending 2024/25, and the current level of headroom available for future capital expenditure, noting the associated increased revenue costs within the current Medium Term Financial Projections for funding the cost of borrowing (MTFP) (Appendix 1)

- the first Capital Strategy including Prudential Indicators and approve the borrowing limits coming from the capital programme; (Appendix 2)

- the Treasury Management Strategy and Treasury Management Indicators, the Investment Strategy and the Minimum Revenue Provision (MRP) for 2020/21. (Appendix 3)

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Chief Executive
- Strategic Directors
- All Heads of Service
- Newport Norse
- The Council's Treasury Advisors
- Accountancy Staff

Signed

Background

Context

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

2. Good progress has been made in bringing forward some key schemes to date e.g. Transporter Bridge, Neighbourhood Hubs, City centre re-development, new schools. The current capital programme includes some £202m of investment in the city, which delivers on key priorities.

3. Demand however continues to exceed capital resources available and the Council has a framework which maximises available capital spend whilst keeping the cost of funding it within affordable limits. Delivery of the longer term demands will inevitably also involve how the Council works with external partners and prioritises and leverages in funding / projects from third parties.

4. In previous years the capital programme and Treasury Management Strategy were included within the budget report to Council. Due to the requirement of a new Capital Strategy and the links with treasury management decisions, it is deemed appropriate to combine the Capital Strategy and Treasury Management Strategy as a separate report for approval by Council, recognising that the revenue impact of both are included within the associated budget report.

Summary of recommendations

5. The Capital Strategy and Treasury Management Strategy detailed further in this report outline the current capital programme to 2024/25, links to treasury management decisions and a long-term view which highlight the challenges facing the authority for future capital decisions. The main recommendations and observations to Council coming from both strategies are as follows:

   Capital Strategy

   i. In order to maximise capital expenditure within affordable revenue budget, capital expenditure decisions will continue to be made in line with the framework agreed in the February 2018 Council. This is detailed in paragraph 11.

   ii. Over the life of the current capital programme to 2024/25, capital expenditure funded from borrowing will be within the affordability headroom detailed in paragraphs 12-17, resulting in an increase on the revenue financing costs, which are included in the MTFP.

   iii. Notes that increasing the 'headroom' to create further capital expenditure will increase the capital financing costs for new borrowing this will entail. In the current financial climate and with an existing budget gap on the MTFP, this is challenging.

   iv. Observe that capital financing costs both for the provision of repayment of debt and interest payable budgets even without additional expenditure funded by borrowing in future programmes, are forecast to increase year on year in the long-term. Detailed in paragraph 18-24.

   v. Decisions on the level of capital expenditure for the next capital programme from 2023/24 onwards will need to be made at that point, when there is more certainty on the level of funding available, interest rates and the Council's borrowing position.

   vi. However, it is important to note the strategy highlights that the Council is likely to face a significant challenge when setting the next capital programme given the demands on the authority and the increasing capital financing costs over the long term, even with no new capital spend funded from borrowing.

vii. Given the above there is the need to develop our approach to using the various strategic plans of the authority (as highlighted in paragraph 25) in order to prioritise and find other ways of investing in our assets.

Treasury Management – Borrowing Strategy

i. Whilst the capacity for further internal borrowing has reached capacity, and in 2020/21 the Council is expected to undertake external borrowing both for the refinancing of maturing loans and to fund the existing capital programme; it will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements. However, the Council may, where it feels necessary to mitigate the risk of interest rate rises, undertake borrowing early to secure interest rates within agreed revenue budgets. This will be done in line with advice from our Treasury Advisors.

ii. The Council is committed to be a 'net borrower' over a long-term as shown in paragraph 20.

iii. The borrowing limits over the medium term (paragraph 20) have been set in line with the expected borrowing required to finance the current capital programme to 2022/23. Plus, a buffer for the ability to manage day to day cash requirements, and undertake a level of borrowing early as per (i) where appropriate / affordable, and to borrow for investment/income generation schemes or regeneration investment purposes where the business case is approved within governance arrangements.

iv. The Councils medium term financial projections (MTFP) includes the revenue costs required to finance the borrowing limits in relation to finance the capital programme as mentioned above. Where this borrowing is undertaken for the investment/income generation schemes or investment purposes the revenue costs would be offset by the income received from the investment.

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

Treasury Management – Investment Strategy

i. Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

ii. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into higher yielding asset classes during 2020/21. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities. This diversification will represent a change in strategy over the coming year.

iii. The approved counterparty list and limits are shown table 4 of Appendix 3. Due to the move into longer-term investments, pooled funds and real estate investment trusts have been included as an investment option.

iv. Treasury indicators and limits are outlined in the strategy, these set out the investment limits across various bodies/organisations, the maturity structure of borrowing and the amount invested over one year (long-term). The limit placed on investments over one year is £10m, in line with (ii) above.

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

The Capital Strategy and Treasury Management Strategy are further summarised below:

Capital Strategy 2019/20 to 2028/29

6. The 'Capital Strategy 2019/20 to 2028/29' is the Council's first capital strategy following the requirement placed on Local Authorities by the 'Prudential Code for capital finance in Local Authorities (2017)' to determine a capital strategy. The capital strategy sets out the long-term context (10 years) in which capital decisions are made and should demonstrates that the Local Authority takes capital / investments decisions in line with service objectives, gives consideration to both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.

7. The objective of the Prudential Code is to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable. The capital strategy sets out;

    - The need for a capital strategy and the governance arrangements.
    - The current capital programme and its financing, and the revenue cost implications for the Council arising from that.
    - The long-term (10 year) projection for the capital financing costs of the Council and where future demands arise from the various strategic plans across the authority for further capital resources.
    - Links between the Capital Strategy to Treasury Management strategy and treasury decision making.
    - An overview of the commercial activity of the Council and its strategy going forward
    - Overview of other long-term liabilities of the authority

8. The full Capital Strategy is shown in Appendix 2.

9. Council is required to approve the strategy and the prudential indicators within. This Capital Strategy is the first of its kind and will be developed over time, and will require update and approval by Council on an annual basis.

10. Key areas contained within it include the (i) current 5-year capital programme to 2022/23 and its cost of financing plus (ii) the longer-term projection for capital financing costs and these are summarised in this report below as the key issues to bring to the Council's attention.

(i) Current Capital Programme and cost of financing

11. Given the current demand and increased costs on Council services, plus funding constraints and uncertainty, Cabinet and Council established a framework in order to maximise capital expenditure but keep within a sustainable revenue budget to fund new borrowing; this was as follows:

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

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

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

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

12. This framework ensures that the current capital programme can be maximised by allocating the ‘capital expenditure headroom’ for those schemes which cannot fund any resulting borrowing costs themselves through resulting savings/income generated e.g. new schools programme, and then extending capital expenditure for those other schemes which can fund the resulting revenue borrowing costs themselves or use grants/specific reserves. The ‘headroom’ is made up of uncommitted capital reserves and capital receipts, an estimated level of borrowing and a prudent estimate of future capital receipts – shown in table 1 below.

13. Funding capital spend from borrowing incurs extra revenue costs (called ‘capital financing’) for the Council from:

    - Minimum Revenue Provision (MRP) – provision for repayment of the principal loan
    - Interest costs – from external loans

14. Whilst a decision can be made to increase the ‘headroom’ to create further capital expenditure, this will increase the capital financing costs for new borrowing this will entail. In the current financial climate and with an existing budget gap on the MTFP, this is challenging.

15. In February 2018 Cabinet approved a new 5-year capital programme from 2018/19 to 2022/23. This was in line with the above framework and additions are made to the programme as demand is required and capital bids are approved. The Capital Strategy explains the process by which projects are approved onto the capital programme, ensuring they meet key service priorities and in overall terms, keep within the affordability headroom.

16. The position on the current capital programme is summarised in the table below and shown in detail on Appendix 1. In 2020/21, the Council has capital schemes of £44.6m, and there is remaining headroom across the programme of £15.7m, though that is dependent on generating future capital receipts and further borrowing. Summary of the updated 7-year programme is shown in Table 1 below.

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

	7-YEAR CAPITAL PROGRAMME							
	2018/19 actual £m	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	**Total 7-year programme £m**
Approved Schemes (Appendix 1)	29.5	39.3	44.6	45.3	13.9	11.5	2.3	**186.4**
Uncommitted headroom to invest in council assets / regeneration*		1.0	4.9	4.9	4.9			**15.7**
TOTAL EXPENDITURE	**29.5**	**40.3**	**49.5**	**50.2**	**18.8**	**11.5**	**2.3**	**202.1**

*split equally across years 2019/20 to 2022/23, this can be flexed accordingly in line with need.

17. Demand for capital resources remains high and the current 'headroom' shows available capital funds over the next 4 years. In order to balance the need for further capital spend and affordability, prioritisation of capital expenditure is/will be inevitably required.

18. The programme above is increasing the capital financing costs as shown in table 2 below, and these costs are included in the Council's Medium Term Financial Projections (MTFP), which, in the current funding climate/uncertainty and continued increase on service demands, is challenging. Compared to comparative authorities, the percentage of the capital costs as a proportion to the Councils total net revenue is very high, showing the need to maintain a sustainable level of spending on capital to keep these costs down.

Table 2: Capital Financing Costs

	2019/20 budget	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Provision for repayment of debt (MRP)	7.9	8.3	8.9	9.2
Net interest cost	7.0	7.0	7.1	7.3
Total capital financing (exc PFI)	**14.9**	**15.3**	**16.0**	**16.5**
PFI	7.2	7.2	7.2	7.4
Total Financing costs* (£m)	**22.1**	**22.5**	**23.2**	**23.9**
Proportion of net revenue stream	7.9%	7.5%	7.6%	7.7%

*includes charges direct to service areas

19. Capital Expenditure funded by debt increases the need to undertake external borrowing. The Council is committed to be a net borrower for the long term, to ensure this borrowing is affordable and sustainable Council is required to set an affordable borrowing limit shown in Table 3 below.

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

Table 3: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2019/20 limit	**2020/21 limit**	**2021/22 limit**	**2022/23 limit**
Authorised limit – borrowing	230	240	250	245
Authorised limit – PFI and leases	44	43	42	41
Authorised limit – total external debt	**274**	**283**	**292**	**286**
Operational boundary – borrowing	220	230	240	235
Operational boundary – PFI and leases	44	43	42	41
Operational boundary – total external debt	**264**	**273**	**282**	**275**

- Further details on borrowing are in the treasury management strategy

The above limits look at the following factors and are set providing flexibility for these:

- Current external borrowing requirement coming from the capital programme and bringing forward a limited amount of early borrowing to replace internal borrowing where appropriate
- Ability to undertake borrowing for onward loans to third parties for regeneration purposes (subject to strict due diligence)

- Flexibility to borrow for investment / income generating / commercialisation opportunities (subject to governance arrangements)

(ii) Long-term challenge - capital financing costs

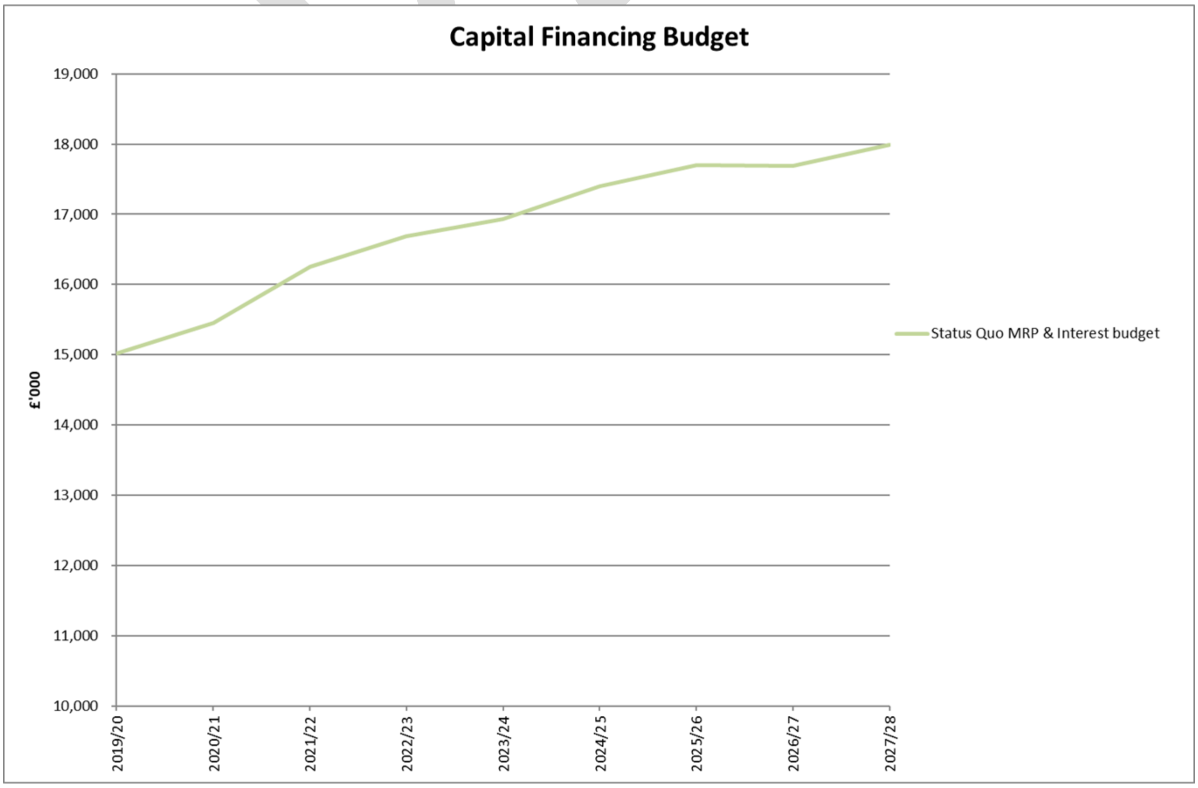
21. Capital expenditure is often for assets which have a long-term life, therefore the financing of these assets could also be over a long-term period. Because of this, it is important to take a long-term view of capital expenditure plans and the impact that may have on the affordability and sustainability of capital expenditure. Once a decision has been made to fund capital expenditure from borrowing, the Council is locked into the revenue implications for that borrowing for a long - period.

22. When capital expenditure is funded by borrowing, there is a revenue capital financing cost incurred through repayment of borrowing (the MRP) and interest payable. The capital strategy highlights that capital financing costs are forecast to increase over the long-term i.e. the next 10 years. This is illustrated by Chart 1 which highlights the financing costs to 2027/28.

23. Chart 1 shows that by 2027/28, even with no further capital expenditure funded by borrowing in the future programme, the revenue financing cost of borrowing is predicted to rise to above £17m (from £15.0m in 2019/20). This is due to increasing external borrowing from the current capital programme to 2022/23 and resulting interest costs as internal borrowing capacity reduces, plus an increasing MRP. This will be updated periodically as clearly, the chart is based on a number of assumptions, main one's being

- Delivery of the current capital programme – slippage on the current programme phasing will reduce the rate of increase for example.
- Reserves level – accelerated use of reserves/net reduction in level of reserves from current assumptions will increase the rate of increase for example

Chart 1: Capital Financing Budget 2019/20 to 2027/28



24. The Capital Strategy also outlines the challenge the Council faces over the longer-term and highlights the following:

- the Council will need to re-finance maturing debt over the long-term i.e. the Council is committed to long-term borrowing position
- internal borrowing is being replaced by external borrowing over time which increase the interest payable
- increased capital expenditure funded from borrowing immediately requires additional external borrowing, again putting pressure on interest budgets.

Strategic Plans

25. It is a requirement that the capital strategy demonstrates that the Local Authority takes both capital and investments decisions in line with service objectives. The capital strategy shows that the key drivers of the Council's Capital plans are captured through various plans across the authority. These include;

26. There are key issues coming out of all of these documents, over the long-term we know the Council has a difficult challenge in sustaining and building upon the current assets it has under the current financial climate. The Strategy acknowledges the need to further develop our use of these plans in developing and prioritising the Council's Capital Programme.

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

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

Treasury Management Strategy

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

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

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

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

32. Our detailed Treasury strategies for 2020/21 are included at Appendix 3. In addition, planned strategies to 2022/23 are also included, in line with the Council's remaining Medium Term Projections. Key points of interest are summarised below.

Borrowing Strategy

33. The Council has significant long term borrowing requirements but in recent years, the strategy has been able to fund its capital expenditure from reducing investments rather than undertaking more expensive new borrowing i.e. using 'surplus cash', known as 'internal borrowing'. This is because the rates achievable on the Council's investments are lower than the rates that would be payable on long-term borrowing and therefore this strategy is more cost effective. As at 31 March 2019 the Council had a loans borrowing requirement of £237m, and had external borrowing of £193m (£153m excluding very short borrowing for refinancing debt in April 2019), meaning that the Council was internally borrowed (mainly from reserves held) by £84m. To put this in context of the borrowing strategy, if the internal borrowing was replaced by external borrowing at a rate of 3%, this would require additional interest payable budget of c£2.5m.

34. The capacity to undertake further internal borrowing has now ended and there will be requirement to take out external borrowing. In summary the borrowing strategy is as follows:

- Whilst the capacity for further internal borrowing has reached capacity and in 2020/21 the Council is expected to undertake external borrowing both for the refinance of maturing loans and to fund the capital programme, it will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements. However, the Council may, where it feels necessary to mitigate the risk of interest rate rises, undertake borrowing early to secure interest rates within agreed revenue budgets, where appropriate and affordable. This will be done in line with advice from our Treasury Advisors

- As existing borrowing matures there will be the need to refinance this debt over the long-term taking into account the maturity profile of existing debts.

- The Council is committed to being a 'net borrower' over a long-term.

- The borrowing limits over the medium term have been set in line with the expected borrowing required. A buffer for the ability to undertake a level of borrowing early, and to borrow for commercialisation or regeneration investment purposes where the business case is approved within governance arrangements.

- The need to borrow is increasing over time, meaning that the Council will be required to undertake new borrowing over time, therefore putting pressure on the revenue budget through increased interest payments.

- Authority may borrow short-term loans to cover unplanned cash flow shortages.

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

36. Local Authorities measure their underlying need for long-term borrowing. This is detailed in tables 1 and 2 of Appendix 3 and highlights the following:

    - The need to take out new borrowing is predicted to be £61 million over the next four years.
    - This is broken down into £18.1m of re-financing existing borrowing and £43m new borrowing to replace internal borrowing and to fund new capital expenditure. This latter amount will be dependent on progress in delivering/spending our current capital programme and the Council's reserves position.

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

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

Investment Strategy

38. The authority has held invested funds over the year, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the authority's investment balance has ranged between £14.5 million and £69.0 million, the large balance being when the Council undertook borrowing early in respect of refinancing maturing debt in April 2019 of £40m. In 2020/21, the level of investment is likely to remain between £10 million and £20 million, due to the continuation of the second Markets in Financial Instruments Directive (MiFIDII), where the authority will be required to maintain a minimum investment balance of £10 million. Whilst this put's a limit to the extent the Council can be internally borrowed, it is a relatively small balance in the wider scheme of the Councils cash-flows and borrowing and the strategy of keeping external borrowing to the minimum possible level still stands.

39. **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses.

40. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding classes during 2020/21, this is likely to include investing in pooled funds if the accounting arrangements are suitable.

41. **Approved Counterparties:** Whilst investment funds remain available and based on the treasury management advice from Arlingclose; the Authority may invest its surplus funds with any of the counterparty types in table 4 of Appendix 3.

42. A more detailed explanation of the different approved counterparty types is included in Appendix 3 but for the sake of clarity, the Council's investment strategy will, as per the Welsh Governments Investment Guidance, give priority to security and liquidity and will aim to achieve a yield commensurate with these principles.

43. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

44. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into higher yielding asset classes during 2020/21. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities. This diversification will represent a change in strategy over the coming year.

Minimum Revenue Provision (MRP) Policy

45. The MRP Policy is detailed in Appendix 3d and remains unchanged.

Treasury Management Indicators

46. Council are required to approve the 2020/21 Treasury Management Strategy and Treasury Management Indicators detailed in Appendix 3.

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

Risks

Risk	Impact of risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Capital Expenditure increases need to borrow	H	M	Regular monitoring and reporting of available headroom should identify any issues at an early stage and keep Cabinet / Council updated	
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower	Members, Head of Finance, Treasury staff, based on advice from treasury advisors

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

Links to Council Policies and Priorities

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

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

Options Available and considered

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

Preferred Option and Why

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

Comments of Chief Financial Officer

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

A framework has been approved which sets out how the Council will maximise its capital expenditure while staying within an affordability headroom. This ‘headroom’ provides a degree of flexibility for further projects to be added to the programme within the current capital financing budgets included over the life of the MTFP. A decision could be made to increase this headroom, but this would create a greater pressure on the MTFP, which in the current financial climate may not be affordable.

Over the long-term a view has to be taken on the programme to reflect the increasing capital financing costs and the need to restrict capital expenditure funded by borrowing to a minimum based on risk and prioritisation.

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

Comments of Monitoring Officer

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

Comments of Head of People and Business Change

There are no human resources implications within the report

Comments of Cabinet Member
N/A

Local issues
N/A

Scrutiny Committees
N/A

Equalities Impact Assessment and the Equalities Act 2010

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

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

The Wellbeing of Future Generations (Wales) Act 2015 is taken into account when looking at the long-term impact of treasury management and capital decisions. The Council has a prudent Minimum Revenue Provision Policy and abides by the treasury management and prudential indicators detailed in the report. An effective capital strategy will enable the Council to support long term planning in line with the sustainable development principle of the Act.

Crime and Disorder Act 1998

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

Consultation

N/A

Background Papers

Report on Treasury Management for the period to 30 September 2018
Capital Monitoring and Additions Report

Dated:

Appendix 1 – Current Capital Programme

	Outturn 18/19	Budget 19/20	Budget 20/21	Budget 21/22	Budget 22/23	Budget 23/24	Budget 24/25	Total
21st Century Schools - Band A	8,046	1,451	-	-	-	-	-	9,497
21st Century Schools - Band B	675	2,229	14,817	31,791	10,557	7,940	2,349	70,358
Jubilee Park - Fixtures, Furniture & Equipment	13	-	-	-	-	-	-	13
Gaer Annexe Education Use	-	495	-	-	-	-	-	495
Pentrepoeth - IT Replacement	-	7	-	-	-	-	-	7
Blaen-y-Pant Bungalow (Educational Use)	52	8	-	-	-	-	-	60
St Mary's Toilet Refurbishment.	-	42	-	-	-	-	-	42
Somerton Primary - ICT Equipment	11	-	-	-	-	-	-	11
Feminine hygiene hardware & toilet facilties.	34	-	-	-	-	-	-	34
Lliswerry High (S106 Funds)	110	62	-	-	-	-	-	172
Maesglas Reducing classroom size	-	142	378	-	-	-	-	520
Lliswerry IT Replacements	53	-	-	-	-	-	-	53
Welsh Medium Primary School	-	335	865	1,300	1,000	2,300	-	5,800
Reducing Classroom size bids	-	85	495	-	-	-	-	580
Bassleg Demountables	-	206	-	-	-	-	-	206
ICT Equipment Lease (Clytha Primary)	-	21	-	-	-	-	-	21
ICT Equipment Lease (St Mary's)	-	12	-	-	-	-	-	12
St Patricks ICT	-	12	-	-	-	-	-	12
Bassaleg ICT	-	83	-	-	-	-	-	83
Ringland Perimeter Fence	-	86	-	-	-	-	-	86
Llanmartin Primary ICT	10	-	-	-	-	-	-	10
Malpas Park Primary	11	-	-	-	-	-	-	11
Education Maintenance Grant	-	1,828	-	-	-	-	-	1,828
Education Asset Improvements - balance to be drawn down	1,055	207	-	-	-	-	-	1,262
Prior Year Scheme - Various	(38)	-	-	-	-	-	-	(38)
Education	**10,032**	**7,311**	**16,555**	**33,091**	**11,557**	**10,240**	**2,349**	**91,135**
Gypsy/Traveller Site Development	2,993	143	-	-	-	-	-	3,136
Indoor Newport Market	-	-	4,000	-	(4,000)	-	-	-

HLF Market Arcade Townscape Heritage Scheme	39	350	1,472	980	-	-	-	2,841
Indoor Market Facilities Improvements	(2)	-	-	-	-	-	-	(2)
Civic Centre / Info Station Service Relocations	116	150	-	-	-	-	-	266
Info Station NSA enabling	536	-	-	-	-	-	-	536
123-129 Commercial Street (Pobl Regen)	623	623	-	-	-	-	-	1,246
Cardiff City Region Deal	1,208	496	1,026	782	782	1,277	-	5,571
Mill Street Development Loan	-	4,000	-	-	-	-	-	4,000
Neighbourhood Hubs	915	1,430	-	-	-	-	-	2,345
Arva Investment Loan	385	365	-	-	-	-	-	750
Disabled Facilities	898	1,256	1,000	1,000	1,000	-	-	5,154
Safety at Home	364	282	300	300	300	-	-	1,546
ENABLE Adaptations Grant	197	197	-	-	-	-	-	394
Homelessness Prevention Grant	98	-	-	-	-	-	-	98
Asset Management Programme	1,066	2,156	1,728	1,500	1,500	-	-	7,950
FS Maintenance 1819 / 1920	31	40	-	-	-	-	-	71
FS Shaftsbury Community Centre	183	-	-	-	-	-	-	183
Childcare - Flying Start	-	704	1,764	-	-	-	-	2,468
Central Library - Structural Works	72	100	491	-	-	-	-	663
Transporter Bridge	72	967	5,559	6,339	-	-	-	12,937
Chartist Tower	-	1,600	-	-	-	-	-	1,600
PAC System	-	59	-	-	-	-	-	59
OLEV Residential EV charging Equipment	-	134	-	-	-	-	-	134
Medieval Ship	-	-	-	12	-	-	-	12
Renewable Energy Investment	-	20	1,709	-	-	-	-	1,729
Prior Year Scheme - Various	(7)	-	-	-	-	-	-	(7)
Regeneration, Investment and Housing	**9,787**	**15,070**	**19,049**	**10,913**	**(418)**	**1,277**	**-**	**55,680**
IT Replacement Schemes	94	80	443	150	150	-	-	917
Corporate EDMS Rollout	-	13	-	-	-	-	-	13
CRM	250	334	186	-	-	-	-	770
Print 2010- Managed Printer Service	131	249	-	-	-	-	-	380
People and Business Change	**475**	**676**	**629**	**150**	**150**	**-**	**-**	**2,080**

Telecare Service Equipment	97	54	30	30	30	-	-	241
Equipment for Disabled Grant (GWICES)	165	165	165	165	165	-	-	825
Home Care System	32	-	-	-	-	-	-	32
Centrica Lodge	(6)	-	-	-	-	-	-	(6)
SMAPF	320	-	-	-	-	-	-	320
Adults and Community Services	**608**	**219**	**195**	**195**	**195**	**-**	**-**	**1,412**
3 New Homes	701	1,421	-	-	-	-	-	2,122
Oaklands Respite Home	505	35	-	-	-	-	-	540
Windmill Feasibility Study	41	110	1,390	-	-	-	-	1,541
Children's and Families Services	**1,247**	**1,566**	**1,390**	**-**	**-**	**-**	**-**	**4,203**
Fleet Replacement Programme	797	2,500	2,545	448	1,850	-	-	8,140
Bus station - Friars Walk Development	29	88	-	-	-	-	-	117
Flood Risk Regulation Grant	24	67	-	-	-	-	-	91
Cemetery Infrastructure Improvements	16	40	82	-	-	-	-	138
Peterstone Sewage Scheme	1	21	201	-	-	-	-	223
Road Safety Capital 2018/19	-	1,409	600	-	-	-	-	2,009
Composting	567	10	-	-	-	-	-	577
Docksway Cell 4 Development	1,555	601	-	-	-	-	-	2,156
CCTV	-	45	-	-	-	-	-	45
Smaller Bins - MTRP BC	70	1,180	-	-	-	-	-	1,250
Newport Station Footbridge - LTF	77	267	2,775	-	-	-	-	3,119
Decriminalised Parking	232	1,154	-	-	-	-	-	1,386
Update Facilities in Parks	18	38	-	-	-	-	-	56
Decommisioning of Cemetery Office & Toilets	11	-	-	-	-	-	-	11
Building Improvements to Lodges	14	66	-	-	-	-	-	80
Small Scale Works Grant	34	-	-	-	-	-	-	34
Road Refurbishment Grant Scheme	931	107	-	-	-	-	-	1,038
Street Lighting LEDs	564	2,501	-	-	-	-	-	3,065
Local Transport Fund - Active Travel Northern 2018/19	290	310	-	-	-	-	-	600
Tredegar Park Car Park	-	12	-	-	-	-	-	12
Tredegar Park - Pedal Power	-	120	35	35	35	-	-	225

Lliswerry Road (81)	-	12	-	-	-	-	-	12
28-30 Stow Hill (11/0269)	-	7	-	-	-	-	-	7
Forbisher Road (15/0720)	-	27	-	-	-	-	-	27
Festive lighting	-	107	-	-	-	-	-	107
Local Transport Fund - Active Travel Design 2018/19	240	-	-	-	-	-	-	240
Bus Stop Enhancements	-	400	-	-	-	-	-	400
Core AFT Allocation	-	340	-	-	-	-	-	340
Inner City Links	-	890	-	-	-	-	-	890
LTNF - ECO Stars	42	50	-	-	-	-	-	92
Safe Routes - St Davids RC Primary	84	205	-	-	-	-	-	289
Gwastad Mawr Flood Attenuation Improvement Works	2	41	-	-	-	-	-	43
18-19 Collection Collaborative Change Programme	1,175	-	-	-	-	-	-	1,175
LTF Monkey Island Bridge Lliswerry Pill	29	168	-	-	-	-	-	197
LTF Sustainable Transport	25	300	-	-	-	-	-	325
Riverside Park	20	38	-	-	-	-	-	58
Pye Corner Railway Station Development Works	21	-	-	-	-	-	-	21
Nappy Grant	-	202	-	-	-	-	-	202
Park Square Lights	-	60	-	-	-	-	-	60
Velodrome Lights	-	173	-	-	-	-	-	173
Road Safety and Training	455	20	20	20	20	-	-	535
General Traffic Management	-	30	30	30	30	-	-	120
Streetwide Improvements	-	200	200	200	200	-	-	800
Street Lighting Column Replacement	-	331	250	250	250	-	-	1,081
Lliswerry Recreation Ground Changing Rooms	4	339	-	-	-	-	-	343
Prior Year Scheme - Various	(11)	3	-	-	-	-	-	(8)
City Services	**7,316**	**14,479**	**6,738**	**983**	**2,385**	**-**	**-**	**31,901**
Total	**29,465**	**39,321**	**44,556**	**45,331**	**13,869**	**11,517**	**2,349**	**186,408**
Financed By:								
General Capital Grant	4,754	3,858	2,469	2,469	2,000	2,000	822	18,372
Supported Borrowing	4,058	4,077	4,058	4,058	4,000	2,057	-	22,308
Unsupported Borrowing	1,740	11,349	10,635	10,305	(616)	-	-	33,413

Prudential Borrowing	84	128	-	-	-	-	-	212
External Grants	13,296	12,244	23,941	28,082	7,862	7,461	1,527	94,413
S106	868	799	35	35	35	-	-	1,772
Other Contributions	242	-	237	232	-	-	-	711
Capital Receipts	3,136	3,290	2,504	-	588	-	-	9,518
Revenue Contributions	75	203	-	-	-	-	-	278
Reserve	1,081	3,124	677	150	-	-	-	5,032
Finance Lease	131	249	-	-	-	-	-	380
Total	**29,465**	**39,321**	**44,556**	**45,331**	**13,869**	**11,517**	**2,349**	**186,408**

Appendix 2

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

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EXECUTIVE SUMMARY

This Capital Strategy is an update on the first strategy approved last year and sets out the long-term view of the affordability, sustainability and prudence of the capital programme and the implications on the revenue budgets.

The capital strategy is inherently linked to the treasury management strategy and the borrowing and investment decisions it takes. Full Council are required to approve the capital strategy and the prudential indicators within.

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

The strategy highlights the key risks and recommendations:

- Capital expenditure plans for the Council need to be affordable, prudent and sustainable.
- The MTFP includes the revenue costs for the financing of the current capital programme to 2022/23, which includes a level of headroom for additional capital projects to be added without impacting further on the revenue budget.
- As per the agreed framework (detailed in the report) the current programme needs to be maintained within the affordability headroom, therefore not putting additional pressure on the MRP budget.
- Within the context of significant demands for capital resources and limited availability, there is the need to develop our use of the various strategic plans across the organisation which drive the need for capital and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework. This will include clearer and corporate visibility and assessment of demand for schools, highways and other operational assets.
- Decisions on funding capital expenditure through borrowing locks the Council into committing revenue funding over a very long period (as long as 40 years+). With the MRP budget increasing over the long-term, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.
- The prudential indicators, including borrowing limits, are in line with the MTFP approved by Cabinet.

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

1. OVERVIEW OF THE STRATEGY

1.1. INTRODUCTION

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

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

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

The report sets out:

- The prudential code the need for a capital strategy and the governance arrangements for the capital strategy and programme (Paragraph 2)

- The current approved capital programme to 2024/25 (5 years) and its financing, and the revenue implications arising from demands on capital expenditure (Paragraph 3)

- The long-term (10 year) projection for the capital financing costs of the Council and where future demands arise from the various strategic plans across the authority for further capital resources. (Paragraph 4)

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

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

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

- Summary of the skills and knowledge the Council has to carry out its duties for capital and treasury matters. (Paragraph 8)

2. PRUDENTIAL CODE & GOVERNANCE

2.1. PRUDENTIAL CODE – KEY OBJECTIVES

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

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

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

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

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

2.2. GOVERNANCE FOR APPROVAL AND MONITORING OF CAPITAL EXPENDITURE

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

- Council approve the overall revenue and capital budgets following recommendations from the Cabinet. They also approve the borrowing limits of which the capital programme will need to remain within. These limits are a key performance indicator for treasury management. This ensures that capital expenditure and borrowing remains within an affordable limit.
- This borrowing limit drives the headroom available for Capital Expenditure to be included on the programme.
- Council approve the Treasury Management and Investment strategies, which are intrinsically linked to capital expenditure and the capital strategy. Further details of these are provided in paragraphs 5.1 and 5.3.
- The detailed capital programme within the overall budget is approved by Cabinet following individual project appraisals by officers, containing the views of the Head of Finance.
- Items of capital nature, are discussed at the Capital Strategy Asset Management Group (CSAMG), which is made up of senior officers from all service areas and our property advisors, Newport Norse. Discussions include asset disposals, where capital expenditure is required and prioritisation of those areas and the overall asset management agenda.
- Decisions on Capital Expenditure will be made by the Senior Leadership Team (SLT) following review of the project appraisal.
- Cabinet approve capital expenditure to be added to the capital programme.
- Monitoring of Capital Expenditure is reported to Cabinet, and includes update on capital receipts and impact on the revenue budget of decisions made.

Affordability and sustainability is a key focus on the approval of expenditure, and therefore the agreed framework detailed in paragraph 3.1 is used. There is a process map for the approval of capital expenditure which is used, this is shown in Appendix 2a.

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

3. CAPITAL EXPENDITURE AND FINANCING

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

3.1. CURRENT CAPITAL PROGRAMME

The current capital programme was recently extended to 7 years to reflect projects whose completion spanned beyond the original 5 year programme, taking the total programme from 2018/19 to 2024/25, this was approved at the most recent Cabinet in January 2020. As part of the approval, a ‘borrowing headroom’ was agreed. This headroom enables further capital projects to be added to the programme over the next 5 years, and not put additional pressure on the revenue budget over the Medium Term Financial Projection (MTFP).

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

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

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

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

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

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

The latest capital programme is summarised in the table below. For 2020/21, the Council has approved capital schemes of £44.6m and there is remaining headroom of £15.7m (subject to budget decisions at Cabinet):

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

	7-YEAR CAPITAL PROGRAMME							
	2018/19 actual £m	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	**Total 7-year programme £m**
Approved Schemes (Appendix 1)	29.5	39.3	44.6	45.3	13.9	11.5	2.3	**186.4**
Uncommitted headroom to invest in council assets / regeneration*		1.0	4.9	4.9	4.9			**15.7**
TOTAL EXPENDITURE	**29.5**	**40.3**	**49.5**	**50.2**	**18.8**	**11.5**	**2.3**	**202.1**

*split over remaining original 5 year programme, this can be flexed accordingly in line with need.

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

There has been an increase in the general fund capital grant in 2020-21 which has been reflected within the above headroom figures, the future years grant is unconfirmed therefore for prudence it is not assumed that this increase will continue in subsequent years.

The programme has been compiled with regard for the latest demands on the capital programme which include:

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

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

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

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

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

			7-YEAR CAPITAL PROGRAMME					
	2018/19 actual £m	2019/20 forecast £m	2020/21 budget £m	2021/22 budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	**Total 7-year programme £m**
Committed Grants and contributions	19.2	16.9	26.7	30.8	9.9	9.4	2.3	**115.2**
Committed Reserves, capital receipts, revenue	4.3	6.6	3.2	0.1	0.6	0	0	**14.8**
Committed new borrowing	6.0	15.8	14.7	14.4	3.4	2.1	0	**56.4**
TOTAL COMMITTED (Appendix 1)	**29.5**	**39.3**	**44.6**	**45.3**	**13.9**	**11.5**	**2.3**	**186.4**
Uncommitted borrowing headroom*		1.0	2.9	2.9	2.9			**9.7**
Uncommitted forecast capital receipts/capital grants*		0	1.6	0	0			**1.6**
Uncommitted capital reserves*		0	0.4	2.0	2.0			**4.4**
TOTAL UNCOMMITTED*		**1.0**	**4.9**	**4.9**	**4.9**			**15.7**
TOTAL FINANCING	**29.5**	**40.3**	**49.5**	**50.2**	**18.8**	**11.5**	**2.4**	**202.1**

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

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

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
MRP budget	7.8	7.9	8.8	9.3	9.3

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

- The Council's full minimum revenue provision statement is available within the Treasury Strategy which will be approved alongside this capital strategy

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

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

	2019/20 budget	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Financing costs* (£m)	22.1	22.5	23.2	23.9
Proportion of net revenue stream	7.7%	7.5%	7.6%	7.7%

*includes capital financing costs of PFIs

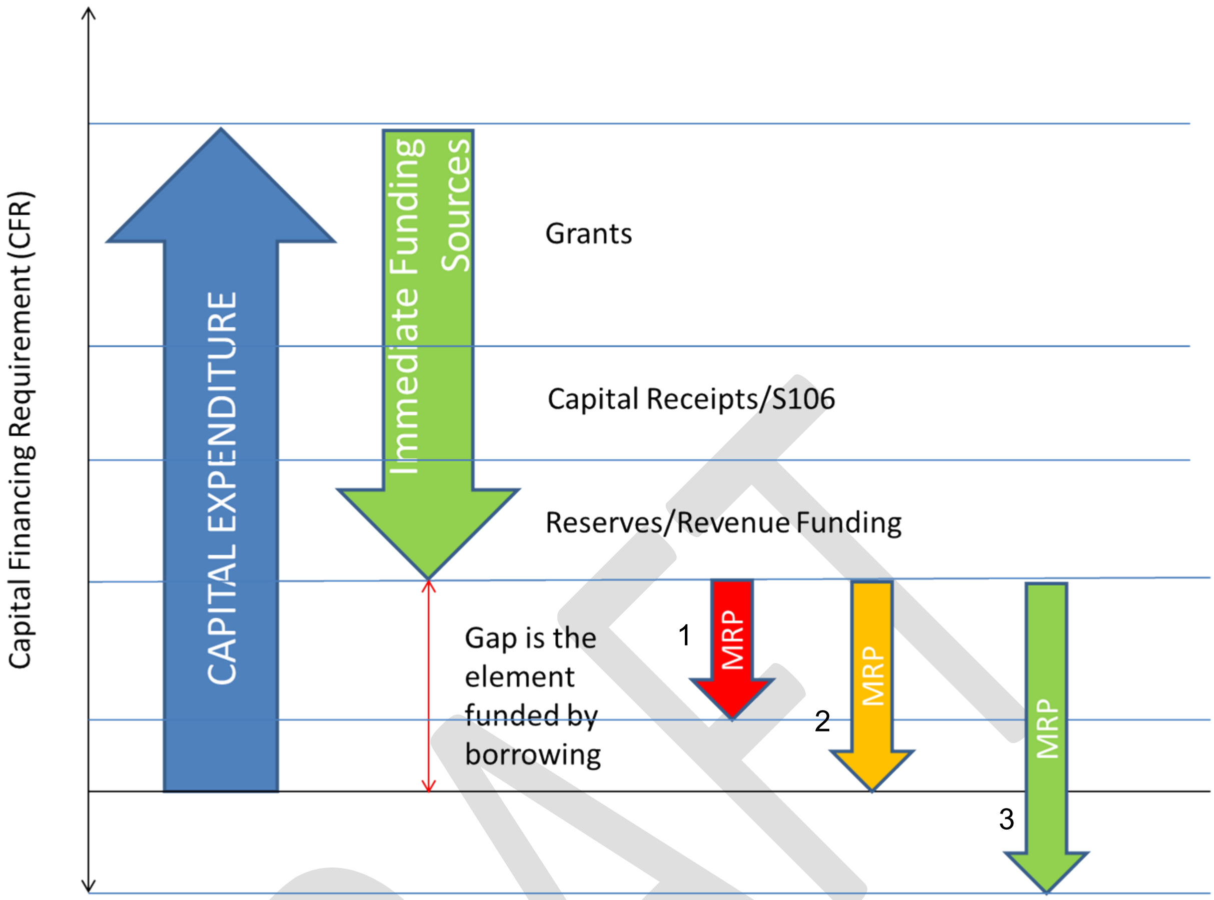
The ability to fund capital expenditure through internal borrowing is no longer applicable due to reserves being utilised, therefore this will need to be externally borrowed. External (or actual) borrowing will have interest rates payable on them which leads to increase in financing costs.

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

- Further details on the revenue implications of capital expenditure are included in the 2020/21 revenue budget report.

Capital Financing Requirement (Our need to borrow)

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



The diagram above shows the following:

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

This is an important concept, as it shows how decisions on the level of capital expenditure and the level of MRP budget has on our long-term borrowing and the capital financing implications of this.

The CFR is expected to increase by £7m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
TOTAL CFR	**280.0**	**287.0**	**292.7**	**298.2**	**290.6**

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

- For full details of the Council's capital programme are included in the Capital Additions and Monitoring Report to Cabinet February 2020.

4. LONG-TERM VIEW OF CAPITAL EXPENDITURE

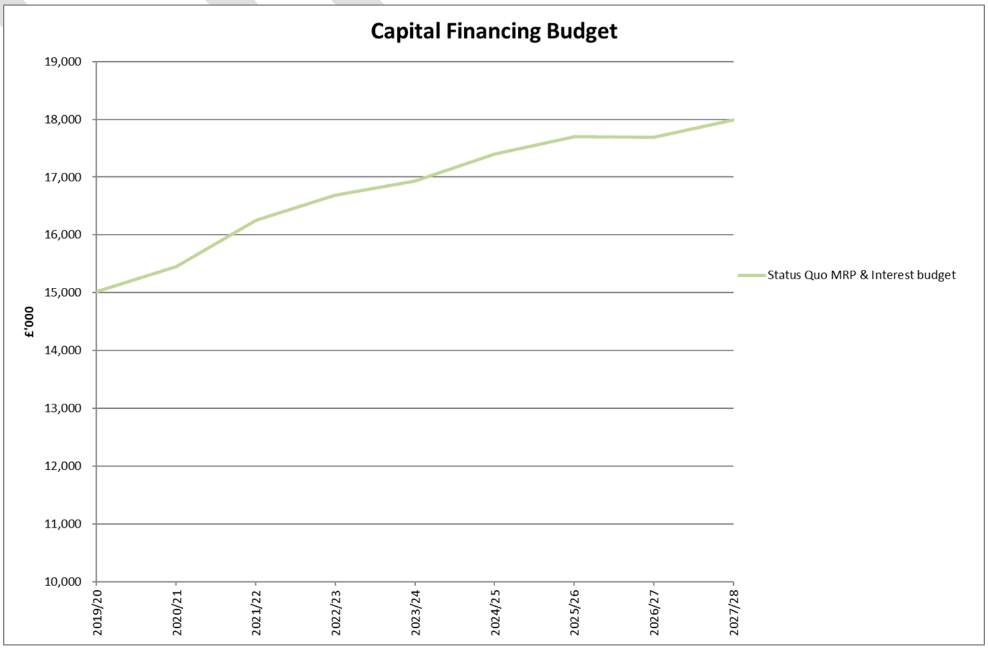
Expenditure on capital assets/projects are often for assets which have a long-term life i.e. buildings may have an asset life of 40 years+. The financing of these assets could also be over a long-term period. Therefore, as well as the Capital Programme highlighted in paragraph 3.1, it is important to take a long-term view of capital expenditure plans and the impact that may have on the affordability and sustainability of capital expenditure. Once a decision has been made to fund capital expenditure from borrowing, the Council is locked into the revenue implications for that borrowing for a long-period.

Due to the financial constraints that the Council is currently facing, assumptions on future available finances are likely to remain tight and therefore over the long-term it is anticipated that revenue to fund capital financing will remain restricted.

Recent changes to the MRP charging methodology and the fact that the capacity to use internal borrowing is reducing means that the authority will face a challenge in developing its next capital programme.

Chart 1 below shows the increasing capital financing costs over the next 10 years. As is evident, based on the current programme the revenue cost of implementing a challenging capital programme is increasing year on year, even with no additional funding from borrowing in future programme. Alongside a revenue budget Medium Term Financial Projection showing a funding gap this provides a significant challenge within current context of funding constraints on Local Government.

Chart 1

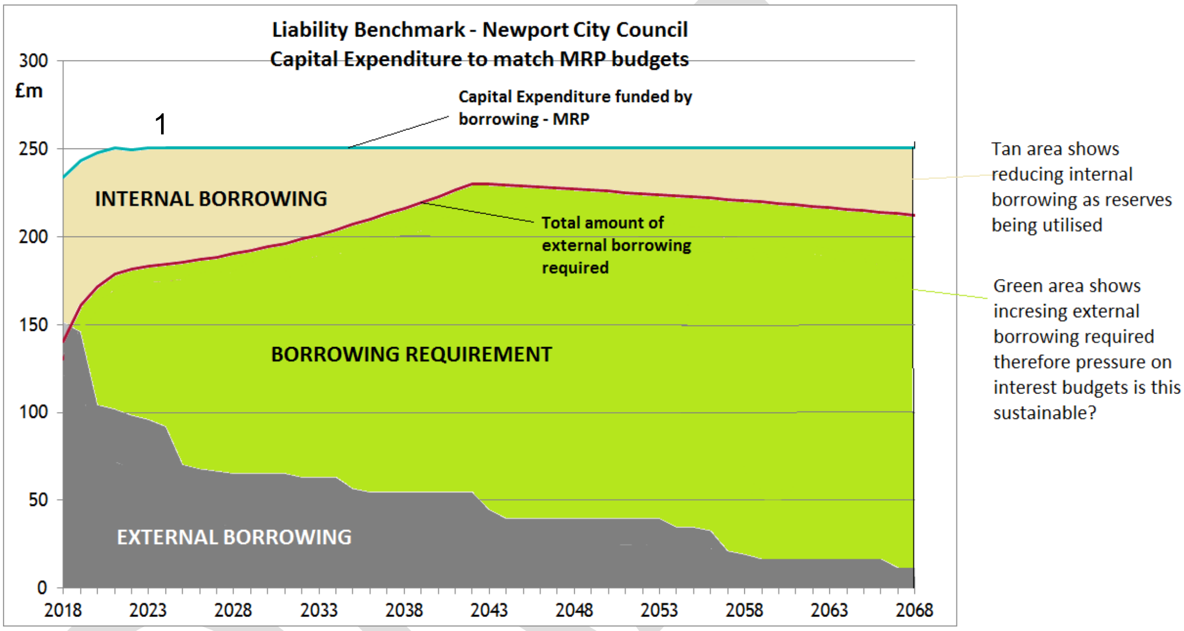


The above will obviously be affected by a number of factors including amount of capital funding from Welsh Government, achievement of capital receipts and use and level of earmarked reserves.

- Earlier in paragraph 3.1 it highlighted the future demands on capital expenditure; the CFR is integral to understanding the affordability and sustainability of the capital programme. If the CFR is increasing over the long-term this puts pressure on the revenue budget to both repay that debt and also on the interest rates to fund the borrowing.

The chart below shows the CFR over the long-term if we were to maintain capital expenditure funded by borrowing at the same value as MRP.

Chart 2



- The chart above illustrates the following:
  - Assumption that capital expenditure funded by borrowing will be at a level equal to the MRP budget (level blue line [1]) – with MRP and interest budgets increasing over time, to remain affordable, capital expenditure funded by borrowing should be no higher than the MRP budget and ideally should be lower to limit the level of external borrowing that is required over time.
  - As earmarked reserves are utilised the amount we are internally borrowed (using our own cash to fund capital expenditure) reduces. We have reached the capacity of internal borrowing, and any further capital expenditure which is not financed at source (i.e. grants, capital receipts, reserves) will require external borrowing.
  - As current external borrowing matures, we will need to re-finance this debt rather than re-pay debt. This is due to the inherent need to borrow over the long-term.
  - The above puts additional pressure on the capital financing budgets through additional interest costs.
  - Therefore, it is vital that the CFR is at a level which is affordable and sustainable.
  - Decisions on future capital programmes and the level of preferred CFR will be made at a time when the next programme is developed.
  - Recent decisions to change the MRP methodology for charging to annuity method for unsupported borrowing and to a 40-year asset life for supported borrowing put future pressures

on the revenue budget without any additional capital expenditure (While over the long-term borrowing is still repaid, the charge today is less and increases over future years). The chart in appendix 2b, shows that the MRP charge with current capital expenditure doesn't decrease significantly until 2030. Therefore, we know that any additional expenditure funded by borrowing will put additional pressure on the revenue budgets in the future.

- Overall this shows a significant challenge for the next capital programme, onwards, and will mean prioritising all forms of capital expenditure in order to keep additional borrowing to a minimum is essential.

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

Sustainability

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

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

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

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

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

The plans highlighted above show the significant challenge facing the Authority in coming years and detail backlog maintenance amounts as follows:

- School Buildings - £xm
- Highways Assets - £xm

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

5. TREASURY MANAGEMENT

5.1. TREASURY MANAGEMENT

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

Due to decisions taken in the past, the Council currently has £151m borrowing at a weighted average interest rate of 3.7% and £13m treasury investments at a weighted average rate of 0.7%.

5.2. BORROWING STRATEGY

Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through reducing investments ('internal borrowing') rather than undertaking new borrowing i.e. we defer taking out new long term borrowing and fund capital expenditure from day to day positive cash-flows for as long as we can.

By using this strategy, the Council can also minimise cash holding at a time when counterparty risk remains high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing and this remains the main reason for our current 'internally borrowed' strategy.

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

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

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

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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Debt (incl. PFI & leases)	236	215	228	237	234
Capital Financing Requirement	280	287	293	298	291

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

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

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

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – borrowing	230	240	250	245
Authorised limit – PFI and leases	44	43	42	41
Authorised limit – total external debt	**274**	**283**	**292**	**286**
Operational boundary – borrowing	220	230	240	235
Operational boundary – PFI and leases	44	43	42	41
Operational boundary – total external debt	**264**	**273**	**282**	**275**

- Further details on borrowing are in the treasury management strategy

The above limits look at the following factors and are set providing flexibility for these:

- Current external borrowing values and maturing debts that will require refinancing.
- Ability to undertake borrowing for loans to third parties for regeneration purposes (subject to strict due diligence)
- Flexibility to borrow for commercialisation agenda (subject to governance arrangements)

5.3. INVESTMENT STRATEGY

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

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

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

Table 8: Treasury management investments in £millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Near-term investments	56	10	0	0	0
Longer-term investments	0	0	10	10	10
TOTAL	**24**	**10**	**10**	**10**	**10**

- Further details on treasury investments are in pages 6 to 9 of the treasury management strategy

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

Loans to other organisations

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

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

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

6. COMMERCIAL ACTIVITIES

6.1. COMMERCIALISATION

In order to help meet the financial challenges faced by the authority Cabinet have approved an initial commercialisation strategy. A link to the report can be found here XXXXX

The proposed strategic objectives of the strategy are set out below:

1. We will target activity to promote social value
2. We will prioritise activities to generate a net profit, which can be used to support core services.
3. Our income generating activities should stimulate economic growth by creating employment.
4. Where appropriate, we will modify methods of service delivery to reduce costs to ensure we take a more commercial approach.
5. We will develop new skills in the organisation to create a modern council

Within these objectives three strands of activity have been identified:

1) Current services we could provide on a more commercial basis e.g Trade Waste
2) New services we could look to provide e.g energy services
3) Property investment – commercial and residential

Establishment of a trading company

A feasibility study will be undertaken on the setting up a trading company through which the commercial activities are managed. This will ultimately seek to support the delivery the first two activities.

Property Investment

In regards to the property investment, an investment board will be created to oversee the delivery of this activity. The investment board will be responsible for the following:

- Ensuring that investment opportunities are thoroughly evaluated, that there is an appropriate balance between risk and reward and that the acquisition contributes to the overall aims of the strategy.

- Approving property investment acquisitions, property management expenditure, property investment disposals and the provision of finance to enable the council to purchase assets.

- Monitoring the progress made in respect of achieving an appropriately balanced and diversified portfolio of assets and its performance.

The Investment Board should prioritise property acquisitions within the Newport City Council municipal boundary but will have authority to invest outside Newport as well. Detailed terms of reference and investment parameters will need to be established for the Board to operate under. These will need developing and approval by Cabinet.

The Investment Board will be a sub set of cabinet and function as a public committee with all the associated governance. The recommended membership is as follows:

Members: Leader
Deputy Leader
Cabinet Members x3

Advisors: Chief Executive
Strategic Director (Place)
Head of Regeneration, Investment & Housing
Head of Law & Regulation (Monitoring Officer)
Head of Finance (Section 151 Officer)
Supported by NORSE as specialist professional advisors

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

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

An investment fund of £50m is to be established for the delivery of this activity. This requires the borrowing limits approved by Council to be increased by this value for the purpose of the investment fund. While it is unlikely the full £50m will be required in 20/21, the borrowing limits have included the full £50m in each financial year to allow for the flexibility if required. This is shown in the prudential indicator in table 7 of this report.

Council Assets

The Council also need to continuously assess all of the Council assets to understand what of the Council's assets can and should be making a financial return and maximising those and stop or dispose of them where they are not and is best way forward. To maximise on the Council's financial strength and covenant, and skill is within its workforce and partners where appropriate.

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

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

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

- Implementing this strategy will require, in some areas, financial resources and this will need to be made available via the Councils Invest to Save reserve and where appropriate, prudential borrowing.

This will need to be approved via the governance framework upon business cases meeting assessment criteria, in particular payback period and levels of return.

The Council has an existing investment portfolio, which is 100% based within the city including retail, industrial and office. The Council are currently undertaking a project alongside our property advisors, Norse Newport Ltd, assessing the performance of our Commercial & Industrial portfolio and potential for maximising returns on those assets (which may require up-front investment).

Risk and long-term commitment

Interest rates

- The margins that could be achieved through investing in commercial properties could be relatively low. Due to current low interest rates, it is likely that long-term debt would be the preferred option as the risk of re-financing at a higher rate in the future may take out most, if not, all of any margin. This does however; lock the Council into the commitment of long-term borrowing. This issue would need to be reviewed on a case-by-case basis.

Income generation

- Potential uncertainty in the income generated. These are long-term investments and therefore, the property market will change over that period which could introduce risk to the income being generated and/or value of the investment held. For example, whilst investment could have long term leases associated with them, over the long term, tenants could cease trading or enter into company voluntary arrangements to re-negotiate terms. On the other hand, there is the opportunity that the value of properties and rentals could rise over time also.

Liquidity (How quickly we could sell the property)

- With this type of asset, there is poor liquidity compared to other types of investments, i.e. a relatively long timeframe to sell or change the investment. Therefore if income generation were to fall or the Council wanted to change its direction on investing in commercial properties, it may take a relatively long period to sell the asset, during which the cost of financing the borrowing would continue.

Long-term and fixed cost commitment

- Undertaking investment in commercial properties would significantly increase the Council's long-term debt, therefore any income generated would need to be sufficient to cover the 'capital financing costs' that have been incurred over the long-term i.e. the income has to be sustained over the long-term. If income were to drop, then these costs would still need to be covered.

Asset disposals

As part of the commercial activity, we will look at decisions about our Council assets and this could include disposal. When a capital asset is no longer needed or is not used as an investment opportunity, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council forecasts to receive £0.6m of capital receipts in the coming financial year as follows:

Table 9: Capital receipts in £ millions

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2020/21 budget**	**2021/22 budget**

Asset sales	2.5	0.6	0	0	0

7. OTHER LONG-TERM LIABILITIES

In addition to debt of £151m detailed above, the Council has a number of other long-term liabilities (potential call on future Council resources) as follows:

Private Finance Initiative (PFI)

The Council has two PFI arrangements for the provision of the Southern Distributor Road (24 years remaining) and for Glan Usk Primary School (15 years remaining). As at 31 March 2019 the value of the liability was £43.1m. The Council holds an earmarked reserve which covers the future costs of the PFI.

Pension Liability

The Council is committed to making future payments to cover its pension fund deficit (valued at £400.8m).

Provisions and Guarantees

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

8. KNOWLEDGE AND SKILLS

IN-HOUSE EXPERTISE

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

EXTERNAL EXPERTISE

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

MEMBERS

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

9. SUMMARY

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

- The MTFP includes the current revenue costs for the capital programme, which includes level of headroom for additional capital projects to be added without impacting further on the revenue budget.

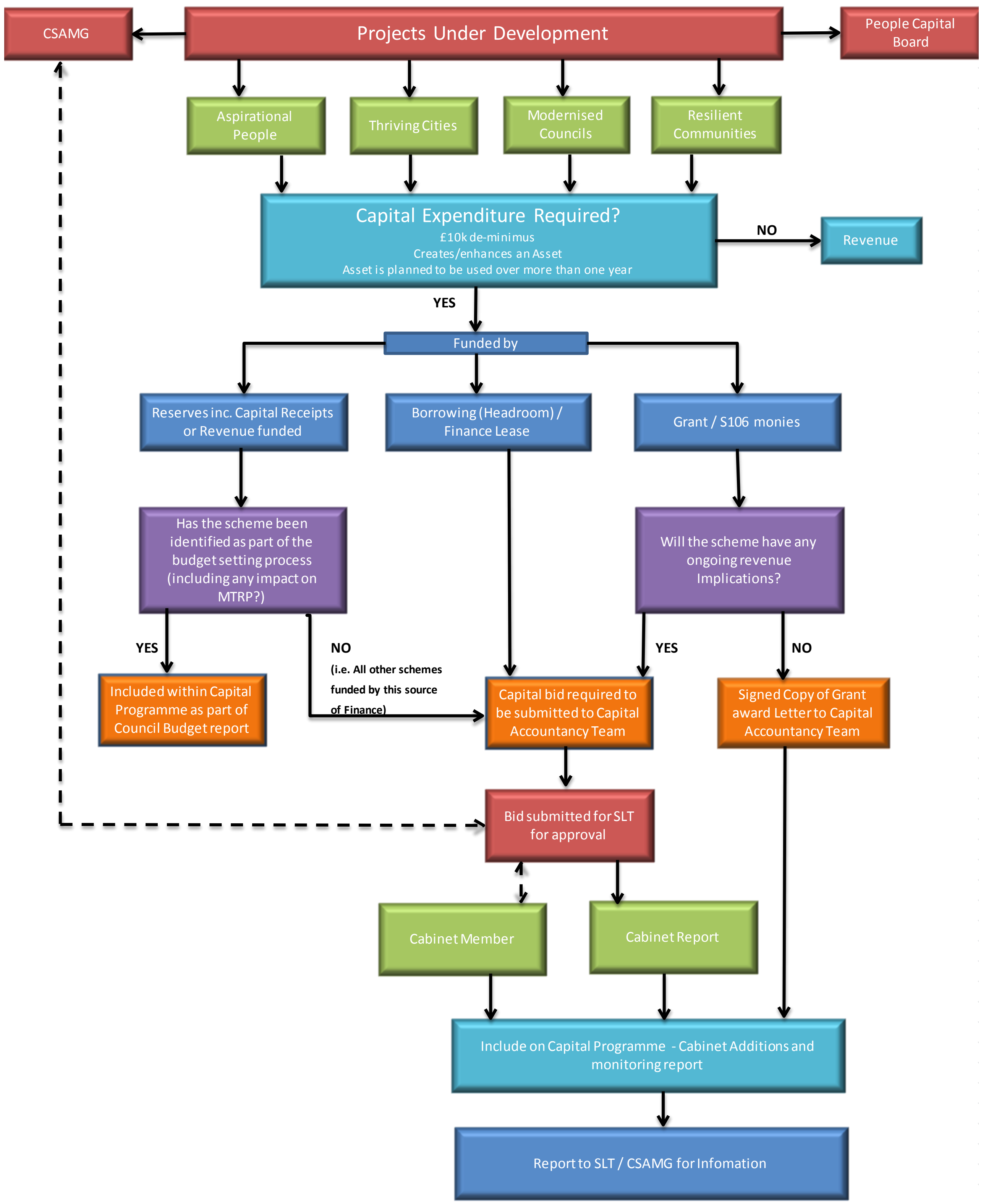
- As per the agreed framework the current programme needs to be maintained within the affordability headroom, therefore not putting additional pressure on the MRP budget.

- There are a number of demands on the capital programme, there is the need to link the capital strategy with a number of strategic plans across the organisation to ensure the pressures on the capital programme are known and the risks are assessed and prioritised within an affordable framework. This will include clear visibility and assessment of demand for schools, highways and other operational assets.

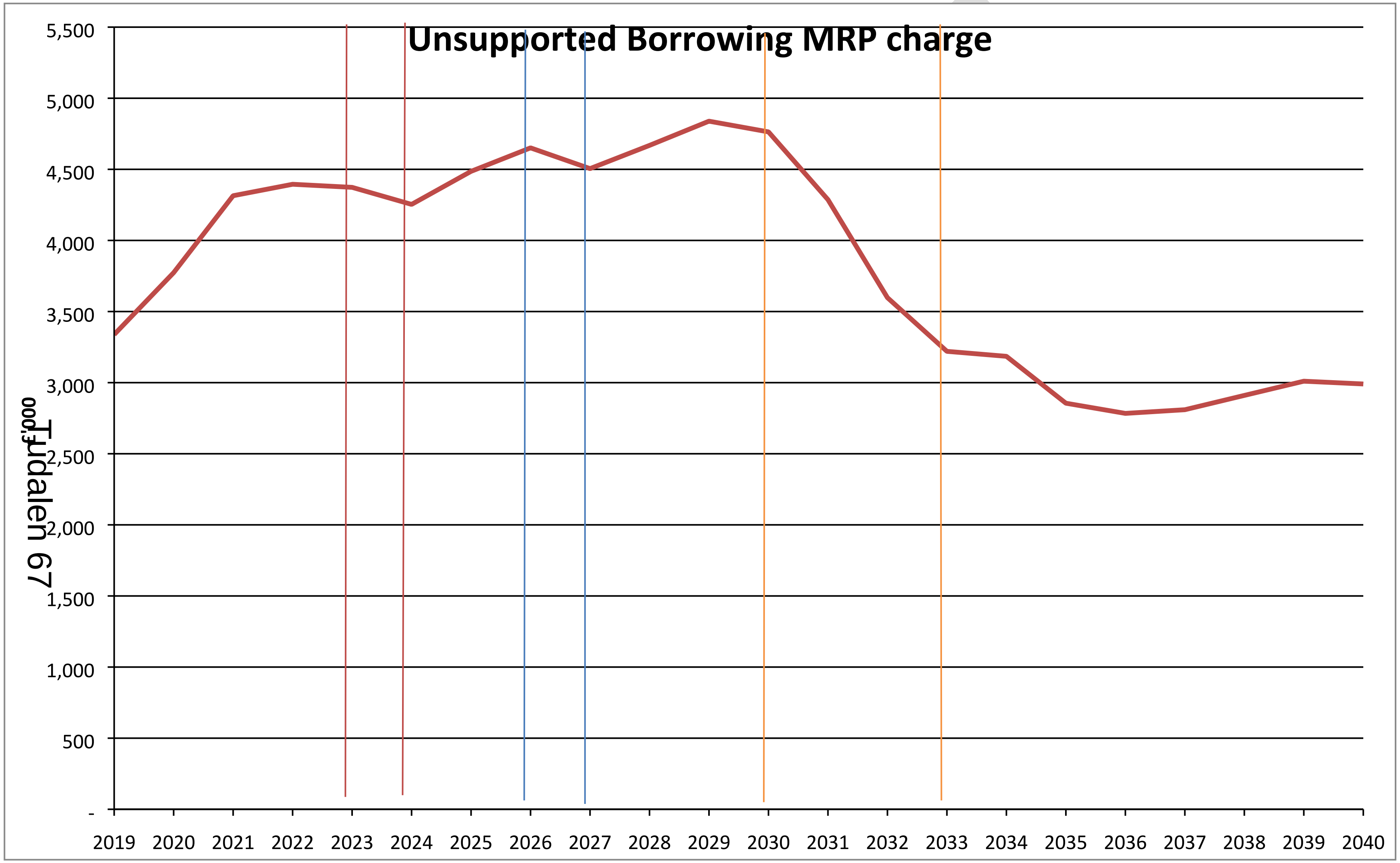
- Decisions on funding capital expenditure through borrowing locks the Council into committing revenue funding over a very long period (as long as 40 years +). With the MRP budget increasing over the long-term as shown in chart 1, the Council will need to make some difficult decisions going into the next programme to ensure the capital plans remain affordable and sustainable.

APPENDIX 2a – Capital Additions Process Map

NO CABINET MEMBER/CABINET REPORT SHOULD BE SUBMITTED UNTIL THIS PROCESS IS COMPLETE



Appendix 2b



Unsupported Borrowing MRP charge
£'000
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3,500
3,000
2,500
2,000
1,500
1,000
500
-
2019
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Appendix 3

Treasury Management Strategy Statement 2020/21

Introduction

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

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.

UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.
In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed

cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.
Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

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

For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 2.5%, and that new long-term loans will be borrowed at an average rate of 3%.

Local Context

On 31st December 2019, the Authority held £150.8m of borrowing and £13.4m of treasury investments. This is set out in further detail at ***Appendix 3b***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.19 Actual £m	**31.3.20 Estimate £m**	**31.3.21 Forecast £m**	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**
General Fund CFR	280.0	287.0	292.7	298.2	290.6
Less: Other debt liabilities *	(43.1)	(42.6)	(41.5)	(40.8)	(38.4)
Loans CFR	**236.9**	**244.4**	**251.2**	**257.4**	**252.2**
Less: External borrowing **	(192.8)	(149.4)	(145.6)	(138.7)	(134.7)
Less: Usable reserves	(102.9)	(85.1)	(77.4)	(73.7)	(69.3)
Less: Working capital	2.6	2.6	2.6	2.6	2.6
Preferred Investment position		10.0	10.0	10.0	10.0
Treasury Investments or (New borrowing)	**56.2**	**(22.5)**	**(40.8)**	**(57.6)**	**(60.8)**

* leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing. The value at 31.3.2019 is netted off by the temporary investment value of £40m which was used to re-finance maturing borrowing in April 2019.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £60.8m over the forecast period, this is broken down into £18.1m refinancing of maturing existing borrowing and £42.7m additional (£152.8m to £195.5m) external borrowing, while internal borrowing and investments are forecast to reduce by £33.6m and £6.2m respectively as shown in table 2 below.

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

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
Loans CFR (as per table 1)	**236.9**	**244.4**	**251.2**	**257.4**	**252.2**
- Internal Borrowing	100.3	82.5	74.8	71.1	66.7
- Investments	(16.2)	(10.0)	(10.0)	(10.0)	(10.0)
- External Borrowing	152.8	171.9	186.4	196.3	195.5
Increase in External Borrowing		**19.1**	**14.5**	**9.9**	**(0.8)**
Represented by:					
Change in loan CFR (Cap Exp funded by debt less MRP)		7.5	6.8	6.2	(5.2)
Reduction in reserves		17.8	7.7	3.7	4.4
Reduction in investments		(6.2)	0	0	0
Increase in External Borrowing		**19.1**	**14.5**	**9.9**	**(0.8)**

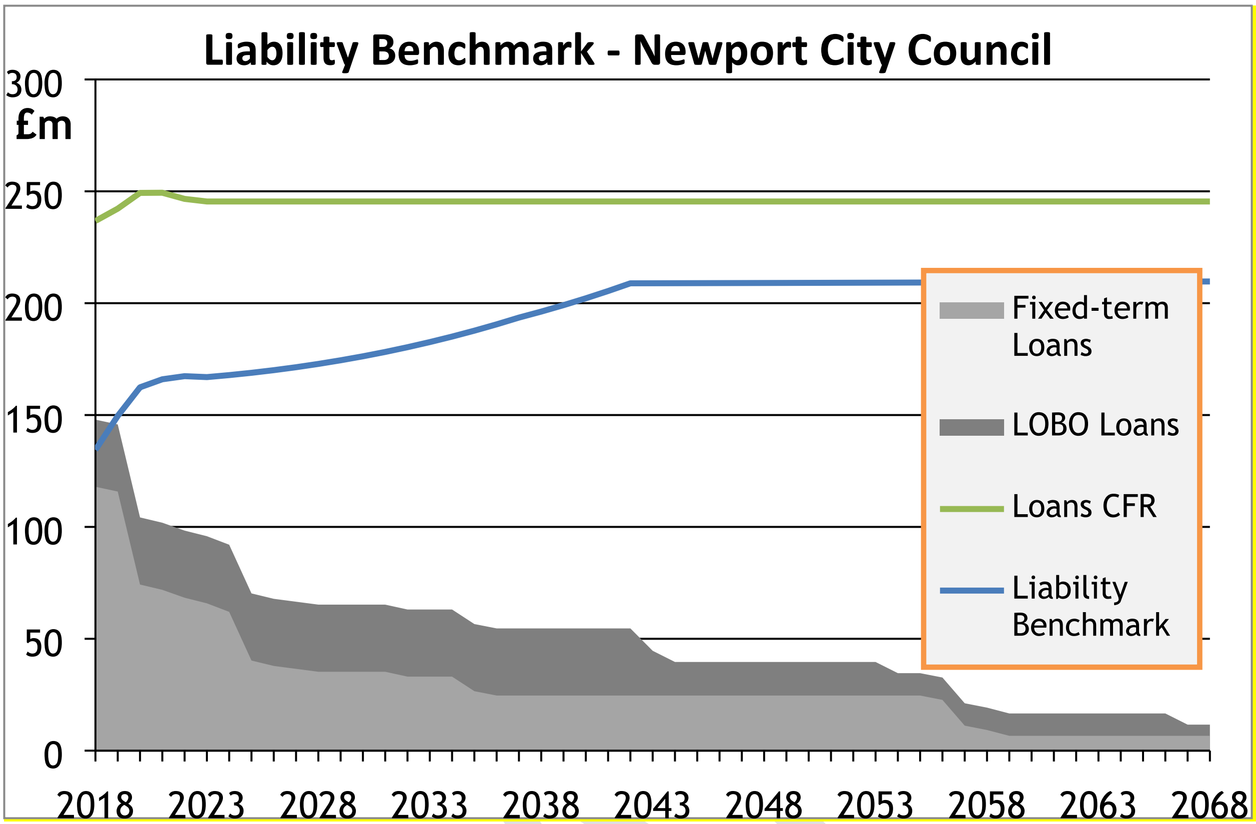
CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2020/21.

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

Table 3: Liability benchmark

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m
Loans CFR	237	244	251	257	252
Less: Usable reserves	(103)	(85)	(77)	(74)	(69)
Less: Working capital	3	3	3	3	3
Plus: Minimum investments	16	10	10	10	10
Liability Benchmark	**153**	**172**	**186**	**196**	**196**

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



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

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

Borrowing Strategy

The Authority currently holds £150.8 million of loans, a decrease of £42 million on the previous year, as part of its strategy for funding previous years' capital programmes, there was a significant amount of temporary borrowing at year end to re-finance £40 million borrowing that was maturing in April 2020, this has now been carried out leading to this significant decrease in borrowing. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £40.8 million in 2020/21. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £290 million.

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

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

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

The Authority has previously raised the majority of its long-term borrowing from PWLB but the government increased PWLB rates in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including, banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over reliance on one source of funding in line with the CIPFA Code.

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

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

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

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

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

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

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

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

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

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

Treasury Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £14.5 million and £69.0 million, levels of c. £10 to £20 million are expected in the forthcoming year.

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

Objectives: Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £10 million that is available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and local authorities. This diversification will represent a change in strategy over the coming year.

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

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 5 years	£10m 20 years	£10m 50 years	£5m 20 years	£5m 20 years
AA+	£5m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£5m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years

AA-	£5m 3 years	£10m 4 years	£10m 10 years	£5m 4 years	£5m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years	£5m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years	£5m 2 years	£5m 5 years
A-	£5m 6 months	£5m 13 months	£5m 5 years	£5m 13 months	£5m 5 years
None	£1m 6 months	n/a	£10m 25 years	Not Applicable	£5m 5 years
Pooled funds and real estate investment trusts	£10m per fund or trust				

This table must be read in conjunction with the notes below

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

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

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

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

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

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

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

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on to the stock market to another investor.

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

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

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

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

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

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

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £75 million on 31st March 2020. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited

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

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

<u>**Treasury Management Indicators**</u>

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

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

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

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	**Upper**	**Lower**
Under 12 months	60%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	20%	0%
30 years and within 40 years	20%	0%
40 years and within 50 years	20%	0%
50 years and above	20%	0%

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

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£10m	£10m	£10m

Related Matters

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

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

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

Government Guidance: Further matters required by the WG Guidance are included in Appendix 3c

Financial Implications

The budget for investment income in 2020/21 is £0.3 million, based on an average investment portfolio of £10 million at an interest rate of 3%. The budget for debt interest paid in 2020/21 is £7.2 million, based on an average debt portfolio of £2.7 million at an average interest rate of 4.0%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

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

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

Appendix 3a – Arlingclose Economic & Interest Rate Forecast November 2019

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.

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

Forecast:

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.57**
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**0.88**
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	**1.30**
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix 3b – Existing Investment & Debt Portfolio Position

	31/12/2019 Actual Portfolio £m	31/12/2019 Average Rate %
External borrowing:		
Public Works Loan Board	107.1	3.7
Local authorities	0	-
LOBO loans from banks	30.0	4.4
Other loans	13.6	3.8
Total external borrowing	**150.8**	**3.7**
Other long-term liabilities:		
Private Finance Initiative	43.0	
Finance Leases	0.1	
Total other long-term liabilities	**43.1**	
Total gross external debt	**193.9**	
Treasury investments:		
Banks & building societies (unsecured)	3.4	0.5
Government (incl. local authorities)	10	0.7
Total treasury investments	**13.4**	**0.82**
Net debt	**180.4**	

Appendix 3c – Additional requirements of Welsh Government Guidance

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

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

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

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

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

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

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

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

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

Table C2: Non-specified investment limits

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

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. On an assessment as at 31st March 2019, the Authority's investment property portfolio [provides / does not provide] security for capital investment since its fair value of £[X]m is [above / below] its purchase price of

£[X]m. [The Authority is therefore taking the following mitigating actions to protect the capital invested: *list the actions*] *[WG 34 and 40-41]*

The Authority consider that the scale of its commercial investments including property are proportionate to the resources of the authority since such investments represent just [X]% of its £[X]m [*some measure of resources, e.g. annual income or reserves*]. *[WG 35]*

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority [*explain the procedures in place for ensuring this, by class of asset or at a portfolio level if appropriate*]. *[WG 44-45]*

Yield (net profit): *Only include this section where relevant.* The Authority utilises its profit generating investment activity to achieve a balanced revenue budget. Table C3 below details the extent to which funding expenditure to meet the service delivery objectives and or promote wellbeing in the Authority is dependent on achieving the expected yield over the life cycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services are [*explain contingency arrangements*]. *[WG 46-47]*

Table C3: Proportionality of Investments

	2018/19 Actual	**2019/20 Forecast**	**2020/21 Budget**	**2021/22 Budget**	**2022/23 Budget**
Gross service expenditure					
Investment income					
Proportion	%	%	%	%	%

The proportion is the investment income divided by the gross service expenditure

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

Appendix 3d – Minimum Revenue Provision Policy

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

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

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

For supported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, this is currently deemed to be an average of 40 years.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in on an annuity basis with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

For capital expenditure loans to third parties that are repaid over a short time period or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead.

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

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2020, the budget for MRP has been set as follows:

	31.03.2020 Estimated CFR £m	**2020/2021 Estimated MRP £m**
Supported capital expenditure	163	4
Unsupported capital expenditure	81	3
Finance leases and Private Finance Initiative	43	1
Total General Fund	**287**	**9**

Mae'r dudalen hon yn wag yn

Report

Audit Committee

Part 1

Date: 29 January 2020

Item No: 6a

Subject **Quarter 2 Corporate Risk Register Update**

Purpose To present an update of the Corporate Risk Register for the end of quarter 2 (30th September 2019).

Author Head of People and Business Change

Ward All

Summary The Council's Risk Management Strategy and Risk Register enables the Council to effectively identify, manage and monitor those risks to ensure that the Council realises its Corporate Plan and ensure service delivery is provided to its communities and citizens.

At the end of quarter 2, the Corporate Risk Register has 12 risks, which are considered to have a significant impact on the achievement of the Council's objectives and warrant monitoring by the Council's senior management. The corporate risk register contained 9 high level risks (risk scores 15 to 25) and 3 medium risks (risk scores 5 to 14). There were no new risks identified, escalated from service areas or closed at the end of the quarter. The role of Audit Committee is to review and monitor the corporate governance and risk management arrangements in place, with comments and recommendations of the Committee on risk process considered by Cabinet.

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

Action by Senior Leadership Team and Heads of Service

Timetable Immediate

This report was prepared after consultation with:

- Senior Leadership Team (SLT)
- Corporate Management Team

Signed

Background and Risk Process

The Wellbeing of Future Generations (Wales) Act 2015, requires Newport City Council to set Wellbeing Objectives in its Corporate Plan 2017-22. With any Corporate Plan there will be risks that may prevent the Council from achieving its objectives. The Council's Risk Management Strategy and Corporate Risk Register enables the Council to effectively identify, manage and monitor those risks to ensure that the Council realises its Plan and ensure service delivery is provided to its communities and citizens.

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

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

There are many different sources of risks, such as civil contingencies, health & safety, service delivery and projects throughout the organisation where risks to the delivery of the Corporate Plan, or services might be identified and included on the Council's risk register. New risks identified to be included on the register have to be assessed and evaluated to determine their risk scores (Inherent / Residual / Target), existing controls that are in place and where further mitigating controls are required to respond and reduce the overall impact of the risk to the Council.

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

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

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

Q2 risk update

At the end of Quarter 2 (30th September 2019), service areas had recorded 51 risks (see table below). All service areas are required to provide an update on the risk score and progress against the risk mitigation actions in place. No new risks were identified, no existing risks were escalated for consideration by SLT or closed at the end of Quarter 2. The risk report was considered by senior management and Cabinet in December 2019.

Service Area	Number of Risks
Adult & Community Services	4
Children & Young People Services	3
City Services	8
Education Services	11
Finance	7
Law and Regulation	4
People & Business Change	10
Regeneration, Investment & Housing	12
Total Unique Risks*	**51**

*Note: Some risks are crosscutting and therefore impact on more than one service area.

Of the 51 risks, there are 12 risks that are recorded and monitored in the corporate risk register. These risks are:

- Balancing the Council's Medium Term Budget
- Brexit
- City Centre Security & Safety
- Climate Change
- Demand for ALN and SEN support
- Educational Out of County Placements
- Highways Networks
- In Year Financial Management
- Newport Council's Property Estate
- Safeguarding Risk
- Schools Finance / Cost Pressures
- Stability of Social Services Providers

Summary of risks in this report

- **Demand for Additional Learning Needs (ALN) and Special Education Needs (SEN) support** – This risk relates to new legislation being introduced and unknowns in relation to its potential impact on Education services and school support in the city. The risk score has increased from 12 to 20. Two ALN Implementation meetings were held in September 2019, a number of ALN funding models were shared with school representatives. It was highlighted that due to a rise in population there is an increase of ALN pupils which has caused an ALN funding pressure. A one year funding model was agreed with further meetings to take place during summer 2020 to develop a long term funding model.
- **In year financial management** – This risk's score has increased from 8 to 12. The September monitor shows an on-going worsening position and a forecast overspend of c£700k. While the impact of an in-year overspend will have a detrimental effect on the level of reserves, it is not something the Council could not cover in the short-term. The impact however of these overspends continuing in the medium term would be a lot larger on the financial resilience of the organisation and need to be brought under

control. The position is recoverable with appropriate action though the downside risks are just as great with continuing increasing demand for services.

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

Financial Summary

There are no direct costs associated with this report.

Risks

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

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

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

Options Available and considered

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

Preferred Option and Why

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

Comments of Chief Financial Officer

There are no direct financial implications arising from this report. The corporate risk register forms an important part of the governance and budget setting arrangements for the council and the risk register is used to guide the internal audit plan.

Comments of Monitoring Officer

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

Comments of Head of People and Business Change

Risk Management in the Council is a key area to implementing Wellbeing of Future Generations Act (Wales) 2015 and also provides assurance over our governance processes in the Council. As this report highlights, the Council has taken significant steps to improving the risk management processes to ensure we are able to deliver the Corporate Plan and our services. This is necessary to ensure that the Council has sufficient control and oversight of these risks that could prevent the successful delivery of services.

Comments of Cabinet Member

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

Local issues

None.

Scrutiny Committees

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

Equalities Impact Assessment

Not applicable.

Children and Families (Wales) Measure

Not applicable.

Wellbeing of Future Generations (Wales) Act 2015

Risk management is a key area to implementing the Wellbeing of Future Generations Act (Wales) 2015. The council must ensure that it considers risks in the short, medium and longer term and that it manages risks in a manner that protects current service delivery and communities as well as considering the longer term impact. It supports the delivery of the wellbeing objectives that are identified in the council's Corporate Plan by considering the risks to delivering these objectives and by defining and monitoring actions to mitigate those risks.

The Corporate Risk Register helps the council to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs by considering the sustainable development principle set out in the Wellbeing of Future Generations (Wales) Act 2015.

Crime and Disorder Act 1998

Not applicable.

Consultation

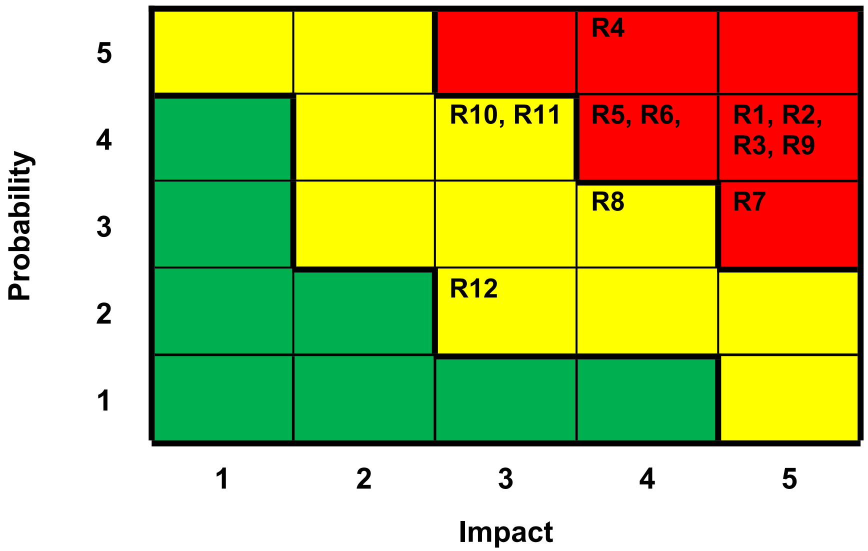
As above, the Risk Register is considered by Audit Committee and Cabinet.

Background Papers

Q2 Risk Cabinet Report, December 2019
Corporate Risk Strategy, June 2018
Q1 Risk Report Audit Committee October 2019

Dated: December 2019

Appendix 1 - Quarter 2 Corporate Risk Heat Map



Corporate Risk Heat Map Key	
R1 – Balancing the Council's Medium Term budget	R7 – City centre security and safety
R2 – Stability of social services providers	R8 – Climate change
R3 – Highways network	R9 – (NEW) Demand for ALN and SEN support
R4 – (NEW) Schools finance and cost pressures	R10 – Newport Council's property estate
R5 – Decision to leave the European Union (Brexit)	R11 – In year financial management
R6 – (NEW) Educational out of county placements	R12 - Safeguarding

Risk Score Profile between Quarter 3 2018/19 and Quarter 2 2019/20

Risk Position	Risk No. - Description	Risk Score Quarter 3 2018/19	Risk Score Quarter 4 2018/19	Risk Score Quarter 1 2019/20	(Current) Risk Score Quarter 2 2019/20	Target Risk Score
R1	Balancing the Council's Medium Term budget.	20	20	20	20	10
R2	Stability of Social Services Providers	20	20	20	20	6
R3	Highways Network	20	20	20	20	9
R4	Schools Finance / Cost Pressures	-	-	20	20	20
R5	Brexit - Decision to leave the European Union	16	12	16	16	10
R6	Educational Out of County Placements	-	-	16	16	8
R7	City Centre Security and Safety	15	15	15	15	8
R8	Climate Change	12	12	12	12	10
R9	Demand for ALN and SEN support	-	-	12	20	12
R10	Newport Council's Property Estate	12	12	12	12	9
R11	In year financial management	8	4	8	12	6
R12	Safeguarding	6	6	6	6	4

Glossary

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

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

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

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

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

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

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

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

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

How the Council Assesses Risk

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

Risk Assessment Matrix

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

Impact Matrix

Rating	Severity of impact	Impact factors (and examples of what they might look like)						
		Strategic	Operational	Financial	Resources	Governance	Health & Safety	Reputational
1	**Negligible**		Brief disruption that has a minor impact on the delivery of a service. Service disruption less than a 1 day	Unplanned budgetary disturbance <£100k	Loss of asset/money with value >£2k		Reportable (non-serious) accident affecting one employee/member of public/service user	Isolated complaint(s)
2	**Low**		Brief disruption of a non-critical service(s) Service disruption 0-2 days	Unplanned budgetary disturbance £100-£500k	Loss of asset/money with value £2-10k	Mild WAO criticism in report. Mild criticism from a legal/regulatory authority. Isolated fraud	Reportable (non-serious) accident affecting small number of employees/members of public/service users	Formal complaints from a section of stakeholders or an institution
3	**Medium**	Noticeable constraint on achievement of a key strategic objective	Loss and/or intermittent disruption of a service between 2-3 days	Unplanned budgetary disturbance £500k-£2M	Loss of asset/money with value £10-50k	Adverse WAO report. Significant criticism from a legal/regulatory authority requiring a change of policy/procedures. Small-scale fraud relating to a number of people or more significant fraud relating to one person	Reportable (non-serious) accident(s) affecting a significant number of employees/members of public/service users or a serious injury to a single employee/member of public/service user	Formal complaints from a wide range of stakeholders (e.g. several institutions), adverse local press, complaint/s upheld by Ombudsman
4	**High**	Severe constraint on achievement of a key	Loss of an important service(s) for a short period that could impact on stakeholders.	Unplanned budgetary disturbance £2-5M	Loss of asset/money with value £50-100k	Qualified account. Severe criticism from WAO/legal/regulatory authority requiring major overhaul of	Serious injury of several employees/members of public/service users	Significant loss of confidence amongst a key stakeholder group.

Rating	Severity of impact	Impact factors (and examples of what they might look like)						
		Strategic	Operational	Financial	Resources	Governance	Health & Safety	Reputational
		strategic objective	Service disruption 3-5 days			policy/procedures, Significant fraud relating to several employees		Adverse national press
5	**Very High**	Failure of a key strategic objective	Serious organisational / service failure that has a direct impact on stakeholder's Inc. vulnerable groups. Service disruption 5+ days	Unplanned budgetary disturbance >£5M	Loss of asset/money with value >£100k	Severe service failure resulting in WAG intervention/special measures Widespread significant fraud	Death of employee(s)	Severe loss of confidence amongst several key stakeholder groups. Damning national press

Probability

Score	General Description	Definition
1	Very Low probability	2% chance of occurrence
2	Low probability	5% chance of occurrence
3	Medium probability	10% chance of occurrence
4	High probability	20% chance of occurrence
5	Very high probability	50% chance of occurrence

Mae'r dudalen hon yn wag yn

NCC Corporate Risk Register

2019/20 Quarter 2 Update

Balancing the Council's Medium Term Budget

Short Description	To meet the Council's requirement of reducing the gap between Council spend and Budget allocation over the next 3-5 years
Overseeing Officer	▪ Chief Executive ▪ Head of Finance ▪ Strategic Director - People ▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Leader of the Council
Linked Theme	
Linked Corporate Objective	

20

Balancing the Council's Medium Term Budget

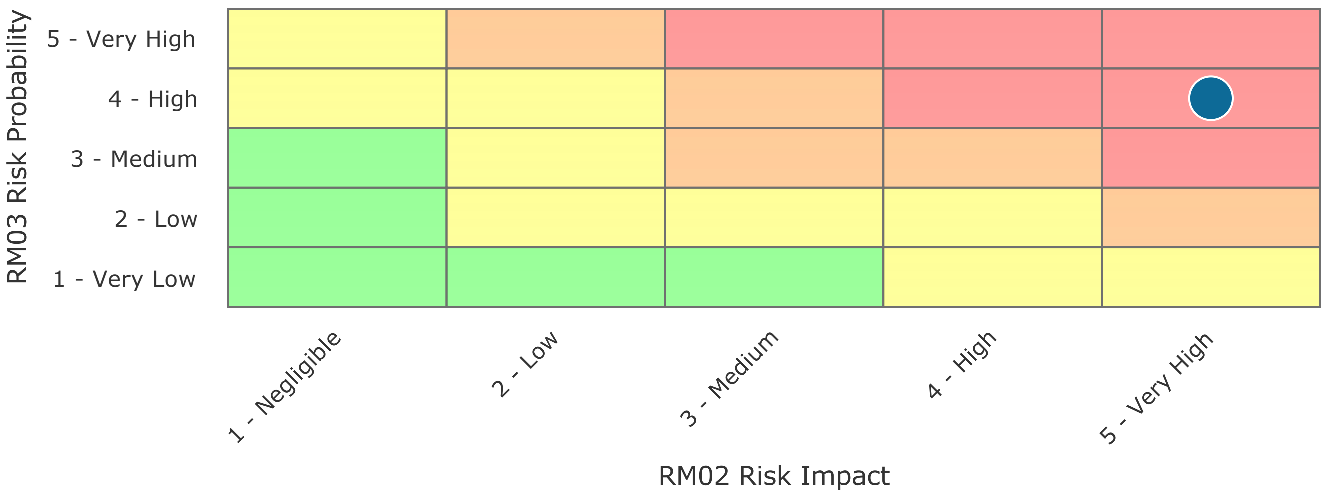
30 SEP 19

25

Inherent Risk Score

10

Target Risk Score



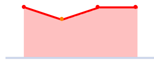
Action Name	Action Description	% Complete	Sep 2019
Balancing the 2020-21 remaining gap	Budget proposals to identify savings for the remainder of the budget gap need to be identified by CMT and SLT. These are to be assessed by informal cabinet prior to the December Cabinet meeting when consultation on the savings will begin.	50%	
SLT and CMT to identify savings to reduce the budget gap over the medium term	SLT and CMT to identify savings to reduce the budget gap circa £30million over the medium term.	20%	
To update SLT on MTFP position	Following meetings with Heads of service and Directors on review of their pressures, an update on the MTFP will be provided to SLT for review, discussion and actions to follow.	50%	

Brexit

Short Description	The UK will be leaving the European Union on the 31st October 2019 which will have a financial and operational impact on the delivery of Council’s services in the short term and long term.
Overseeing Officer	▪ Chief Executive ▪ Strategic Director - People ▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Leader of the Council
Linked Theme	
Linked Corporate Objective	

16

Brexit



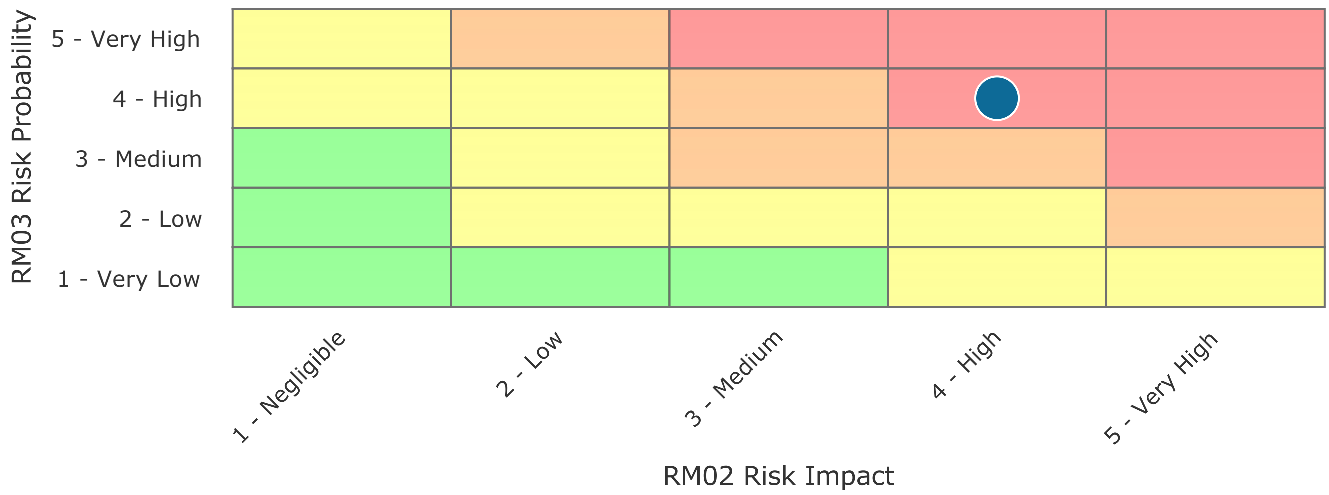
30 SEP 19

16

Inherent Risk Score

10

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
Civil Contingencies - Arrangements to escalate and report on Brexit	Civil Contingencies - To provide regular updates to the Council and Brexit Task & Finish Group on Regional and National wide Brexit preparations. Regular updates from the Gwent Local Resilience Forum which includes local authorities, Police, Fire, Health as well as Welsh Government, WLGA and other strategic group updates will be included as part of this process.	80%	★
Finance - Monitoring of impact on Finance and Supplies & Services	Finance - The Council will closely monitor its financial position as part of its annual budget setting process and Medium Term Financial Planning. For Council activities and services which are EU funded there is ongoing discussions with the Welsh Government to put in arrangements after 2021. The Council will be liaising with its strategic partners (Newport Norse / SRS / Newport Live) to assess the impact on its supplies and services. Also across the Council, service areas are being asked to identify their high risk / key contracts and to obtain the necessary assurances of any Brexit impact which could affect the availability and cost of supplies or services. "	70%	★
Governance - Arrangements to manage Brexit in NCC	Governance - To establish Task & Finish group arrangements in Newport Council to manage the impacts of Brexit including liaison with Welsh Government, WLGA, Statutory partners e.g. Civil Contingencies and our third party providers. Regular updates will be provided to the Senior Leadership Team (SLT) and Cabinet on the Council's Brexit preparations.	80%	★
Regulatory Services - BREXIT Compliance with Trading Standards legislation	The Council' Regulatory Services (Trading Standards and Licensing) will receive advice and guidance from the Food Standards Agency Wales and DEFRA and work closely with Association of British Ports (ABP) to manage any impact on the service.	100%	★
Staffing - Support provided to EU Members of Staff	Staffing - The Council will need to capture information on the number of existing staff members which are from the EU and ensure necessary arrangements are in place for new starters in the Council. Long term, the Council will monitor and liaise with service areas and partners on the impact of Brexit on resources and skill issues / opportunities as a result of leaving the EU. Guidance and advice will also need to be available to EU staff members on completing any residency applications. "	80%	★

City Centre Security & Safety

Short Description	Significant incidents of deliberate acts that pose hazards to people in surrounding areas; structural damage; business continuity; damage/disruption to infrastructure and utilities; and reputational and economic impact.
Overseeing Officer	▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Cabinet Member for City Services
Linked Theme	▪ Theme : Thriving City
Linked Corporate Objective	▪ Well-being Objective 2

15

City Centre Security & Safety

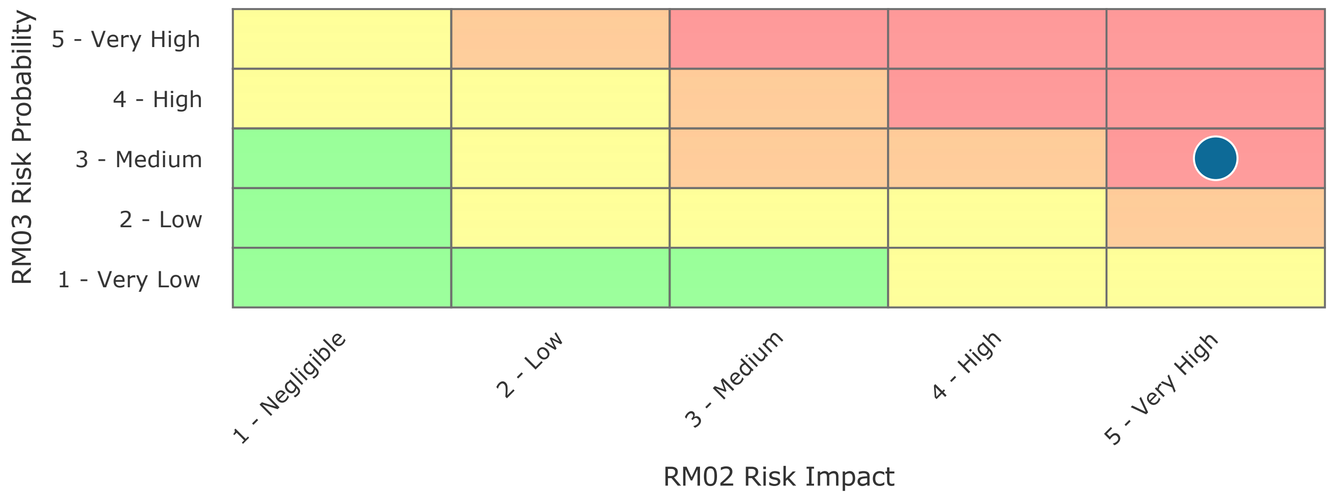
30 SEP 19

20

Inherent Risk Score

8

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
City Centre Training to Businesses	Training for those businesses operating within the city centre that may be affected by significant incidents – Gwent Police will lead on the training with the use of NCC channels to promote and raise initial awareness of the scheme.	0%	
Co-ordinated evac arrangements	Co-ordinated evacuation arrangements for the city centre – NCC will be working with all partner organisations such as the emergency services and private business within the city centre to construct a co-ordinated evacuation system.	0%	
Secure Vehicle / Pedestrian Separation	Secure vehicle access and pedestrian separation. – City Services are currently working on a plan to identify what mitigation measures can be put in place around the city centre to protect densely populated areas.	62%	

Climate Change

Short Description	Scientific evidence indicates that the global climate is warming and is changing the environment that we live in Wales and in Newport. The cause of this change is through emissions produced by industry, vehicles, households and businesses. Newport has 11 Air Quality Management Areas which monitor air quality and since they were in place we have been in breach.
Overseeing Officer	▪ Head of Regeneration, Investment and Housing ▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Deputy Leader and Cabinet Member for Equalities and Assets
Linked Theme	▪ Theme : Modernised Council ▪ Theme: Resilient Communuities (Community) ▪ Theme : Thriving City
Linked Corporate Objective	▪ Well-being Objective 2 ▪ Well-being Objective 3

12

Climate Change

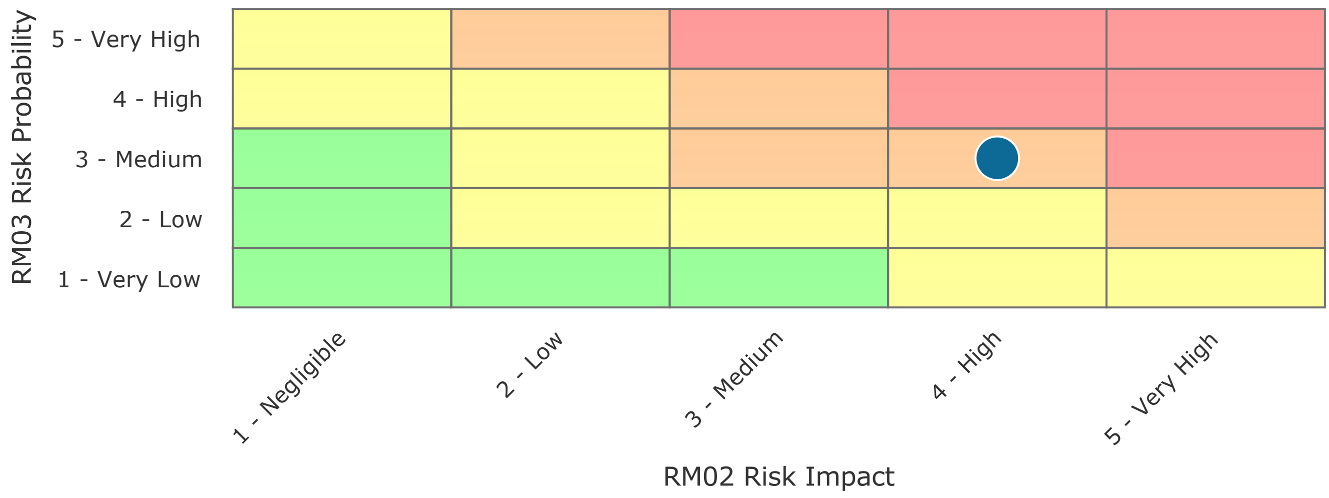
30 SEP 19

16

Inherent Risk Score

10

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
Develop Local Air Quality Management Statutory Action Plan	Develop Local Air Quality Management Statutory Action Plan and ensure it is formally adopted and implemented.	75%	★
Finalise and publish Carbon Management Plan.	Finalise and publish the council's Carbon Management Plan.	90%	★
Investigate Opportunities to Improve Domestic Energy Efficiency and Relieve Fuel Poverty	Investigate opportunities to improve domestic energy efficiency and relieve fuel poverty in Newport.	25%	★
Review Public Transport Access for Proposed Housing Developments	Review proposed housing developments for access to public transport.	50%	★

Demand for ALN and SEN support

Short Description	Funding to cover Additional Learning Needs (ALN) and Special Education Needs (SEN) provision across the city is insufficient and does not meet the demand of increasing need.
Overseeing Officer	▪ Chief Education Officer ▪ Strategic Director - People
Lead Cabinet Member(s)	▪ Cabinet Member for Education and Skills ▪ Cabinet Member for Education and Young People
Linked Theme	▪ Theme : Aspirational People
Linked Corporate Objective	▪ Well-being Objective 1 ▪ Well-being Objective 3

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Demand for ALN and SEN support

30 SEP 19

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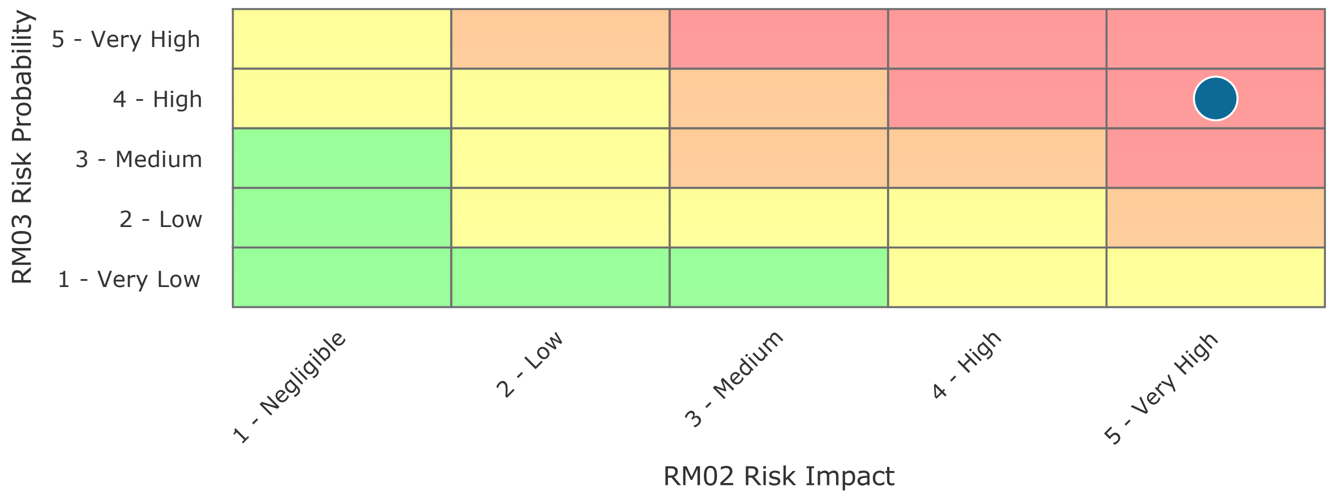
Inherent Risk Score

12

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
Devise a funding formula in liaison with Secondary and Primary Schools across all settings	Devise a funding formula in liaison with Secondary and Primary Schools which is used across all settings for pupils agreed 0-25 years. To monitor the impact and ongoing situation with the funding model. Impact - ALN Implementation Group will meet regularly to agree a funding formula acceptable for all schools and settings	60%	
Estyn Rec 5 - Ensure Appropriate Welsh Medium Provision is in Place for ALN Pupils	(Estyn Rec 5) Ensure that Welsh Medium (WM) provision is established to support pupils with Additional Learning Needs Good quality ALN provision will be created to support pupils attending WM schools. The permanent location for the new Welsh-medium primary school will include provision for a Learning Resource Base.	30%	
Revise School ALN Review Format in line with the Excellence in Teaching and Leadership...	Revise School ALN Review Format in line with the Excellence in Teaching and Leadership Framework (ETLF)	100%	
To further the implementation of the Additional Learning Needs (ALN) and Educational Tribunal...	To further the implementation of the Additional Learning Needs (ALN) and Educational Tribunal Act 2018.	50%	
Undertake a review of ALN Panel process.	Undertake a review of ALN panel process and its membership to ensure decisions are robust, consistent and transparent. Impact - ALN Panel wll have appropriate membership and decisions will be robust and consistent.	75%	

Educational Out of County Placements

Short Description	Limited access to Newport City Council (NCC)provision for pupils who require complex and specialist placements which results on a reliance on OOC placements both day and residential.
Overseeing Officer	▪ Chief Education Officer ▪ Strategic Director - People
Lead Cabinet Member(s)	▪ Cabinet Member for Education and Young People
Linked Theme	▪ Theme : Aspirational People
Linked Corporate Objective	▪ Well-being Objective 1

16

Educational Out of County Placements

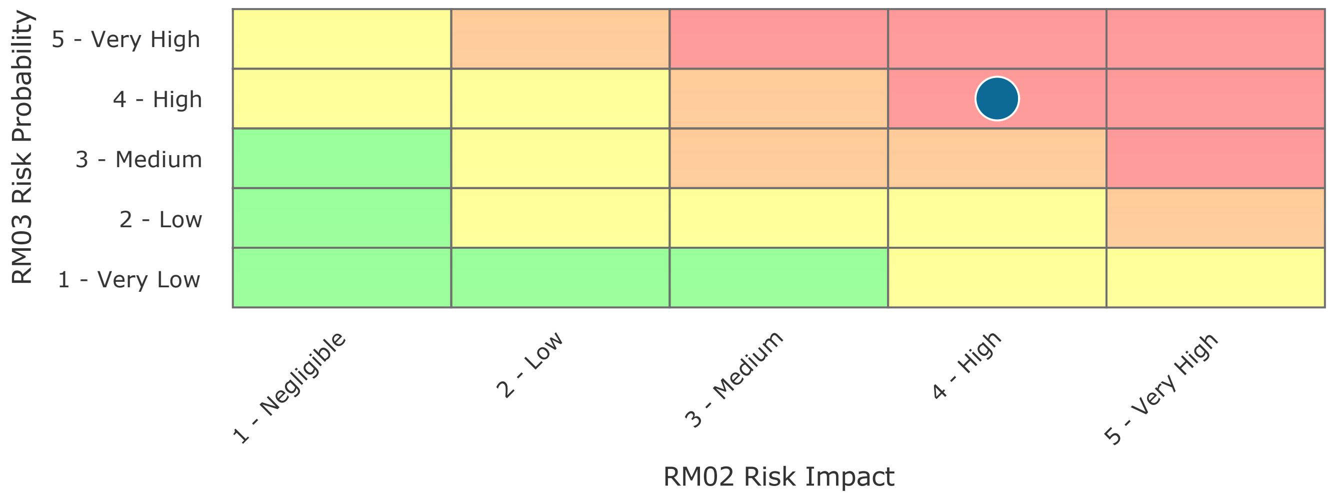
30 SEP 19

20

Inherent Risk Score

8

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
Analysis of SEN trends to inform provision required	Undertake a review of Newport provision for pupils aged 0-25 years to ascertain uptake of placements and future requirements based on data trend analysis and local knowledge	60%	
Review ALN KS2 to KS4 SEBD and ASD provision	Review ALN KS2 to KS4 SEBD and ASD provision	65%	
To continue to redevelop and extend provision within the city to accommodate a greater range...	To continue to redevelop and extend provision within the city to accommodate a greater range of needs, ensuring that pupils are placed where their learning is best supported.	60%	
Work in collaboration with Social Services to review current OOC placements	Pupils will be identified appropriately for moving into local accommodation and will have appropriate educational provision made available.	70%	

Highways Networks

Short Description	Failure to recognise current levels of under investment in the whole life of the city's highway network assets in the medium to long term will continue to compound existing maintenance backlog figures.
Overseeing Officer	▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Cabinet Member for City Services
Linked Theme	▪ Theme : Thriving City
Linked Corporate Objective	▪ Well-being Objective 2 ▪ Well-being Objective 3

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Highways Networks

30 SEP 19

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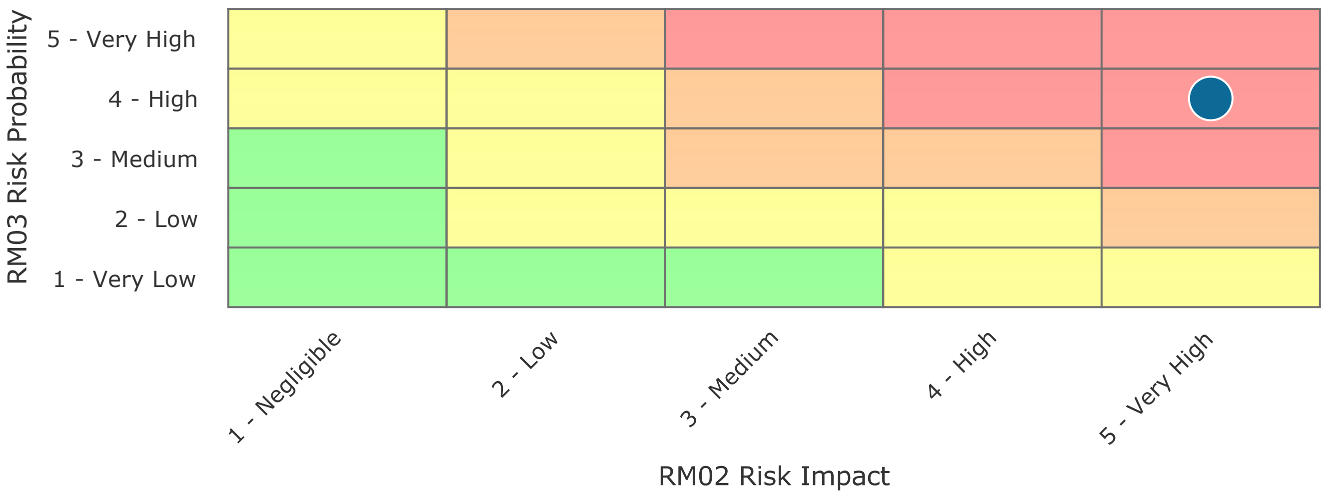
Inherent Risk Score

9

Target Risk Score

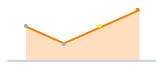


Action Name	Action Description	% Complete	Sep 2019
Active lobbying to WG, WLGA, and CSS(W) to recognise funding gap to address backlog	We have identified that there is a maintenance backlog of approximately £90m for Newport. But the level of funding to maintain these assets is not sufficient to meet this. The underinvestment is not unique to Newport and other authorities in Wales are facing the same issues. Therefore, we (alongside other local authorities) are lobbying the Welsh Government, Welsh Local Government Association and CSS(W) to increase and/or make more capital funding available to decrease this gap. This action will be ongoing and will not result in direct action completion.	59%	●
Develop and implement the Council's Highways Asset Management Strategy / Plan	The Council is developing the Highways Asset Management Strategy and Highways Asset Management Plan. This plan will be implemented in 2019/20 and will enable the Council to actively manage its highways infrastructure. Implementation of the plan will enable the Council to undertake: risk based assessment and management of its infrastructure; calculating future funding requirements to maintain agreed levels of service; risk based evidence to identify and deliver improvements to assets identified below required standards.	75%	★
Reactive Highways inspection and repair service.	The Council's Highways inspectors undertake daily checks of the Council's highways assets to determine their condition. The Council also operates a system for members of the public to report assets e.g. potholes, road signs, grass verges etc on the public highway that consider in poor condition. Risk based inspections are completed and regime of reactive work is undertaken to mitigate the risk of third party claims, and maintenance of the highway under Section 41 of the Highways Act.	50%	★

In Year Financial Management

Short Description	This relates to the in year management of budgets and risk profiling of service areas / activities that are forecasting end of year overspends.
Overseeing Officer	▪ Chief Executive ▪ Head of Finance ▪ Strategic Director - People ▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Leader of the Council
Linked Theme	
Linked Corporate Objective	

12



In Year Financial Management

30 SEP 19

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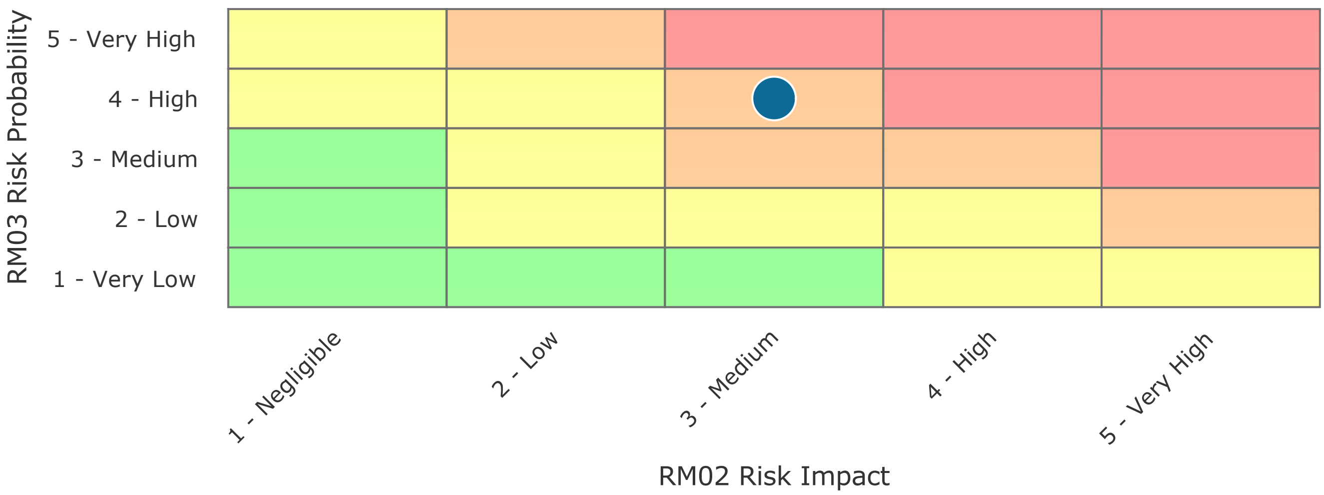
Inherent Risk Score

6

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
All service areas to maintain robust financial management	All service areas to maintain robust financial management and understand the risks associated delivery of savings and achievability of the savings.	50%	
Cabinet Member and Senior Officers to manage / mitigate any projects not achieving savings	There are currently a number of undelivered savings of as at Quarter 1 figures circa £209k in 2019/20 and £91k from 2018/19. Cabinet Member, Senior Officers, Corporate Management Team and Heads of Service to manage and mitigate the risks of not delivering these savings.	94%	
Cabinet Member and Senior Officers to reduce overspending in Social Care	There are significant overspends within Children and Adult Services for Quarter 1 circa £3million. Cabinet Member, Senior Officers are required to review their actions to reduce this overspend and mitigate against further risks.	50%	

Newport Council's Property Estate

Short Description	NCC has a significant property estate covering over 170 buildings (circa) such as the Civic Centre, Telford Depot, schools etc. The Council has to ensure the estate is maintained to required standards to enable access, safety, security and in the long term sustainable for staff and residents to use.
Overseeing Officer	▪ Chief Executive ▪ Head of People & Business Change ▪ Head of Regeneration, Investment and Housing ▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ The Deputy Leader and Cabinet Member for Assets and Member Development
Linked Theme	▪ Theme : Modernised Council
Linked Corporate Objective	

12

Newport Council's Property Estate

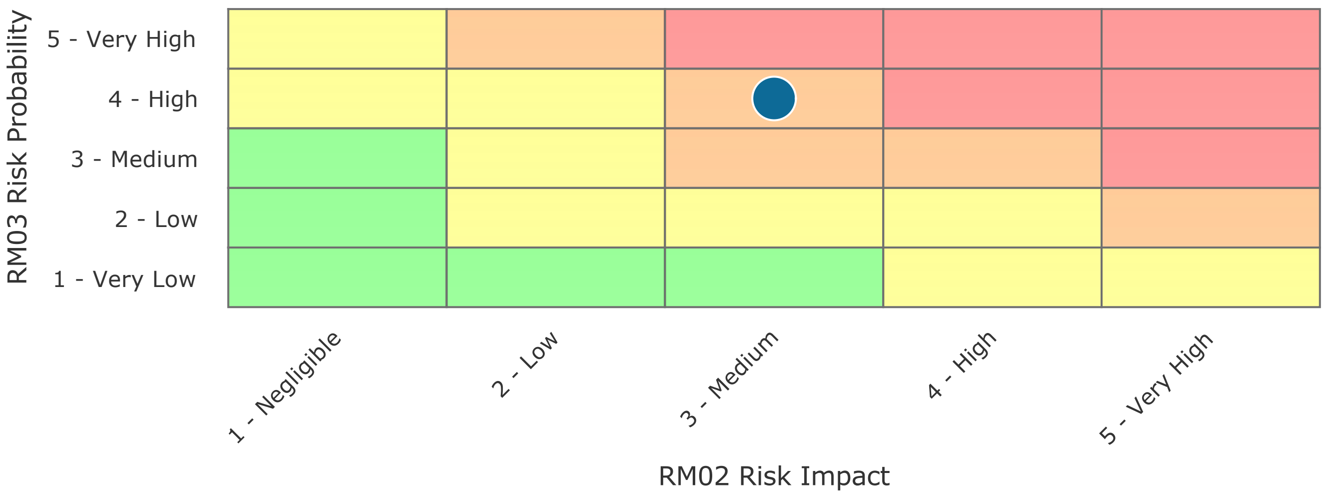
30 SEP 19

16

Inherent Risk Score

9

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
Delivery of the Annual Capital Maintenance Programme	The delivery of the Council's annual Capital maintenance programme to maintain and improve the Council's property estate.	60%	
Develop a balanced strategy for the future of the Civic Centre	In response to financial, environmental, legal sustainability and social pressures we need to develop a balanced strategy for the future preservation and transformation of the Civic Centre.	20%	

Safeguarding Risk

Short Description	To ensure the Council safeguards adults, children and carers as part of its statutory duty.
Overseeing Officer	▪ Chief Education Officer ▪ Chief Executive ▪ Head of Adult and Community Services ▪ Head of Children and Family Services ▪ Strategic Director - People ▪ Strategic Director - Place
Lead Cabinet Member(s)	▪ Cabinet Member for Social Services
Linked Theme	▪ Theme: Resilient Communuities (Social Care)
Linked Corporate Objective	▪ Well-being Objective 3

6

Safeguarding Risk

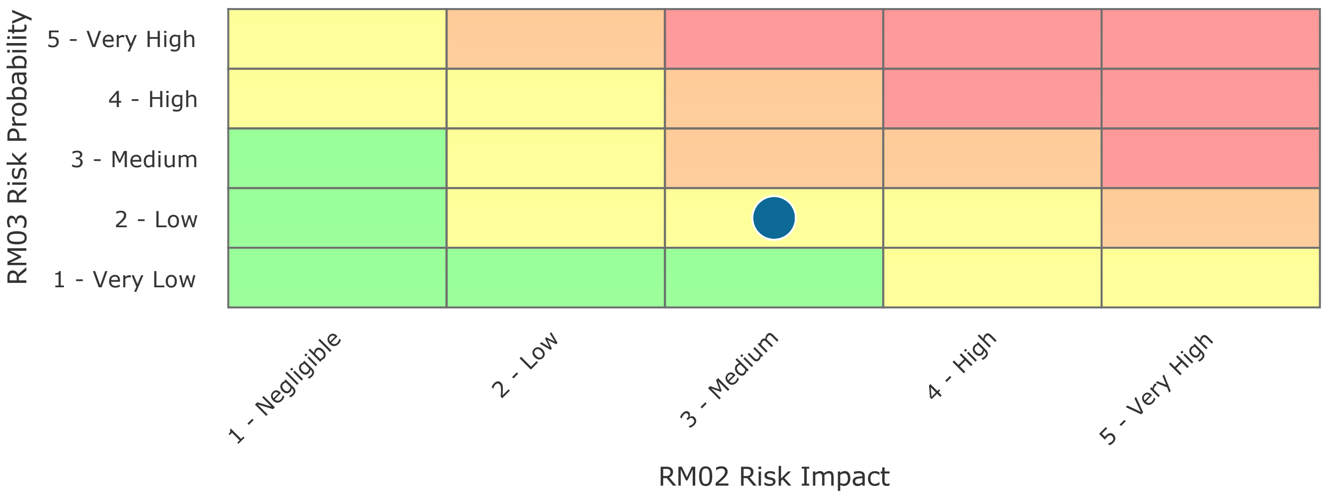
30 SEP 19

20

Inherent Risk Score

4

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
All education Services staff to have completed relevant safeguarding training	All staff are appropriately trained to facilitate safeguarding arrangements.	92%	★
Contribute towards the All Wales Adult Safeguarding Guidance	To contribute towards the new All Wales Adult / children Safeguarding Guidance.	90%	★
Development of Safeguarding Champions across the Council.	Establish Safeguarding Complete Champions within each service area and roll out a training schedule for Members and Council employees	100%	★
Embed the implementation of the new national 'safeguarding toolkit' for schools.	All schools have effective safeguarding processes in place	30%	★
Empower Citizens Through the Adult Safeguarding Process	To continue to support and empower citizens through the adult safeguarding process.	67%	★
Establish a robust review process for DOLS	To establish a robust review process for Deprivation of Liberty Safeguards (DOLS) assessments for Newport Citizens.	20%	★
Evaluate & Refine the Model of Adult Protection	Continue to evaluate and refine the model of adult protection to include consideration to manage the increasing demands of the service and improve practitioner knowledge under the new legislation (Part 7 Social Services & Well Being Act). Evaluation review of the 6 month Safeguarding Hub. The pilot will be compiling data to evidence if the HUB model has improved processes and increased efficiency.	75%	●
Improve links to information and advocacy to citizens	To improve links to information and advocacy to ensure citizens are fully informed and supported throughout the safeguarding process.	60%	●

Schools Finance / Cost Pressures

Short Description	In year cost pressures of schools are not met resulting in increased deficit budgets
Overseeing Officer	▪ Strategic Director - People
Lead Cabinet Member(s)	▪ Cabinet Member for Education and Skills ▪ Cabinet Member for Education and Young People
Linked Theme	▪ Theme : Aspirational People
Linked Corporate Objective	▪ Well-being Objective 1

20

Schools Finance / Cost Pressures

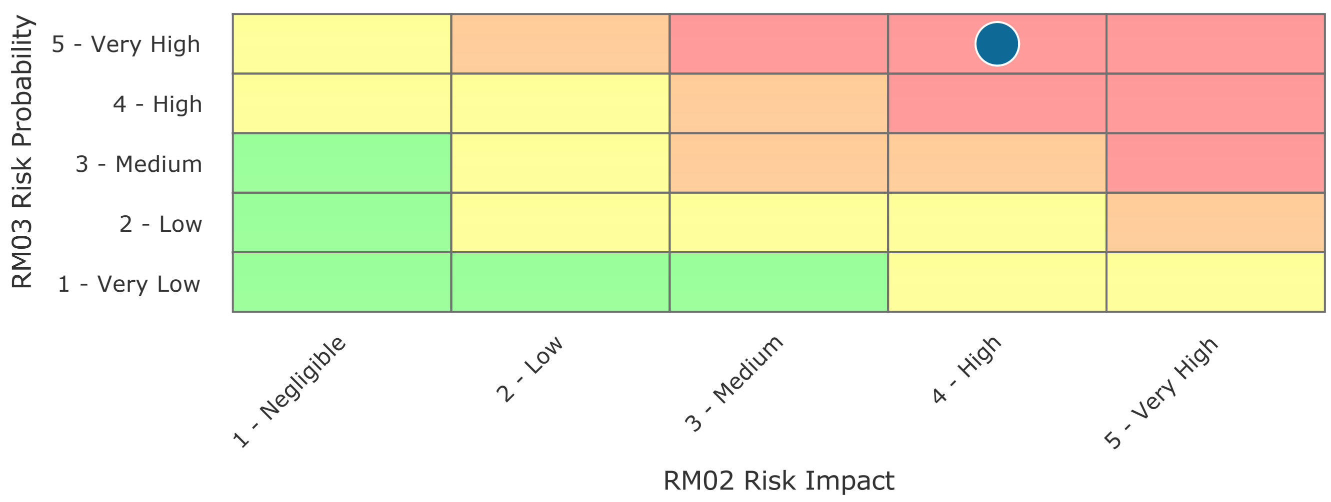
30 SEP 19

20

Inherent Risk Score

6

Target Risk Score



Action Name	Action Description	% Complete	Sep 2019
Managing School Budget	The local authority will monitor school budgets to ensure that Headteachers and Governing Bodies are: a) Maintaining a balanced budget; b) Addressing in year overspends to reduce the risk of moving in to deficit positions; c) Where deficit budgets occur, deficits are licensed with full recovery plans. d) Where in year deficits are still arising following substantial review, further mitigation may be through the medium term financial plan.	15%	▲
Supporting / challenging schools to address overspending & deficit budgets	Develop and work through a new schools budget monitoring process to consider how secondary schools need to be supported / challenged to address in year overspending and deficit budgets.	51%	▲

Stability of Social Services Providers

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

20

Stability of Social Services Providers

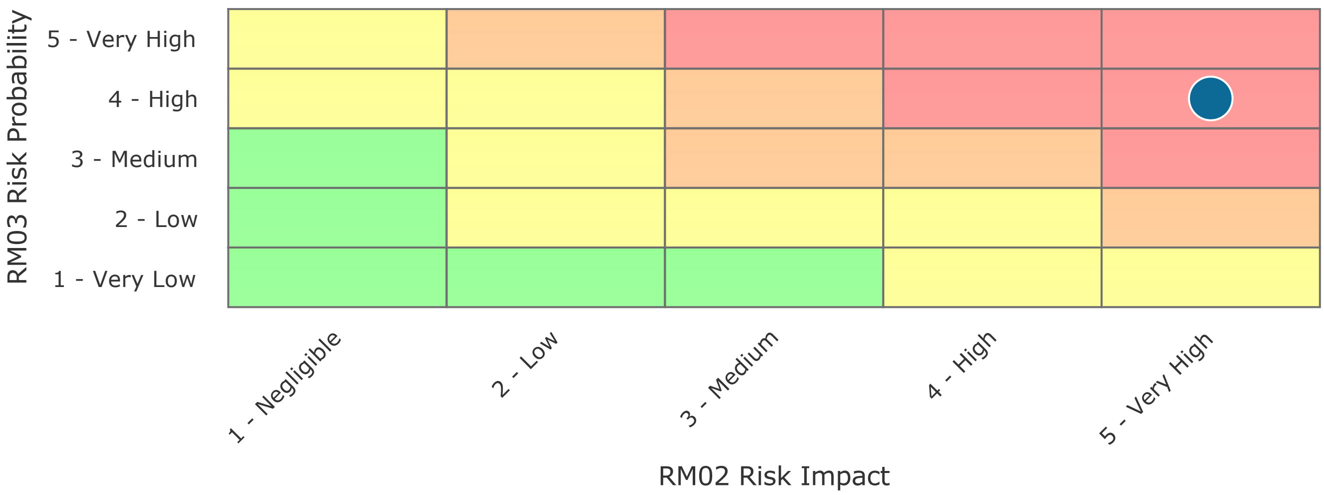
30 SEP 19

20

Inherent Risk Score

6

Target Risk Score



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Action Name	Action Description	% Complete	Sep 2019
BAU - Compliance monitoring and review of Commissioned Services	BAU - To ensure commissioned services are subject to ongoing contract management processes that monitor compliance and review quality and cost.	50%	
BAU - Continue to provide and develop in house provision	BAU - To continue to provide and develop in house provision where appropriate and cost effective.	50%	
BAU - Develop Regional and Collaborative Commissioning Initiative	BAU - To develop Regional and collaborative commissioning initiatives to deliver consistency and efficiencies.	34%	
BAU - Development of the People Commissioning function	BAU - To further develop the People Commissioning funcition to oversee all commissioning and contractual activity within the Directorate.	40%	
BAU - Management of the local market of Social Care contracts	BAU - To manage the local market to ensure sufficient capacity, diversity and skill through provider engagement and consultation around strategic priorities, service principles and fee setting.	34%	
BAU - Undertake Evidence Based Commissioning	BAU - To undertake evidence based commissioning through robust needs analysis and adherence to commissioning strategies to ensure services reflect community needs and offer sufficient market capacity.	26%	
BAU - Work with partners to develop common contracts and monitoring protocols	BAU - Work with ABUHB and Local Authority partners to develop common contracts and monitoring protocols.	73%	
Develop a Gwent Care Academy	Develop a Gwent Care Academy to offer qualifications for care staff and embed the principles of RISCA where all care staff are required to register.	82%	

Mae'r dudalen hon yn wag yn

Report

Audit Committee

Part 1

Date: 29 January 2020

Item No: 6b

Subject	**Risk Management Policy**
Purpose	To present the Council's Draft Risk Management Policy for comment by the Council's Audit Committee.
Author	Head of People and Business Change
Ward	All
Summary	The Council has drafted a new Risk Management Policy that will replace the current Risk Management Strategy. The Risk Management Policy forms one part of the Council's Integrated Planning, Performance and Risk Management Framework that enables the Council to deliver its Corporate Plan 2017-22 and future corporate plans. The Policy aligns itself to the Future Generations of Wellbeing Act 2015 and will help support the delivery of the One Newport Wellbeing Plan. The new Policy sets the Risk Appetite statement for the Council that will be adopted for the Council and considered as part of the Council's decision making processes. To support and embed the new Policy the Council has also drafted Risk Management Procedure as well as undertake continuous training, guidance and support to Councillors and officers. A short presentation will be made to Members of the Audit Committee providing an overview of Risk Management in Newport City Council.
Proposal	Audit Committee is asked to provide feedback on the new Risk Management Policy and for comments to be considered by Cabinet in the final version of the Risk Management Policy.
Action by	Heads of Service and Senior Leadership Team
Timetable	Immediate This report was prepared after consultation with: • Cabinet • Corporate Management Team

Signed

Background

Newport City Council (NCC) is responsible for delivering over 800 services both statutory and non-statutory to residents, businesses and other service users. The Council faces many complex, wide ranging challenges and threats that could prevent the delivery of those services. NCC has also set a Corporate Plan 2017-22 with 4 Wellbeing Objectives and 4 Corporate Themes that will enable the Council to deliver its mission of 'Improving People's Lives'. To deliver the Council's Plan and services, the Council will need to take well managed opportunities and risks in its decisions at all levels if the Council.

The Wellbeing of Future Generations Act 2015 also requires public service bodies to consider the long term impacts of decisions made. This requires the Council to deliver sustainable development to improve the social, economic, environmental and cultural wellbeing of Wales and Newport. This also includes the embedding of the 5 ways of working principles (Long-Term, Integration, Involvement, Collaboration, Prevention) into the decisions that are made by the Council.

Integrated Planning, Performance and Risk Management Framework (Appendix 1)

For the Council to achieve its objectives, it is necessary for the Council to have a culture that is able to effectively plan and demonstrate clear outcomes which benefits those which use the Council's services. The Integrated Planning, Performance and Risk Management Framework (Appendix 1) recognises that for the Council to deliver its objectives it must be able to effectively monitor and report its performance, identify the opportunities for the Council to achieve and the threats which could prevent the delivery of its objectives.

To support the Framework the Council has drafted two policies: Planning and Performance Management Policy and Risk Management Policy. The Planning and Performance Management Policy will be presented to the Overview and Scrutiny Management Committee for comments.

Risk Management Policy (Appendix 2)

A short presentation will be delivered to Members in relation to Risk Management and the new Risk Management Policy. Copy of the Risk Management slides will be provided Councillors at the meeting.

The Risk Management Policy outlines how Risk Management will be managed in Newport City Council. The Policy also defines what risk management is and sets the Risk Appetite Statement across 7 areas in the Council following collaboration with the Council's Cabinet, and Corporate Management Team. The Risk Appetite Statement recognises the different tolerances towards the 7 areas and how the Council will manage these as part of the decisions made. The Policy has also set out the governance / roles and responsibilities across the Council in relation to Risk Management. The Risk Management Policy including Risk Appetite will be reviewed annually to ensure it continues to support the Council's strategic plans and performance. To support the Policy, the Council has also drafted the Risk Management Procedure that will enable officers to effectively identify, manage their risks.

Next Steps

The comments and feedback from the Audit Committee will be considered and where necessary incorporated into the final version of the Risk Management Policy. The Risk Management Policy will be presented to Cabinet in March 2020 for endorsement and will be communicated to staff on the Council's Intranet and be made available to the public on the Council's website in both Welsh and English.

People and Business Change will provide ongoing training, support and guidance to staff on the implementation of the Policy and procedure. Quarterly reports will continue to be provided to the Council's Cabinet and Audit Committee.

List of attached documents:

1. Integrated Planning, Performance and Risk Management Framework
2. Risk Management Policy

Financial Summary

There are no direct costs associated with this report.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
The Council does not adopt the Risk Management Policy to enable effective risk management at all levels of the Council.	M	L	Audit Committee feedback and assessment of Risk Management will be provided to Cabinet every quarter. Risk Management Policy will be endorsed by the Council's Cabinet and embedded into Council's decision making processes.	Cabinet, Directors, Heads of Service and Performance Team

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities
The Risk Management Policy supports the delivery of the Council's Corporate Plan and service plans. The Policy is also supports other key policies such as the Information Risk Management Policy, Corporate Emergency Management Plan, Business Continuity Management Policy and the Corporate Health, Safety and Wellbeing Policy.

Options Available and considered
1. To review and feedback the contents of the draft Risk Management Policy prior to being endorsed for adoption by Cabinet.
2. To reject the report and request further information and updates to the Risk Management Policy.

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

Comments of Chief Financial Officer
The Risk Management Policy sets out the Council's attitude to risk, governance arrangements and tools for the management of identified risks. This report seeks feedback on the policy and as such will have no budgetary impact.

The Council's arrangement for managing opportunities and risks are key issues affecting financial management and ultimately, financial sustainability. Robust management and governance around this area is required in order for the Council to both meet its priorities whilst managing any financial issues that might come from decisions.

Comments of Monitoring Officer
There are no specific legal issues arising from the report. The draft Risk Management Policy will from part of the Council's Integrated Planning, Performance and Risk Management Framework, which underpins the delivery of services and the Corporate and Well-Being plan objectives. As part of their statutory role and terms of reference, Audit Committee are responsible for reviewing and monitoring the effectiveness of the Council's risk management, internal control and corporate governance arrangements. Therefore Committee are asked to consider the draft Policy and the Framework documents and provide and comments to Cabinet. The adoption of the final policy and framework and the procedure for management of risk, are executive decisions for the Cabinet.

Comments of Head of People and Business Change
Risk Management in the Council is a key area to implementing Wellbeing of Future Generations Act (Wales) 2015 and also provides assurance over our governance processes in the Council. As this report

highlights, the draft Risk Management Policy and supporting documents demonstrate the importance of managing opportunities and risks effectively and prevent these risks from occurring in the delivery of the Council's services. The Framework and policies support a cultural step change in the way that the Council delivers its strategic objectives, monitoring of performance and risk management.

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

Local issues
None.

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

Equalities Impact Assessment
Not applicable.

Children and Families (Wales) Measure
Not applicable.

Wellbeing of Future Generations (Wales) Act 2015
Risk management is a key area to implementing the Wellbeing of Future Generations Act (Wales) 2015. The council must ensure that it considers risks in the short, medium and longer term and that it manages risks in a manner that protects current service delivery and communities as well as considering the longer term impact. It supports the delivery of the wellbeing objectives that are identified in the council's Corporate Plan by considering the risks to delivering these objectives and by defining and monitoring actions to mitigate those risks.

The Risk Management Policy and its supporting documents ensures that the needs of the present are met without compromising the ability of future generations to meet their own needs by considering the sustainable development principle set out in the Wellbeing of Future Generations (Wales) Act 2015.

Crime and Disorder Act 1998
Not applicable.

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

Background Papers

Appendix 1 - Integrated Planning, Performance and Risk Management Framework
Appendix 2 - Risk Management Policy

Dated: January 2020

Integrated Planning Performance & Risk Framework

Version 0.2

Introduction

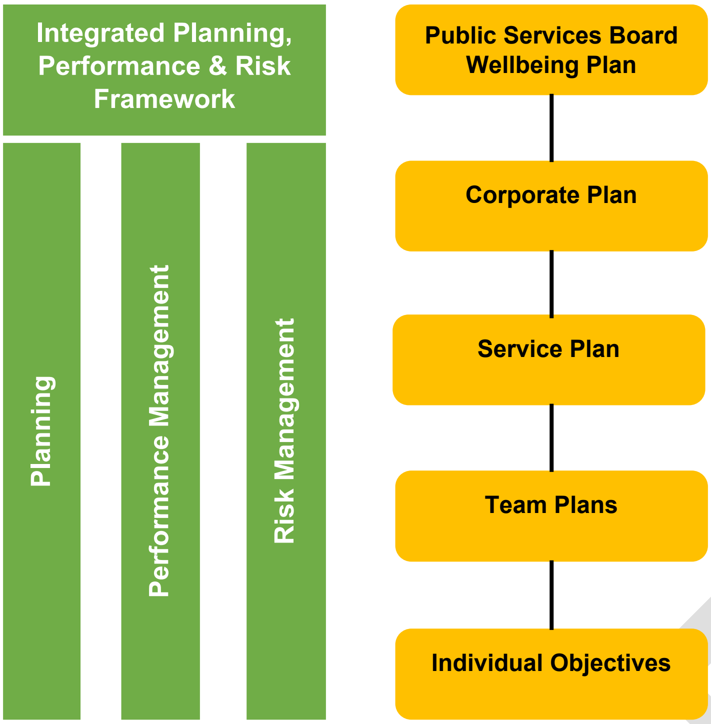
Newport City Council is responsible for delivering over 800 different services both statutory and non-statutory to residents, businesses and other service users. We face complex and wide ranging challenges that are externally driven e.g. Welsh Government and some that are driven more locally through local needs and priorities in the City. To be able to manage these effectively throughout the organisation it is critical for the Council to take an integrated approach in our planning, performance and risk management.

The Wellbeing of Future Generations (Wales) Act 2015 requires all public bodies in Wales including Newport City Council to think about the long term impacts of our decisions. The Act is about sustainable development to improve the social, economic, environmental and cultural wellbeing of Wales. To do this Newport Council is required to set and publish Wellbeing Objectives that maximise our contribution to each of the wellbeing goals and taking reasonable steps to meet these objectives. Also, in the decisions that we make we are required to consider the 5 ways of working principles:

Long-term **Integration** **Involvement** **Collaboration** **Prevention**

Purpose of the Framework

The Integrated Planning, Performance, and Risk Management Framework recognises that in order for us to achieve our objectives, organisation's culture should effectively plan, be able to demonstrate clear outcomes that benefits our stakeholders and also be resilient to the opportunities and risks that we encounter. These 3 pillars of planning, performance and risk are essential and should be interwoven into our decision making at every level of the organisation. The diagram below sets out how the framework supports key strategic and operational levels in Newport Council.



To support this Framework we have developed 2 key policies for the Newport City Council:

1. Planning and Performance Management Policy
2. Risk Management Policy

Both of these policies will be supported by procedure and guidance documentation that will enable all levels of the organisation.

Planning and Performance Management Policy

The delivery of the Council's current Corporate Plan 2017-22 and future plans cannot be delivered in isolation as the diagram above demonstrates. The Wellbeing Objectives in the Corporate Plan support the Public Service Board 'One Newport' Wellbeing Plan. The objectives and actions from Service Plans, Team Plans (where applicable) and individual performance support the overall delivery of the Corporate Plan and Wellbeing Plan.

The corporate (strategic) planning process sets out the long term vision (5 to 25 years) for the Council to help identify a range of Wellbeing strategies that will enable sustainable development; support the needs of our communities, businesses and visitors; meet our medium term financial strategy; and deliver our statutory and non-statutory duties. The strategic planning processes should be seen as an iterative process that is able to meet our long term aims but is also able to be refreshed to reflect external and internal challenges. This is why the Council will set 3 to 5 year plans that are reviewed annually.

To support the strategic plan and objectives, the Council also has a transformational programme and projects that enables the Council to deliver its cross cutting work. These are delivered through the Council's Business Improvement Team who support the service areas in this process.

The 8 service areas are responsible for delivering their service plan. These are aligned with the Corporate Plan and Wellbeing Objectives. Service plans focus on actions and performance measures that support the delivery of the Corporate Plan. These also consider the financial and non-financial resources such as budgets and workforce planning. Team plans may also be used to support the delivery of specific objectives contained in the service plan.

Strategic / Operational Performance Management

To support and monitor the delivery of the Corporate Plan, service plans and their objectives it is important to have financial and non-financial measures that enables the Council to make effective and timely decisions. The

Council's Finance Service is responsible for supporting service areas to manage their budgets with the Council's Human Resources team to support the service areas to manage their workforce capacity and capability.

For non-financial performance the Council's Policy, Partnership and Involvement team support the Council's service areas to monitor progress against their service plans and performance measures. The Council has 3 sets of performance measures: National (Public Accountability Measures / Social Services Performance Measures); Local (Council set performance indicators) and Management Information (Indicators to support monitoring of a service and/or function).

Individual Performance

All individual members of staff are expected to set their own objectives which are aligned with the objectives of the service plans and Corporate Plan as well as their own personal development objectives. The Council's Human Resource policies and procedures manage this process.

Overview of Risk Management and the Risk Management Policy

Opportunity and risk is part of everything that we do in Newport Council. Risk is simply an expression of uncertainty that could affect and impact our ability to achieve our objectives set in the Corporate Plan and service plans. The **Council's Risk Management Policy** sets out our approach to managing opportunities and risks in the Council and has incorporated a risk appetite statement that of the Council's Cabinet and Senior Leadership Team.

Contact and Further Information.

For further information on the following disciplines set out in this document please contact:

Rhys Cornwall – Head of People and Business Change

Rachael Davies – Human Resources Service Manager

Owen James – Assistant Head of Finance

Tracy McKim – Policy Partnership and Involvement Manager

Shaun Powell – Newport Intelligence Hub Manager

Paul Flint – Performance and Research Business Partner

Newport City Council
Risk Management Policy 2019-22

Version 0.4

Newport City Council Risk Management Policy (2019-22)

Introduction

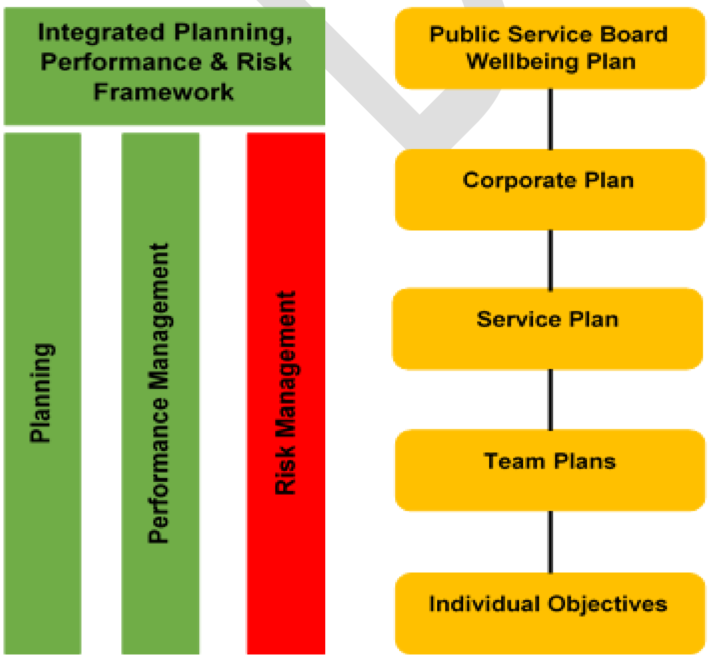
Newport City Council (NCC) is responsible for delivering over 800 different services both statutory and non-statutory to residents, businesses and other service users. The Council faces many complex, wide ranging challenges and threats that could prevent us from delivering these services effectively. The Corporate Plan 2017-22 has set out 4 Wellbeing Objectives and 4 Corporate Themes that will enable the Council to deliver its mission of 'Improving People's Lives'. To deliver these objectives and its services the Council will need to take well managed opportunities and risks in the decisions that are made at all levels of the organisation.

The Wellbeing of Future Generations (Wales) Act 2015 requires all public bodies in Wales including NCC to think about the long term impacts of our decisions. The Act is about sustainable development to improve the social, economic, environmental and cultural wellbeing of Wales. To do this Newport Council is required to set and publish Wellbeing Objectives that maximise our contribution to each of the wellbeing goals and taking reasonable steps to meet these objectives. Also, in the decisions that we make we are required to consider the 5 ways of working principles:

Long-term | **Integration** | **Involvement** | **Collaboration** | **Prevention**

Integrated Planning, Performance and Risk Management Framework

The Integrated Planning, Performance, and Risk Management Framework recognises that in order for us to achieve our objectives we need to have culture that is able to effectively plan, be able to demonstrate clear outcomes that benefits our stakeholders, and also be resilient to the opportunities and risks that we encounter. These 3 pillars of planning, performance and risk are essential and should be interwoven into our decision making at every level of the organisation. The diagram below sets out the key strategic and operational levels in Newport Council.



What is Risk Management?

A risk is simply an expression of uncertainty and is concerned with the probability of an event taking place (likelihood) and its impact that could constitute opportunities for benefit or threats to success. Risk is part of everything that we do and it is important for the Council to embed good risk management in our everyday business and in the decisions we make.

Managing risk processes effectively enables the council to safeguard against potential threats and exploit opportunities to improve services and provide better value for money.

Risk Appetite Statement

Cabinet is responsible for setting and monitoring the organisation's risk appetite. The Council's Risk Appetite Statement reflects the amount and type of risk that it is prepared to seek, accept and tolerate in the pursuit of its long term objectives. The Risk Appetite statement is fully supported by the Council's Senior Leadership Team and Corporate Management Team who will embed it throughout the organisation.

The Council's Cabinet encourages the Council to take 'well-managed' risks, seizing new opportunities and innovative approaches that enable the organisation to achieve its objectives provided that it is within the agreed risk tolerance range. With the opportunities and risks that present themselves the Council will have regard to the Well-being principles of long term, collaboration, prevention, integration and involvement. The Council's approach to and appetite for risk is summarised below:

Strategic / Policy

In the pursuit of its strategic objectives, Cabinet and officers will have to take 'well-managed' risks where there is clear evidence and opportunity to support these. But the organisation also has to protect its core activities and values and where there is risk to the delivery of these services it will take a cautious approach recognising the reputational risk to the Council.

Operational / Business Continuity

Newport City Council has a duty to maintain and deliver its services to all of its residents, businesses and visitors that use it. Cabinet, officers and our partners will take steps try and prevent future events such as loss of critical IT systems, fires, local / regional and national incidents and other incidents from taking place and to minimise the impact of disruption to our critical and front line services.

Financial

Council services and activities are operating in difficult times where budgets have to be well-managed. Newport City Council has a duty to protect the public purse and will ensure that its controls remain effective in the management and protection of its finances from misappropriation, mismanagement, poor decision making, fraud and bribery.

Governance / Legal / Regulatory

Many of the Council's services and activities are undertaken in accordance with legislative and regulatory requirements. Failure to adhere to legal / regulatory requirements can lead to financial and reputational damage to the Council. The Council has low tolerance towards these risks and will ensure that all activities will adhere to the necessary legal and regulatory requirements.

When it comes to the safeguarding of children and adults that are in our care or we come into contact with, the Council has a very low appetite for the failure in our controls and we will ensure that Council representatives and third parties operating on our behalf adhere to these requirements.

Health & Safety

Cabinet and officers have a low tolerance towards activities that may harm or cause injury (both physical and mental well-being) to our staff, and anyone who uses our services. All Council employees and representatives have a duty to ensure that services and activities have fully considered and taken appropriate measures to comply with the necessary health and safety legislation.

Reputational

To deliver the Council's Corporate Plan and our statutory duties we rely on our reputation to influence and secure the engagement of our constituents, businesses, partners (private, public and not for profit) and other stakeholders. The decisions made by the Council, Cabinet and officers are bound by its Constitution, Corporate Values and where applicable legislation and regulation. We shall retain an overall low tolerance of risk with regard to our reputation where our services could have a severe impact on our stakeholders. However, we are prepared to take opportunities that may be opposed by some of our stakeholders where there is satisfactory and sufficient evidence which demonstrate the long term benefits for the Council and its stakeholders.

Programme / Project Delivery

In the pursuit of our organisational objectives we are committed to seizing the opportunities where innovation and transformational change will provide benefits to both efficiency and effectiveness in the delivery of services and can provide value for money. Through the delivery of programmes and projects the Council will ensure that opportunities and risks are fully considered and evidence to support the decisions made at all levels of the organisation.

Risk Management Governance

Everyone in Newport City Council is responsible for ensuring risks and opportunities are identified and managed at all governance levels. The table below outlines the roles and responsibilities of strategic and operational functions across the Council. Additionally, and where applicable the Council's Constitution also includes information on the different governance boards, Elected Members and officers roles and responsibilities.

Governance Board / Officer role	Description of Role and Responsibilities
Cabinet	The Council's Cabinet (Executive) is responsible for effective implementation of Council policy and for delivering services in line with those policies and the budget. As part of its role Cabinet: • Approve the Risk Management Policy and procedures including the setting and agreement of the Risk Appetite for the Council; • Review the key risks to the organisation and the controls in place to provide assurance to stakeholders that risks are effectively managed; • To review the Corporate Risk Register on a quarterly basis enduring procedures are in place to monitor the management of significant risks; • To ensure that all Strategic decisions have fully considered and consulted on the opportunities and risks.
Cabinet Members	Executive functions that have been delegated to individual Cabinet Members in relation to their portfolios are responsible for ensuring risk management is embedded into any policy decision including: • Monitoring and review of risks and the controls in place associated with the activities contained within their portfolio; • Ensuring Cabinet Member decisions have fully considered and consulted on the opportunities and risks. • Promoting and ensuring risk management is embedded into the activities contained within their portfolio.
Audit Committee	The Audit Committee is responsible for reviewing and monitoring the effectiveness of risk management, internal control and corporate governance arrangements of the authority. In discharging its duties, the Audit Committee shall: • Gain assurance that risk management is being properly undertaken at all levels in the organisation; • Receive and provide scrutiny of the Council's Risk Management Policy and Risk Appetite Statement; • Receive and provide scrutiny over the risk management arrangements contained in quarterly monitoring reports of the Corporate Risk Register.

Scrutiny Committees	• Consideration of risks that will impact on the performance and delivery of services in the Council. • Promote the use of risk management to inform effective strategic decision making in the Council.
Public Services Board	• To identify, monitor, report and escalate risks that will impact on the delivery of the Wellbeing Plan and its Wellbeing Objectives. • To develop an integrated approach to risk management and to understand and manage shared risks across the organisations involved with the PSB and the wider region.
Senior Leadership Team	• Regularly review the risk management policy. • Support and advise Cabinet in embedding risk appetite for Newport City Council into the decision making activities. • Monitor key risks across the organisation considering them against the organisation's strategic objectives. • Ensure that top risks have the resources allocated them to be effectively addressed. • In line with the Risk Management Policy and Risk Management Framework report on key risks and controls. • Create an environment in the organisation where risk management is promoted and facilitated.
Corporate Management Team	• For the areas they are responsible for ensure the risk management process and risk reporting procedures are completed as per the Risk Management Policy and Risk Management Framework. • Monitor the key risks in areas they are responsible for.
Service Management Teams	• Effectively manage risk in their area of responsibility. • Ensure that the risk management process and risk reporting procedures are completed following Newport City Council Risk Management Policy. • Complete, track and monitor the progress of the service risk register. • Escalate risks for Senior Leadership Team's consideration and inclusion on the Corporate Risk Register.
Performance & Research Business Partner	• Development of the Risk Management Policy, procedures and guidance. • Promote and support the Council to embed risk management into the activities of the Council. • Support Service Areas in the identification, assessment and reporting of risk in the Council. • Drafting of quarterly corporate risk reports to Cabinet and Audit Committee.
Risk Owners	• Responsible for managing and monitoring a specific risk (each risk in the corporate risk register is assigned a risk owner). • Ensure that appropriate resources and importance are allocated to the risks they own. • Confirm the existence and effectiveness of existing actions and ensure that any further actions are implemented. • Provide assurance that the risks for which they are the risk owner are being effectively managed. • Escalating risks
Risk Action Owners	• Responsible for updating mitigating risk actions every quarter. • Responsible for reporting performance issues to Risk Owners in the delivery of actions that could impact on the risk.
Internal Audit	• Creation of audit plan that is aligned with the top risks. • Challenging and reviewing the effectiveness of the management of risk framework. • Progress review of planned actions. • Validate and test existing controls.
Civil Contingencies	• As part of the Civil Contingencies Act 2004, the role of Gwent Local Resilience Forum to identify, monitor and report risks that could impact on the communities, residents and businesses in across Gwent and more specifically Newport. • To put in place emergency plans, business continuity management arrangements in the event of an emergency and/or disruption to Council services

	• Ensure arrangements are in place inform, advise and guide public, residents, businesses and voluntary organisations about business continuity management.
Health & Safety team	• Ensure the health, safety & wellbeing of employees, volunteers and citizens are protected in accordance with the Council's Health & Safety Policy and supporting procedures. • Ensure Council duties are undertaken in accordance with relevant health & safety legislation, regulation and best practice • Identify, assess, monitor, report and escalate health & safety incidents, accidents across the organisation • To promote, advise and train staff to ensure health & Safety legislation, regulation and best practice are applied across all activities undertaken by the Council.
All Employees	• All employees are to manage day to day risks and opportunities effectively and report any concerns or identified risks to their line managers. • If reporting to a line manager is not appropriate the council has a Whistle Blowing process that is available to all staff via the Intranet.
Wales Audit Office	• To undertake assessments on the performance of Newport City Council in accordance with the Well Being of Future Generations (Wales) Act 2015.

Risk Management Procedures and supporting guidance

To support the Risk Management Policy we have supporting procedure and guidance documents for officers to use. These can be located on the Council's Performance and Risk Intranet Page.

Other Supporting Council Policies

- Information Risk Management Policy
- Corporate Emergency Management Plan
- Business Continuity Management Policy
- Corporate Health, Safety and Wellbeing Policy

Further Information, Advice and Guidance

Those with access to MI Hub can view RAG ratings for risk scores along with how they affect each theme as well as who is responsible for them.

Further information can be found on the Council Performance & Risk Intranet Page.

performance.management@newport.gov.uk

Tracy McKim – Policy, Partnership and Involvement Manager

Paul Flint – Performance and Research Business Partner

Report

Audit Committee

Part 1

Date: 29th January 2020

Item No: 7

Subject **Internal Audit – Progress against unfavourable audit opinions previously issued [to September 2019] (previous report was to March 2019)**

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

Author Chief Internal Auditor

Ward General

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

During **2017/18** 40 audit opinions had been issued; 6 were *Unsatisfactory,* none were *Unsound*.

During **2018/19**, 48 audit opinions had been issued; 10 were *Unsatisfactory*, 1 was *Unsound*.

During **2019/20 (to 30 September 2019)**, 10 audit opinions had been issued; 2 were *Unsatisfactory*, none were *Unsound*.

Proposal

1) The report be noted and endorsed by the Council's Audit Committee

2) To consider calling in any specific heads of service if members of the Audit Committee feel they require further assurance that improvements will be made to the control environment following unfavourable audit opinions.

Action by The Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

Signed

Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment. The previous report was presented to Audit Committee in June 2019 which related to opinions as at 31 March 2019.

2. Since bringing this report to the Audit Committee there have been 14 reviews which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee.

3. It is pleasing to report that improvements were made in 13 of the 14 areas and have been reported to Audit Committee previously. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.

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

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

History of unfavourable audit opinions

6. In **2015/16**, 34 audit opinions were issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues has previously been reported.

	Original Date of follow up	Current Status
Joint Venture – Newport Norse	Unsatisfactory 2015/16 Follow up: 2020/21	Not yet followed up. Delay in finalising original report. Senior Managers requested follow up to be put back. Now planned for 2020/21 following the outcome of the independent CIPFA review.

7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory,* 1 was *Unsound.*

	Original Opinion / Date of follow up	Current Status
Payment Card Industry Data Security Standards	Unsatisfactory *1 July 2016	Now within SRS monitored by Information Governance Group

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

8. In **2017/18**, 40 audit opinions were issued; 6 were deemed to be *Unsatisfactory,* none were *Unsound*. 4 out of the 6 have been followed up; 3 of which have resulted in a more favourable audit opinion.

	Original Opinion / Date of follow up	Current Status
SGO / Kinships	Unsatisfactory March 2018 Follow up: Q4 2019/20	
Trips & Visits (Evolve)	Unsatisfactory March 2018	Unsatisfactory March 2019 (previously reported to Audit Committee) Follow up 2020/21
Outside Preferred Catering Contractor (Schools)	Unsatisfactory March 2018 2020/21 A follow up audit is subject to the School entering into a new contract.	

9. In **2018/19**, 48 audit opinions had been issued; 10 were deemed to be *Unsatisfactory,* 1 was deemed to be *Unsound.* A summary of the significant issues follows in the tables:

	Original Opinion / Date of follow up	Current Status
General Data Protection Regulation (GDPR)	Unsatisfactory November 2018 Final Follow up Q3 2019/20	
Subject Access Requests	Unsatisfactory November 2018 Final (incorporated with GDPR	

	Original Opinion / Date of follow up	Current Status
	follow up)	
SRS Client Relationship Management	Unsatisfactory December 2018 Final	Reasonable September 2019 Final
Adoption Allowances	Unsatisfactory September 2019 Final Follow up 2020/21	
Commercial & Industrial Property Portfolio	Unsatisfactory July 2019 Final Follow up 2020/21	
Highways	Unsatisfactory August 2019 Final Follow up 2020/21	
Vehicle Tracking System & Usage	Unsatisfactory October 2019 Final Follow up 2020/21	
Street Cleansing	Unsatisfactory August 2018 Final	Reasonable September 2019 Draft
Trips & Visits (Evolve System) (Follow-Up)	Unsatisfactory May 2019 Final Follow up 2020/21	
Caerleon Comprehensive	Unsatisfactory March 2019 Draft Follow up 2020/21	

	Original Opinion / Date of follow up	Current Status
Bridge Achievement Centre (PRU)	Unsound February 2019 Final Follow up 2020/21	

10. In **2019/20** (to 30-9-19), 10 audit opinions had been issued; 2 were deemed to be *Unsatisfactory,* none were deemed to be *Unsound.* A summary of the significant issues follows in the tables:

	Original Opinion / Date of follow up	Current Status
Grounds Maintenance (2018/19)	Unsatisfactory July 2019 Final Follow up 2020/21	
Passenger Transport Unit - Taxi Contracts (2018/19)	Unsatisfactory August 2019 Draft Follow up 2020/21	

a. Grounds Maintenance (2018/19)

	No critical weaknesses were identified during this audit.

Ref.	SIGNIFICANT
1.04	There was a lack of documented evidence to record scheduled work completed by the Grounds Maintenance Service.
1.05	Inspections of the work carried out by Grounds Maintenance operatives were not taking place regularly by the Area Supervisors. The inspection forms required updating.
1.06	The Nursery's income collection and banking processes were inadequate: • Cash was held in the safe with no supporting records. • Bankings made did not have supporting records. • There were delayed bankings. • There was no evidence of a segregation of duties. • Unofficial change floats were in operation. • Income was not banked intact.

Ref.	SIGNIFICANT
1.07	Pricing structures were not evident for goods sold by the Nursery site or Service. A sale for £658 was made to a member of staff with no supporting records.
1.08	Signed agreements or contracts were not held by Grounds Maintenance to confirm the expected service delivery, terms and conditions and remuneration of external clients. Not all services provided in 2017/18 were billed / charged for. A debt raised in 2018/19 could not be confirmed to an agreement. There were inconsistent payment terms in place with clients.
2.05	The purchase of supplies and services such as plants and seeds did not evidence that value for money had been achieved or that the purchases made were compliant with Contract Standing Orders.
2.06	An employee had awarded grounds maintenance work and authorised payments to a supplier who was a close family member. This personal interest had not been declared. The supplier used was appointed despite being unsuccessful in a recent tender award.
2.07	The 2018/19 Grounds Maintenance budget was overspent. Income targets were not being met. A review of the budget confirmed that it had been overspent consecutively for the past five years.
3.05	Documentation for the disposal of items held on the Grounds Maintenance inventory did not demonstrate appropriate authorisation or include a reason for disposal.
4.10	Employees based at the Nursery site did not complete any signing in and out records to demonstrate their start / finish times and working their contracted hours or to acknowledge their attendance on site.
4.11	Complete records were not available to demonstrate that the required personal protective equipment (PPE) had been issued to staff.

b. Passenger Transport Unit - Taxi Contracts (2018/19)

	No critical weaknesses were identified during this audit.

Ref.	SIGNIFICANT
1.01	The CTX system was not being used to its maximum potential and was not used to record all contracts / taxi usage across the Authority.
1.02	The CTX database was not fully up-to-date with accurate operator, vehicle or driver details. Sufficient information was not available to support the drivers used on specific contracts.
1.03	There was a high proportion of incorrect information and expired DBS checks for drivers and escorts recorded on the CTX database.
1.04	User access onto the CTX system was not restricted to authorised personnel. The members of staff with administrator access rights was inappropriate.
1.05	A privacy notice had not been written and displayed on the NCC website regarding the data collected and retained by the service.
2.08	Taxi bookings were not always authorised by an appropriate officer.
2.09	Highly sensitive and confidential information was required to be uploaded onto eTenderWales.

Ref.	SIGNIFICANT
2.10	Taxi escorts were not required to submit any form of photo identification along with their DBS check.
2.11	Taxi contracts were awarded despite all the required information / supporting documents not being submitted to support the tender submission.
2.12	Purchase orders were not always raised in advance of the first taxi journey taking place. Full justification for the taxi booking and evidence of the use of the DPS or further market testing being undertaken was not available / recorded.
2.13	Invoices received from taxi companies did not always contain adequate information. For 2 contracts examined a price higher than the agreed tender price was charged by the taxi company.
2.14	There was no monitoring system in place detailing Social Services / Corporate taxi contract arrangements. Consequently there was currently no way of identifying outstanding taxi costs (per contract) at the end of the financial year.
2.15	There was no process in place for reviewing long-standing taxi contracts to ensure that they were still required or that they represented value for money.
2.16	Information regarding taxi drivers and escorts provided to Schools / NCC establishments was not sufficient.
3.04	The Licensing team were unable to share all relevant safeguarding / child protection issues with the PTU due to a lack of an information sharing protocol.
3.05	There was no documented complaints procedure. Complaints received by the team and associated documents were not centrally recorded and as such any recurring issues / concerns with drivers / companies could not be easily identified.
3.06	There were no quality assurance procedures / checks in place for taxi arrangements.
3.07	Staff within the PTU have not attended Information Security Training and have not attended Financial Regulations training for more than 10 years.
3.08	A sickness absence was identified which had not been input onto the iTrent HR & Payroll System and a Return to Work Discussion form was not completed. The PTU Manager did not have access to iTrent Manager Self Service.
3.09	There was no formal written agreement in place between Newport City Council and Monmouthshire County Council for the shared PTU Manager arrangement. The agreement costs had increased despite less management support time being provided and without senior manager approval / knowledge. The PTU Manager (who is an employee of MCC) had authorised a purchase order to his own Authority.

General

11. Internal Audit will continue to revisit any areas which have been given an *Unsatisfactory* or *Unsound* audit opinion within a twelve month timescale.

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

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

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

Financial Summary

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

Risks

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

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

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

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	Passed potential management issues back to management; Agency staff taken on board to cover longer term vacancies.	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

19. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens.

- To make our city a better place to live for all our citizens
- To be good at what we do
- To work hard to provide what our citizens tell us they need

Options Available

20. This is a factual progress report and therefore there are no specific options, as such. The six monthly reports provide a mechanism for providing assurance on 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; that improvements are being made and where appropriate service managers and Heads of Service are held to account where expected controls are not as good as they should be.

Preferred Option and Why

21. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

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

Comments of Head of People and Business Change

24. There are no direct Human Resources issues arising from this report. As part of the Well-being Future Generations Act, Internal Audit is a critical function within the Council to provide independent assurance over the Council's governance, internal control and risk management arrangements. This report highlights the improvements required by the Council to improve key controls and to mitigate the risks in those key financial and non-financial systems which will enable ongoing compliance with legislation and deliver the Council's Corporate Plan and Well-being objectives. The Corporate Management Team will monitor closely those areas deemed to be unsatisfactory or unsound so that the issues identified are addressed.

Comments of Cabinet Member

25. N/A

Local issues

26. N/A

Scrutiny Committees

27. N/A

Equalities Impact Assessment and the Equalities Act 2010

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

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

Children and Families (Wales) Measure

30. N/A

Wellbeing of Future Generations (Wales) Act 2015

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

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

Crime and Disorder Act 1998

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

Consultation

33. N/A

Background Papers

34. N/A

Dated:

Appendix A

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

➡	**GOOD**	**Well controlled with no critical risks identified which require addressing; substantial level of assurance.**	**Green**
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

Mae'r dudalen hon yn wag yn