

Agenda

Pwyllgor Archwilio

Dyddiad: Dydd Llun, 28 Medi 2020

Amser: 2.00 pm

Lleoliad: Canolfan Dinesig

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

Eitem	Wardiau Dan Sylw
1	<u>Ymddiheuriadau dros Absenoldeb</u>
2	<u>Datganiadau o ddiddordeb</u>
3	<u>Cofnodion y Cyfarfod Diwethaf (Tudalennau 3 - 6)</u>
4	<u>Diweddariad am y Gofrestr Risg Gorfforaethol Q4 (Tudalennau 7 - 46)</u>
5	<u>Cynllun archwilio mewnol diwygiedig 2020/21 (Tudalennau 47 - 66)</u>
6	<u>Archwiliad Mewnol - Cynnydd yn erbyn Barn Archwilio anffafriol (Tudalennau 67 - 82)</u>
7	<u>Adroddiad Archwiliad o Ddatganiadau Ariannol ISA260 (Tudalennau 83 - 102)</u>
8	<u>Datganiad Terfynol Cyfrifon 2019/20 (Tudalennau 103 - 264)</u>
9	<u>Adroddiad Cynaliadwyedd Ariannol Archwilio Cymru (Tudalennau 265 - 314)</u>
10	<u>Rhaglen Waith (Tudalennau 315 - 318)</u>
11	<u>Dyddiad y Cyfarfod Nesaf</u> 29 October 2020

Mae'r dudalen hon yn wag yn



Draft Minutes

Audit Committee

Date: 29 January 2020

Time: 5.00 pm

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

Meryl James (Governance Officer), Andrew Wathan (Chief Internal Auditor), Jan Furtek (Principal Auditor), Paul Flint (Performance and Research Business Partner), Tracy McKim (Partnership Policy & Involvement Manager), Owen James (Assistant Head of Finance - Technical and Development) and Dona Palmer (Audit Manager)

In Attendance:

Apologies: Councillors L Lacey and K Thomas

1 Declarations of Interest

None

2 Minutes of the Last Meeting

The minutes of the meeting held on 21 November 2019 were submitted.

The Chair stated that on Page 9 of the minutes under the paragraph Safety of Vehicles, Vehicle Safety Checks needed to be added.

Internal Audit

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.

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.

The ongoing deficit recovery plan plans were put forward and will be linked to the Chief Internal Auditor report. Chair asked if that figure would decrease by the end of March. Chair asked for a Finance update on Caerleon School at the next meeting.

Page 12 – note 8

Minutes with above amendments were approved.

3 Internal Audit Plan Quarter 3

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.

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

Performance of team and levels of opinions.
Achieved 51% in line with target of 50%
Final reports have been going out in two days
Still one vacancy within the team.
Costs were split between Newport and Monmouthshire 50/50

Members raised the following queries:-

- There are six in the team are you using an outside resource to help with workload?
- What areas needed to improve?
- How are the costs split between Newport and Monmouthshire?
- Can we cope with the workload with the numbers we have?

Agreed:

That the report be noted by the Committee.

4 Treasury Management Report

This report included both the Capital Strategy and Treasury Management Strategy for approval by the Council and (i) confirmed the capital programme, as part of the Capital Strategy and (ii) the various borrowing limits and other indicators as part of the Treasury Management Strategy. In addition, the report spelled out the increasing costs of funding the Council's external borrowing and the medium to long term affordability challenge of this. The revenue impact of both strategies were included within the Medium Term Financial Projection (MTFP) which were approved separately by Cabinet as part of the 2020/21 budget report.

Good progress was 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 included some c£186m of already approved projects and c£16m of further capital headroom for further projects - £202m total of investment in the city, which delivered on key priorities.

Summary of Recommendations

The Capital Strategy and Treasury Management Strategy detailed further in this report outlined the current capital programme to 2024/25 (this was the original capital 5 year programme to 2022/23 which was extended by 2 years for projects whose completion spanned beyond the 5 years), links to treasury management decisions and a long-term view which highlighted the challenges facing the authority for future capital decisions.

Treasure Management Borrowing Strategy

The capacity for further internal borrowing reached capacity and would reduce over the medium to long term. In 2020/21 the Council was expected to undertake external borrowing both for the refinancing of maturing loans and to fund the existing capital programme; it would remain as much 'internally borrowed' as was possible and increase actual external borrowing only when needed to manage its cash requirements. However, the Council may, where it felt necessary to mitigate the risk of interest rate rose, undertaking borrowing early

to secure interest rates within agreed revenue budgets. This would be done in line with advice from our Treasury Advisors.

Commercial Activities

Section 6 of the capital strategy detailed the commercial activities of the Council, including the approval of a £50m investment fund for investments in commercial properties, which was built into the borrowing limits being set in this report. While currently this fund was not been utilised, the future use of the fund

Chair asked for more narrative when reading through the report.

Members raised the following queries:

- Has any money been spent
- When did it happen October 2019

The Committee commented that it was not clear why there was a requirement to review the investment fund when there was a 1% increase in the PWLB rates, and furthermore, how a relatively small increase would have such a large impact. It was therefore advised that this comment should be taken on board and reflected in the report to Cabinet.

Treasury Management Strategy

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

This requires Council to agree affordable borrowing MTFP linked to that borrowing.

Borrowing strategy remains unchanged.

Investment strategy £10m required to sit with the Council

Agreed:

The Committee suggested that their comments on the Capital Strategy could be stronger, in that it did not put a defined figure on how much the borrowing should be reduced. The Committee therefore wanted this comment reflected in report to Cabinet.

5 **Corporate Risk Register Update (Quarter 2) & Risk Management Policy**

Policy & Partnership Manager presented an update of the Corporate Risk Register for the end of quarter 2.

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.

Risk Management Policy

The Policy & Partnership Manager PF stated that all comments made will be taken on board and the Policy will be updated before it goes before Cabinet. An annual review will also be carried out.

Chair asked for some examples of risk appetite for different areas.

The Policy & Partnership Manager to send the Committee an update paper on Brexit.

Members raised the following queries:

- What size matrix was used for this exercise.
- On page 116 it shows 3 or 4 persons responsible for the risk, shouldn't it be 1 person.
- What happens with Brexit.

6 Internal Audit Unsatisfactory Audit Opinions

It was reported that numbers 16 and 17 haven't been followed up due to work with SRS.

The new outside catering contract has yet to be tested.

A Member stated he was confused by the Norse report. It was reported that Management has put this on hold until the report is finalised and is planned for the next financial year.

Members raised the following queries:

- Norse report is confusing?
- Trips and visits are unsatisfactory, it cannot keep stating unsatisfactory a new method statement needs to be written?

The meeting terminated at Time Not Specified



Report

Audit Committee

Part 1

Date: 28 September 2020

Item No: 4

Subject **Quarter 4 Corporate Risk Register Update**

Purpose To present an update of the Corporate Risk Register for the end of quarter 4 (31st March 2020).

Author Head of People and Business Change

Ward All

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

In quarter 4 the Corporate Risk Register has 13 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 Leadership Team and Corporate Management Team. At the end of quarter 4, we have identified 8 high level risks (risk scores 15 to 25); 3 medium risks (risk scores 10 to 14) and 2 low risk (0-9) as outlined in the report. The Corporate Risk Register also saw the inclusion of the Covid 19 related risk.

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

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

Action by Corporate Management Team and Heads of Service

Timetable Immediate

This report was prepared after consultation with:

- Corporate Management Team

Signed

Background 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 Policy and Corporate Risk Register enables the Council to effectively identify, manage and monitor those risks to ensure that the Council realises its Plan and ensure service delivery is provided to its communities and citizens. In July 2020 the new Risk Management Policy for 2020-22 was approved by the leader of the Council. This policy is attached as part of the background papers of this report for reference.

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

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



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

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

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

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

Covid 19 response / Q4 risk update

During quarter 4 (January to March 2020) Wales and Newport faced the Covid 19 pandemic which was emerging across the communities in Newport. As per the Civil Contingencies Act, Newport Council alongside its strategic partners established the necessary business continuity arrangements to ensure front line services remained operational and necessary protection / mitigating actions were in place to protect service users, communities and staff. Newport Council's Gold command (Heads of Service and Senior Leadership / Cabinet) managed daily operational risks and issues that have emerged throughout this period. A further update on the strategic risks impacting the Council during Covid 19 outbreak will be reported in the 2020/21 quarter 1 risk update.

At the end of Quarter 4 (31st March 2020), 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. One new risk has been identified, none have been escalated or closed at the end of the quarter. The risk report has been considered by the Corporate Management Team (CMT) and will be presented to Cabinet (date to be confirmed).

Service Area	Number of Risks
Adult & Community Services	4
Children & Young People Services	2
City Services	8
Education Services	11
Finance	7
Law and Regulation	4
People & Business Change	10
Regeneration, Investment & Housing	12
Total Unique Risks*	52

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

Of the 52 risks, there are 13 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
- (NEW) Covid 19 Pandemic Outbreak

At the end of the quarter, a summary of new risks and where risk scores have changed between quarter 3 and quarter 4:

- **(NEW) Covid 19 Pandemic Outbreak** – In quarter 4 the Council added the Covid 19 risk onto the risk register as a result of Covid 19 spreading across communities in Newport and impacting on the delivery of Council services. The Council implemented its Gold Command Business Continuity arrangements to manage operational and community risks and issues for Newport with direct communications to regional and national groups.
- **Stability of Social Care Providers (Increase from 20 to 25)** – The emergence of the Covid 19 crisis was having a direct (inherent) impact on Social Care Providers (residential and domiciliary) in quarter 4. The capacity and ability for providers to be able to provide the necessary care and support for service users was being affected by Covid outbreaks in the community and in care settings across Newport.
- **Balancing the Council' Medium Term Budget Plan (Reduction from 20 to 15)** – At the end of the financial year the Council had reduced the gap between its forecasted projections for the next 3 years.
- **In Year Financial Management (Reduction from 12 to 3)** – At the end of the financial year the Council's financial outturn reported an overall underspend which resulted in the risk reducing from 12 to 3. However, it should be noted that due to the impact of Covid 19 on the Council's in year financial risk this is likely to increase. This will be reported in the Quarter 1 update.
- **Schools Finance Cost Pressures (Reduction from 20 to 16)** – At the end of the financial year the Council's Cabinet agreed a cash injection into the school's budgets reducing the impact of deficits. However, there remains individual schools facing a deficit budget position and further action is required to reduce the impact of overspending in 2020/21.
- **Demand for Additional Learning Needs (ALN) and Special Educational Needs (SEN) support (Reduction from 20 to 16)** - The budget for 2020/21 include the new Additional Learning Needs funding formula agreed with head teachers which reduces the immediate risk. During the lock down there has been an increase of requests for Formal Assessment for pupils who may require specialist placements or additional support.

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 control and governance arrangements in the Council. As the report has highlighted, Covid 19 has had a significant impact on the delivery of Council services which have been managed through the Council's business continuity arrangements. As the Council is moving towards recovery and operating in a 'new normal' emerging opportunities and risks will have an impact on how we deliver services both in the short and long term. Having an effective risk management system and culture will be important for the Council's Leadership and senior officers to make evidence based decisions.

Comments of Cabinet Member

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

Local issues

None.

Scrutiny Committees

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

Equalities Impact Assessment

Not applicable.

Children and Families (Wales) Measure

Not applicable.

Wellbeing of Future Generations (Wales) Act 2015

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

Long Term – Having effective risk management arrangements will ensure that the opportunities and risks that will emerge consider the long term impact on service users and communities.

Preventative – Identifying opportunities and risks will ensure the Council is able to implement necessary mitigations to prevent or minimise their impact on Council services and service users.

Collaborative – The management of risk is undertaken throughout the Council and officers collaborate together within service areas, Corporate Management Team and the Council's Cabinet to ensure decisions are made in a timely manner and are evidence based.

Involvement – The Council's Risk Management process involves officers across the Council's service areas and Cabinet Members.

Integration – Risk Management is being integrated throughout the Council and supports the integrated Planning, Performance and Risk Management Framework. The Framework ensures that planning activities consider the opportunities and risks to their implementation and overall supports the delivery of the Council's Corporate Plan and legislative duties.

Crime and Disorder Act 1998

Not applicable.

Consultation

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

Background Papers

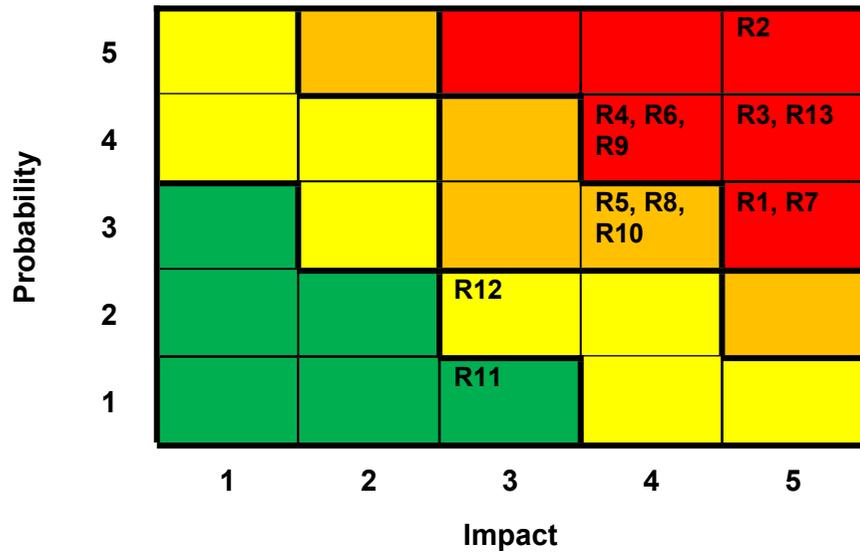
Risk Management Policy 2020-22 v1

Q3 Risk Cabinet Report, March 2020

Q2 Risk Report Audit Committee January 2020

Dated: August 2020

Appendix 1 - Quarter 4 Corporate Risk Heat Map



Corporate Risk Heat Map Key	
R1 – Balancing the Council’s Medium Term budget	R8 – Climate change
R2 – Stability of social services providers	R9 – Demand for ALN and SEN support
R3 – Highways network	R10 – Newport Council’s property estate
R4 – Schools finance and cost pressures	R11 – In year financial management
R5 – Brexit - Decision to leave the European Union	R12 - Safeguarding
R6 – Educational out of county placements	(NEW) R13 - Covid 19 Pandemic Outbreak
R7 – City centre security and safety	

Risk Score Profile between Quarter 1 2019/20 and Quarter 4 2019/20

Tudalen 14

Risk Position	Risk No. - Description	Risk Score Quarter 1 2019/20	Risk Score Quarter 2 2019/20	Risk Score Quarter 3 2019/20	(Current) Risk Score Quarter 4 2019/20	Target Risk Score
R1	Balancing the Council's Medium Term budget.	20	20	20	15	10
R2	Stability of Social Services Providers	20	20	20	25	6
R3	Highways Network	20	20	20	20	9
R4	Schools Finance / Cost Pressures	20	20	20	16	6
R5	Brexit - Decision to leave the European Union	16	16	12	12	10
R6	Educational Out of County Placements	16	16	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	20	16	12
R10	Newport Council's Property Estate	12	12	12	12	9
R11	In year financial management	8	12	12	3	6
R12	Safeguarding	6	6	6	6	4
R13	NEW - Covid 19 Pandemic Outbreak	-	-	-	20	6

Glossary

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

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

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

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

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

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

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

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

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

How the Council Assesses Risk

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

Risk Assessment Matrix

A Corporate Risk Register will contain the high level risks for the whole authority. In order to differentiate between these high level risks a 5x5 risk assessment matrix will be applied. The matrix is shown below and further detail is included in appendix 3.

Risks are scored using the scoring system for probability and impact and assigned a rating based on the tolerances set out in the matrix below

Impact Matrix

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
5 Tudalen 16	Severe	Failure of a key strategic objective	Serious organisational / service failure that has direct impact on stakeholders including vulnerable groups. Service disruption over 5+ days.	Corporate / Project Unplanned and/or additional expenditure disturbance. Capital > £1M Revenue >£1M	Legislative / Regulatory breach resulting in multiple litigation / legal action taken on the Council (linked to Financial / Reputational Impacts).	Multiple major irreversible injuries or deaths of staff, students or members of public. (Linked to Financial / Reputational Impacts)	Severe and persistent National media coverage. Adverse central government response, involving (threat of) removal of delegated powers. Officer(s) and / or Members forced to Resign.	Project status is over 12 months from anticipated implementation date. Project(s) do not deliver the major benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational Impacts
	Major	Severe constraint on achievement of a key strategic objective	Loss of an important service(s) for a short period that could impact on stakeholders. Service disruption between 3-5 days.	Corporate / Project Unplanned and/or additional expenditure disturbance. Capital > £0.5M - £1.0M Revenue >£0.5M-£1M	Serious legislative breach resulting in intervention, sanctions and legal action. (Linked to Financial / Reputational Impacts)	Major irreversible injury or death of staff, student or member of public. (Linked to Financial / Reputational Impacts)	Adverse publicity in professional / municipal press, affecting perception / standing in professional /local government community Adverse local and social media publicity of a significant and persistent nature.	Project status is 6 to 12 months over from anticipated implementation date. Project(s) do not deliver major benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational Impacts
	Moderate	Noticeable constraint on achievement of a key strategic objective / Service Plan objective.	Loss and/or intermittent disruption of a service between 2-3 days.	Corporate / Project Unplanned and/or additional expenditure disturbance. Capital = £0.25M - £0.5M	Significant legislative breach resulting in investigation. (Linked to Financial / Reputational Impacts)	Major reversible injury to staff, student or member of public. Not life threatening. (Linked to Financial /	Adverse local publicity / local public opinion including social media. Statutory prosecution of a non-serious nature.	Project status is 1 to 6 months over from anticipated implementation date. There is significant reduction on delivery of benefits / savings identified in business case.

Score	Description	Impact Measures						
		Strategic / Policy	Operational / Business Continuity	Financial	Governance / Legal / Regulatory	Health & Safety	Reputational	Project Delivery / Savings / Benefits
				Revenue = £0.25M to £0.5M Revenue = £0.25M to £0.5M		Reputational Impacts)		This is linked to Financial / Strategic / Reputational impacts.
Tudalen 17	2	Low	Constraint on achievement of Service Plan objective that does not impact on Corporate Strategy Brief disruption of service that has a minor impact on the delivery of a service. Service disruption 1 day.	<u>Corporate / Project</u> Unplanned and/or additional expenditure disturbance. Capital = £0.1M - £0.25M Revenue = £0.1M – £0.25M	Moderate impact leading to warning and recommendations.	Some minor reversible injuries. (Linked to Financial / Reputational Impacts)	Contained within Directorate Complaint from individual / small group, of arguable merit	Project status is 1 to 4 weeks over from anticipated implementation date. There is minor reduction on delivery of benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational impacts.
	1	Very Low	Constraint on achievement of Service / Team Plan objective Minor disruption of a non-critical service.	<u>Corporate / Project</u> Unplanned and/or additional expenditure disturbance. Capital < £100k Revenue <£100k	No reprimand, sanction or legal action.	Some superficial injuries. (Linked to Financial / Reputational Impacts)	Isolated complaint(s) that are managed through the corporate complaints process and service area.	Project status is 1 week over from anticipated implementation date. There is insignificant / no impact on delivery of benefits / savings identified in business case. This is linked to Financial / Strategic / Reputational impacts.

Probability

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

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

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



NCC Corporate Risk Register

2019/20 Quarter 4 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
Risk Owner	Owen James
Overseeing Officer	<ul style="list-style-type: none"> ▪ Chief Executive ▪ Head of Finance ▪ Strategic Director - People ▪ Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> ▪ Cabinet Member for Community and Resources
Linked Theme	
Linked Corporate Objective	

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Balancing the Council's Medium Term Budget

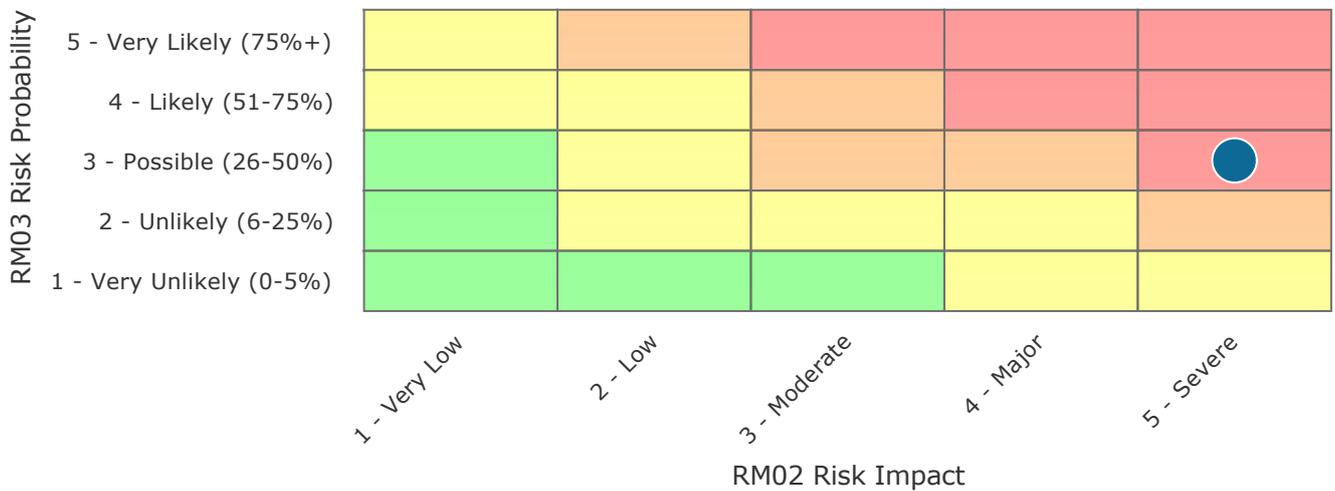
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25

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Inherent Risk Score

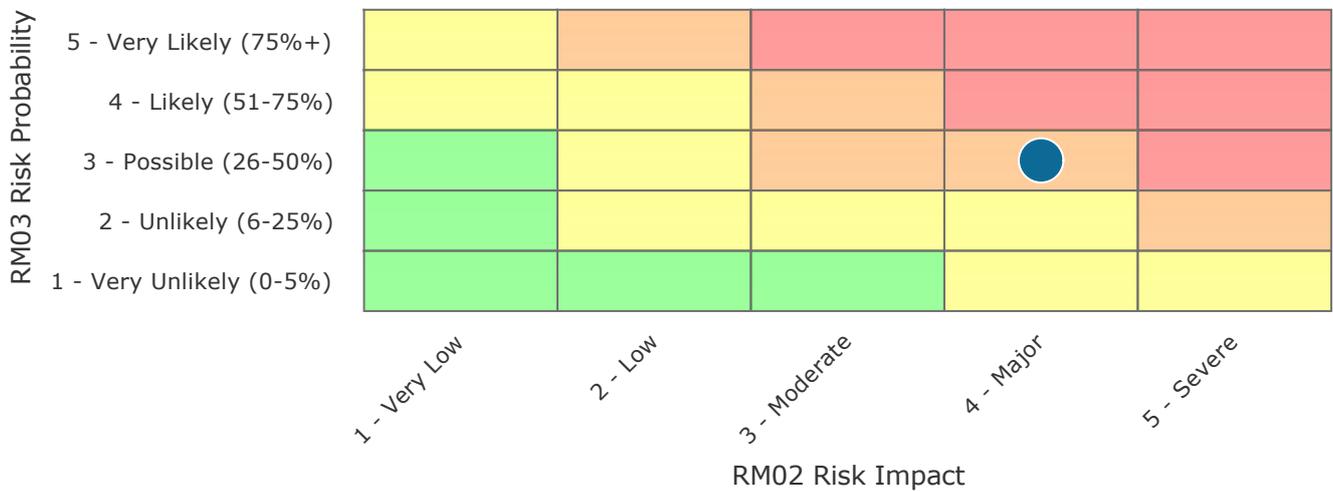
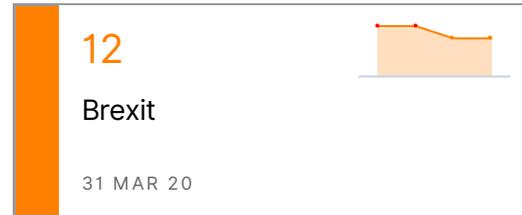
Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
 Balancing the 2020-21 remaining gap	Budget proposals to identify savings for the remainder of the budget gap need to be identified by Senior Leadership Team and Corporate Management Team. These are to be assessed by informal cabinet prior to the December Cabinet meeting when consultation on the savings will begin.	100%	★
 SLT and CMT to identify savings to reduce the budget gap over the medium term	Senior Leadership Team and Corporate Management Team to identify savings to reduce the budget gap circa £30million over the medium term.	50%	▲
 To update SLT on Medium Term Financial Position	Following meetings with Heads of service and Directors on review of their pressures, an update on the Medium Term Financial Plan (MTFP) will be provided to SLT for review, discussion and actions to follow.	100%	✔

Brexit

Short Description	The UK will be leaving the European Union on the 31st January 2020. The UK will enter a transition arrangement which should be concluded by 31st December 2020. If no trade agreement and resolutions to the UK-EU future relationship is approved, the UK will have to fall back onto World Trade Organisation arrangements which could have a financial and operational impact on the Council and businesses which operate in the city.
Risk Owner	Rhys Cornwall
Overseeing Officer	<ul style="list-style-type: none"> ▪ Chief Executive ▪ Strategic Director - People ▪ Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> ▪ Cabinet Member for Community and Resources
Linked Theme	
Linked Corporate Objective	



Action Name	Action Description	% Complete	Mar 2020
 Civil Contingencies - Arrangements to escalate and report on Brexit	Civil Contingencies - To provide regular updates to the Council and Brexit Task & Finish Group on Regional and National wide Brexit preparations. Regular updates from the Gwent Local Resilience Forum which includes local authorities, Police, Fire, Health as well as Welsh Government, Welsh Local Government Association (WLGA) and other strategic group updates will be included as part of this process.	80%	★
 Finance - Monitoring of impact on Finance and Supplies & Services	Finance - The Council will closely monitor its financial position as part of its annual budget setting process and Medium Term Financial Planning. For Council activities and services which are European Union (EU) funded there is ongoing discussions with the Welsh Government to put in arrangements after 2021. The Council will be liaising with its strategic partners (Newport Norse / Shared Resource Service (SRS) / Newport Live) to assess the impact on its supplies and services. Also across the Council, service areas are being asked to identify their high risk / key contracts and to obtain the necessary assurances of any Brexit impact which could affect the availability and cost of supplies or services. "	100%	★
 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.	100%	✔
 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 Department for Environment, Food and Rural Affairs (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. "	100%	✔

City Centre Security & Safety

Short Description	Significant incidents of deliberate acts that pose hazards to people in surrounding areas; structural damage; business continuity; damage/disruption to infrastructure and utilities; and reputational and economic impact.
Risk Owner	Rhys Cornwall
Overseeing Officer	<ul style="list-style-type: none"> Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Deputy Leader & City Services and Member Development
Linked Theme	<ul style="list-style-type: none"> Theme : Thriving City
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 2

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City Centre Security & Safety

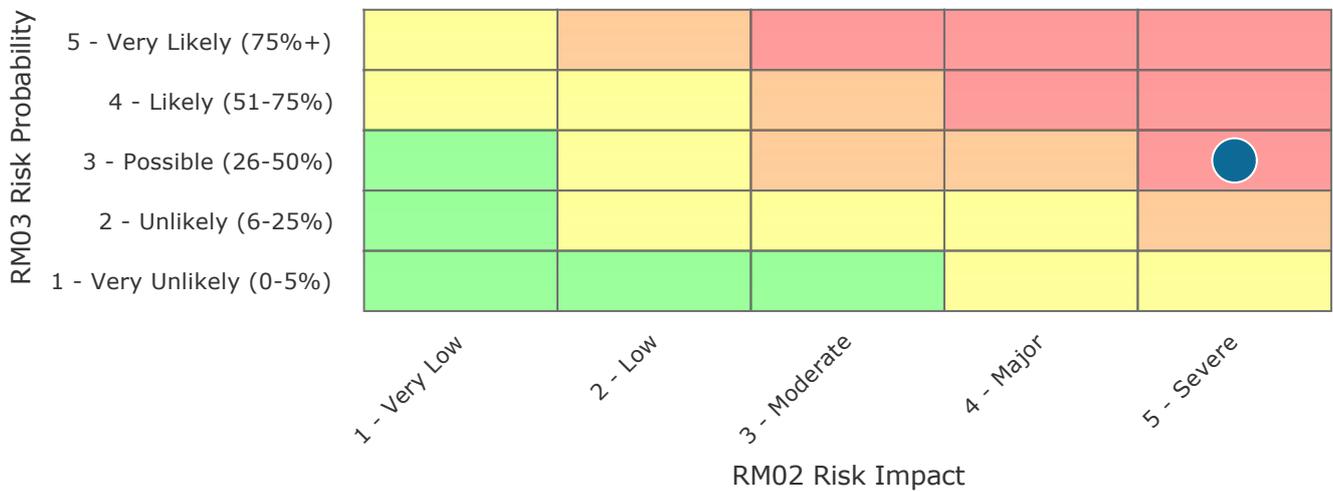
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Inherent Risk Score

Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
<input checked="" type="checkbox"/> 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%	▲
<input checked="" type="checkbox"/> Co-ordinated evacuation 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%	▲
<input checked="" type="checkbox"/> 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.
Risk Owner	Ben Hanks
Overseeing Officer	<ul style="list-style-type: none"> Head of Regeneration, Investment and Housing Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Leader & Cabinet Member for Economic Growth and Investment
Linked Theme	<ul style="list-style-type: none"> Theme : Modernised Council Theme: Resilient Communities (Community) Theme : Thriving City
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 2 Well-being Objective 3

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Climate Change

31 MAR 20

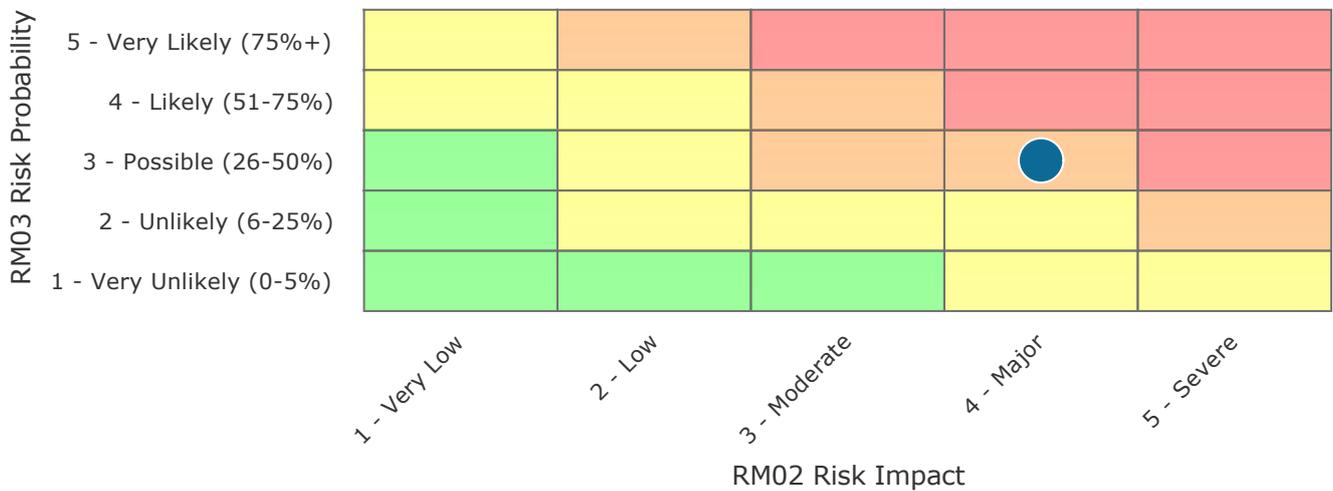


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Inherent Risk Score

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Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
 Develop Local Air Quality Management Statutory Action Plan	Develop Local Air Quality Management Statutory Action Plan and ensure it is formally adopted and implemented.	100%	
 Finalise and publish Carbon Management Plan.	Finalise and publish the council's Carbon Management Plan.	100%	
 Investigate Opportunities to Improve Domestic Energy Efficiency and Relieve Fuel Poverty	Investigate opportunities to improve domestic energy efficiency and relieve fuel poverty in Newport.	14%	
 Review Public Transport Access for Proposed Housing Developments	Review proposed housing developments for access to public transport.	100%	

Covid 19 Pandemic Outbreak

Short Description	The Corona Virus (COVID 19) pandemic has put at risk the operational ability of the Council to deliver its services, support vulnerable people across Newport and the economic impact to the local and wider economy. Potential mitigations carried out in line with the Chief Medical Officer's advice and Welsh/UK Government guidance.
Risk Owner	Rhys Cornwall
Overseeing Officer	<ul style="list-style-type: none"> Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Leader & Cabinet Member for Economic Growth and Investment
Linked Theme	<ul style="list-style-type: none"> Theme : Aspirational People Theme : Modernised Council Theme : Thriving City Theme: Resilient Communities (Community) Theme: Resilient Communities (Social Care)
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 1 Well-being Objective 2 Well-being Objective 3 Well-being Objective 4

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Covid 19 Pandemic Outbreak

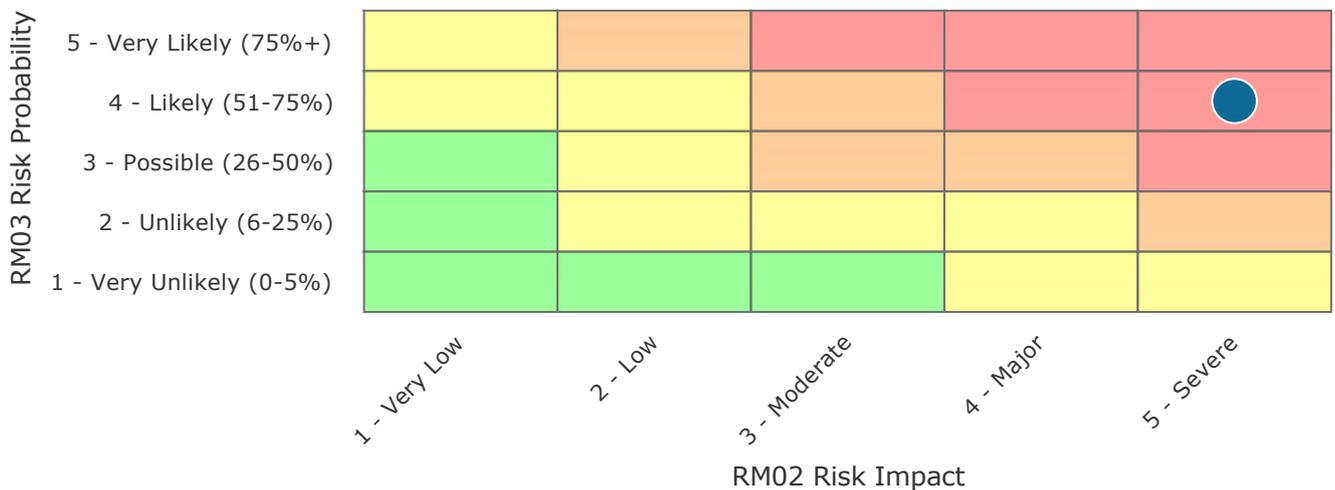
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Inherent Risk Score

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Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
 Covid 19 Business Continuity Arrangements (Platinum and Gold)	Implementation and maintaining Business continuity (Platinum / Gold) arrangements for the Council.	75%	★
 Health & Safety Arrangements for front line staff	Health & Safety / protection activities are increased to prevent the spread of the virus across Council assets and buildings, staff and citizens.	50%	●
 Implementation of Covid 19 Human Resources procedures	Implementation of Human Resource procedures to support staff, agency / contractors and volunteers.	100%	★

Demand for ALN and SEN support

Short Description	Funding to cover Additional Learning Needs (ALN) and Special Education Needs (SEN) provision across the city is insufficient and does not meet the demand of increasing need.
Risk Owner	Katy Rees
Overseeing Officer	<ul style="list-style-type: none"> Chief Education Officer
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Cabinet Member for Education and Skills
Linked Theme	<ul style="list-style-type: none"> Theme : Aspirational People
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 1 Well-being Objective 3

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Demand for ALN and SEN support

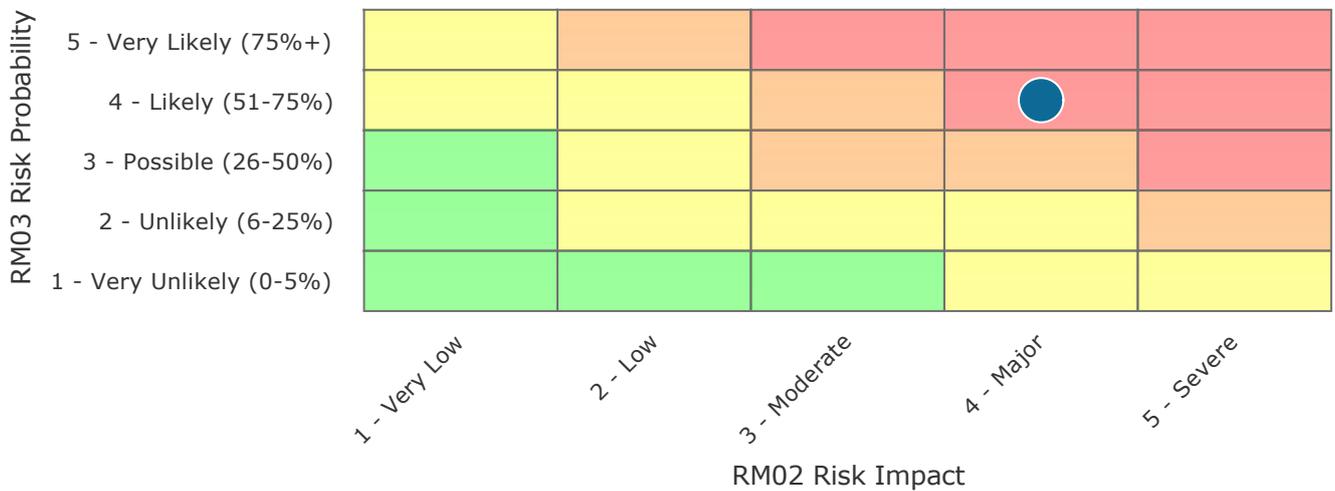
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Inherent Risk Score

12

Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
 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 aged 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	100%	
 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.	70%	
 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.	100%	
 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 will have appropriate membership and decisions will be robust and consistent.	100%	

Educational Out of County Placements

Short Description	Limited access to Newport City Council (NCC) provision for pupils who require complex and specialist placements which results on a reliance on Out of County (OOC) placements both day and residential.
Risk Owner	Katy Rees
Overseeing Officer	<ul style="list-style-type: none"> Chief Education Officer Strategic Director - People
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Cabinet Member for Education and Skills
Linked Theme	<ul style="list-style-type: none"> Theme : Aspirational People
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 1

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Educational Out of County Placements

31 MAR 20

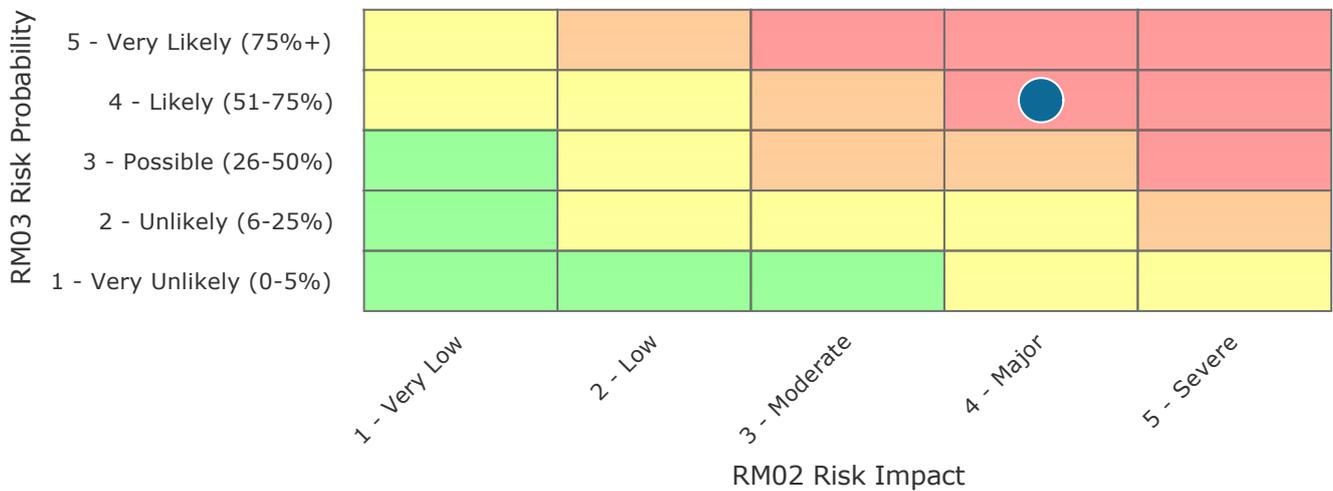


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Inherent Risk Score

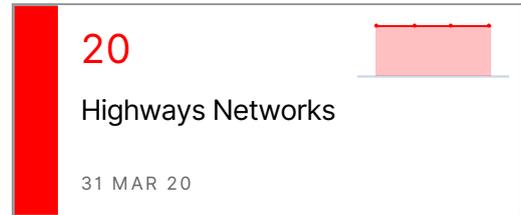
Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
 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	100%	
 Review ALN Key Stage 2 to Key Stage 4 SEBD and ASD provision	Review Additional Learning Needs (ALN) Key Stage 2 (KS2) to Key Stage 4 (KS4) Social, Emotional and Behavioural Difficulties (SEBD) and Autistic Spectrum Disorder (ASD) provision	100%	
 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.	100%	
 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.	100%	

Highways Networks

Short Description	Failure to recognise current levels of under investment in the whole life of the city's highway network assets in the medium to long term will continue to compound existing maintenance backlog figures.
Risk Owner	Paul Jones
Overseeing Officer	<ul style="list-style-type: none"> Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Deputy Leader & City Services and Member Development
Linked Theme	<ul style="list-style-type: none"> Theme : Thriving City
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 2 Well-being Objective 3

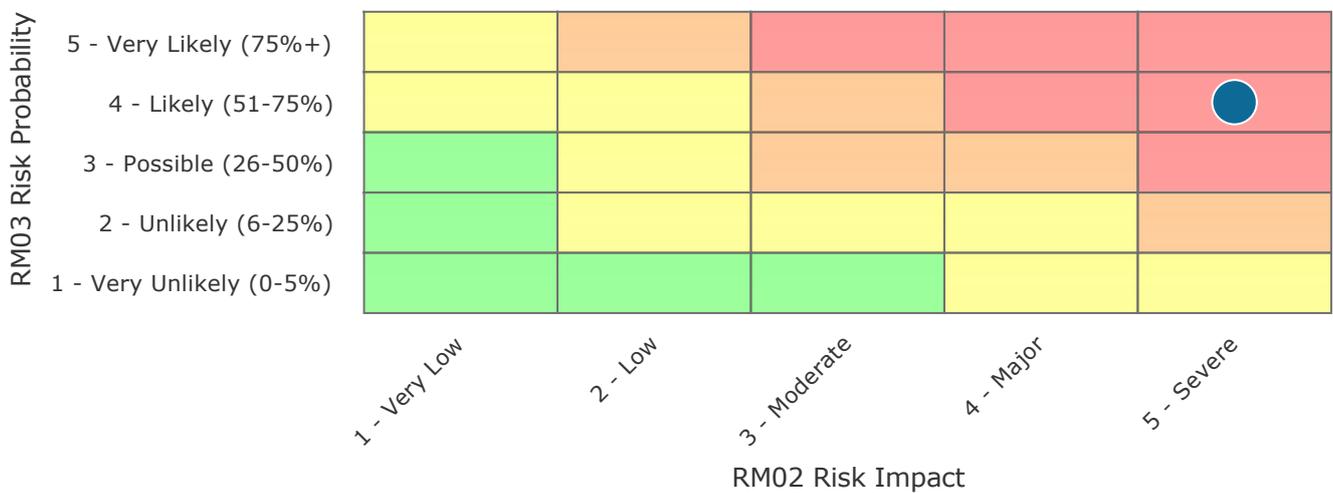


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Inherent Risk Score

Target Risk Score



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

In Year Financial Management

Short Description	This relates to the in year management of budgets and risk profiling of service areas / activities that are forecasting end of year overspends.
Risk Owner	Owen James
Overseeing Officer	<ul style="list-style-type: none"> ■ Chief Executive ■ Head of Finance ■ Strategic Director - People ■ Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> ■ Cabinet Member for Community and Resources
Linked Theme	
Linked Corporate Objective	

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In Year Financial Management

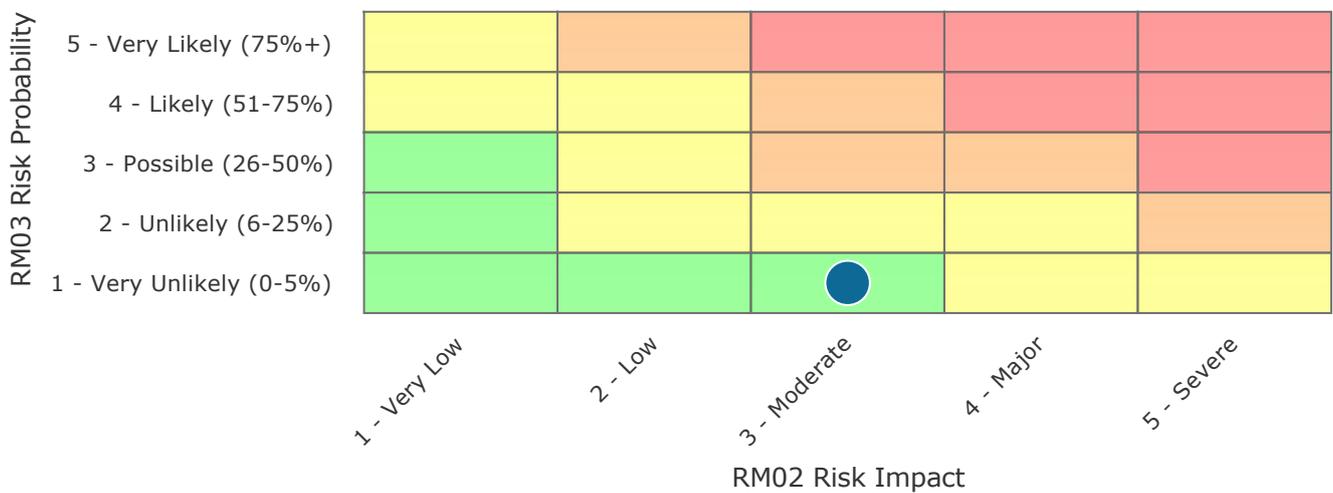
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6

Inherent Risk Score

Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
 All service areas to maintain robust financial management	All service areas to maintain robust financial management and understand the risks associated delivery of savings and achievability of the savings.	100%	
 Cabinet Member and Senior Officers to manage / mitigate any projects not achieving savings	There are currently 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.	93%	
 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.	100%	

Newport Council's Property Estate

Short Description	NCC has a significant property estate covering over 170 buildings (circa) such as the Civic Centre, Telford Depot, schools etc. The Council has to ensure the estate is maintained to required standards to enable access, safety, security and in the long term sustainable for staff and residents to use.
Risk Owner	Ben Hanks
Overseeing Officer	<ul style="list-style-type: none"> Chief Executive Head of People & Business Change Head of Regeneration, Investment and Housing Strategic Director - Place
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Leader & Cabinet Member for Economic Growth and Investment
Linked Theme	<ul style="list-style-type: none"> Theme : Modernised Council
Linked Corporate Objective	

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Newport Council's Property Estate

31 MAR 20

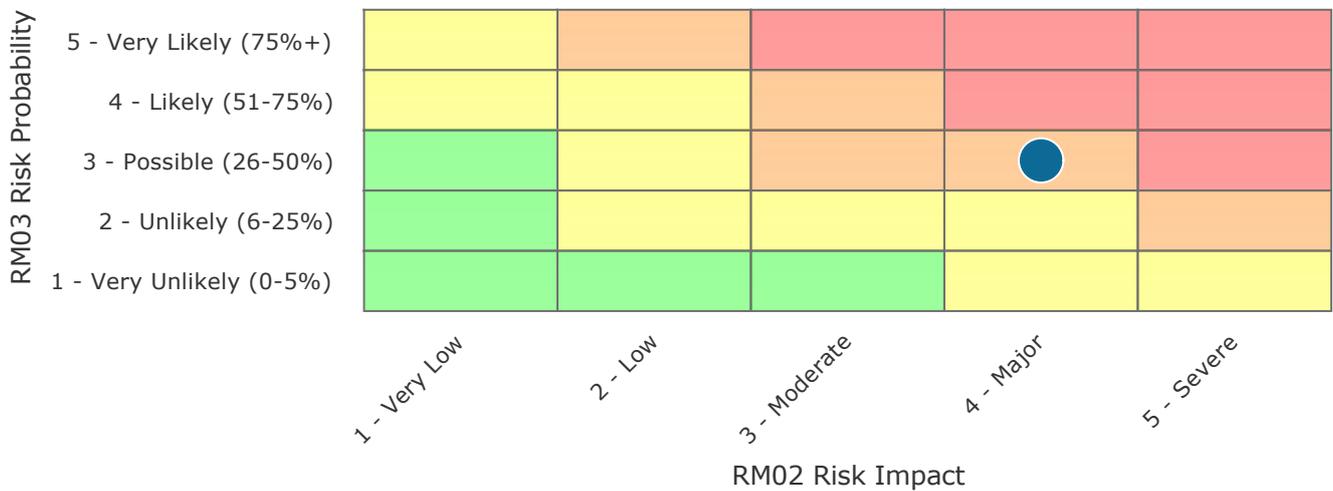


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Inherent Risk Score

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Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
<input checked="" type="checkbox"/> Delivery of the Annual Capital Maintenance Programme	The delivery of the Council's annual Capital maintenance programme to maintain and improve the Council's property estate.	75%	★
<input checked="" type="checkbox"/> 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.
Risk Owner	Mary Ryan
Overseeing Officer	<ul style="list-style-type: none"> ▪ 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)	<ul style="list-style-type: none"> ▪ Cabinet Member for Social Services
Linked Theme	<ul style="list-style-type: none"> ▪ Theme: Resilient Communities (Social Care)
Linked Corporate Objective	<ul style="list-style-type: none"> ▪ Well-being Objective 3

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Safeguarding Risk

31 MAR 20

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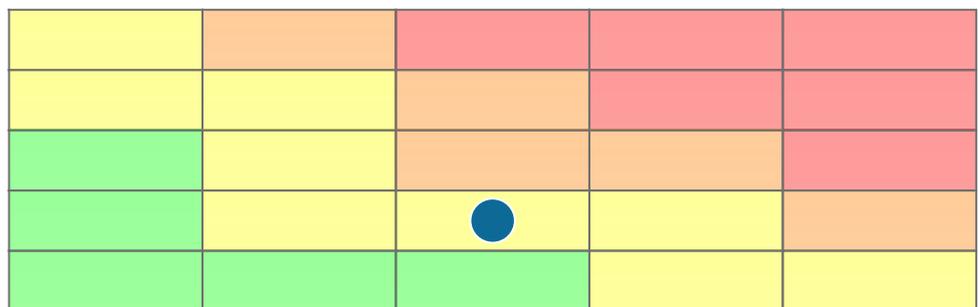
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Inherent Risk Score

Target Risk Score

RM03 Risk Probability

- 5 - Very Likely (75%+)
- 4 - Likely (51-75%)
- 3 - Possible (26-50%)
- 2 - Unlikely (6-25%)
- 1 - Very Unlikely (0-5%)



1 - Very Low

2 - Low

3 - Moderate

4 - Major

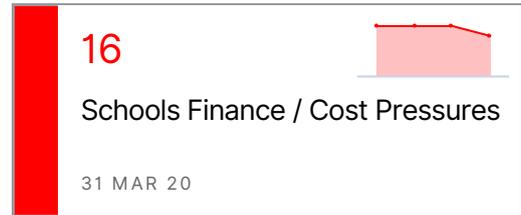
5 - Severe

RM02 Risk Impact

Action Name	Action Description	% Complete	Mar 2020
 All education Services staff to have completed relevant safeguarding training	All staff are appropriately trained to facilitate safeguarding arrangements.	99%	★
 Contribute towards the All Wales Adult Safeguarding Guidance	To contribute towards the new All Wales Adult / children Safeguarding Guidance.	96%	★
 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.	99%	★
 Establish a robust review process for DOLS	To establish a robust review process for Deprivation of Liberty Safeguards (DOLS) assessments for Newport Citizens.	100%	✔
 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.	100%	✔
 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.	100%	✔
 To implement new processes for Liberty Protection Safeguards.	Mental capacity Act requires the authority to implement the deprivation and liberty safeguards for citizens of Newport. We have an established regional and local process to delivery on DoLS. However, the legislation changes in October 2020 requiring the Council to have processes in place for the new LPS Liberty Protection Safeguards. This action is to implement the new process for the Council.	52%	●

Schools Finance / Cost Pressures

Short Description	In year cost pressures of schools are not met resulting in increased deficit budgets
Risk Owner	Sarah Morgan
Overseeing Officer	<ul style="list-style-type: none"> Strategic Director - People
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Cabinet Member for Education and Skills
Linked Theme	<ul style="list-style-type: none"> Theme : Aspirational People
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 1

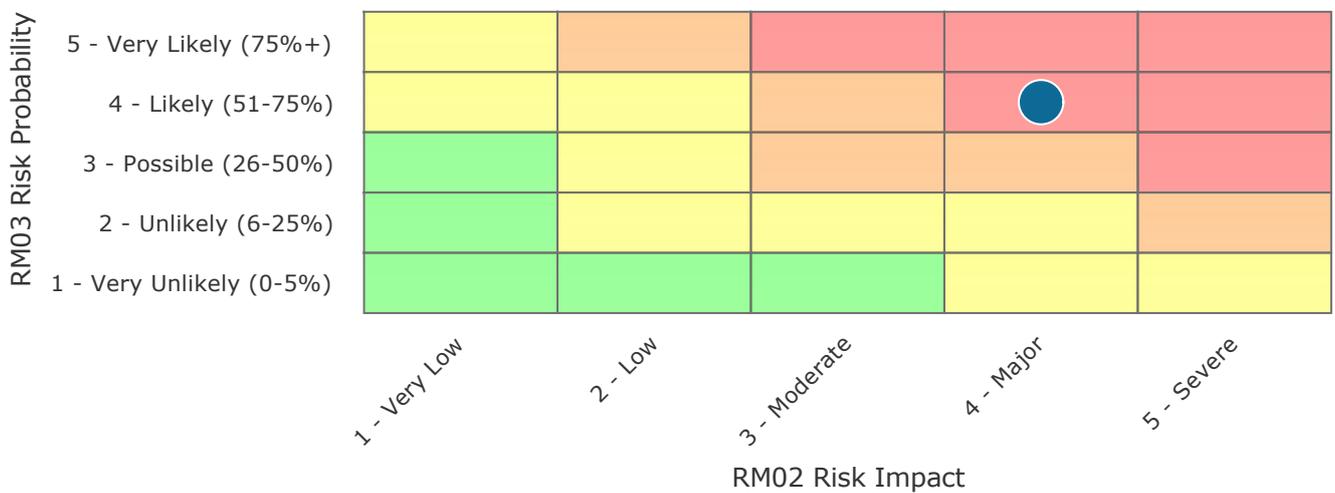


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Inherent Risk Score

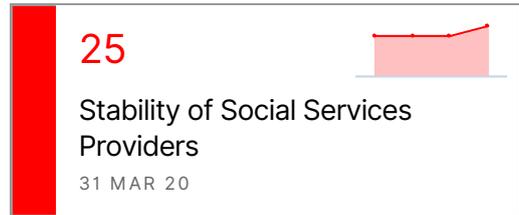
Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
<input checked="" type="checkbox"/> 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.	25%	▲
<input checked="" type="checkbox"/> 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.	65%	●

Stability of Social Services Providers

Short Description	The Council requires support from external providers to deliver care packages for children and adults (residential / Non Residential). The current marketplace for external providers is volatile due to the increasing costs to provide care, maintain homes, staffing meeting legislative and regulatory requirements.
Risk Owner	Jenny Jenkins
Overseeing Officer	<ul style="list-style-type: none"> Head of Adult and Community Services Strategic Director - People
Lead Cabinet Member(s)	<ul style="list-style-type: none"> Cabinet Member for Social Services
Linked Theme	<ul style="list-style-type: none"> Theme: Resilient Communities (Social Care)
Linked Corporate Objective	<ul style="list-style-type: none"> Well-being Objective 3

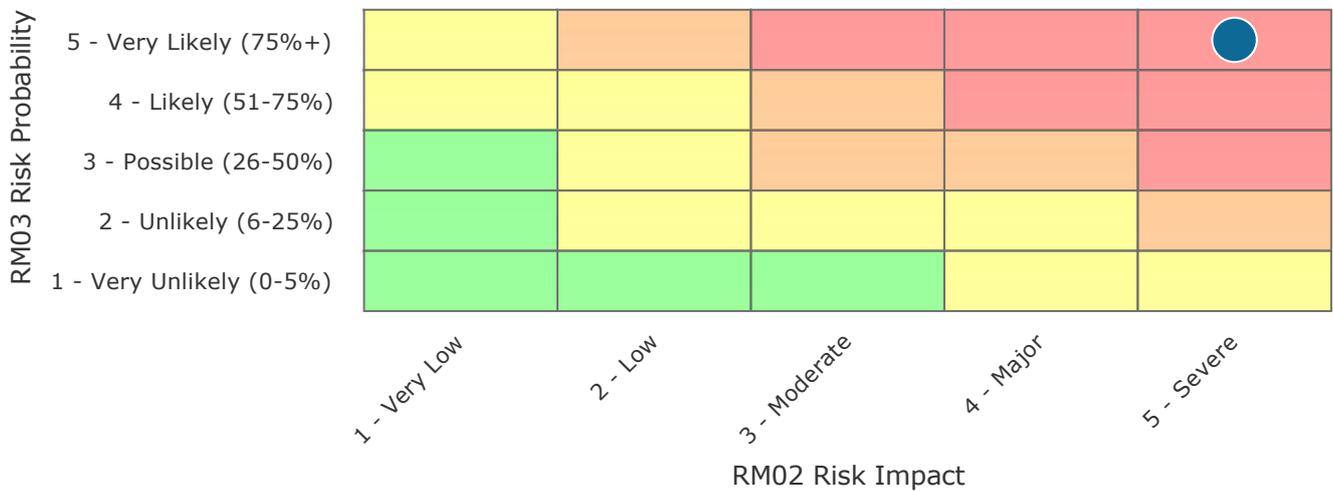


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Inherent Risk Score

Target Risk Score



Action Name	Action Description	% Complete	Mar 2020
<input checked="" type="checkbox"/> BAU - Compliance monitoring and review of Commissioned Services	Business as Usual (BAU) - To ensure commissioned services are subject to ongoing contract management processes that monitor compliance and review quality and cost.	70%	★
<input checked="" type="checkbox"/> BAU - Continue to provide and develop in house provision	Business as Usual (BAU) - To continue to provide and develop in house provision where appropriate and cost effective.	90%	★
<input checked="" type="checkbox"/> BAU - Develop Regional and Collaborative Commissioning Initiative	Business as Usual (BAU) - To develop Regional and collaborative commissioning initiatives to deliver consistency and efficiencies.	45%	★
<input checked="" type="checkbox"/> BAU - Development of the People Commissioning function	Business as Usual (BAU) - To further develop the People Commissioning function to oversee all commissioning and contractual activity within the Directorate.	55%	★
<input checked="" type="checkbox"/> BAU - Management of the local market of Social Care contracts	Business as Usual (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.	50%	●
<input checked="" type="checkbox"/> BAU - Undertake Evidence Based Commissioning	Business as Usual (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.	35%	●
<input checked="" type="checkbox"/> BAU - Work with partners to develop common contracts and monitoring protocols	Business as Usual (BAU) - Work with Aneurin Bevan University Health Board (ABUHB) and Local Authority partners to develop common contracts and monitoring protocols.	80%	★
<input checked="" type="checkbox"/> Develop a Gwent Care Academy	Develop a Gwent Care Academy to offer qualifications for care staff and embed the principles of Regulation and Inspection of Social Care (RISCA) where all care staff are required to register.	90%	★

Mae'r dudalen hon yn wag yn



Report

Audit Committee

Part 1

Date: 28th September 2020

Item No: 5

Subject Revised Internal Audit Annual Plan 2020/21

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's Revised Operational Audit Plan for 2020/21.

For the Audit Committee to comment on and approve the 2020/21 Revised Operational Internal Audit Plan and provide comments as appropriate.

Author Chief Internal Auditor

Ward General

Summary Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, effective and efficient use of the Council's resources.

The attached report is the Revised Operational Internal Audit Plan for 2020/21 based on an assessment of risk and available audit resources for the remaining 6 months of this financial year. The plan is based on delivering 626 audit days.

Covid19 has significantly impacted on Internal Audit and its ability to deliver the original full year plan. Corporately the focus was on delivering essential front line services to deal with the pandemic. The Internal Audit team supported the business grants process and undertook extensive counter fraud work whilst the regularity audits were put on hold for an interim period.

The Council's Section 151 Officer has the legal responsibility for the provision of Internal Audit.

Proposal That the report be noted and approved 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 the work to be undertaken by the Internal Audit Section at an operational level for the remainder of 2020/21. It identifies why the Council operates an Internal Audit function, the resources currently available and how they will be applied across the services of Newport City Council to give management assurance that systems are working as intended.
2. The plan has been compiled from cumulative audit knowledge and experience, with reference to the Corporate Plan, Service Improvement Plans, Newport's Corporate Risk Register, Budget and Medium Term Revenue Plan and external audit reports along with previous history of known problems or issues. The views and concerns of service area management teams have also been incorporated into prioritising workloads for the audit planning process. Heads of Service have been afforded the opportunity to contribute to the drafting of the plan.
3. As a result of Covid-19, audit work has been re-prioritised in conjunction with Heads of Service.
4. The Head of Finance is, for the purposes of Section 151 of the 1972 Local Government Act, responsible for the proper administration of the Council's financial affairs. More specifically, The Accounts and Audit (Wales) Regulations 2014 require that the relevant body maintains an adequate and effective internal audit function. Under the direction of the Chief Internal Auditor, the Internal Audit Section at Newport City Council undertakes this provision on behalf of the Head of Finance.
5. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It provides assurance or otherwise to management.
6. An organisation as diverse as the City Council has many internal systems which require appropriate controls. Each of these systems can be considered appropriate for internal audit review along with the Council's establishments. However, it is not considered appropriate to review all systems every year so they are undertaken on a cyclical basis, prioritised by way of a risk assessment approach (high, medium or low priority). The attached audit plan (**Appendix 1**) shows a summary of how the Internal Audit resource will be allocated across service areas. The more detailed plan (**Appendix 2**) shows how the systems operated and services provided within all service areas will be covered.
7. The operational plan takes account of available audit resources and an allowance for financial training and advice; special investigations have also been included. Allowances for post entry training, general training, holidays, sickness and professional studies have been made in arriving at the number of available audit days for 2020/21.
8. The timing of each review in the 5-year cycle depends on an assessment of the risk that each system poses for the Council, Service Area and Section. A number of factors are taken into account when assessing risk, but it should be stressed that management are responsible for managing that risk, and are best placed to identify the risk in the first place. Accordingly, the views of the management teams within each service area have been sought when compiling this plan and incorporated where appropriate.
9. Although Internal Audit has limited resources (establishment of 7.5 staff including the Chief Internal Auditor), the aim is to provide as much coverage of the Council's systems and establishments as possible. The audit resources have been significantly reduced over the last few years which leads to less coverage across service areas which will have an impact on the level of assurance the audit team can give to senior management on the adequacy of sound financial management / internal control / governance / risk management across the Council.

10. The revised Internal Audit plan has been circulated to Heads of Service to ensure the risk profile determined by the audit management team is right. Heads of Service have welcomed the opportunity to contribute to the audit planning process and view it as a positive move forward.
11. The initial plan for the year always starts off as a “long-list” of what work we should be covering in that particular year. In an ideal world these are the audits the team should be undertaking in 2020/21 based on the strategic plan. The long list is further risk assessed with audit work prioritised. **The original plan was based on 1208 audit days; the revised plan is based on 626 audit days.**
12. The UK was subject to the Pandemic, Covid-19, late February early March 2020. Work in the Council was prioritised to deliver essential front line services which meant Internal Audit was unable to undertake its normal duties early in 2020/21. This had an impact on the original plan.
13. We then have to balance the plan with the resources we have available the best we can. The 2020/21 operational plan aimed to cover the areas stated within the given time allocations but professionally I feel that the revised plan will provide assurance to managers on the effectiveness of their internal controls and safeguard the assets of the Authority whilst covering the key risks. Time allocations per review are also tight but have been set to provide as much coverage as possible within service areas. **Audit resources available amounts to 600 days for Q3 and Q4.** External support may be brought in to deliver the audit plan.
14. Agreed management actions of previous audit reports will be followed up during 2020/21; this will identify the progress managers have made on addressing weaknesses in internal control; i.e. have the agreed management actions been implemented? This could impact on the coverage planned for other systems within service areas. This will be reported back to the Audit Committee.
15. From time to time the risk profile or priority of audit workload or service area may change so the planning process needs to be flexible enough to accommodate this. Where significant changes to the operational plan are required, the matter will be reported to the Head of Finance for approval; this will subsequently be reported to the Audit Committee. Internal Audit’s performance against this plan will continue to be reported to the Audit Committee on a regular basis.
16. Ultimately, the audit team has to undertake sufficient work across the whole Authority to enable the Chief Internal Auditor to give an overall annual audit opinion, and hence assurance, on the adequacy of the internal control environment of the systems operated within the Council.
17. With collaboration, change and efficiency reviews on the horizon, across the whole Council, the audit team will need to be flexible enough and adaptable to respond to changing priorities within the Council in order to provide the assurances required. The Chief Internal Auditor will continue to provide the same service to Monmouthshire CC, in collaboration.

Risk Analysis

18. The risks that the Council face are many and varied. A number of factors have been taken into consideration in compiling both the operational one-year plan and the strategic plan; financial budgets, previous audit work, The Measure, history of fraud, theft, misappropriation or non-compliance, changes in systems, changes in key personnel, along with concerns of management. A risk assessment exercise is undertaken in compiling the audit plan.
19. The audit workload needs to be prioritised to ensure appropriate coverage is given in all service areas and that assurance can be given that Council and service area objectives are being achieved. This is helped with Heads of Service and their senior managers being involved with the process and contributing to the risk profile assessment as a collaborative exercise with Internal Audit.

20. Grant income and external funding is becoming more prominent within the finances of the Council; generally these will be audited externally by the external auditor who provides assurances to the grant paying body. Internal Audit may be requested to audit some grants, therefore, a limited number of days have been included in the Internal Audit planning process.
21. In the Audit Section's continual efforts to ensure that Council 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 has been incorporated in the audit plan. Heads of Service have noted that this is a positive step and encourage their staff to attend.
22. A requirement of the Accounts and Audit (Wales) Regulations 2014 is that an Annual Governance Statement needs to be included with the Statement of Accounts; this covers corporate governance, performance measurement and risk management as well as internal financial control. The Chief Internal Auditor will continue to be involved with collating and co-ordinating the relevant information to support this statement, although the preparation of the statement should be a corporate responsibility.
23. 600 productive audit days are available for the 2020/21 revised audit plan. The total resource available for the Q3 and Q4 was 1040 days; annual leave, public holidays, sickness, training, management and administration time is then deducted to determine the available audit days to undertake audit reviews, deal with special investigations, provide advice and deliver training. On average an auditor has 180 available days to undertake audit work during a normal audit year; available audit days will be considerably less as a result of Covid-19 as explained below.
24. An allocation of time has been included in the plan for special investigations and unplanned work which members of the team may get involved with during the year. These could range from allegations of fraud or theft to non-compliance with Contract Standing Orders. The allocation has been fairly consistent over the last few years; for 2020/21 the allocation was 150 days, reduced to 75 for half a year:

	Allocation of days	Actual days
2016/2017	200	91
2017/2018	200	70
2018/2019	180	64
2019/2020	150	151
2020/2021	150 (full year) 75 (half year)	

Provision of Internal Audit - Opportunities

25. There is a potential change to the way audit services are delivered across South Wales with shared services on the agenda following the Williams Report. This could be seen as an opportunity for Newport Internal Audit team especially as the Chief Internal Auditor currently provides the same service to a neighbouring local authority. This will continue into 2020/21.
26. The team are using current technology to undertake audits in a variety of ways which could lead to more efficient ways of working.

Independence

27. Independence is achieved through the organisational status of Internal Audit and the objectivity of internal auditors. In order to ensure the objective nature of audit reviews is not compromised,

Internal Audit must be seen to be demonstrably independent of all managerial influence. Within Newport City Council this is achieved as follows:

- the Chief Internal Auditor is responsible for the control and direction of Internal Audit;
- the Chief Internal Auditor has a duty to report direct to the Chief Executive and the Leader of the Council on any matter which he feels appropriate, in particular where the Head of Finance appears to be personally involved;
- individual audit reports are sent to service managers and Heads of Service as appropriate in the name of the Chief Internal Auditor; and
- the Chief Internal Auditor submits an annual report to the Audit Committee giving an overall opinion on the adequacy of internal controls operated within the Council.

Audit Opinion

28. At the end of each audit review an audit opinion is given on the adequacy of the internal controls operated within that system or establishment. Taking into account strengths and weaknesses, the current suite of opinions ranges from good through to unsound:

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

29. In line with CIPFA's best practice guidelines, the audit opinions and their definitions will change in 2021/22. Following extensive consultation CIPFA have decided to promote a standard set of opinions to be used by all internal audit teams across the public sector within the UK. Further information will be presented to Audit Committee later in 2020/21.

30. 50 audit opinion jobs have been incorporated within the revised plan.

Structure

31. The Internal Audit Section comprises of two teams each led by an Audit Manager both reporting directly to the Chief Internal Auditor. The section has an establishment of 7.5 and is responsible for auditing all of the Council's systems and establishments including the payroll functions for 6,000+ staff.

Resources

32. Consideration has been given to the appropriate level of resources for Internal Audit at Newport City Council. The current establishment of 7.5 staff remains just about adequate for the current level of assessed risk as outlined above; a greater audit resource could provide a greater assurance to management and allow the section to be even more responsive to changing priorities

and risk profiles throughout the year. Any unplanned absences such as long term sickness, secondments or prolonged special investigations could significantly affect the audit plan as cover is limited.

33. If the risk profile of the Council significantly changes or if more investigations into allegations of Council staff are required than were planned for, then consideration will need to be given to increasing the resources of the Internal Audit team in order to maintain the current level of service provided.
34. It has been difficult to prioritise workload for 2020/21; after discussions with senior management teams in the service areas, in particular Social Services and Education Services, it was evident that a lot more audit coverage was required than the team is resourced up to deal with. Currently the plan is under resourced; the original audit plan includes more audit days across audit jobs than audit staff available to undertake the work.

Staffing & Training

35. The Section is supported by staff on a range of grades with appropriate professional qualifications including part qualified and fully qualified accountants and auditors. The staff have considerable experience of working within the local authority and audit environment. The Chief Internal Auditor, Andrew Wathan, is a qualified CIPFA accountant (Chartered Institute of Public Finance and Accountancy) and has extensive working knowledge of external and internal audit practices within the public sector. Andrew's management team consists of two professionally qualified Audit Managers, one CIPFA qualified and one ACCA qualified. One member of staff is a Certified Internal Auditor (Institute of Internal Auditors) and others in the team are part qualified, either IIA, ACCA or AAT.
36. Audit management will continue to support professional and work related training in order to enhance the Section's effectiveness in service delivery in line with the Council's management expectations and the Public Sector Internal Audit Standards. This will ensure that all staff are kept up to date with developments in auditing techniques and changes within local government which may impact on the provision of the service.
37. The team normally arranges technical audit training on behalf of the South Wales Chief Auditors' Group throughout the year which Newport's Internal Audit staff have the opportunity of attending. These sessions are run on a breakeven basis. This will be postponed until 2021/22.

External Auditor Relations

38. The Council's external auditor is Audit Wales. The Internal Audit team has developed a good working relationship with the team and will continue to do so to work jointly, share good practice and avoid duplication. They will also continue to assess Internal Audit against the standards to ensure that a professional and effective service is being provided.
39. The Chief Internal Auditor will continue to ensure compliance with the Public Sector Internal Audit Standards.

Service Areas

40. Many of the managers within the Council call upon the Internal Audit Section for financial advice which is incorporated within the plan. Audit staff are more than willing to offer any help and assistance they can to ensure that operations are undertaken properly but this also has an impact on planned audit reviews where time allocations are exceeded.

41. As a service to all levels of management, it is important that internal audit is seen as contributing positively to managers undertaking their responsibilities. These are wide ranging but include the prevention of fraud and corruption and securing the efficient and effective delivery of services; part of management obligations under the Council's Financial Regulations.

Impact of Covid-19

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

43. As per the Internal Audit Annual Report 2019/20, we were unable to complete all work as planned as service areas re-prioritised their staff and workloads, staff became unavailable, meetings and site visits were cancelled and requests came in to postpone ongoing audit work.

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

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

46. Audit resources available have been calculated based on the team functioning as 'normal' with effect from 1st October 2020 (**Appendix 3**). There are 600 productive audit days available to deliver the Revised Internal Audit Plan.

47. In 2019/20 external resources were brought in to undertake audit jobs which could not be completed in house due to a vacancy or long term illness. Consideration will need to be given to again bringing in an external audit resource to undertake audit jobs in 2020/21 to ensure appropriate audit coverage in the year.

48. The number of audit opinion audit jobs will be reduced for 2020/21. The year end opinion will be based on the audit work undertaken during the year, but there needs to be an understanding that for 2020/21, the number of audit opinions on individual jobs are likely to be less than in a normal year.

Financial Summary

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

	Year 1 (Current) £	Year 2 £	Year 3 £	Ongoing £	Notes including budgets heads affected
Costs (Income)					
Net Costs (Savings)					

Net Impact on Budget				
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Risks

50. If members are not involved in the process of endorsing the annual Internal Audit plan then this weakens the governance arrangements and would be non-compliant with the Public Sector Internal Audit Standards, which could then be subject to adverse criticism from the external auditor, currently Audit Wales.

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?

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

51. The work of Internal Audit supports all of the Council's priorities and plans.

Options Available

52. (1) That the Revised Annual Internal Audit Plan for 2020/21 be approved, subject to any amendments suggested by the Audit Committee.

Preferred Option and Why

53. Option (1) as it is requirement of the Public Sector Internal Audit Standards.

Comments of Chief Financial Officer

54. I can confirm that I have been consulted on the Revised Annual Internal Audit Plan 2020/21 and have no additional comments.

Comments of Monitoring Officer

55. There are no specific legal issues arising from the report, which sets out the revised operational Internal Audit plan for 20/21 and identifies the specific areas of audit work that will be carried out, having regard to the corporate risk profile and available staffing resources. The Council has a statutory duty under the Accounts and Audit (Wales) Regulations 2014 to ensure that it has adequate and effective financial management and a sound system of internal control, which is reviewed regularly. The Audit Committee has responsibility under the Local Government (Wales) Measure 2011 to keep under review the Council's risk management, internal control and corporate governance arrangements and to oversee the work of the internal audit team. Therefore, Audit Committee are required to consider the revised operational plan and satisfy themselves that the annual work programme to be undertaken by the internal audit team is sufficient to discharge this responsibility.

Comments of Head of People and Business Change

56. Due to the Covid-19 outbreak the Council has had to reassess its strategic priorities and resources. As the Council is moving towards recovery, new / emerging opportunities and risks will need to be considered as part of the audit plan to ensure the Council has adequate internal controls, governance and risk management processes in place. The involvement of the Council's Corporate Management Team to support the Internal Audit team to effectively undertake their role is vital to provide necessary assurance, advice and guidance to meet our statutory duties and protect public finances. This plan will also ensure that the Council can meet its requirements under the Wellbeing of Future Generations Act and ensure sustainable development can meet short and long term objectives of the Council.

Comments of Cabinet Member

57. Not applicable.

Local issues

58. No local issues.

Scrutiny Committees

59. Not appropriate

Equalities Impact Assessment

60. 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.

61. As this is an annual report on planned audit work there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

62. Not appropriate.

Wellbeing of Future Generations (Wales) Act 2015

63. 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: The delivery of the Internal Audit Plan is aligned with the Council's strategic and operational objectives, risks and statutory requirements. Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money. Internal Audit will work with external audit and other regulatory providers to avoid duplication.
- 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

64. 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

65. Not appropriate

Background Papers

66. 2019/20 Internal Audit quarterly reports, Corporate Plan, Corporate Risk Register, Service Improvement Plans, Draft Internal Audit Plan 2020/21

Dated:

APPENDIX 1

Internal Audit Services		
Revised Operational Audit Plan for 2020/21		
Service Area	Number of days	Percentage of plan
Finance	83	13%
People & Business Change	82	13%
Law & Regulation	43.5	7%
Children & Young People Services	80	13%
Adult Services	30	5%
City Services	61.5	10%
Regeneration, Investment & Housing	55	9%
Education Services	115.5	18%
External – SWCAG Training Programme	0	0%
Special Investigations	75	12%
Total Days for Operational Plan	626	100.00%

Service Grouping	Number of days	Percentage of plan
Chief Executive		
Corporate Services	209	33%
People		
Social Services	110	18%
Education Services	115.5	18%
Place		
City Services & Regeneration	116.5	19%
Other	75	12%
Total Days for Operational Plan	626	100.00%

APPENDIX 2

INTERNAL AUDIT PLAN – 2020/21 – 6 months from 1st October 2020

The plan will be reviewed and updated where necessary during 2020/21.

REVISED INTERNAL AUDIT SERVICES - AUDIT PLAN 2020/21

* 20/21 planned job completed before 30/09/20

** Not in original draft 2020/21 plan - c/f from 2019/20

*** Not in original draft 2020/21 plan - new job

Finance		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non Opinion Job	
Accountancy								
	Main Accounting System	-						
	~ Budgetary Control (Revenue)	2014/15	H	20	0			
	~ Coding Structure / Journals / Holding & Suspense**	c/f 2019/20	M	0	1	Y		
	Schools Finance	2014/15	H	20	20	Y		
Income Collection								
	Council Tax*	2018/19	H	15	0	Y		
	~ Covid-19 Business Grants***	New	H	0	0		Y	
Strategic Procurement								
	Strategic Procurement	-						
	~ Gateway Process (incl. Excepted Contracts)	2017/18	H	20	0			
	Contract Management	Never	H	20	20	Y		
	Purchasing Cards (Transactions - 2019/20)*	2019/20	M	12	0	Y		
	Purchasing Cards (Transactions - during Covid-19 lockdown period)***	2019/20	M	12	12	Y		
General								
	Annual Governance Statement*	2019/20		10	0		Y	
	National Fraud Initiative (NFI)	2019/20		20	20		Y	
	Financial Advice	2019/20		10	5		Y	
	Follow up of Agreed Management Actions 2019/20	2019/20		5	5		Y	
	Finalisation of 2019/20 Audits*	Annual		3	0		Y	
Total Planned Days for Finance				Days	167	83	6	6

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
People & Business Change							
Digital Services							
	~ Payment Card Industry Data Security Standards (PCI DSS) (Follow Up)	2016/17	H	8	8	Y	
Human Resources							
	~ Organisational Structure	2011/12	M	15	0		
	~ Payroll CAATs	2018/19	M	15	15	Y	
	~ Recruitment & Selection*	2013/14	H	20	0	Y	
	Health & Safety	2013/14	H	20	0		
Newport Intelligence Hub							
	iTrent System Development***	Never	H	0	4		Y
Partnership Support							
	Civil Contingencies	2019/20					
	~ Covid-19 Response***	Never	H	0	20	Y	
	Performance Management	Never	H	15	0		
	Risk Management	2018/19	H	20	20	Y	
General							
	Welsh Language Standards	Never	H	15	0		
	Financial Advice	Annual		8	4		Y
	Financial Regulations Training	Annual		10	5		Y
	Follow up of Agreed Management Actions 2019/20	Annual		4	4		Y
	Finalisation of 2019/20 Audits	Annual		4	2		Y
Total Planned Days for People & Business Change				172	82	5	5

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
Children & Young People Services							
Resources							
	Adoption Allowances (Follow Up)	2018/19	M	12	12	Y	
	~ SGO/Kinship Payments (Follow Up)	2019/20	M	12	12	Y	
	~ Cambridge House	2014/15	M	15	0		
	~ Forest Lodge	2015/16	M	0	15	Y	
Safeguarding, Quality Assurance & Child Protection							
	Adult Safeguarding	-					
	~ Appointeeships	2016/17					
	~ Deprivation of Liberty Safeguards (DOLS)	Never					
	~ Adults at Risk	2019/20					
	~ Violence Against Women Domestic Abuse & Sexual Violence (VAWDASV)	Never					

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
	Children's Safeguarding	-					
	~ Education Safeguarding	2016/17					
	~ Independent Reviewing Officers (IROs)	2013/14					
	Corporate Safeguarding	2017/18					
	Quality Assurance	Never					
General							
	Children & Families Imprest Account (Follow-Up)	2019/20	H	10	10	Y	
	Control Risk Self-Assessments	Never	M	8	4	Y	
	Financial Advice	2019/20		8	4		Y
	Follow up of Agreed Management Actions 2019/20	2019/20		3	3		Y
	Finalisation of 2019/20 Audits	Annual		4	0		
Total Planned Days for Children & Young People Services				92	80	6	2

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
Adult & Community Services							
Integrated Teams							
	Mental Health Service	Never	H	20	20	Y	
Service Development & Commissioning							
	~ Supported Living Provider Payments	Never	H	20	0		
	~ Housing Support Grant*	New	M	4	0	Y	
	~ Homelessness Prevention Grant*	New	M	4	0	Y	
Care & Support Services							
	Cross-Cutting / Thematic Reviews						
	~ Residents' Monies	2014/15	H	20	0		
General							
	Control Risk Self-Assessments	Never		8	4	Y	
	Financial Advice	2018/19		6	3		Y
	Follow up of Agreed Management Actions 2019/20	2018/19		3	3		Y
	Finalisation of 2019/20 Audits	Annual		2	0		Y
Total Planned Days for Adult & Community Services				87	30	4	3

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
Law & Regulation							
Democratic Services & Communications							
	Democratic Services & Governance	2018/19					
	Marketing & Communications	Never	M	15	12	Y	
Electoral Registration							
	Electoral Registration	2012/13	M	15	0		
Legal							
	Litigation	2012/13	H	15	0		
	Corporate Admin Team**	2019/20	M	0	0	Y	
Public Protection							
	Environmental Health						
	- Neighbourhood - CCTV	2002/03	M	12	12	Y	
	- Neighbourhood - CSW	2015/16	M	15	15	Y	
	- Licensing (Taxi)	2013/14	H	15	0		
	- Scambusters Grant Claim 2019/20	Annual	M	8	0	Y	
	- Newport City Dogs Home**	2019/20	M	0	0	Y	
General							
	Financial Advice	Annual		5	2.5		Y
	Follow up of Agreed Management Actions 2019/20	Annual		2	2		Y
	Finalisation of 2019/20 Audits	Annual		3	0		
Total Planned Days for Law & Regulation				105	43.5	6	2

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
Regeneration, Investment & Housing							
Community Regeneration							
	Grants						
	- Children & Communities Grant 2019/20	2019/20	M	10	0		
Development Services							
	Development Control						
	- Planning Applications	2011/12	M	15	15	Y	
Culture, Libraries and Community Learning							
	Community Learning & Libraries						
	- Library Service	2014/15	M	15	0		
	Museum & Heritage						
	- Museum & Art Gallery**	2019/20	M	0	0	Y	
Housing, Regeneration & Property							
	Housing Needs						
	- Private Sector Housing	2009/10	M	15	15	Y	
	Newport Norse (Joint Venture) Follow Up	2015/16	H	12	12	Y	

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
	Integrated Property Unit						
	- Commercial & Industrial Properties Follow up	2018/19	H	8	8	Y	
General							
	Financial Advice	Annual		6	3		Y
	Follow up of Agreed Management Actions 2019/20	Annual		2	2		Y
	Finalisation of 2019/20 Audits	Annual		2	0		
Total Planned Days for Regeneration, Investment & Housing				85	55	5	2

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
City Services							
Customer Services							
	Digital Optimisation						
	- Channel Optimisation	Never	M	15	0		
	Complaints Handling	Never	M	15	15	Y	
	- Children's Rights & Complaints	Never					
Environment & Leisure							
	Parks & Recreation						
	- Parks & Outdoor Recreation **	2019/20	M	0	0	Y	
	Country & Conservation						
	- Access to Countryside	2006/07	M	15	0		
	Grounds Maintenance						
	- Grounds Maintenance Follow up	2019/20	H	8	8	Y	
Highways & Engineering							
	Highways Maintenance						
	- Highways (follow up)	2018/19	H	8	8	Y	
	Transport						
	- Vehicle Usage & Trackers (follow up)	2018/19	H	8	0		
	- Home to School Transport**	2019/20	H		10	Y	
	- Passenger Transport Unit - Taxi Contracts Follow Up	2018/19	H	8	0		
	Asset Management						
	- Streetlighting	2013/14	M	15	15	Y	
Waste & Cleansing							
	Waste Collections						
	- Refuse	2015/16					
	Recycling		M	15	0		
	- Recycling & Engagement	Never					
	- Enforcement	Never					

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
General							
	Financial Advice	Annual		5	2.5		Y
	Follow up of Agreed Management Actions 2019/20	Annual		2	2		Y
	Finalisation of 2019/20 Audits	Annual		6	1		
Total Planned Days for Streetscene & City Services				120	61.5	6	2

		Last Review	Risk	2020/21 Days	Revised Days	Opinion Job	Non opinion Job
Education Services							
Resources & Planning							
	Trips & Visits (Evolve System) (Follow-Up #2)	2019/20	H	7	0		
	Early Years	Never	H	15	15	Y	
Engagement & Learning							
	Gwent Music Support Service						
	- Music Support Service Follow Up	2019/20	H	8	8	Y	
Inclusion							
	Bridge Achievement Centre (PRU) Follow up**	2019/20	M	0	0	Y	
	- Healthy Schools	Never	M	12	0		
	Special Educational Needs						
	- SEN Out of County Placements**	2019/20	H	0	8.5	Y	
	Pupil Exclusions	Never	M	12	0		
Education Grants							
	Education Improvement Grant (SIG) 2019/20*	Annual	M	5	0	Y	
	Pupil Deprivation Grant 2019/20*	Annual	M	5	0	Y	
Nursery Schools							
Primary Schools							
	Gaer Primary	2012/13	M	10	10	Y	
	Malpas Park Primary	2012/13	M	10	10	Y	
	Rogerstone Primary	2012/13	M	10	10	Y	
	Marshfield Primary	2013/14	M	10	0		
	St Mary's RC Primary	2013/14	M	10	0		
	Malpas Church in Wales Primary	2013/14	M	10	10	Y	
	St Joseph's RC Primary	2013/14	M	10	0		
	Jubilee Park	Never					
Secondary Schools							
	Ysgol Gyfun Gwent Is Coed	Never	M	12	12	Y	
	Bassaleg	2014/15	M	12	0		
	Caerleon Comprehensive Follow up	2018/19	H	8	8	Y	
Special Schools							

	Ysgol Bryn Derw	Never	M	12	0		
Other - School Related							
	CRSA's / Healthcheck - Secondary / Primary / Nursery	Annual	M	8	8		Y
	Deficit Budget Project	2019/20	M	4	2		Y
General							
	Schools Financial Regulations Training / Cluster Meetings	Annual		2	1		Y
	Financial Advice	Annual		19.5	10		Y
	Follow up of 2019/20 Agreed Management Actions	Annual		3	3		Y
	Finalisation of 2019/20 Audits	Annual		5	0		
Total Planned Days for Education Services				219.5	115.5	12	5

			Original Plan	Revised Plan
TOTAL AUDIT DAYS			1048	551
EXTERNAL - SWCAG TRAINING PROGRAMME			10	
SPECIAL INVESTIGATIONS			150	75
TOTAL PLANNED AUDIT DAYS			1208	626

50 opinion related audit jobs
27 non-opinion related audit jobs

APPENDIX 3 Internal Audit Resources 2020/21

Original starting point pre Covid-19:

Establishment	7.5	
Actual FTE's in IA Team	6.5	
Total Days Available 20/21	2104	
Less Leave, sickness, training, management, admin	954	
Total Audit Days Available	1150	55% of total days available
Special Investigations	150	
Operational Audit Days	1000	

Resources Available as at 1-10-20

Establishment	7.5	
Actual FTE's in IA Team	7.5	
Total Days Available 20/21	1040	
Less Leave, sickness, training, management, admin	440	
Total Audit Days Available	600	58% of total days available
Special Investigations	75	
Operational Audit Days	525	

Report

Audit Committee

Part 1

Date: 28 September 2020

Item No: 6

Subject Internal Audit – Progress against unfavourable audit opinions previously issued [to March 2020] (previous report was to September 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**, 32 audit opinions had been issued; 6 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.
 - SGO / Kinship Payments has received a second consecutive Unsatisfactory audit opinion therefore consider calling in the Service Manager and the Head of Service.

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 January 2020 which related to opinions as at 30 September 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. One report has not yet been followed up.

	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 due to the independent CIPFA review. Now planned for 2020/21 – Qtr 4.

7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory*, 1 was *Unsound*. One report has not yet been followed up.

	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. Two reports have not yet been followed up.

	Original Opinion / Date of follow up	Current Status
SGO / Kinships	Unsatisfactory March 2018 Follow up: Q4 2019/20	See 2019/20 table
Trips & Visits (Evolve)	Unsatisfactory March 2018	Unsatisfactory March 2019 (previously reported to Audit Committee) Follow up 2021/22
Outside Preferred Catering Contractor (Schools)	Unsatisfactory March 2018 2021/22 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*. 3 audits have been followed up which resulted in more favourable opinions.

	Original Opinion / Date of follow up	Current Status
General Data Protection Regulation (GDPR)	Unsatisfactory November 2018 Final Follow up Q3 2019/20	Reasonable Final February 2020
Subject Access Requests	Unsatisfactory November 2018 Final	

	Original Opinion / Date of follow up	Current Status
	(incorporated within GDPR 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 2021/22	
Street Cleansing	Unsatisfactory August 2018 Final	Reasonable November 2019 Final
Trips & Visits (Evolve System) (Follow-Up)	Unsatisfactory May 2019 Final Follow up 2021/22	
Caerleon Comprehensive	Unsatisfactory October 2019 Final Follow up 2020/21	

	Original Opinion / Date of follow up	Current Status
Bridge Achievement Centre (PRU)	Unsound February 2019 Final Follow up 2019/20 – c/f to 2020/21	

10. In **2019/20**, 32 audit opinions had been issued; 6 were deemed to be *Unsatisfactory*, none were deemed to be *Unsound*. The significant issues of the 'Grounds Maintenance' and 'Passenger Transport Unit – Taxi Contracts' reports were reported to Audit Committee in January 2020. A summary of the significant issues of the other reports 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 October 2019 Final Follow up 2021/22	
Corporate Governance	Unsatisfactory March 2020 Draft Follow up 2021/22	
SGO / Kinship Payments (Follow Up)	Unsatisfactory March 2020 Final Follow up #2 2020/21	2nd consecutive Unsatisfactory opinion Previous Unsatisfactory opinion May 2018
Children & Families Imprest Account	Unsatisfactory March 2020 Final Follow up 2020/21	

Gwent Music Support Service	Unsatisfactory January 2020 Final Follow up 2020/21	

a. Corporate Governance

Ref.	CRITICAL
1.06	There have been vacancies in the Governance Team's management structure and in the Scrutiny Team (Officers) since September 2019. The strategic, statutory post of Democracy and Communications Manager has been vacant during this time, as has the post of Scrutiny and Governance Manager. There is no Chief Legal Officer in post and the Strategic Director – People had also resigned. The Council also face new arrangements and corporate change on appointment of a permanent Chief Executive from April 2020.

Ref.	SIGNIFICANT
2.04	The Council's Employee Code of Conduct is out of date, not clearly and fully communicated to staff using a proactive approach, and there is no corporate monitoring of its effectiveness.
2.05	The Constitution requires review to bring it up to date with current legislation and to ensure it captures the functions of all statutory management posts.
2.06	The Data Protection Policy has not received formal approval and adoption.
2.07	The Anti-Fraud and Corruption Policy Statement is out of date and not actively promoted to staff.
4.01	Various aspects of the Council's management of employee declarations of personal and pecuniary interests require the introduction of control improvements to mitigate risk to the Council.
4.02	Various aspects of the Council's management of employee declarations of gifts and hospitality require the introduction of control improvements to mitigate risk to the Council.
6.12	Various aspects of the Council's Whistleblowing Policy and procedures require review to ensure their suitability.
6.13	There are no training modules or awareness raising sessions specifically regarding the whistleblowing procedures, no reviews of employee awareness of the policy and guidance, and no reports made to Scrutiny Committee on the effectiveness of the policy.
6.14	The Compliments, Comments and Complaints Policy and up to date guidance is not directly available for employees on the intranet.

b. SGO / Kinship Payments

It was management's intentions that from September 2019, the Friends and Family Team would be responsible for all SGO financial assessments, as well as the management and review of on-going

payments. This co-ordination did not happen as intended. Due to the lack of system information and availability of records Internal Audit were unable to verify that the previously identified issues had been successfully addressed. The previous issues were as follows:

Ref.	CRITICAL
	No critical weaknesses were identified during this audit.

Ref.	SIGNIFICANT
1.05	There was a lack of central coordination of the SGO financial assessment process as roles and responsibilities were not clearly defined. No one manager had overall responsibility for this function despite the budget being over £950k.
1.06	The declaration on the financial assessment form did not include the requirement to verify and share the data provided and that action could be taken in the event of providing false information.
1.07	Evidence that information about the SGO process was issued to all relevant parties was not always available.
2.07	Follow up financial assessments were not always conducted within 8 weeks of the SGO being granted and the SGO allowances were not always calculated in accordance with the Financial Procedures Policy.
2.08	Notification of the initial SGO award letters did not include information on the reduction of SGO payments after 8 weeks.
2.09	The evidence sighted to confirm the details recorded on the financial assessment form was not copied or noted and no further verification of the information was conducted.
2.10	The financial assessment forms were not always signed and dated by the special guardians.
2.11	Independent checks of financial assessment calculations were not accurately completed prior to payment being made.
2.12	DSS1-2 forms were not always signed and dated by the authorising officer.
2.13	Annual re-assessments were not aligned to the 1 st April each year to reflect changes to state benefits and allowances.
2.14	Not all the required information relating to the financial assessments was scanned or saved in ESCR.
3.08	Follow up letters were not issued to special guardians of SGO children who were more than 16 years of age and, when applicable, evidence that the child was still in education was not available.

c. Children and Families Imprest Account

Ref.	CRITICAL
	No critical weaknesses were identified during this audit.

Ref.	SIGNIFICANT
2.06	Disbursement forms were not always supported by either original receipts or by petty cash vouchers where it had not been possible to obtain a receipt.
2.07	Application for Financial Assistance forms did not always clearly detail what the expenditure was for and, in cases which related to the St David's Day Fund, no record was made of the eligibility criteria that had been met in respect of the grant funding.
2.08	Petty cash vouchers had not been completed and signed where funds had been provided in advance of a purchase.
2.09	VAT amounts were not accurately recorded on reimbursement claims and, in the absence of receipts, there was no opportunity for the Authority to potentially reclaim VAT against purchases made.
3.06	The daily cash up process was carried out by only one member of staff, was not independently checked and verified, and no records were held to confirm who had completed it.

d. Gwent Music Support Service

Ref.	CRITICAL
	No critical weaknesses were identified during this audit.

Ref.	SIGNIFICANT
1.04	A copy of the Support Agreement with Pxxxx was not held by Gwent Music. There was no formal contract in place for the use of the system. The Terms & Conditions of use, which were subsequently received had not been updated to reflect changes to the Data Protection Act 2018 or the GDPR.
1.05	Access to the admin areas of the Pxxxx system was not restricted to authorised personnel and access had also been provided to a 3 rd party.
1.06	Signed service level agreements (SLAs) / evidence of agreement was not always held for non-parent billed schools.
1.07	Application forms and evidence of obtaining quotations was not always present for the sample of purchases examined which had been made via the Instrument Purchase Scheme. Purchase orders were sometimes raised after invoices had been received.
1.08	Not all members of Gwent Music staff have attended Information Security or Financial Regulations training courses.

Ref.	SIGNIFICANT
1.09	No cross check was completed to the Free School Meal (FSM) database to ensure eligibility for the Music Access Fund.
1.10	Financial contributions from the Gwent Local Authorities were not made on a consistent basis to the Music Access Fund. Where a Local Authority had over/underspent on their contribution this was not recovered/repaid.
2.02	There was no documented approval process / agreement of the Gwent Music Fees & Charges.
2.03	Gwent Music had a high level of 'Unauthorised' debt relating to tuition previously provided. Income due / debts had not been collected in a timely manner, nor had tuition been stopped for non-payment.
2.04	Schools were not being invoiced for their SLA charges on a regular basis. There was a high amount of non-invoiced debt.
3.02	An up-to-date inventory of assets was not in place detailing all items held at Gwent Music Headquarters or other locations. Assets held in the storage unit were not insured.
3.03	The access arrangements to Gwent Music HQ were not secure and the signing in / out record was not being completed.
3.04	The service had long term hire arrangements in place for the storage of musical instruments despite there being areas of Gwent Music HQ not being fully utilised.
3.05	<p>There was a lack of control surrounding the Instrument Loan Scheme:</p> <ul style="list-style-type: none"> a) The Instrument Loan database had a high number of outstanding loans dating back to 2006 (13 years). b) Pupils no longer on roll at schools within Newport were identified as having an instrument with an outstanding loan. c) The Instrument Loan database did not contain all required information, with some information missing. d) Instrument loans had been made to pupils no longer receiving tuition i.e. some were at university. According to the database these remained outstanding. e) The database was not updated to reflect pupils moving from primary to secondary schools. f) Instrument loans were not being reviewed on a periodic / regular basis. g) The database was not up-to-date and instrument loans issued during the previous 15 months had not been input. h) The total number, overall value and location of musical instruments held / owned by the service could not be confirmed. i) Deposits or charges for the hire of musical instruments were not made.
3.06	Where musical instruments are loaned / used by tutors there was no signing in / out procedure to ensure the assets were accounted for.

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. 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

Audit of Accounts Report – Newport City Council and Newport City Council Group

Audit year: 2019-20

Date issued: September 2020

Document reference: 2043A2020-21

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

We intend to issue an unqualified audit report on your accounts. There are some matters to report to you prior to their approval.

Audit of accounts report

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Audit of accounts report

Introduction

- 1 We summarise the main findings from our audit of your 2019-20 Statement of Accounts in this report.
- 2 We have already discussed these issues with the Head of Finance/Section 151 Officer.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £5 million for this year's audit, for the audit of both the Council and the Group.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
 - Senior officer remuneration £5,000
 - Related party transactions £5,000
- 6 We have now substantially completed this year's audit, although at the time of writing some areas of our work are still subject to review. We will provide an oral update to the meeting if any further matters arise from that review.
- 7 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence. We have previously notified you of a potential threat to auditor independence and objectivity arising from a trainee secondment during 2019-20 and confirm that the planned safeguards set out in our Audit Plan operated as intended.

Impact of COVID-19 on this year's audit

- 8 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 9 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

Exhibit 1 – impact of COVID-19 on this year’s audit

<p>Timetable</p>	<p>Our audit timetable has been affected as follows:</p> <ul style="list-style-type: none"> • The statutory deadline for approving the draft Statement of Accounts was 15 June. • The draft Statement of Accounts was approved on 6 July. • Our legislative deadline for completing the audit remained at 15 September. However, we were not in a position to certify the final Statement of Accounts before this date. • We are not able to certify the final Statement of Accounts until they have been approved following a meeting of the Audit Committee. With the Committee not meeting until 28 September, audit certification has therefore been delayed. • We now expect your audit report to be signed on 30 September 2020.
<p>Electronic signatures</p>	<p>Given current social distancing requirements, we will be unable to certify the accounts in hard copy this year. Instead, we will likely need to use electronic signatures for this purpose. We will liaise with management to arrange this.</p>
<p>Audit evidence</p>	<p>Due to social distancing measures, Audit Wales staff are currently working remotely from home. As a result, we have not had direct access to certain systems such as the Council’s financial ledger, payroll systems and ‘Information @ Work’ system. We normally use this access to directly review financial records and obtain invoices where possible.</p> <p>Consequently, we have had to request all such information from Finance staff for the 2019-20 audit, although all information requested has been provided.</p>
<p>Uncertainty in land and building valuations</p>	<p>The Council obtains valuations of its land and building assets over a five-year rolling period, and investment properties annually. Valuations are supplied by Newport Norse, and we are satisfied that any valuations have been accounted for appropriately in the final 2019-20 accounts.</p> <p>In its report, Newport Norse has notified the Council of a ‘material valuation uncertainty’ arising from the COVID-19 pandemic. To ensure transparency, the Council has referenced the valuer’s comments in Note 5 of the final accounts (separately for land and buildings and investment properties). We have also included two emphasis of matter paragraphs within our audit certificate to draw attention to these uncertainties. Our 2019-20 audit opinion is not modified in respect of this matter.</p>

**Uncertainty
in pension
fund
property
assets**

Each year, the Council is provided with data from the actuary of the Greater Gwent Pension Fund, for inclusion in the Council's accounts in line with International Accounting Standard 19. We are satisfied that this data has been appropriately included within the final 2019-20 accounts.

The auditors of the pension fund have notified us of a further estimation uncertainty regarding property assets held by the Pension Fund. Consequently, the Council has also disclosed this matter within Note 5 of the final accounts, and we have also included one further Emphasis of Matter reference in our audit certificate. Our 2019-20 audit opinion is not modified in respect of this matter.

- 10 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

Proposed audit opinion

- 11 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 12 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 13 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards, along with confirmation of other specific information you have provided to us during our audit.
- 14 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

- 15 We set out below one misstatement we identified in the accounts, which has been discussed with management but remains uncorrected. We request that this is corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons in writing for not correcting it.

Borrowings - soft loans overstated by £1.9 million

The Council is in receipt of interest-free borrowings for capital projects (known as 'soft loans') from various lenders totalling £9.9 million. Paragraph 7.1.6.8 of the CIPFA Code of Practice for Local Authority Accounting 2019-20 requires that for valuation in the accounts, soft loans should be discounted using a prevailing interest rate that would otherwise be obtained in an open market. Any reduction in the loan value caused by discounting should then be recorded as 'capital grants and contributions' in the Comprehensive Income and Expenditure Statement.

Our audit identified that the Council had accounted for these borrowings using their cash value of £9.9 million, rather than discounting them as required by the CIPFA Code. The Council considers that the accounting entries required to correct these values in the final accounts would be onerously complex considering the immaterial value involved.

This accounting treatment has the effect of overstating the value of the borrowings by £1.9 million but has no impact on the Council's General Fund. This amount is not material for the purposes of our audit, and consequently has no impact on our audit opinion.

Accounting treatment of loan modifications under IFRS 9

In our 2018-19 Audit of Financial Statements Report, we reported an uncorrected misstatement arising from the Council's treatment of loan modifications under International Financial Reporting Standard 9 (IFRS 9). The misstatement related to a Public Works Loan Board loan subsequently replaced by a new loan with a lower interest rate, but otherwise significantly similar terms and conditions.

The Council has recorded the difference in loan value arising under IFRS 9 within its earmarked reserves, to be written down over the remaining life of the loan. However, the initial valuation recorded by the Council last year was too high and, as a result, the value of this reserve remains £380,000 overstated in the 2019-20 financial year.

The Council considers that the accounting entries required to correct these values in the final accounts would be onerously complex considering the immaterial value involved.

Corrected misstatements

- 16 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

Other significant issues arising from the audit

- 17 In the course of the audit, we consider a number of matters relating to the accounts and report any significant matters arising to you:
- concerns about the qualitative aspects of accounting practices and financial reporting;
 - any significant difficulties during the audit;
 - significant matters discussed and corresponded upon with management which we need to report to those charged with governance;
 - any other matters significant to the oversight of the financial reporting process that we need to report;
 - any identified material weaknesses in internal controls; and
 - any other matters specifically required by auditing standards to be communicated to those charged with governance.
- 18 There is one such matter arising this year to bring to your attention. Our testing of creditors identified three out of 19 sampled transactions where goods or services were incorrectly accrued for in the 2019-20 accounts, despite not being delivered to the Council until 2020-21. The errors all arose as part of year-end accounts closedown, during the period of lockdown arising from the COVID-19 pandemic.
- 19 The errors identified in our creditors testing are below our trivial threshold individually and in total. Consequently, we have not requested that the Council correct these errors in the final 2019-20 accounts. We have also performed further audit procedures to provide assurance that there is no likely material misstatement arising from these issues and are satisfied that is the case. This issue is presented for your consideration, and further details will be presented in our Financial Accounts Memorandum at a later date (see paragraph 20 below).

Recommendations

- 20 The recommendations arising from our financial audit work will be reported separately in a Financial Accounts Memorandum, which we expect to present to the Audit Committee later in 2020. We will follow up progress on recommendations during next year's audit. Where any recommendations are outstanding, we will report them to you in next year's report.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales
Audit Wales
24 Cathedral Road
Cardiff
CF11 9LJ

28 September 2020

Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Newport City Council and Newport City Council Group for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Newport City Council and Newport City Council Group and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

There are no material differences between the accounting policies of Newport City Council and Newport City Council Group.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The two uncorrected misstatements identified in the audit are set out below:

Borrowings - soft loans overstated by £1.9 million

This is a technical adjustment to reflect the fair value of loans who have below market interest rates. For Newport City Council this relates to interest-free loans from Welsh Government and Salix for energy efficiency schemes. The opposite entry of the adjustment would be reflected in an unusable reserve and would therefore have no impact on the general fund nor earmarked reserves. As the error is immaterial it has been decided not to adjust the accounts for the difference in value.

Accounting treatment of loan modifications under IFRS 9

This is in relation to an accounting adjustment for the treatment of historic PWLB loans that have been replaced with a new loan at a lower interest rate. The value of the misstatement is £380,000 and would be amortised over the remaining life of the loan. As the error is immaterial it has been decided not to adjust the accounts for the difference in value.

A discussion between officers and Audit Wales needs to take place this year to discuss immaterial misstatements and how these are dealt with in future reports. Some misstatements could be within the accounts over a very long term, but in line with simplified accounting and materiality as per the CIPFA Code of Guidance, a decision has been made not to include in the financial statements.

Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Audit Committee on 28 September 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Meirion Rushworth
Head of Finance/Section 151 Officer

John Baker
Chair, Audit Committee

Date: 28 September 2020

Date: 28 September 2020

Appendix 2

Proposed audit report

The independent auditor's report of the Auditor General for Wales to the members of Newport City Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of:

- Newport City Council; and
- Newport City Council Group

for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

Newport City Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

Newport City Council Group's financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Newport City Council and Newport City Council Group as at 31 March 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Council and the Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other

ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter – effects of COVID-19 on the valuation of land and buildings

We draw attention to Note 5 of the financial statements, which describes material valuation uncertainties regarding the valuations of land and buildings arising from the current COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Emphasis of matter – effects of COVID-19 on the valuation of investment properties

We draw attention to Note 5 of the financial statements, which describes material valuation uncertainties regarding the valuations of investment properties arising from the current COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Emphasis of matter – effects of COVID-19 on the valuation of pension fund assets

We draw attention to Note 5 of the financial statements, which describes estimation uncertainties regarding the valuations of certain pension fund assets arising from the current COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or Group's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the Statement of Accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Council and the Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Newport City Council and Newport City Council Group in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including Newport City Council Group's financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Council's and Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Adrian Crompton
Auditor General for Wales
30 September 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

Summary of corrections made

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

There are no corrections which affect the Council's General Fund balance.

Exhibit 2: financial statement corrections that do not affect the General Fund

Area of correction	Nature of correction	Reason for correction
<p>Note 20 (Cash and Cash Equivalents): Classification of cash, borrowings, loans receivable and investments.</p>	<p>To ensure that cash and cash equivalents, loans receivable and investments are accurately presented in the final accounts.</p>	<p>Our audit identified that:</p> <ul style="list-style-type: none"> £15 million of borrowings had been recorded incorrectly within cash and cash equivalents; £9.5 million needed to be reclassified from 'bank current accounts' to 'cash held by the authority' within the note; £3.7 million of repayable loans issued to developers had been incorrectly recorded within cash and cash equivalents; and £2.5 million, initially recorded within cash and cash equivalents, should be classified as investments to be consistent with other similar assets held by the Authority. <p>Consequently, a number of corrections have been made to cash and cash equivalents (along with other corresponding areas) within the final accounts.</p>
<p>Note 14 (Property, Plant and Equipment): Classification of investment properties.</p>	<p>To ensure that assets are appropriately classified as investment properties in line with the CIPFA Code.</p>	<p>The Council's asset valuers identified £6.9 million of land and building assets to reclassify as investment properties in 2019-20. This reclassification was correctly processed in the 2019-20 draft accounts.</p> <p>However, our audit identified that there had been no significant change in use of these assets in 2019-20, and so they have now been reclassified in the 2018-19 comparative accounts, given that their value is material.</p>
<p>Note 22 (Short Term Creditors): Classification of payroll creditors.</p>	<p>To ensure that creditors are classified correctly in the final accounts.</p>	<p>Our audit identified the following creditors classified as 'general' short-term creditors in Note 22:</p> <ul style="list-style-type: none"> a creditor of £1.7 million to Torfaen CBC; a creditor of £1.6 million to Teachers' Pensions; and

Area of correction	Nature of correction	Reason for correction
		<ul style="list-style-type: none"> a creditor of £317,000 for accrued interest to the Public Works Loans Board. <p>These creditors are now correctly classified as 'other local authorities' (for Torfaen CBC) and 'central government' (for the other two creditors) respectively.</p>
<p>Note 23 (Provisions): Correction of accumulated absence provision.</p>	To ensure that this provision is calculated in line with the CIPFA Code.	<p>Our audit identified that the accumulated absence provision was understated by £1.4 million, due to an error in the underlying calculation.</p> <p>This error has now been corrected, and the provision accurately stated in the final accounts.</p>
<p>Note 17 (Financial Instruments): Classification of borrowings.</p>	To ensure that current and non-current borrowings are correctly presented in the final accounts.	<p>Our audit identified that a total of £3.9 million of borrowings in 2019-20 (and £3.5 million in 2018-19) had been incorrectly classified as 'long-term borrowing' rather than 'short-term borrowing' in the draft accounts.</p> <p>These errors have been corrected, with the split between short-term and long-term borrowing now accurate in the final accounts for both years.</p>
<p>Note 20 (Short Term Debtors): Timing of cash receipts.</p>	To ensure that debtors and cash and cash equivalents are accurately presented in the final accounts.	<p>Our audit identified that £395,000 of 'local authority' debtors, and £98,000 of 'general' debtors were overstated, as the Council has received cash to settle them on 31 March 2020.</p> <p>As a result, both debtors and cash and cash equivalents were overstated by these amounts in the draft accounts but have since been corrected in the final accounts.</p>
<p>Group Accounts: Valuation of Newport Transport Ltd bus depot</p>	To ensure that land and building assets are valued in line with the CIPFA Code.	<p>The CIPFA Code requires all land and building assets to be revalued on a rolling basis every five years.</p> <p>Under this process the Newport Transport Ltd bus depot was due for revaluation this year, but had not been valued in time for production of the draft accounts.</p> <p>A valuation of the depot has now been obtained, leading to an increase in value of the asset of £349,000 in the final accounts.</p>

Exhibit 3: corrections that relate to presentational/disclosure matters only

Area of correction	Nature of correction	Reason for correction
<p>Note 17 (Financial Instruments): Various presentational amendments</p>	<p>To accurately present this disclosure note in line with other accounts disclosures.</p>	<p>As well as the above point, our audit identified a number of other required amendments to this disclosure note:</p> <ul style="list-style-type: none"> • fair values not being included for long-term interest-free loans payable (for 2019-20 and 2018-19); and • incorrect fair values being recorded for 'long-term LOBO loans' and 'other long-term loans'. <p>Amendments have now been processed to correct these points in the final accounts.</p>
<p>Note 30 (Officer Remuneration): Amendment of Council disclosures on senior employees and remuneration ratios</p>	<p>To accurately present these disclosures in line with the Accounts & Audit Regulations (Wales) 2014.</p>	<p>Our audit identified a number of required presentational amendments throughout this note relating to senior officer remuneration, banding tables, and the remuneration ratio.</p> <p>Amendments have been processed and, consequently, we are now satisfied that this disclosure complies with the Regulations and the CIPFA Code.</p>
<p>Note 35 (Leases): Correction of disclosures</p>	<p>To accurately present disclosures of operating leases (Council as lessor).</p>	<p>Our audit identified that the table recording operating leases as a lessor in the draft accounts, incorrectly included a finance lease arrangement with future minimum lease payments of £10.4 million.</p> <p>Consequently, this table within Note 35 is overstated by a total of £10.4 million, although this position has been corrected in the final accounts.</p>
<p>Note 42 (Financial Instruments): Amendment of loan maturities</p>	<p>To correctly disclose the loan maturity table in the 'liquidity risk' section.</p>	<p>Our audit identified that £30.3 million of loans (correctly classified in the Balance Sheet) had been incorrectly classified as due in over five years in Note 42, when those loans were partly repayable earlier than that.</p> <p>The table has now been amended to correctly reflect the Council's loan maturities.</p>
<p>Group Accounts: Disclosure of remuneration bandings in Note 1</p>	<p>To accurately present these disclosures in line with the Accounts & Audit Regulations (Wales) 2014.</p>	<p>Our audit identified that these remuneration bandings were incorrectly disclosed as the figures for 2019-20 did not include any Council teaching staff.</p> <p>Amendments have now been processed, and consequently we are now satisfied that this disclosure complies with the Regulations and the CIPFA Code.</p>

Area of correction	Nature of correction	Reason for correction
<p>Group Accounts: Elimination of intra-Group debtors and creditors</p>	<p>To ensure that intra-Group transactions are correctly eliminated from the Group accounts.</p>	<p>Our audit identified that £430,000 of intra-Group debtors and creditors between the Council and Newport Transport Ltd had not been eliminated when preparing the Group accounts. These amounts have now been appropriately eliminated in the final Group accounts.</p>
<p>Various: Other presentational changes to supporting notes</p>	<p>To ensure that all disclosures are accurately presented.</p>	<p>A number of other narrative, presentational and minor amendments were made to supporting notes throughout the final financial statements.</p>



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



Report

Audit Committee

Part 1

Date: 28 September 2020

Subject **Audit and Approval of the 2019-20 Statement of Accounts**

Purpose This report presents results of the external audit of the 2019-20 Statement of Accounts (Accounts), highlights the changes since they were initially published at the start of July 2020 and seeks their formal adoption as required by the Accounts and Audit (Wales) Regulations 2014 (as amended).

Author Assistant Head of Finance

Ward General

Summary The Accounts were published on July 6th by the Head of Finance and added to the Council's website at that time. This was just over three weeks after the statutory deadline of June 15th, however this was due to carrying out the closing of accounts and preparation of the financial statements during lockdown due to the Covid-19 pandemic, which caused increased complications and difficulties. The Accounts were available for public scrutiny, as required by the Accounts and Audit (Wales) Regulations 2014 (as amended), for a 20 working day period ending 28th August 2020.

Although the current situation of working remotely is not ideal for both ourselves and Audit Wales, our auditors have reviewed the draft 2019/20 Statement of Accounts in detail, and a number of required changes have been identified. Audit Wales' accompanying report shows a summary of the agreed changes. Appendix A presents the revised Accounts which members are invited to review and subsequently approve in accordance with the Council's standing orders. Representatives from the WAO and finance staff will be available to clarify any points arising from the audit changes and the content of the Accounts as required.

Proposal Committee is recommended:

- To review the content of the 2019/20 Accounts and Audit Wales' Financial Statements (ISA260) report on the 2019/20 Accounts and comment as appropriate.
- To authorise the Head of Finance to adopt and sign the Accounts 2019/20, in accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended).
- Authorise the Head of Finance and Chair of Audit Committee to sign the letter of representation

Action by Assistant Head of Finance – publish final accounts on Council website;

Timetable Immediate

This report was prepared after consultation with:

- Audit Wales

Background

2019/20 closedown of accounts and preparation of the Statement of Accounts has been very challenging in the backdrop of the Covid-19 pandemic. With the country going into lockdown at the end of March, the finance team were faced with closing down the financial year end and producing a draft statement of accounts while working from home and without the usual access to a number of files and contacts. There were also significant competing demands across accountancy and other service areas in the response to the Covid-19 pandemic.

Given this, it is testament to the team and the wider service areas that we were able to utilise remote working technology such as 'Teams'; and continued access to the Councils networks and financial ledger to produce and publish a draft Statement of Accounts on 6th July 2020, just over three weeks after the statutory deadline for approval of 15th June 2020. Understandably, it is common across Wales and the UK that the deadline was not met this year. After this date they were available for inspection for a period of 20 working days. The complete accounts were available for public scrutiny between 3rd August and 28th August 2020.

The Council received no requests to review the Accounts from the public during the public scrutiny period.

The draft accounts would normally be presented to Audit Committee, however due to the lockdown this was not possible to arrange in person. However, the draft Statement of Accounts and presentation highlighting the key points was e-mailed to Audit Committee Members. Audit Committee members were welcomed to provide any comments on the draft accounts before final sign-off.

The Accounts were prepared in accordance with the Code of Practice on Local Authority Accounting in the UK published by CIPFA for 2019/20.

The Accounts include the statutory "Annual Governance Statement" providing a summary of the system of internal control operating within the Council for the year to 31 March 2020. This Statement includes actions to address any identified risks.

Following review of the accounts by Audit Wales, amendments have been made to the draft statement as set out in Appendix 3 of Audit Wales' 'Audit of Accounts Report' and is presented to Audit Committee for approval. The statutory deadline for approval of the accounts is 15th September, due to the challenges arising from the Covid-19 pandemic this was not achievable, and the accounts are due to be signed electronically following this meeting by the 30th September. Again, completing this just two weeks after the statutory deadline is an achievement and a large number of authorities across the country have not achieved the statutory deadline.

Despite the challenges faced this year, alongside Audit Wales, the team were able to build on previous improvements, especially in relation to early audit review of capital items, which you will note the number of amendments in relation to these have reduced from previous years.

It is acknowledged that Audit Wales have highlighted a number of issues within their ISA260 report, which will be reviewed by the Council and actions put in place to ensure that procedures and processes are put in place to address the issues raised. It must be noted that following discussion with the team, the challenge placed on them from working from home and not having

the close proximity to team members to share ideas and questions did provide problems and it is felt this is reflected in some of the “simple” amendments that have been highlighted.

Audit Wales Audit of Accounts Report (ISA260)

Audit Wales’ report confirms that they have completed the majority of their work and are happy to provide an unqualified opinion and that the accounting statements give a **true and fair view** of the financial position of the Authority and have been properly accounted for in accordance with the Code.

The report further details the agreed changes applied to the Statement of Accounts from the original publication through to completion of the audit review. These are highlighted in Appendix 3 of their report, and while some of the figures look significant they are largely reclassifications between categories and no adjustments have impact on the bottom line of the accounts.

The team have already carried out an early review of the amendments required alongside the Head of Finance, and it has been acknowledged that a number of the errors were could have been avoidable and are not down to issues with the setup of the ledger or accounting treatment, but on a number of occasions human error. While the large majority of corrections would not have been easily identifiable on QC of the completed draft statements, it has been agreed that peer review of notes at the production stage could have been carried out better, but pressures on time and remote working made this more difficult than usual.

There are two uncorrected misstatement included in the ISA260 report which is discussed further below. One of which is the same issue that was raised in 2018/19 and has continued into this report.

Accounting treatment of loan modifications under IFRS 9

This was raised in 2018/19 as an uncorrected misstatement and relates to a change in accounting treatment for an historic Public Works Loan Board loan subsequently replaced by a new loan with a lower interest rate, but otherwise significantly similar terms and conditions. This is overstated in the accounts by £380,000. We have taken a view that this is immaterial to the accounts and therefore has not been adjusted.

A discussion needs to take place with Audit Wales on how decisions not to adjust in relation to materiality are dealt with in future ISA260 reports. In line with CIPFA Code of Practice on materiality and simplification of accounts, authorities should be able to make a decision to not account for immaterial items. While it is agreed these should be flagged to the Audit Committee, we do not understand the usefulness of it being reported every year for what may in some cases be a very long time period.

Borrowings - soft loans overstated by £1.9 million

When IFRS 9 was introduced in 2018/19 a review of the borrowings identified that a number of the repayable grant funding from Welsh Government were accounted for as long-term creditors rather than borrowings. These are interest free and have since been added to by interest free borrowing from Salix for funding of energy efficiency schemes. While we moved the loans into borrowing, the Council did not account for the “fair value” of the loan as per the accounting treatment. This is essentially a technical adjustment which is reversed out through an unusable reserve, therefore does not impact on the bottom line of the general fund or earmarked reserves.

A calculation has taken place on the fair value of these loans and as per the ISA260 report the loans are overstated by £1.9m. This is not material and as it does not impact on the bottom line, a decision has been made not to adjust for this misstatement.

As per the loan modification misstatement a discussion is required with Audit Wales on what happens with this in future ISA260 reports.

Emphasis of Matter

Included in the Audit Report, despite the accounts having a true and fair view, the Auditor has raised three “emphasis of matter”, these all relate to valuation uncertainty as at the 31st March 2020 due to the Covid-19 pandemic and relate to the following areas:

- Valuation of land and buildings
- Valuation of investment properties
- Valuation of pension fund assets

These emphasis of matter are not unique to Newport City Council and would be included across Wales.

Other Issues – creditors

Audit Wales highlight the issue of creditors in the report with 3 out of 19 sampled creditors being incorrectly accrued for. Again the closedown process was hampered by covid-19 and without access to a number of pieces of information service areas and the accounting teams were required to make a number of assumptions when carrying out accruals at year-end.

We will enforce the message on accurate accrual accounting across the service areas for 2020-21 to ensure this improves in the future.

Financial Summary:

There are no direct financial implications arising from this report. The approved Accounts will provide the basis for future financial planning.

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?
Failure to approve and publish the accounts or qualified accounts	M	L	The Council works with its Auditors to ensure the Accounts are prepared and suitably reflect the financial position of the authority	Assistant/Head of Finance

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Effective financial management is essential if an organisation is to achieve its stated objectives.

Options Considered/Available

Approve the modified Statement of Accounts for 2019/20 and sign the letter of representation.

Reject updated Statement of Accounts and not sign the letter of representation which would further delay the publication of the accounts.

Preferred choice and reasons

That the Accounts are approved by Audit Committee and signed by Head of Finance, given they have been audited and all material issues have been corrected, as needed.

Letter of representation is signed by the Head of Finance and Chair of the Audit Committee

Comments of Chief Financial Officer

In the background of the Covid-19 pandemic it is testament to both the finance team and Audit Wales that we are in a position of publishing the accounts just two weeks after the statutory deadline.

The accounts show a true and fair view, and the uncorrected misstatements highlighted in the ISA260 report are not of a material value or nature, and therefore it is recommended the accounts are approved.

Officers will need to continue to improve processes through collaboration with Audit Wales to meet earlier closing deadlines which will be implemented from financial year ending 31st March 2021.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report. The draft Statement of Accounts 19/20 has been prepared in accordance with the requirements of the COPFA Code of Practice on Local Authority Accounting and the Accounts and Audit (Wales) Regulations 2014. The Head of Finance has already approved and certified the accounts in his capacity as the Council's Section 151 officer. The certified but unaudited accounts were published on the Council's web site and were available for public scrutiny for a period of 20 working days, in accordance with the requirements of the Regulations. The draft statement has subsequently been reviewed and revised in accordance with WAO requirements. Audit Committee are now required to approve the Statement of Accounts and authorise the Head of Finance and the Chair to sign off the accounts and the letter of representation. Although this process should have been completed by 15th September, there have been significant delays in the accounting and auditing processes due to the Covid-19 restrictions and, therefore, this is the earliest opportunity for Audit Committee to consider the accounts and is only 2 weeks outside of the usual timescale.

Comments of Head of People and Business Change

There are no staffing implications arising from the report which is a key part of our regulatory framework. As highlighted by the Head of Finance, the Council has demonstrated good financial management in publishing the accounts during this challenging period.

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

Effective financial management enables the Council to support long term planning in line with the sustainable development principle of the Act, and the statement of accounts is a core part of these arrangements.

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.

Background Papers

Draft Statement of Accounts 2019/20

Revised Statement of Accounts (Attached)

Mae'r dudalen hon yn wag yn

Statement of Accounts 2019/20



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Head of Finance Narrative Report for the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

Introduction

The 2019/20 financial year for Newport City Council has been a challenging one, requiring to deliver a balanced revenue budget with a minimal increase in funding from Welsh Government, while there were significant increased demands on social services and schools in particular. During the year, the Council saw some significant changes in the Senior Leadership Team, with a change in the Chief Executive and the Director of People retiring during the year. There was also a change in the Leader during the year following the previous Leader stepping down having been announced a life peer in September 2019.

The Covid-19 pandemic hit the UK at the back end of the 2019/20 financial year, while there was minimal impact on the Council's outturn and Statement of Accounts as lockdown only began in the last two weeks of March. However, it is extremely likely during 2020/21 and beyond there will be a significant impact on the Council's finances, including impact on loss of income, the cost of response and recovery and potentially reduced funding in future years, as the demand on government resources shifts due to the impact of the pandemic.

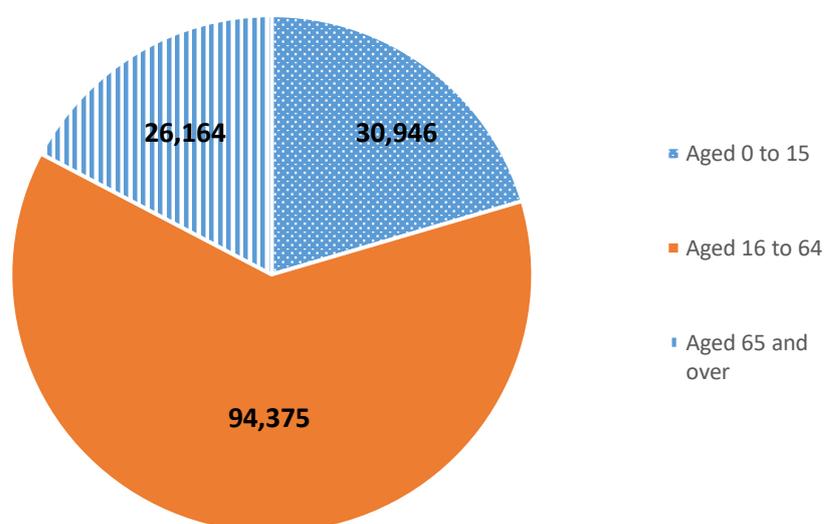
It is very difficult at this stage to quantify the impact of Covid-19, especially in the early stages of recovery and subsequently the "new normal", when it is unknown what services will look like and how they will be provided in the future, and the level of funding that will be made to deliver these.

The Council will monitor and forecast these future costs and loss of income alongside our "usual" monitoring process, and will take the appropriate actions required to maintain the financial sustainability going forward.

1. About Newport and the Council

Newport is a coastal city, covering a geographical area of just over 84 square miles. It has an urban hub with an extensive rural hinterland and is home to one of Wales' most diverse and multi-cultural populations. The city has a population of over 150,000 and has employment in the city of 84,800 across a broad range of industries.

Newport's population by Age

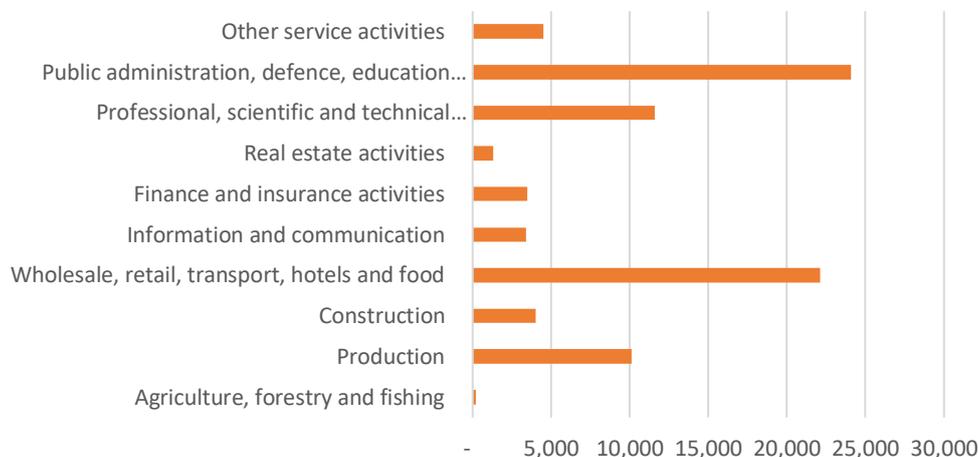


Head of Finance Narrative Report for the Statement of Accounts

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Newport City Council

Employment by broad industry



The City Council's Corporate Plan for 2017 – 2022 – “Building on Success: Building a Better Newport” sets out the key priorities of the Council. The Council has a clear mission statement – “Improving People’s Lives”, which is aligned to the aspirations set out in the Well Being of Future Generations Act. The plan outlines how we will put this mission into practise, through the well-being objectives, which have been adopted:

- Improve skills, educational outcomes and employment opportunities
- Promote economic growth and regeneration whilst protecting the environment
- Enable people to be healthy, independent and resilient
- Build cohesive and sustainable communities

The Council employs approximately 5,800 members of staff (including teachers and other school based staff), every day the mission is executed through the delivery of around 800 discrete activities in various service delivery methods, ranging from services the council delivers to services delivered in partnerships with a number of other organisations.

2. The Council's Performance and Achievements in 2019/20

Over the last year, the Council made substantial progress towards our well-being objectives.

- ✓ Formal opening of the Ringland Community Hub in November 2019.
- ✓ Introduction of the new waste bins across the Council which saw recycling rates increase to 66.4%.
- ✓ Successful implementation of Civil Parking Enforcement from 1 July 2019.
- ✓ Energy saving projects delivered across the County including roll out of roof-top solar PV across Council buildings and the installing of LED streetlights throughout the City.
- ✓ Supported the hosting of the British Transplant Games.
- ✓ Heritage Lottery Funding agreed and work started on the Market Arcade.

Head of Finance Narrative Report for the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

- ✓ Significant funding provided to support the development of both the Chartist Tower hotel and office block at Mill Street, both of which are due to open in early 2020/21.

Artist Impression of Chartist Tower Hotel



3. Explanation of Accounting Statements

These Statement of Accounts and notes sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020. It comprises core and supplementary statements, together with disclosure notes. The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which in turn is underpinned by International Financial Reporting Standards.

There are 4 key statements together with supporting notes, as follows

- The **Comprehensive Income and Expenditure Statement (CIES)** - this records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis by service area. The bottom half of the statement deals with corporate transactions and funding.
- The **Movement in Reserves Statement** - summarises the Council's income and expenditure activity (in the CIES) and shows how this is adjusted back to arrive at the Council's funding/or council tax position, and how surpluses/ deficits have been distributed to reserves.
- **The Balance Sheet** - is a "snapshot" of the Council's assets, liabilities, cash balances and reserves at the year-end date.
- **The Cash Flow Statement** - shows the movements in cash and cash equivalents of the Council during the reporting period.

The Statement of Accounts also includes consolidated group accounts:

- **The Group Accounts** - are prepared in addition to the single entity accounts where local Authorities have material interests in subsidiary and associated companies and joint ventures. The Group Accounts have been prepared to include Newport Transport Limited, a 100% owned municipal bus company and comprise the Movement in Reserves Statement; the Comprehensive & Income Expenditure Statement; the Balance Sheet; the Cash Flow Statement and associated notes.

The **Notes** to these financial statements provide more detail about the Council's accounting policies and individual transactions.

Head of Finance Narrative Report for the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

A **Glossary** of key terms can be found at the end of this publication.

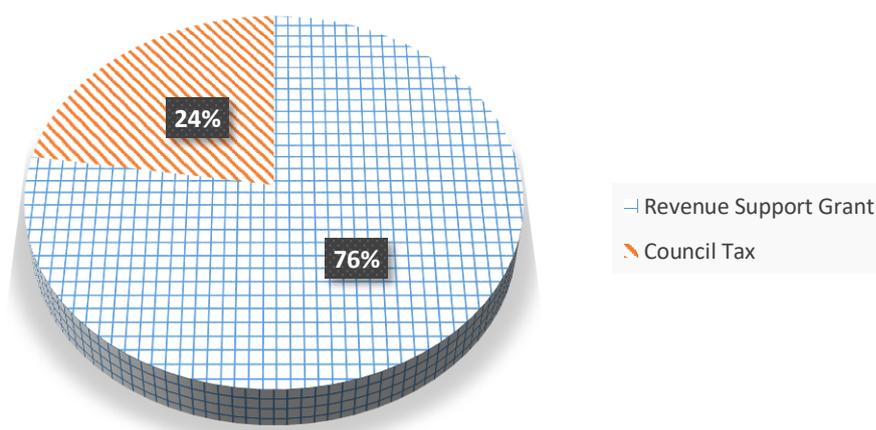
The narrative that follows this now provides some informal commentary on the Council's financial performance, the balance sheet and future financial outlook.

4. Financial Performance 2019/20

The 2019/20 budget and funding

The Council operates within a challenging financial environment and framework. Its net budget for 2019/20 was £280.6m of which 76% is funded from the Welsh Government Revenue Support Grant and 24% from local Council Tax. This means every 1% change in the grant we receive from Welsh Government is equivalent to a 3.2% change in Council Tax. In that framework, it is heavily reliant on the Welsh Government funding, which, for 2019/20, increased by only 0.26%, which given pressures and inflation created a challenging financial environment.

Funding of net expenditure budget



Grant from Welsh Government funds 76% of the Council's net expenditure budget, with Council Tax funding 24%

Whilst the main funding source saw a very minimal increase of 0.26% on the previous year, the Council's costs increased significantly, largely due to pay and other inflationary pressures, and also the increasing demand for services. This added estimated pressures of approximately £14.0m in 2019/20. To bridge the gap in funding and pressures identified, in order to achieve a balanced budget for 2019/20, the Council agreed a Council Tax increase of 5.95% which generated £3.6m (including increase in estimated council tax receivable from new households) and agreed a package of savings of nearly £6.8m. A further of £2m of specific grants were budgeted for which were not confirmed at the point of setting budget which assisted in closing the gap in social services, with the remaining gap being covered by the £1.6m increase in Welsh Government funding.

The City Council's element of Council Tax in Newport is the second lowest in Wales and one of the lowest in the UK at £1,120.04 for a Band D property in 2019/20. Most properties within the Council boundary are in Bands C & B and therefore pay less than the average Band D property. This relatively low Council Tax impacts on the Council's overall funding and the City Council spends approximately £8m less than its Standard Spending Assessment (which is a notional calculation done by Welsh Government of what each Council needs to spend to provide a standard level of service); showing the Council's is relatively poorly funded but given its financial performance (next section) and achievements, is efficient and effective.

Head of Finance Narrative Report for the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

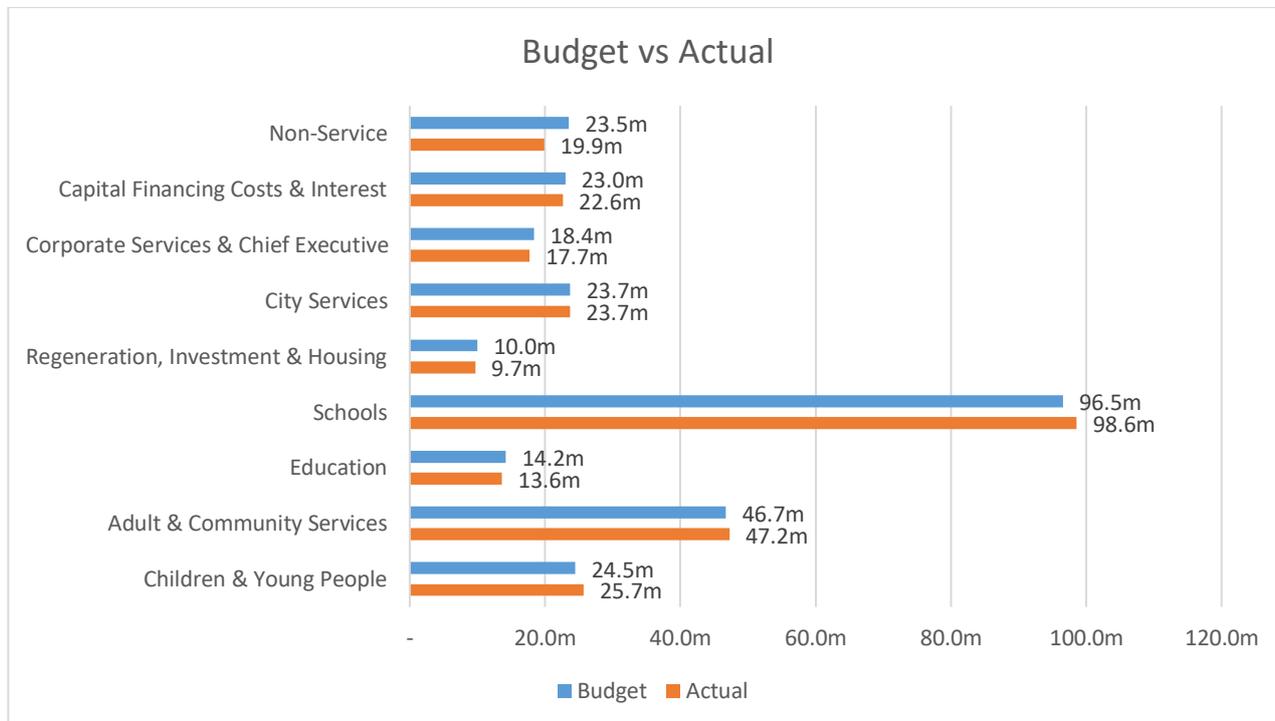
Financial Performance – “how did we do” – 2019/20

Revenue budget

An underspend of £1.8m was reported to Cabinet at year end (£2.1m before requests of new earmarked reserves), representing 0.7% of its budget, excluding schools. Cabinet agreed that this was transferred to specific earmarked reserves, leaving a balanced budget position on the general fund. The ‘Expenditure and Funding analysis’, on page 45 of the statement shows the spending across the main areas of the Council. The graph below shows the main areas of budget under and overspending. In summary, the large overspends within service areas can be attributed to a small number of specific areas, including Children’s independent fostering, Children’s out of area placements and Adult Social Care, with social services overall overspending significantly at £1.7m. These overspends were offset by underspending across other service areas totalling £1.3m, and underspends across a number of non-service (i.e. Council Tax Reduction Scheme, Council Tax income surplus and contingency) and capital financing budgets.

This pattern of overspending in a small number of activities has been around for 2-3 years and even though the Council has invested relatively significantly in these areas each year, the pattern continues with expenditure significantly exceeding that investment and the previous year’s spending.

Whilst the context for this is known, the continuation of this is not sustainable otherwise significant overspending will occur and the impact on other services will be significant. Therefore in the coming financial year, alongside the risk of Covid recovery expenditure, it is imperative that robust specific monitoring with the social care management teams takes place in detail.



The position of school finances continued to be a significant issue during 2019/20, and overall schools reserves reduced by £2.0m to £1.1m, to fund in-year overspending. A significant investment was put into schools for the 2020/21 financial year, which mainly covered increased costs for pay awards, pension increases and growing schools, therefore it is essential that schools deliver their expenditure within budgets and realise the savings put

Head of Finance Narrative Report for the Statement of Accounts

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Newport City Council

forward. If overspending continues at the same level as in 2019/20 it would take the overall schools reserves to a negative balance, which would be a significant issue for the overall Council budget.

Capital programme

The Council has an ambitious 7-year capital programme totalling £201.6m as per capital outturn report to Cabinet on 22 July 2020, including:

- £99m investment into 21st Century Schools programme and other investments into schools assets.
- Investing into new Children's homes.
- Gypsy & Traveller site development
- £8m fleet replacement programme
- Neighbourhood Hubs schemes – delivering the first community hub in Ringland
- Investment into new energy efficiency schemes across the Council including LED streetlights
- Commitment to invest in the Transporter Bridge
- Investment into the Cardiff City Region City Deal and regeneration projects within Newport city centre

New Caerleon Lodge Hill School



Artist impression of Transporter Bridge activity centre

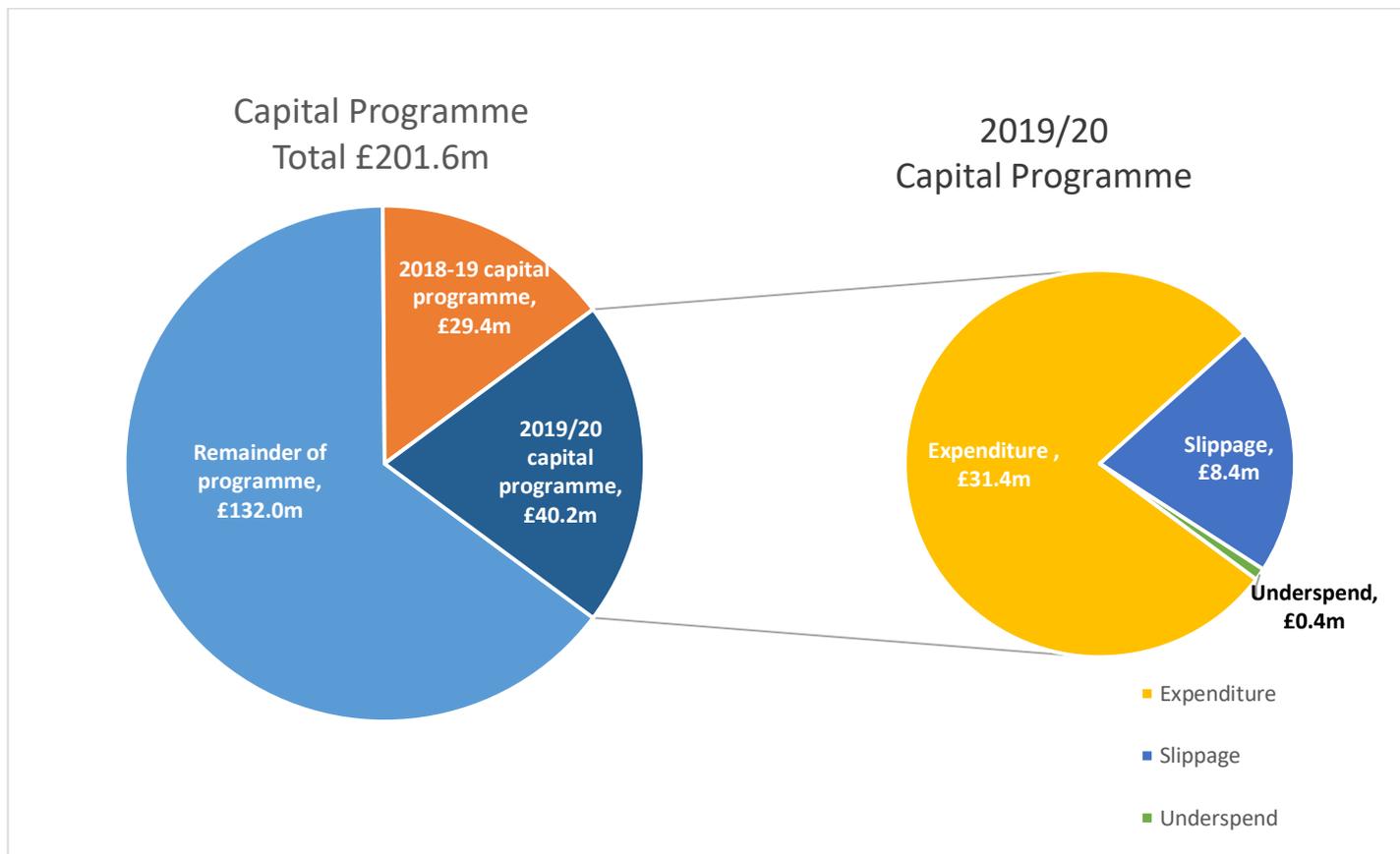


During 2019/20 the Council spent £31.3m on Council assets to maintain and improve service delivery and to support regeneration initiatives. At the beginning of the financial year the 2019/20 budget was £42.1m, but there was a significant re-profiling exercise which alongside additions and deletions in-year, decreased to £31.3m by outturn. The outturn position for capital in 2019/20 showed a total slippage (budget moved into future years of the programme) in 2019/20 of £8.5m and an underspend of £0.4m.

Head of Finance Narrative Report for the Statement of Accounts

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Newport City Council



<u>Capital Expenditure 2019/20</u>	<u>£m</u>	<u>Financed by:</u>	<u>£m</u>
Education & Schools	5.6	Grants	17.3
Regeneration, Investment & Housing	10.9	Borrowing	9.7
People & Business Change	0.4	Capital Receipts	0.8
Social Services	1.5	Contributions & S106	0.8
City Services	13.0	Council Resources	2.8
TOTAL	31.4		31.4

Balance Sheet

The Balance Sheet shows a 'snapshot' of the Council's assets and liabilities as at 31 March 2020, including its reserves. The Council's balance sheet has seen an increase in value between 2018/19 (net liability of £49.0m) and 2019/20 (net liability £7.8m), this is largely due to a decrease in the pension fund liability by £53.4m from the previous year. The pension fund liability is now £347.2m, which if excluded would leave net assets of £339.4m.

Usable reserves (a reserve which can be used to fund cash expenditure of the Council) of £87.1m shows the council as having strong financial resilience, these are described further in this report.

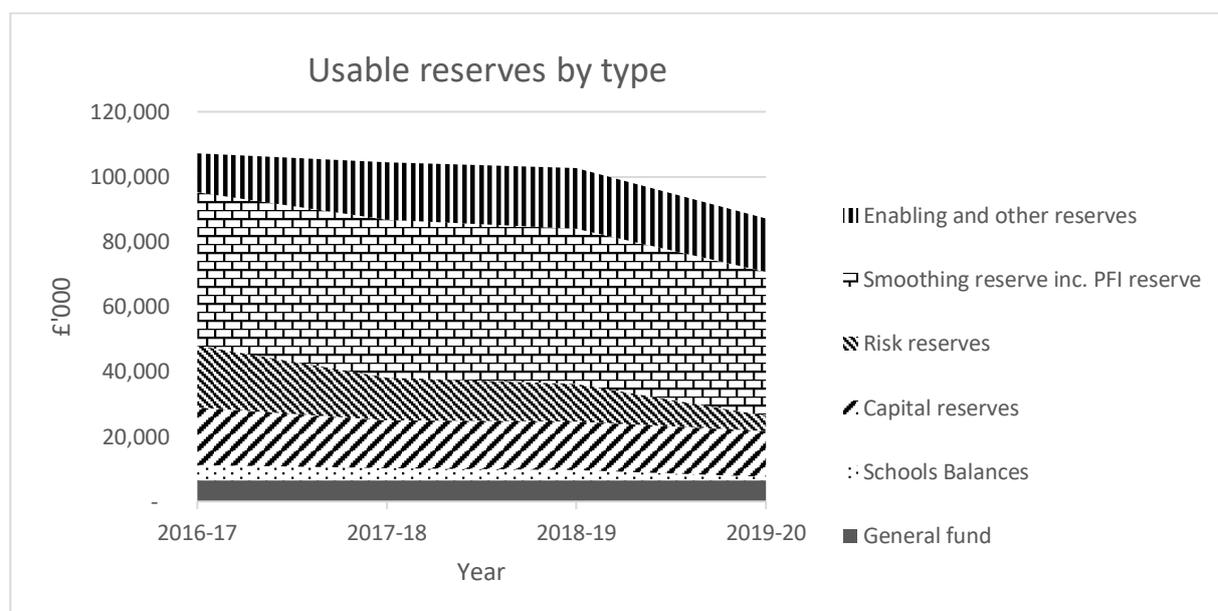
Head of Finance Narrative Report for the Statement of Accounts

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Newport City Council

Usable Reserves

The level of Council's usable reserves decreased by £16.0m in year from £103.0m to £87.1m. The general fund reserve remained unchanged at £6.5m (3.5% of net expenditure budget excluding schools). The chart below shows the level of reserves since 2016/17, showing those reserves that cover risk, enabling, smoothing expenditure, the general reserve, schools reserves and other reserves.



The chart above shows that usable reserves have remained relatively steady over the previous four years, but has seen a significant decrease in 2019/20 of 15%.

A substantial element of this reduction (£9.6m) is due to moving amounts from an earmarked reserves to a provision following review of the likelihood of payments being made for insurance claims and Friars Walk debtor recovery. These are detailed more in the provisions section below.

In relation to the Friars Walk reserve/provision, £2.9m was "borrowed" from the Southern Distributor Road PFI reserve for the assessed increase of likelihood of the non-payment of the £7.5m debtor during the current economic climate, especially the poor performance in the retail sector, a bad debt provision has been set against this long-term debtor as shown in note 17 to the accounts. There is a base budget of £200k, to repay the PFI reserve within the timescales required for its use.

A further £2.0m of schools balances were also utilised in the year, as detailed in earlier section, this leaves schools balances relatively low at £1.1m.

The reserves as at 31st March 2020 provide:

- Adequate cover for the assessed risks identified by the Council – such as pay inflation above planning / funded parameters, self-insurance and investment risks. General reserves have been maintained at £6.5m, the minimum required as assessed by the Council's Head of Finance.
- Good level of 'enabling' reserves to fund its strategic/transformational programmes and fund other 'cost to change'/savings projects, city centre development fund and support to the Council's capital programme.

Head of Finance Narrative Report for the Statement of Accounts

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Newport City Council

- The funding required for the future costs over and above the available base budget, for the Council's PFI projects. This reserve is a capital financing reserve. This element alone represents nearly 49% of the Council's total reserves and these reserves represent the 'budget' for future PFI costs.

Unusable reserve

Also detailed on the balance sheet are unusable reserves which are non-cash backed reserves which allow for significant accounting adjustments as to not impact on the council tax payer during the year.

Impact of pension deficit on reserves

The Council participates in the Local Government Pension Scheme. Employees and employers contribute into the fund and along with investment income and growth generated; the funds are used to pay its pension obligations. The Fund is valued every three years to assess if the assets are sufficient to fund its pension obligations, taking account of actuarial assumptions of members' life expectancy, investment returns, value of pensions paid out etc. A valuation has been undertaken in 2019, the overall Fund level results of the Valuation have shown that the funding level (current assets expressed as a proportion of all current and future liabilities) of the Greater Gwent (Torfaen) Pension Fund has increased from 72% funded at the 2016 valuation to 86% funded at the 2019 valuation; a funding increase of 14%. This is clearly a positive and welcome outcome. In terms of employer contribution rates while the split between primary and secondary contribution rates have been split differently the overall combined contribution is to remain the same at 21.2% of pay for 2020/21 and 2021/22, rising by 1% in 2022/23 to 22.2%. The average employee contribution is 6.2% of pay.

On an annual basis, and for providing information to meet pension's costs reporting regulations, the scheme's actuaries provide an annual update. As at 31 March 2020, this assessed the scheme is in deficit at £347.2m (£400.6m in 2018/19).

However, the fund is there for the long term funding of pensions. Therefore, this deficit on the pension scheme and its impact on the Council's overall reserves is also a long-term issue. The deficit and liability would not arise in any single year, and the deficit is being addressed through higher employee and employer contributions, as well as the pension scheme benefits being calculated differently, such as moving to career average salaries as opposed to final salary.

Further details on pension balances and transactions can be found in Notes 40-41.

Provisions & Contingencies

Provisions are funds set aside on the balance sheet to meet likely liabilities. An assessment is made each year on the level of the risks and, if any, what new issues/risks are in place that require sums to be identified and set aside.

Following our assessment of risks, total short-term provisions increased by £3.5m to £8.8m with a further £1.2m being utilised in-year. The increase is mainly due to an increase in provision for insurance claims, including 'failure to remove' claims within the Children's services sector, this required a transfer from the earmarked reserve that has previously been set up for these claims. Increased provision for accumulated holiday pay of £0.9m is also included.

Long-term provisions have increased by £0.4m to £11.0m, due to increase in the provision set aside to pay future income subsidy fees in relation to Friars Walk. This relates to a guaranteed income subsidy to support the rental income of up to a maximum of £0.5m per annum until 2032.

Head of Finance Narrative Report for the Statement of Accounts

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Within long-term debtors, there is also a £7.5m provision for bad debt, for the increased likelihood of non-payment of the income share agreement following assessment during the current economic climate, especially in the retail sector. This will be kept under review during the coming year, especially while the impact of the Covid-19 is known, which could further impact on the retail sector.

In addition to provisions, a number of contingent liabilities are disclosed in the Statement of Accounts (Note 43). No financial provisions have been made for these as they are in relation to events where the Council has little influence or control over, uncertainty whether they will actually happen, whether there will be any financial impact and if so, how much. However, where appropriate, the Council have taken a prudent approach and put funds aside within reserves.

Details of the movements of individual provisions and contingent liabilities are shown in Note 23 and 43 respectively.

5. Financial Outlook

The 2020/21 settlement from Welsh Government was positive for Newport with a cash increase of £13.7m, while this was required to fund significant inflation and demand pressures, it was welcome and allowed some of the funding to support the Medium Term Financial gap, including reversal of use of reserves to balance the budget, and to bring forward the funding of some pressures that were in future years.

The funding for local government beyond this date was uncertain, and local government were awaiting the outcome of a Comprehensive Spending Review, however due to the impact of Brexit this was delayed. Now with the impact of Covid-19 this puts further uncertainty on the level of funding that will be available for local government in future years.

It will be essential to review the impact of the pandemic on the current financial year as we move into the recovery phase and the subsequent “new normal”. This, alongside decisions by UK Government and Welsh Government will shape the future Medium Term Financial Plan. While we await this, it is essential that the Council still focuses on delivering the saving plans it has already put in place, and takes a strategic view on areas where the Council will make savings in the future and what the Council will look like in the “new normal” world.

Statement of Responsibilities

Statement of Accounts 2019/20

Newport City Council

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts

The Head of Finance's Responsibility

The Head of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently
- Made judgments and estimates that were reasonable and prudent
- Complied with the Local Authority Code

The Head of Finance has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Head of Finance Certificate

I certify that the Statement of Accounts set out in pages 50-147 give a true and fair view of the financial position of Newport City Council at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

What is Corporate Governance?

Corporate governance is the system of rules, practices and processes by which an organisation is directed and controlled. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

What does 'Good' Corporate Governance look like?

Good governance is about the processes for making and implementing decisions. It's not about making 'correct' decisions, but about the best possible process for making those decisions, ensuring that it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Good governance leads to effective:

- leadership and management;
- performance and risk management;
- stewardship of public money; and
- public engagement and outcomes for our citizens and service users.

What this statement will tell you

The Annual Governance Statement is a requirement of the Accounts and Audit (Wales) Regulations 2014. This Statement demonstrates that Newport City Council is compliant with these Regulations for 2019/20.

It describes the governance framework in place within the Council, how the effectiveness of the governance arrangements has been monitored and evaluated during the year with evidence and examples and sets out any changes planned for 2020/21.

This Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE); the 'Delivering Good Governance in Local Government Framework 2016' and 'Delivering Good Governance in Local Government Guidance Notes for Welsh Authorities 2016'. It embraces the elements of internal financial control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

This statement was written during the Coronavirus disease (COVID-19) pandemic which, at that time, resulted in the suspension of all public and non-essential meetings.

References in this statement for example (B8), relate to the corresponding commitment in the revised Code of Corporate Governance 2019/20.

1 Scope of Responsibility

- 1.1 Newport City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and to proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to strategic effectiveness, service quality, service availability, fairness, sustainability, efficiency and innovation.
- 1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.
- 1.4 The Council's financial management arrangements conform to the governance requirements of the 'CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)'.
- 1.5 The Council's Code of Corporate Governance sets out its commitment to good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government', was initially approved by Cabinet and then Council in July 2013 with a further update approved by Cabinet in July 2014. The Code has been updated in 2019/20. A copy of the Code can be obtained from the Head of Finance.

2 The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Council throughout the year 2019/20, and up to the date of approval of the statement of accounts.

3 The Governance Framework

- 3.1 The Council's Governance arrangements are in line with the following principles:

Overarching requirements for acting in the public interest

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

Achieving good governance in the public sector also requires effective arrangements for:

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

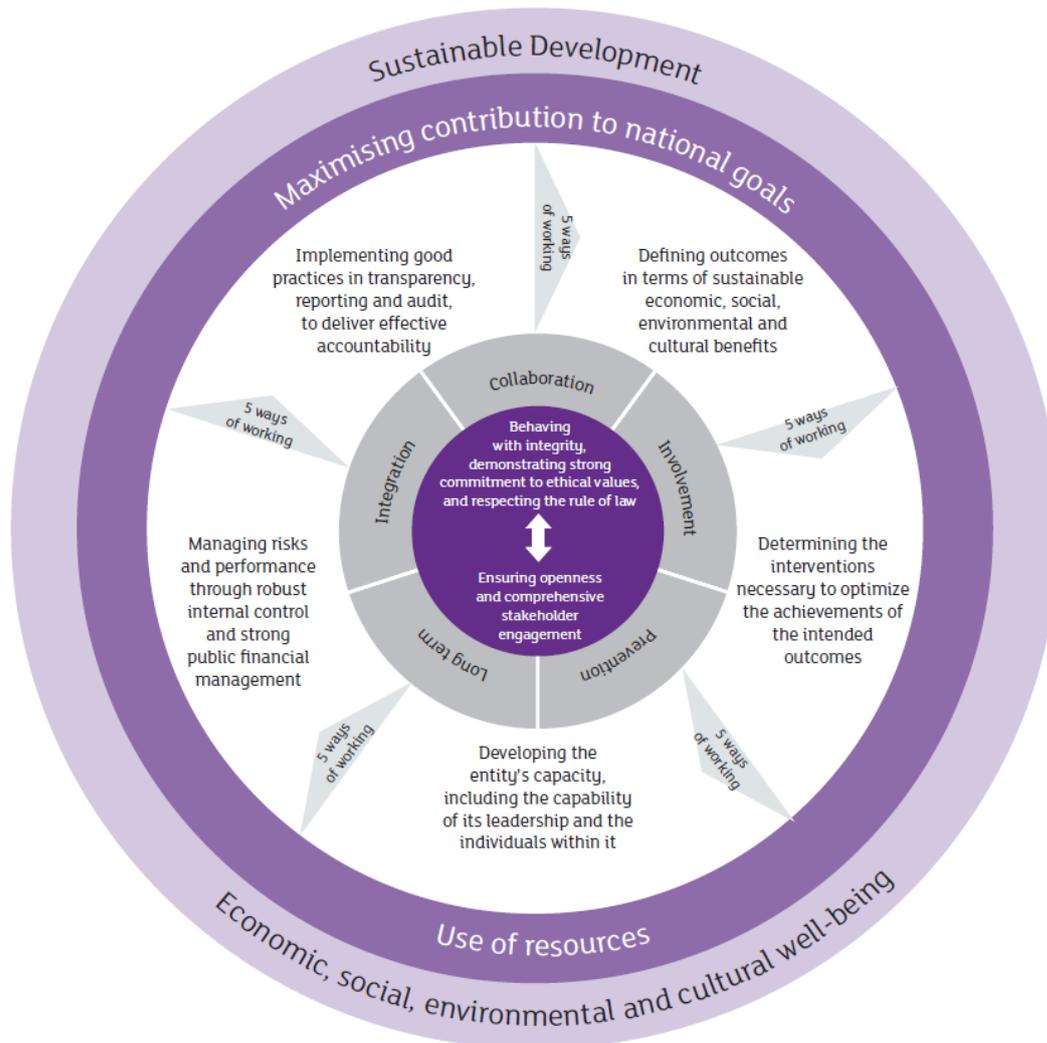
The Statement will cover these principles in more detail from Section 6 onwards.

Wellbeing of Future Generations (Wales) Act 2015

3.2 The diagram on the following page brings together the above principles of good governance with the requirements of the Well-being of Future Generations (Wales) Act 2015; it shows sustainability as all-encompassing, with the core behaviours of:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law; and
- Ensuring openness and comprehensive stakeholder engagement

This needs to be applied to the five ways of working outlined in the 2015 Act. These five ways of working have to permeate all segments of delivering outcomes which, in turn, should ensure effective use of resources as the Council maximises its contribution to the economic, social, environmental and cultural well-being of Wales.



The Three Lines of Defence in effective Risk Management and Control

3.3 Assurance can come from many sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance.

By defining these sources into three categories:

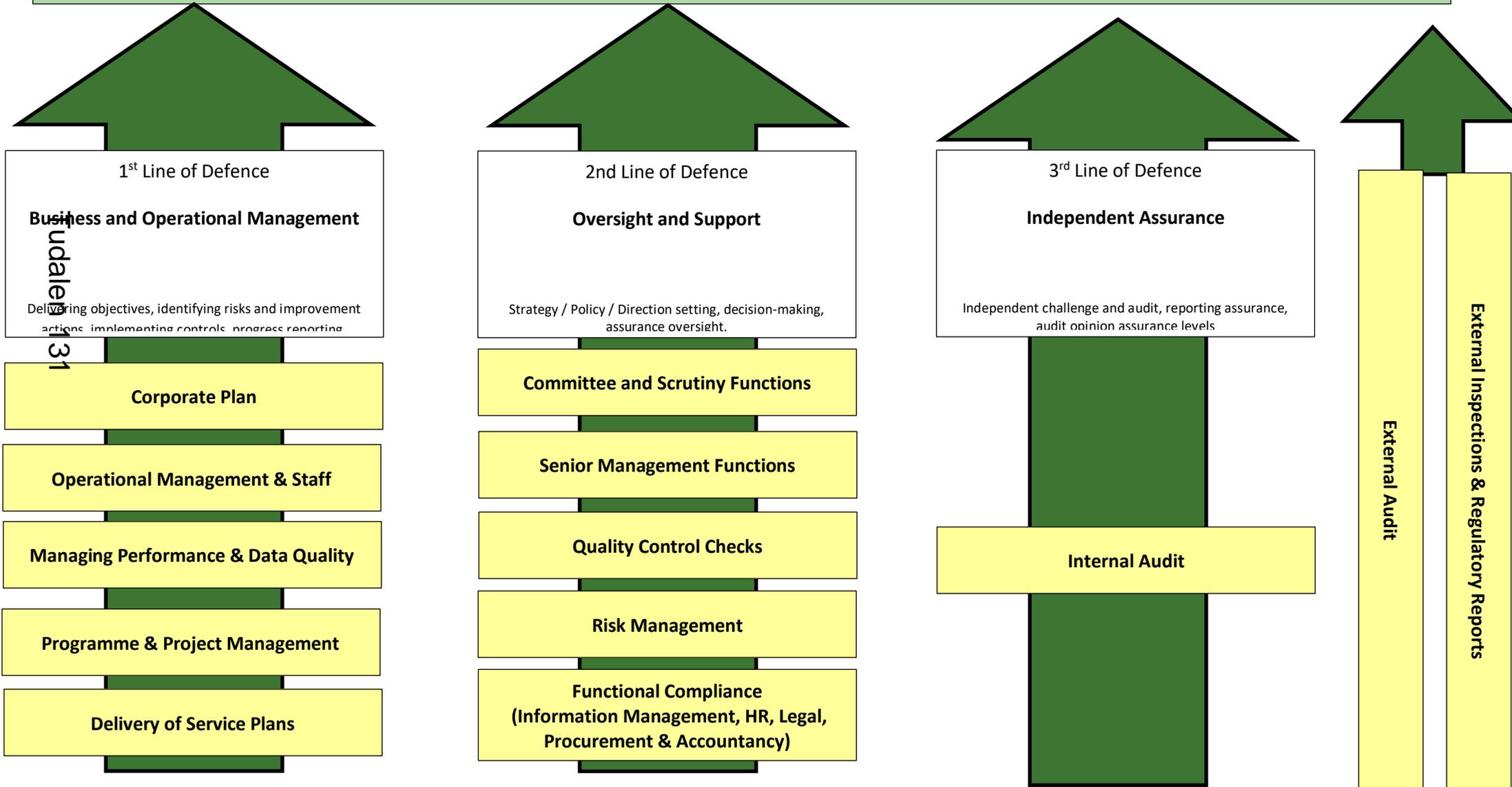
- First Line - functions that own and manage risks e.g. management and supervisory controls;
- Second Line - functions that oversee risks e.g. Governance structures and processes such as Scrutiny Committees, policies and procedures and;
- Third Line - functions that provide independent assurance on the management of risks e.g. Internal Audit along with external providers of assurance such as External Audit and External Inspections & Regulatory Reports (e.g. ESTYN & CIW).

The model helps the Council understand how each area contributes to the overall level of assurance and how best good governance can be integrated and supported.

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Audit Committee
(AGS Approval Committee)

Leader, Cabinet Members, Chief Executive, Chief Financial Officer, Monitoring Officer, Corporate Management Team
(Provides oversight of the 3 lines of defence assurance framework)



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Corporate Plan

- 3.4 The Council's Corporate Plan for 2017 to 2022 "Building on Success – Building a Better Newport" sets out the 5 year vision and direction for the Council.
- 3.5 The Corporate Plan forms part of the Council's policy framework, and prior to agreement had been through the necessary consultation with scrutiny and members of staff.
- 3.6 Within the Corporate Plan twenty commitments for change, relating to the following four key areas have been outlined:
- Resilient communities,
 - Thriving city,
 - Aspirational people,
 - Modernised Council.

These are the four themes that will drive the Council in the years towards 2022.



3.7 Newport City Council's Well-being Objectives are:

- To improve skills, educational outcomes and employment opportunities
- To promote economic growth and regeneration while protecting the environment
- To enable people to be healthy, independent and resilient
- To build cohesive and sustainable communities

3.8 The Corporate Plan was produced at a time of significant financial challenge within the public sector, the workforce and budgets must be carefully planned and managed to ensure that it can deliver what the Council has set out to do; this is done within each service area in their service plans. The Corporate Plan will be underpinned by the development and delivery of a comprehensive change programme which will align with the time frame of the Corporate Plan. The actions planned by service areas will contribute to the delivery of the Corporate Plan, service plans are set in conjunction with Cabinet Members and scrutiny committees to ensure oversight and accountability for the delivery of the actions.

3.9 An annual report of progress against the Corporate Plan is presented to members and published so that it can be shared with all employees and members of the public to present an open and transparent view of how the Council is working towards its vision and objectives and how further work will be focused to ensure further improvement. Actions set out in service plans and the Corporate Plan will contribute to the delivery of the objectives, and these will also be presented to Members for challenge and appraisal.

ONE Newport Public Service Board

3.10 The One Newport Public Service Board (PSB) Newport's Well-being Plan (2018-23) [\(link\)](#) which represents the combined strategic planning intent of a partnership of the key public service providers in Newport which includes the Council – for improving the quality of life in terms of the economic, social, cultural and environmental well-being of Newport. This Plan was approved by the Board May 2018.

3.11 PSBs were established by the Well-being of Future Generations (Wales) Act 2015 (WFG) and must work in accordance with the sustainable development principle and achievement of the seven wellbeing goals by:

- assessing the state of the City's economic, social, environmental and cultural wellbeing;
- setting local objectives that are designed to maximise their contribution within the City to achieving those goals;
- taking all reasonable steps to meet those objectives.

3.12 The well-being objectives of the Plan are linked to the Well-being Objectives and are:

- i. People feel good about living, working, visiting and investing in Newport;
- ii. People have the right skills and opportunities to find suitable work and contribute to sustainable economic growth;

- iii. People and communities are friendly, confident and empowered to improve their well-being;
- iv. Newport has healthy, safe and resilient environments.

3.13 The Plan identifies 13 priorities in the 4 areas of Economic, Social, Cultural and Environmental, and incorporates the following interventions:

- The Newport “Offer”
- Strong Resilient Communities
- Right Skills
- Green & Safe Spaces
- Sustainable Travel

The interventions are led by PSB members and progress is monitored by the Board.

3.14 Performance of the Well-being Plan was reported through the Strategy & Performance Board as a sub group of the PSB throughout 2019/20 and is also reported to Scrutiny through the published Annual Report process.

3.15 Newport’s stakeholders are encouraged to get involved with shaping the policies and decisions of One Newport PSB through the Involve Newport Citizens’ Panel and the One Newport Engagement and Participation Strategy.

4 Coronavirus (Covid-19) Pandemic

4.1 The Coronavirus pandemic (WEF March 2020) has caused significant organisational disruption including new emergency responsibilities, increased staff absence and a requirement for staff to work from home (where possible) while continuing to ensure statutory services are maintained as expected. This statement assesses the governance in place during 2019/20 with the majority of the year being unaffected by Coronavirus, however, during March 2020 some key operations were affected and will continue to be during 2020/21.

4.2 In accordance with the Council’s Corporate Emergency Management Plan (revised March 2019) an Emergency Response Team (ERT) was established along with a regional multi-agency Strategic Co-ordination Group (SCG) to deal with this pandemic. These groups met on a daily basis during March 2020 and meetings continued into April 2020 and beyond.

4.3 Once enacted, the Corporate Emergency Management Plan allowed for an emergency management structure and delegation of emergency powers to the ERT Gold Duty Officer in consultation with the Leader of the Council.

4.4 During the early stages of the pandemic response, the Council’s Interim Chief Executive resigned with immediate effect. This is further detailed in section 6.18.

4.5 The pandemic has impacted on the Council’s delivery of services as some staff have been diverted to front line duties to ensure that critical services are prioritised. There have also been new areas of activity

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as part of the national response to Coronavirus for example providing emergency assistance to businesses in Newport.

- 4.6 There has been funding and logistical consequences of delivering the local government response. To ensure appropriate governance and accountability, these costs have been identified by staff and appropriately coded on the Council's Main Accounting System.
- 4.7 In line with public health measures to mitigate the spread of Coronavirus and to enable the Council to focus on the delivery of critical services, all public meetings were suspended. This included Council meetings, meetings of full Cabinet and all committee and sub-committee meetings, including Scrutiny, Planning and Licensing.
- 4.8 Urgent decisions have continued to be made in accordance with the officer and members' schemes of delegation as detailed in the Council's Constitution and urgent decision-making procedures.
- 4.9 At this stage of the pandemic, the longer term disruption and consequences arising from Coronavirus is currently unclear however, existing projects and programmes may have to be put on hold, new priorities and objectives will need to be introduced and new risks will have to be identified.
- 4.10 As much as possible, the systems of internal control have continued to operate during the pandemic. The Council's recent implementation of Office365 and multi-factor authorisation has allowed the majority of employees to successfully work from home without major disruption. For example, the Council's i-Procurement system allows for electronic authorisation from delegated officers with an inbuilt segregation of duties.
- 4.11 In the Chief Internal Auditor's opinion, adequate assurance was obtained over the course of 2019/20 to result in an overall 'Reasonable' audit opinion to be issued for the Council's activities. Internal Audit coverage was adversely affected during the latter part of 2019/20 and 76% of the approved audit plan was completed against the target of 82%. At the start of March 2020, indications were that the audit team would have completed 85% of the audit plan. Further detail regarding the Internal Audit team's performance is included within the Internal Audit Annual Report 2019/20. (see also 11.9 - 11.17)
- 4.12 In conclusion, during 2019/20 the coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness. This will be monitored during 2020/21 and reviewed as part of future Annual Governance Statements.

5 Review of Effectiveness

- 5.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Senior Leadership Team within the Council which has responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

- 5.2 The processes that have been applied to maintain, review and improve the effectiveness of the governance framework include:
- i. periodic reviews of the Constitution and ethical governance arrangements by the Monitoring Officer;
 - ii. periodic reviews of the financial controls by the Chief Finance Officer;
 - iii. formal risk management and regular on-going review of the processes involved;
 - iv. the Internal Audit function, whose work takes account of identified risks through regular audits of the major systems and establishments in accordance with the annual Internal Audit plan, and which includes 'follow-up' work to ensure that Heads of Service implement agreed management actions;
 - v. the work of the Performance Scrutiny Committees, Overview & Scrutiny Management Committee, Democratic Services Committee, Standards Committee and Audit Committee;
 - vi. the opinions and recommendations of the Council's external auditors and other inspection and regulatory agencies;
 - vii. regular monitoring of performance against service plans and key targets, and reporting of this to senior management and members, through the Management Information Hub;
 - viii. the outcomes of the Annual Information Risk Report are monitored quarterly by the Information Governance Group;
 - ix. progress against the Newport Well-being Plan is monitored by scrutiny and the PSB throughout the year.

Sections 6 to 12 demonstrate how the Council is meeting the key governance principles with evidence and examples.

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

Behaving with integrity

- 6.1 In order to monitor all key Council decisions for fairness a 'Fairness Commission' was established which was the first Fairness Commission in Wales. Members of the Fairness Commission were chosen to represent a range of interests, experiences and backgrounds from across the City, including education, trade unions, equality groups, faith communities and the two main political parties in the Council. The Fairness Commission is chaired by an academic from the University of South Wales. Reviews of the Council budget proposals have been undertaken by the Fairness Commission. (A1)
- 6.2 The Council has an agreed Constitution, available on the website, which sets out:
- how the Council operates and makes decisions;
 - the procedures to ensure that decision-making is transparent and accountable to local people and other stakeholders;
 - the key roles of all members and senior officers, including the lead responsibilities for corporate governance of the Leader, the Chief Executive and other designated senior officers;
 - a scheme of delegated powers for decision-taking;
 - responsibilities for reviewing and agreeing the Council's corporate governance arrangements;

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- arrangements for ensuring it is regularly reviewed and updated;
- its related codes and protocols. (A2)

6.3 A set of Council values 'Courageous, Positive, Responsible' were established following staff feedback. These are regularly communicated with all staff. (A2)

6.4 The Council demonstrates, communicates and embeds its operating principles and values through appropriate policies which are reviewed on a regular basis. These policies also place an emphasis on ethical values. Some of the policies in place to support this are:

- Whistleblowing Policy
- Member and Employee Codes of Conduct
- Anti-Fraud, Bribery & Corruption Policy
- Safeguarding Policy
- Complaints Procedure

6.5 Established anti-fraud, bribery and corruption arrangements provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to combat money-laundering, the anti-fraud, bribery and corruption policy and the whistleblowing policy. (A4, A7, A9, A12)

Demonstrating strong commitment to ethical values

6.6 The Council's Ethical Governance Framework includes:

- codes of conduct for officers and members, which are reviewed, updated and tested for compliance;
- a protocol governing Member/Officer relations;
- a whistle-blowing policy widely communicated within the Council and which is regularly reviewed;
- registers of personal and business interests for Members and Chief Officers;
- an agreed policy and associated corporate procedures for ensuring that complaints about services can be properly made and investigated, and for ensuring that any lessons can be applied;
- the Strategic Equality Plan and Equality Objectives 2016-2020 (agreed by Cabinet February 2016).
- Full Council received a copy of the Strategic Equality Plan Annual Report for 2018/19 in November 2019. (A5)

6.7 In line with the Local Government Measure a separate Democratic Services Committee was established during 2012/13; this committee meets quarterly dealing with national consultation exercises, national policy and Members' codes and development. Full Council received a copy of the Democratic Services Committee Annual Report for 2018/19 in November 2019. (A5). The Standards Committee, which includes a majority of independent representatives, advises on and monitors the Member Code of Conduct, the Protocol for Member/Officer Relations, and any other codes relating to the conduct of Members. Full Council received a copy of the Standards Committee Annual Report for 2018/19 in November 2019.(A6)

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- 6.8 An ethical Standards Questionnaire was issued by the Standards Committee during 2019/20; however only 13 responses were received. The questionnaire was sent out to all Members and Chief Officers as well as Heads of Service. Despite there being a low response it was noted that the answers to the questions were fairly positive. (A6)
- 6.9 Induction training for employees covers code of conduct, expected standards of behaviour and the importance of the whistleblowing policy. These documents are also available on the staff intranet. (A6)
- 6.10 The Council looks to ensure that external providers of services on behalf of the Council act with integrity and in compliance with high ethical standards. The Council have signed up to the Welsh Government's Code of Practice – Ethical Employment in Supply Chains. The overarching principle of the Code is to ensure that workers in public sector supply chains are employed ethically and in compliance with both the letter and spirit of UK, EU, and international laws. The Code covers Modern Slavery and human rights abuses, Blacklisting, False self-employment, Unfair use of umbrella schemes and zero hours contracts as well as considering paying the living wage. (A8)

Respecting the rule of law

- 6.11 The Council has a strong commitment to the rule of law and adhering to the laws and regulations set by Welsh Government, UK Government and the European Union. There were no “call-in” challenges to decisions on procedural grounds and no judicial review challenges on grounds of legality during the year. (A9)
- 6.12 The Council is required to meet statutory obligations regarding the handling of data; the Digital Strategy incorporates an Information Risk Management Policy which outlines roles and responsibilities for information risk management. This ensures that the requirements of legislation, including the Data Protection Act 2018 (GDPR), Environmental Information Regulations 2004 and the Freedom of Information Act 2000 are met and that the risks around information are managed appropriately. The Information Risk Management Policy also formalised the requirement for an Annual Information Risk Report which was reviewed by Overview and Scrutiny Management Committee in July 2019 and endorsed by the Cabinet Member for Community & Resources in October 2019. The Cabinet Member for Community & Resources in June 2019 also approved the implementation of a new Newport City Council Data Protection Policy. (A9)
- 6.13 There were 5 complaints of Member misconduct made to the Public Services Ombudsman for Wales (PSOW) in 2019/20 involving City Councillors but none were accepted for formal investigation. There were no referrals to the Standards Committee and no findings of misconduct or breaches of the Member Code. (A9, A12, A13)
- 6.14 The number of complaints received concerning Newport increased slightly from 38 to 39. Most of the complaints received by the PSOW were discontinued or resolved. There were no findings of maladministration or misconduct during 2019/20. In Newport's case, whilst the volume of complaints increased this mostly led to a satisfactory outcome. There were no public interest reports. (A9)
- 6.15 Following the Local Government elections in May 2017, mandatory training was provided to new Members of the Council along with other training sessions for existing Members. (A9)
- 6.16 The Internal Audit team continued to deliver awareness raising sessions on the importance of compliance with Financial Regulations and Contract Standing Orders. (A9)

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- 6.17 In September 2019 the Leader of the Council (Baroness Wilcox) was elevated to the House of Lords and subsequently stepped down from her role within Newport City Council. A new Leader of the Council (Cllr Mudd) was appointed by a meeting of the Full Council in November 2019. Upon appointment, the Leader announced her new Cabinet. (A10)
- 6.18 The Council has the following statutory posts and enables officers to fulfil their responsibilities in accordance with legislative and regulatory requirements:
- Head of Paid Service (Chief Executive)
 - During the course of 2019/20, the Chief Executive tendered his resignation and left the Council in October 2019.
 - This post was formally advertised and a recruitment process was still underway at the end of the financial year.
 - An Interim Chief Executive was appointed in October 2019 but tendered their resignation shortly prior to the end of the financial year (March 2020).
 - The Strategic Director – Place is currently the Acting Chief Executive.
 - Section 151 Officer (Head of Finance)
 - Monitoring Officer (Head of Law & Regulation)
 - Director of Social Services
 - The Director of Social Services (Corporate Director – People) retired in November 2019. The post was advertised but no appointment was made. Further adverts for the post was put on hold due to the concurrent recruitment process for a new permanent Chief Executive.
 - The Director of Social Services post is currently being fulfilled by the Head of Adult & Community Services.
 - Head of Democratic Services
 - The designated post holder (Democracy & Communication Manager) left the Authority in September 2019.
 - As an interim measure, the Monitoring Officer (Head of Law & Regulation) has fulfilled the roll.
 - A recruitment campaign for this position commenced in February 2020 but the post had not been appointed to as of the 31st March 2020. (A10)
- 6.19 The Council optimises the use of the full powers available for the benefit of the citizens of Newport, communities and other stakeholders. For example, the Council takes its decisions by way of full Council or the Executive (Cabinet). Decisions are also taken by individual Cabinet Members and Chief Officers. The Scheme of Delegation and the Terms of Reference which are included in the Constitution, make it clear at which level decisions are taken. (A11)
- 6.20 A revised Whistleblowing Policy was commended in March 2015, updated in 2017, and a confidential helpline set up. In 2019/20 1 disclosure was made under the policy. This was currently under investigation in accordance with the agreed policy. (A13)
- 6.21 All waivers of the Contract Standing Orders and urgent decisions are reported through the Audit Committee quarterly. (A12)

7 Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

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- 7.1 The Overview and Scrutiny Annual Report for 2018/19 was considered by Council in September 2019. (B1)
- 7.2 The majority of meetings are held in public as shown from Committee agendas and minutes which are then available on the website. The Council now broadcasts Council meetings and Planning Committees live on the internet and is working towards webcasting other formal member meetings. Live tweets are broadcast from Newport Council's Twitter account. (B1)
- 7.3 Due to the impact of Covid-19 and national lockdown in March 2020 all public meetings were put on hold. In late August / September, virtual meetings were set up which were accessible by the public.
- 7.4 As part of Newport City Council's commitment to being open and transparent it publishes its data on the website which the public is free to view and use www.newport.gov.uk/transparency. Examples of open data sets:
- Newport Matters production costs
 - Pupil Numbers
 - Public health funerals
 - Council Pay & Grading and gender pay gap information
 - Payments to suppliers
 - Councillor allowances & expenses
 - Business rates
 - Housing Information
 - Freedom of Information
 - City Contact Centre Calls (B1)
- 7.5 The Council has responded to Freedom of Information Act requests within the required 20 days:(B1)

	2017-18	2018-19	2019-20
No' of FOI requests	1037	1167	1100
No' responded to within 20 days	916	1051	992
Percentage of FOIs responded to within 20 days	88.3%	90.1	90.2
	Target 88%	Target 88%	Target 88%

- 7.6 The Scheme of Delegation sets out responsibilities for decision making. The Council's website includes the Cabinet and Cabinet Member decisions / Member profiles. (B2)
- 7.7 Standing Orders of the Council were amended in July 2017 to include a session for open questions to the Leader of the Council at full Council meetings. (B2)
- 7.8 Agendas, reports, decision schedules and minutes of all meetings of the Council, Cabinet or Cabinet Member are available to the public by way of the Council's website except in exceptional circumstances where they may contain exempt or confidential matters. Any minutes or decisions arising from the consideration of such reports are, however, available to the public via the website. Report and Decision

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schedules showing decisions taken by individual Cabinet Members are also available to the public via the website except in similar exceptional circumstances. (B3)

- 7.9 Every report considered as part of the decision making process by Members must contain comments by the Council's Monitoring Officer, the Section 151 Officer and the Head of People and Business Change. The report template ensures report authors consider potential risks, equalities, WFG and financial implications of their proposals. (A10,B3)
- 7.10 From May 2016 Public Service Board (PSB) papers were published online on the One Newport partner website to ensure transparency, as were agenda and minutes of the Single Integrated Plan Board. (B3)
- 7.11 The Council uses a range of formal and information consultation and engagement exercises to determine the most appropriate and effective intervention / course of action. For instance, the Council undertakes the school reorganisation programme in accordance with the Welsh Government statutory School Organisation Code. Each consultation is supported by full stakeholder engagement as outlined in the statutory code. This includes the publication of detailed consultation packs and a children and young people summary version, distribution of response forms, drop-in sessions and meetings with the school councils at relevant and local schools. Following each consultation, a consultation report is prepared and published which outlines how the consultation was carried out, who is engaged and the relevant responses. These reports are provided as annexes to the Cabinet Member report which approves moving to the next stage in the process – publication of the statutory notice. The statutory notice is the stage at which legal objections can be lodged against proposals. (B4)

Engaging comprehensively with institutional stakeholders

- 7.12 The Council looks to effectively engage with all stakeholders to ensure that the objectives and intended outcomes for each relationship are clear so the outcomes can be achieved successfully and sustainably. For example, the Local Authority works closely with the governing bodies of all schools across Newport and as key stakeholders they are consulted where appropriate on all matters. (B5)
- 7.13 The Council has developed a number of formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively. Some examples of these are the ONE Newport Public Services Board, Newport Live (Leisure Trust) and the Community Safety Partnership. (B6)
- 7.14 All partnerships are based on trust along with a shared commitment to change while promoting challenge among partners. (B7)
- 7.15 The Council has a number of formal appointments onto outside bodies to provide effective challenge. These appointments are agreed at the Council's AGM and at further Full Council meetings when necessary. A list of these appointments can be seen within the meeting minutes. (B7)

Engaging stakeholders effectively, including individual citizens and service users

- 7.16 A formal policy for the type of issues that the Council will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service provision is contributing towards the achievement of intended outcomes cannot be located. This has been included within the Action Plan within Section 13 (B8).

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- 7.17 Communication is important to Newport; the Annual Statement of Accounts 2018/19 was taken through the Audit Committee in 2019. All Council decisions, reports and questions asked by Members are available on the website, as are Cabinet Member decisions, Audit Committee reports and the work of the Scrutiny Committees. Headline figures of the Council's financial position were included in the Council tax leaflets distributed with all bills. Financial information, Council activities, achievements, developments, updates and events were included in Newport Matters, which is distributed to every household in the City, and are also available on the Council's intranet and website. (B9)
- 7.18 The Council looks to communicate via a number of different methods. 'Have Your Say' consultations are on the Council website, along with regular posts on social media and the use of Bus WIFI surveys. (B9)
- 7.19 Members are encouraged to hold regular Ward meetings and these are supported by Officers of the Council (B9). Social media, Twitter and Facebook for example, is increasingly being used to engage local people and communicate the corporate message. (B10)
- 7.20 Dealing with customer complaints helps Newport to identify and deal with failures in service delivery and look for opportunities to improve. The Council's Customer Complaints Policy and procedures are available on the web site; the public can report a problem or concern via the 'Report it' option on the web front page. An Annual Report on Compliments, Comments and Complaints Management for 2018/19 was presented to Cabinet in October 2019. The following table shows the number of complaints received for the past three years: (B10, B11)

	2017-18	2018-19	2019-20
Stage 1 Complaints	284	271	1,413
Stage 2 Complaints	24	28	36
Complaints to PSOW	37	38	39

- 7.1 The increase in Stage 1 complaints is attributed to two things
- The new online self-service system introduced in March 2019 made it much for customers to make their complaints online, using the website, their customer accounts or through an app. The Ombudsman's legislation makes it clear that Council's should make it easy and simple for residents to make complaints, however the old webform system was not a good experience for the customer and we rarely received any complaints online. This has changed significantly since the new system was introduced, which is a positive step forward. The number of Stage 2 and Ombudsman complaints has not increased, which indicates the same level of competence in responding to complaints successfully at Stage 1, without them needing to escalate further. Feedback from the Ombudsman has been very positive throughout 2019/2020 and they have recommended that other LA's in Wales contact us to find out what we are doing in terms of best practice in complaint management.
 - a number of operational changes resulted in higher volumes of complaints for certain issues, e.g. the rollout of smaller bins and waste enforcement, introduction of Civil Parking Enforcement.

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7.2 Public engagement and consultation is key to the WFG Act. One of the five ways of working is Involvement - *the importance of involving people with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area which the body serves*. This is now considered in all Cabinet Member reports. (B13)

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

Defining Outcomes

8.1 The Corporate Plan 2017-2022 “Building on Success -Building a Better Newport” now incorporates the Council’s wellbeing objectives as required by the WFG Act. The Plan sets out clearly the Council’s purpose, priorities and demonstrates its commitment to improving social, economic, environmental and cultural well-being and promoting sustainable development. This provides the basis for the Councils overall strategy and performance. (C1)

8.2 Audit Wales (previously named the Wales Audit Office) issued the Council with its second Certificate of Compliance following an audit of the Council’s 2018/19 performance in accordance with the Local Government (Wales) Measure 2009. This went to Cabinet in December 2019, confirming the Council had discharged its duties under section 15 (2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties. (C1)

8.3 The One Newport PSB Well-being Plan (Cabinet May 2018) – represents the combined strategic planning intent of a partnership of the key public service providers in Newport which includes the Council – for improving the quality of life in terms of the social, economic, cultural and environmental well-being of the whole community. The Well-being Plan identifies key priorities and objectives that the PSB will work towards achieving over a set period of time. These priorities have been identified as those where the PSB and other key stakeholders must work together to achieve success and meet the requirements of the WFG Act. (C2)

8.4 Regular risk based meetings are held between Council officers and representatives of the Head of Finance to ensure that service areas are managing their outcomes on a sustainable basis within the available financial resources allocated. (C3)

8.5 Members of the performance team attend each service area’s monthly management team meetings to comment on and review the section’s performance against key performance indicator targets. (C3)

8.6 The Council identifies and manages risk through the Corporate Risk Register (see section 11) and also individual service area plans to ensure the achievement of intended outcomes. (C4)

8.7 The Council looks to manage service user expectations with regards to determining priorities and making the best use of the resources available. For instance, regular updates on the Council’s Medium Term Financial Plan (MTFP) are presented to Cabinet. (C5)

8.8 2019/20 service planning incorporated an understanding of customer needs, service area outcomes and improvement priorities, performance management and monitoring, an action plan to achieve the outcomes, an assessment of service related risk, an acknowledgement of regulators’ proposals for improvement and an equalities impact assessment. (C5)**Sustainable economic, social and environmental benefits**

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- 8.9 Newport City Council considers and balances these combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provisions. Each report considered as part of the decision making process by Members must contain comments by the Council's Monitoring Officer (legal), the Section 151 Officer (economic) and the Head of People and Business Change (social and environmental). (C6)
- 8.10 Equality Impact Assessments (EIA) are required by law under the Equality Act 2010. Newport's assessments also examine 'Fairness' and the Welsh language to ensure that the needs of other vulnerable people are considered, as well as the effect on different areas within Newport. A range of these were undertaken during 2019/20 which have been published on the Council's website. A Strategic Equalities annual report is published by the Council. (C7, C8, C9)
- 8.11 The Public Services Board review includes the monitoring of targets to ensure policies are delivering the agreed outcomes to ensure services are effective, focused on local people and improved quality of life in the City. In terms of measuring the environmental impact of policies, plans and decisions, the Council is working with the Welsh Local Government Association as one of 10 lead authorities for sustainability, and this will also form part of the Wellbeing Assessment and Wellbeing Plan work. (C8, C9)

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

Determining Interventions

- 9.1 Decision makers across the Council are provided with reports which allow for an analysis of a variety of options including how they would be achieved and the risks associated. Comments are received on each report from the Monitoring Officer, Chief Financial Officer and the Head of People & Business Change. (D1)
- 9.2 The results of all consultation exercises are considered along with Fairness EIA's when making decisions about service improvements to prioritise the competing demands with the resources available. All reports consider the WFG Act. (D2)

Planning Interventions

- 9.3 The Council's Corporate Plan underpins the strategic objectives of the Council. Each service area also has an operational plan along with their own priorities and targets. Service area plans are approved by the Cabinet Member responsible for the portfolio. Mid and end of year reviews are completed by the Head of Service and submitted to Scrutiny. (D3, D8)
- 9.4 To ensure the Council continues to meet its statutory duty to demonstrate continuous improvement the monitoring of performance is undertaken through Cabinet, Cabinet Members and Scrutiny Committees. (D3, D8)
- 9.5 Through the Council's communication methods and annual budget consultation internal and external stakeholders are consulted in determining how services and other courses of action are planned and delivered. (D4)

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- 9.6 For partner organisations such as the ONE Newport PSB and Newport Live, the Council collaboratively works together to consider and monitor the risks which may arise while ensuring that any arrangement is flexible so they can be adapted to any change of circumstance (D5, D6)
- 9.7 The Council has established a number of local performance indicators and monitors these along with the relevant statutory and national performance indicators. These are detailed within individual service plans and reported via the Council's performance management system MI Hub. The year-end Performance Analysis for 2018/19 was taken through Cabinet in July 2019 which showed 59% of performance indicators performed better than target. (D7)
- 9.8 Performance management arrangements have improved with regular monitoring by the Cabinet and Cabinet Members as well at officer level. The Authority had made its targets more difficult to achieve in an effort to push the organisation into improving services. (D7)
- 9.9 Mid-Year Performance Analysis for 2019/20 was taken through Cabinet in January 2020. The report showed that for the first six months of this financial year:
- 97% of the actions identified in the service plans were reported as being 'In Progress';
 - 11% of actions reported as being 'Completed'; and
 - 7% of actions awaiting to be commenced. (D7)
- 9.10 Budgets are prepared in accordance with the Council's strategic directives and Corporate Plan. There are robust arrangements for effective financial control through the Council's accounting procedures, Financial Regulations (May 2016). These include established budget planning procedures, which are subject to risk assessment, and regular reports to members comparing actual revenue and capital expenditure to annual budgets. The Council's Treasury Management arrangements follow professional practice and are subject to regular review by the Council's Audit Committee and full Council to ensure a sustainable funding strategy is maintained. (D9, D10)
- Optimising achievement of intended outcomes**
- 9.11 Where value for money of the public pound is concerned, budget proposals were examined by meetings of the Scrutiny Committees. This is to ensure that the service priority, affordability and other resource constraints are balanced. (D11)
- 9.12 Regular budget / outturn reports for revenue and capital were presented to and approved by Cabinet during the year. The updated MTFP and budget monitoring reports were presented to and approved by Cabinet in July 2019, September 2019, November 2019, December 2019, January 2020 and February 2020 and took into account the full cost of operations. The MTFP report highlights any significant delivery issues or changes to the external environment which arise during the period and have a financial impact. (D12, D13)
- 9.13 The 2020/21 Budget consultation and MTFP were submitted to Council in February 2020; The Council recognises that timely and accurate budget monitoring information is essential for effective decision making purposes. A public consultation exercise was also undertaken to determine the 2020/21 budget proposals. (D12)

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

Developing the entity's capacity

- 10.1 The Council has developed and maintained a People & Culture Strategy 2018 – 2022 as a workforce plan to enhance the strategic allocation of resources. (E1)
- 10.2 Through annual service area plans and mid year reviews, the operations and use of assets are reviewed. Performance is monitored through the service plans and also through the MI Hub performance management system with 6 monthly reports to Cabinet to ensure the continuing effectiveness of operations. (E2)
- 10.3 The Council recognises the benefits of partnerships and collaborative working to add value into the organisation. Examples of these arrangements can be in place locally (within Newport) such as the Newport Live (Leisure Trust), regionally within Gwent – the Education Achievement Service for SE Wales (EAS), regionally within South East Wales - the Cardiff Capital Region City Deal and wider afield through the 'Great Western Powerhouse'. (E4)

Developing the capability of the entity's leadership and other individuals.

- 10.4 The Council has an agreed Member/Officer Protocol within the Constitution which ensures that a shared understanding of the roles and objectives are maintained. (E5)
- 10.5 The Constitution also includes a clear scheme of delegated powers for decision taking by Members and Chief Officers. This document details the types of decisions which can be delegated to Cabinet Members, established Sub-Committees or Chief Officers or those which have to be made by the collective body of the full Council. (E6)
- 10.6 The scheme of delegation in the Constitution sets out the various responsibilities of Members and Officers. This is updated as required via the Democratic Services Committee. Standing Orders and the Constitution were updated to take account of the requirements of the Local Authorities (Standing Orders) (Wales) (Amendment) Regulations in July 2014. (E7)
- 10.7 Appropriate and relevant job descriptions were in place for the Chief Executive, Senior Leadership Team (SLT), Monitoring Officer and Head of Finance. (E7)
- 10.8 The Council develops the capabilities of members and senior management to achieve effective shared leadership. This enables the Council to respond successfully to changing legal and policy demands. In addition the Council ensures that Members and officers have the appropriate skills, knowledge resources and support to fulfil their roles and responsibilities. This is completed by;
- An on-going programme of events and training for Members especially those involved in the Planning & Licensing Committees and Sub Committees.
 - A mandatory management programme for all senior manager 'Management in Action' to develop management capacity.
 - Further In-house management development modules for middle managers;

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- Aspiring Leaders Programme delivered in partnership with the University of South Wales.
 - Core Skills training is also available to all employees aligned to our corporate values with specific training available on topics such as Customer Care, Stress Management and Equality and Diversity. (E8)
- 10.9 Embedded Appraisal arrangements for Chief Officers are in place, including:-
- Chief Executive's Annual Appraisal;
 - Chief Executive's one to one meetings with Strategic Directors;
 - Strategic Directors' one to one meetings with Heads of Service;
 - Cabinet Member one to one meetings with Heads of Service
 - Appraisal of Chief Officers (Heads of Service). (E10)
- 10.10 The employee performance management system (Clear Review) was launched during 2017. This enables ongoing evaluation and encourages all staff to give feedback to colleagues. This ensures that all officers and managers reflect on their objectives and staff are able to link their objectives directly to the organisational goals set within the Corporate Plan and service plan. Participation in Clear Review now forms part of the suite of corporate performance indicators. The system also allows continued professional development (CPD) opportunities to be identified which are needed to improve the skill, knowledge and understanding of employees. (E11)
- 10.11 In accordance with its statutory responsibilities, the Council has in place a Health and Safety Policy and related procedures. Newport City Council supports employees and citizens in maintaining both their physical and mental well-being. Information on our workforce can be found in the Strategic Equalities annual report.

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

Managing Risk

- 11.1 Risk management is an integral part of all activities and is considered in all aspects of decision making. A report template for all formal Member and scrutiny reports requires authors to consider risk and its management or mitigation when writing reports. Each Head of Service incorporates the keys risks to their service within operational plans which identified the impact, the likelihood and any mitigation in place to manage those risks. (F1)
- 11.2 The Corporate Risk Management Policy has been reviewed during 2019/20 and revised to strengthen existing arrangements and support the delivery of the Corporate Plan. The revised Policy was considered by the Audit Committee in January 2020 and was due to be approved by Cabinet in March 2020 but this was delayed due to the Coronavirus outbreak. Presentation of the amended policy to Cabinet is now scheduled for July 2020. (F2, F3)
- 11.3 The Council's Corporate Risk Register was updated and taken through Cabinet and Audit Committee during 2019/20 on a quarterly basis. Mitigation of risk is incorporated within the risk register, which moves the risk from inherent to residual. 12 corporate risks were identified for the Council and these were recorded on the Corporate Risk Register as of the end of quarter 3 2019/20; these are shown in

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the following table. The quarter 4 update to the Risk Register was delayed due to the Coronavirus suspension of meetings.

Risk	Risk Description	Q1	Q2	Q3	Q4	Target Risk Score
R1	Balancing the Council's Medium Term budget.	20	20	20		10
R2	Stability of Social Services Providers	20	20	20		6
R3	Highways Network	20	20	20		9
R4	Schools Finance / Cost Pressures	20	20	20		6
R5	Brexit - Decision to leave the European Union	16	16	12		10
R6	Educational Out of County Placements	16	16	16		8
R7	City Centre Security and Safety	15	15	15		8
R8	Climate Change	12	12	12		10
R9	Demand for ALN and SEN support	12	20	20		12
R10	Newport Council's Property Estate	12	12	12		9
R11	In year financial management	8	12	12		6
R12	Safeguarding	6	6	6		4

The above figures relate to a likelihood v impact score where the higher the number, the higher the risk. (F2)

- 11.4 The Audit Committee felt that managing the risks faced by service areas was an important aspect of the manager's role and should be part of his / her day to day responsibilities. Further work was required to ensure that risk management became fully embedded within Council operations so that it became more of a living document so that operational managers took greater responsibility for owning and dealing with the risks identified in their areas. All risks within the Corporate Risk Register have a designed overseeing officer(s) and a lead Cabinet Member(s) assigned. (F3)

Managing Performance

- 11.5 Service delivery is monitored through a number of key performance indicators agreed with targets at the start of each year. These are included on the Council's performance management system MI Hub and challenged by the Policy & Performance team. The planning, specification and delivery of service area work is included within annual service area plans which are approved by the lead Cabinet Member

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for the service area along with being reviewed through the scrutiny process. These are subject to mid-year and end of year reviews presented to the respective scrutiny committee. This ensures that Members and senior managers have regular reports on progress towards outcome achievement. (F4, F7)

11.6 All decisions are based on clear, objective analysis taking into account the Council's financial position, social and environmental implications. Consideration against statutory policies is also made through a review of the WFG Act commitments. The above are considered by the report author when writing the report and also through the comments of the Monitoring Officer, Chief Financial Officer and the Head of People & Business Change. (F5)

11.7 The Council has a number of established Scrutiny Committees. Members of the scrutiny committees review policies and question key decisions made by the Council's Cabinet and Officers to ensure they are open, accountable, transparent and in the best interests of the local area and its residents. Audit Wales reviewed the Council's Overview and Scrutiny functions to determine if they were 'Fit For the Future' in August 2018. They concluded that the Council's leadership was committed to improving its scrutiny function and to meet current and future challenges for scrutiny, but Members need a fuller understanding of their scrutiny role and more effective, timely training. (F6)

11.8 Scrutiny committees also review the Council's achievements against planned targets, issues of local concern and services provided by the Council and other public organisations. In Newport City Council there are four scrutiny committees:

- Overview and Scrutiny Management Committee
- Performance Scrutiny Committee - Partnerships
- Performance Scrutiny Committee - People
- Performance Scrutiny Committee - Place and Corporate

Each Committee is politically balanced and the chair persons are allocated in proportion to the number of seats held by political groups. (F6)

Robust internal control

11.9 The Audit Committee provides assurance on the effectiveness of internal control, risk management and governance. (F9)

11.10 The Audit Committee considers the work of internal and external auditors and the responses to audit recommendations. The Audit Committee is politically balanced, independent of the executive and has appointed an independent chairman; he is not part of the political structure of the Council. It also has responsibility for approving the Annual Statement of Accounts and its associated reports (which include this statement). This responsibility has been delegated by Council where the Chair of the Audit Committee signs the Accounts on behalf of the Audit Committee. (F13)

11.11 Audit Committee meets regularly and its activities can be seen via the Council's website; it met 5 times in 2019/20. It received

- The Annual Internal Audit Report 2018/19
- The Annual Internal Audit Plan 2019/20
- Quarterly updates from Internal Audit re opinions / performance

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- Standing Order 24 (Urgent Decisions) and Waiving of Contract Standing Orders quarterly reports
- Treasury Management report and updates
- Corporate Risk Register quarterly updates
- Draft Risk Management Policy
- Draft and Final 2018/19 Financial Statements, including the Annual Governance Statement
- 6 monthly updates on Internal Audit low assurance opinions
- Audit Wales reports

Due to the suspension of Council meetings due to Coronavirus, the Audit Committee meeting planned for March 2020, which was due to approve the 2020/21 Internal Audit Plan, was postponed. (F10)

- 11.12 The Council has established anti-fraud, bribery and corruption arrangements which provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to combat money-laundering, the anti-fraud, bribery and corruption policy and the whistleblowing policy. (F11)
- 11.13 Internal Audit operate to the standards set out in the Public Sector Internal Audit Standards (PSIAS) and its role and status is set out in the Council's Internal Audit Charter. The Chief Internal Auditor is accountable to the Head of Finance and the Audit Committee. As required under the PSIAS the Newport City Council Internal Audit team underwent an external quality assessment during 2017/18. The report (issued March 2018) stated that Internal Audit were 'generally compliant' with the PSIAS which was the top grading. (F12)
- 11.14 The Chief Internal Auditor reports, in his own name, to the Audit Committee a summary of audit findings for each quarter, and also reports annually an opinion on the overall adequacy and effectiveness of the Council's internal control environment, governance arrangements and risk management processes. (F10, F12)
- 11.15 32 Internal Audit opinions were issued in 2019/20. The overall opinion on the adequacy of the internal control environment for 2019/20 was **REASONABLE (in 2018/19 the overall opinion was Reasonable)**. (F10)

	2017-18	2018-19	2019-20
Good	11	10	7
Reasonable	23	27	19
Unsatisfactory	6	10	6
Unsound	0	1	0
Total	40	48	32

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- 11.16 Management have agreed to implement the action points in order to address the weaknesses identified and Internal Audit will follow this up. 86% of agreed management actions for 2018/19 had been implemented by management. (F10, F12)
- 11.17 Reasons why the outcome of some internal audit reviews were deemed to be unsatisfactory were presented to Audit Committee. The Audit Committee has the power to call in a Head of Service and Cabinet Member to hold them to account for addressing required improvements to the internal control environment within their service area. Examples of this occurring during 2019/20 are:
- Based on the information presented to the Audit Committee by Internal Audit, on behalf of the Audit Committee, the Chairman wrote to the Chief Executive at the end of 2018/19 expressing their concerns about the limited assurance provided on systems and services operated within the City Services Area. A reply to the letter was received from the Chief Executive and this was presented to members of the Audit Committee in June 2019.
 - The Chief Education Officer attended a meeting of the Audit Committee in October 2019 with regards to the second consecutive Unsatisfactory Internal Audit opinion regarding Education Trips & Visits (Evolve System). A further follow-up is planned for this area during 2020/21.
 - At the meeting of the Audit Committee in November 2019, the Headteacher and Chair of Governors of Caerleon Comprehensive School attended due to concerns raised at a previous meeting regarding the Unsatisfactory internal audit opinion issued for the School. A follow-up audit is planned for this School during 2020/21.

Assurance was provided by all those who attended Audit Committee that improvements will be made in the examined areas which will result in a future improvement in the internal control environment and resulting internal audit opinion. (F12)

Managing Data

- 11.18 Following adoption of the Information Risk Management Policy in 2013 the Council has defined roles and responsibilities for information risk as:
- The Senior Information Risk Owner (SIRO) has high level responsibility for controls relating to information security and the role is undertaken by the Head of Law & Regulation (independent of operational responsibilities);
 - Information Asset Owners (IAO's) must effectively manage the information assets that they own;
 - The Information Management team are the operational lead on information governance in conjunction with the IT Service (SRS);
 - The Information Governance Group provides a high level management overview of information governance;
 - The Council's Information Risk Register is maintained by the Information Management team to document and manage risks, reported annually. (F14)
- 11.19 The Annual Information Risk Report forms an important element of information risk management and includes an action plan. The report for 2018/19 highlights:
- PSN (Public Services Network) compliance achieved;
 - Good progress made in relation to General Data Protection Regulation (GDPR)
 - A Data Protection Policy developed and existing policies updated
 - Management of Information Governance Group which meets quarterly;
 - Specific member training that was well attended complementing good staff attendance;

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- Information risk register managed;
- 2 incidents referred to the ICO (Information Commissioners Office) with no action taken against the Council;
- Roll out of Office 365 including Multi Factor Authentication (MFA) and Advanced Threat Protection (ATP)
- Met Freedom of Information Requests target with highest number of requests ever recorded. (F14)

11.20 The Annual Information Risk Report 2019/20 Draft was presented to the Information Governance Group May's meeting.

11.21 There is a Council policy on information sharing along with numerous information sharing protocols with our partners. Information sharing is key to joined up service delivery. The Wales Accord on the Sharing of Personal Information (WASPI) was developed as a practical approach to multi agency sharing for the public sector in Wales, and Newport signed up to this in January 2011. The Council is required to meet statutory obligations regarding the handling and sharing of data, in accordance with the Data Protection Act 2018. The Information Sharing Policy has been developed to ensure information is only shared appropriately, safely and compliantly. (F15)

11.22 Through Internal and External Audit reviews the quality and accuracy of data used in decision making and performance monitoring is reviewed. (F16)

Strong public financial management

11.23 The Council ensures that its financial management supports both long term achievement of the strategic objectives and outcomes while ensuring that short-term financial and operational performance is monitored. This is completed through the approval of a Medium Term Financial Plan and Capital Programme which are reviewed on a regular basis by Cabinet. On a short term basis, the individual service area budgets are monitored on a risk based programme by Accountancy.

11.24 The Council has a Budget Management System which promotes responsible and good financial management across all service areas of the Council. This system allows officers to highlight and explain any financial risks and controls.

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

Implementing good practice in transparency

12.1 The Council looks to ensure that all reports and communications are in clear English and in a style which is easily understandable. All reports can be accessed via the democracy pages on the Council's website using the modern.gov platform. The Council ensures that the provisions of the Welsh Language Standards are met with its communication to residents. (G1)

12.2 All reports are required to have comments from the Monitoring Officer, Chief Financial Officer and the Head of People & Business Change. These 3 Officers ensure that reports strike the correct balance to ensure the right amount of information is provided to satisfy transparency demands and to enhance public scrutiny. They also ensure that reports are not too onerous and in a language which the users can understand. (G2)

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Implementing good practices in reporting

- 12.3 All service areas are required to report annually on performance, value for money and the stewardship of resources. This is through the service plan reviews, which also have a mid year review. (G3)
- 12.4 All service plans, risks, budgets and performance measures have a designed responsible officer along with the appropriate Head of Service and Cabinet Member. (G4)
- 12.5 The Council has arrangements through this Annual Governance Statement for ensuring robust arrangements for assessing the extent to which the principles contained in the Code of Corporate Governance Framework have been applied to demonstrate good governance.(G5)
- 12.6 The Councils Code of Corporate Governance has been revised during 2019/20 and is due to be taken to Audit Committee for review and Cabinet for approval during 2020/21.
- 12.7 As the updated Code of Corporate Governance has not yet been approved by the Council, upon its approval copies will be provided to jointly managed and shared service organisations for them to provide assurance on compliance as appropriate. (G6, G11)
- 12.8 The preparation of the Council's financial statements are completed as soon as possible after year end and to the deadlines agreed with Audit Wales. Both the publication of the Draft and Final 2018/19 end of year accounts met these deadlines. (G7)

Assurance and effective accountability

- 12.9 Any recommendations made by the Council's external auditors (Audit Wales) are acted upon. Each report contains an action plan and is presented to and monitored by the appropriate scrutiny committee. An end of year 'lessons learnt' exercise was completed for the 2018/9 account closure process and this was reported to the Audit Committee in November 2019.
- 12.10 The Council has an Internal Audit service which has unrestricted access to all personal, documentation and premises of the Council. The Chief Internal Auditor also has unrestricted access to the Chair of the Audit Committee, Chief Executive and Leader of the Council if required. These provisions are set within the Council's Financial Regulations (part of the agreed Constitution) and are also included within the Internal Audit Charter. (G9)
- 12.11 An Internal Audit review has been undertaken of Corporate Governance across the organisation. This review was commissioned through the South West Audit Partnership (SWAP) and resulted in an Unsatisfactory assurance rating (Draft at 31/3/20). An action plan is currently being developed in response to the report's findings. (G9)
- 12.12 The Council welcomes all challenge, reviews and inspections from regulatory bodies. A number of external bodies have provided reports on the Council's activities during 2019/20 including Audit Wales, the Care Inspectorate for Wales (CIW) and Her Majesty's Inspector of Education & Training in Wales (ESTYN). The Council looks to implement all recommendations arising from these reports to ensure the necessary controls and improvements are made for the benefit of the citizens of Newport. (G10)
- 12.13 When working in partnership the Council ensures that arrangements for accountability are clear, whether this is through a memorandum of understanding or contract being in place. This is to ensure that wider public accountability is met.

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13 Action Plan

Based on our review of the governance framework, the following issues need to be addressed during 2020/21 to further improve and strengthen the governance arrangements and their effectiveness in future years.

Issue	Action	Responsible Officer
6.8 Key statutory positions are currently filled as soon as possible, even if that is on a temporary, interim basis.	To ensure all statutory posts within the Council are appointed to following an open and transparent recruitment process.	Head of People & Business Change
7.15 Consultation and Engagement Policy requires review – B8	To review the required policy and seek appropriate approval.	Head of Law & Regulation
12.6 The Council's revised Code of Corporate Governance needs to formally approved.	The Council's Code of Corporate Governance will be considered by Audit Committee before taking to Cabinet for approval during 2020/21	Chief Internal Auditor
12.7 Once approved the revised Code of Corporate Governance needs to be communicated to all jointly managed and shared service organisations.	Communicate the revised Code of Corporate Governance to all jointly managed and shared service organisations and that assurance on compliance is received for the Annual Governance Statement 2020/21.	Head of Finance Chief Internal Auditor
12.11 Action needs to be taken in response to the 'Corporate Governance' Unsatisfactory	Management to agree a response to the report and ensure concerns are addressed.	Head of People & Business Change

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Internal Audit report (Draft at 31/3/20).		Head of Law & Regulation
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14 Conclusion

- 14.1 In conclusion during 2019/20 the Coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness. This will be monitored during 2020/21 and reviewed as part of Internal Audit work and future Annual Governance Statements.
- 14.2 We propose over the coming year to continually monitor and review the projects within each service area to mitigate and manage these risks to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: **Date**..... 2020

Councillor Jane Mudd, Leader of Newport City Council

Signed: **Date**..... 2020

Beverly Owen, Chief Executive of Newport City Council

Independent Auditor's Report to the Members of Newport City Council

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The independent auditor's report of the Auditor General for Wales to the members of Newport City Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of:

- Newport City Council; and
- Newport City Council Group

for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

Newport City Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

Newport City Council Group's financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

give a true and fair view of the financial position of Newport City Council and Newport City Council Group as at 31 March 2020 and of its income and expenditure for the year then ended; and

have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Council and the Group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independent Auditor's Report to the Members of Newport City Council

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Emphasis of matter – effects of COVID-19 on the valuation of land and buildings

We draw attention to Note 5 of the financial statements, which describes material valuation uncertainties regarding the valuations of land and buildings arising from the current COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Emphasis of matter – effects of COVID-19 on the valuation of investment properties

We draw attention to Note 5 of the financial statements, which describes material valuation uncertainties regarding the valuations of investment properties arising from the current COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Emphasis of matter – effects of COVID-19 on the valuation of pension fund assets

We draw attention to Note 5 of the financial statements, which describes estimation uncertainties regarding the valuations of certain pension fund assets arising from the current COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the Statement of Accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Independent Auditor's Report to the Members of Newport City Council

Statement of Accounts 2019/20

Newport City Council

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20;

the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Council and the Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

proper accounting records have not been kept;

the financial statements are not in agreement with the accounting records and returns; or

I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Newport City Council and Newport City Council Group in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including Newport City Council Group's financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Council's and Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Independent Auditor's Report to the Members of Newport City Council

Statement of Accounts 2019/20

Newport City Council

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Adrian Crompton

Auditor General for Wales

30 September 2020

24 Cathedral Road

Cardiff

CF11 9LJ

Electronic Publication of Financial Statements

The maintenance and integrity of Newport City Council website is the responsibility of the Council; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Expenditure and Funding Analysis

Statement of Accounts 2019/20

Newport City Council

The Expenditure and Funding Analysis shows how the annual expenditure is used and funded from resources by Local Authorities in comparison with those resources are funded in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Corporate Services include the services areas Directorate, Finance, People and Business Change and Law and Regulation.

2019/20	Net Expenditure Chargeable to the General Fund	Adjustments between the funding and accounting basis	Net expenditure in the CIES
	£'000	£'000	£'000
Children and Young People	25,697	3,037	28,734
Adults and Community	47,242	2,787	50,029
Education	13,634	5,189	18,823
Schools	96,545	13,665	110,210
Regen Investment + Housing	9,738	6,783	16,521
Streetscene and City Services	23,702	15,076	38,778
Corporate Services	17,738	4,858	22,596
Other Non Department Costs (Non Service)	45,449	(29,906)	15,543
Net Cost of Service	279,745	21,489	301,234
Other Income and Expenditure	(281,553)	24,306	(257,247)
(Surplus) or Deficit	(1,808)	45,795	43,987
Opening General Fund as at 31 March 2019	(6,500)		
(Surplus) / Deficit on the General Fund	-		
Transfer between Earmarked reserve and general funds	-		
Closing General Fund as at 31 March 2020	(6,500)		

2018/19	Net Expenditure Chargeable to the General Fund	Adjustments between the funding and accounting basis	Net expenditure in the CIES
	£'000	£'000	£'000
Children and Young People	25,850	1,315	27,165
Adults and Community	44,891	2,680	47,571
Education	14,723	5,193	19,916
Schools	92,977	35,298	128,275
Regen Investment + Housing	9,970	10,592	20,562
Streetscene and City Services	22,984	16,996	39,980
Corporate Services	17,290	3,472	20,762
Other Non Department Costs (Non Service)	47,161	(44,934)	2,227
Net Cost of Service	275,846	30,612	306,458
Other Income and Expenditure	(275,846)	25,036	(250,810)
(Surplus) or Deficit	-	55,648	55,648
Opening General Fund as at 31 March 2018	(6,500)		
(Surplus) / Deficit on the General Fund	-		
Transfer between Earmarked reserve and general funds	-		
Closing General Fund as at 31 March 2019	(6,500)		

Comprehensive Income and Expenditure Statement

Statement of Accounts 2019/20

Newport City Council

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2018/19				2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
			Children's and Young People Services		33,763	(5,029)	28,734
30,744	(3,578)	27,165	Adults and Community Services		81,376	(31,347)	50,029
75,040	(27,470)	47,571	Education		23,702	(4,879)	18,823
24,137	(4,221)	19,916	Schools		135,437	(25,227)	110,210
149,169	(20,894)	128,275	Regeneration, Investment and Housing		41,899	(25,378)	16,521
39,402	(18,840)	20,562	City Services		52,705	(13,927)	38,778
53,328	(13,348)	39,980	Corporate Services		27,197	(4,601)	22,596
25,420	(4,658)	20,762	Other Non Department Costs		60,335	(44,792)	15,543
53,527	(51,300)	2,227					
450,767	(144,309)	306,458	Cost of services		456,414	(155,180)	301,234
26,443	-	26,443	Other operating expenditure	11	23,038	238	23,276
22,544	(1,395)	21,149	Financing and investment income and expenditure	12	24,537	(1,632)	22,905
-	-	-	(Surplus) / deficit on discontinued operations		-	-	-
-	(298,402)	(298,402)	Taxation and non-specific grant income	13	-	(303,428)	(303,428)
499,754	(444,106)	55,648	(Surplus) / Deficit on Provision of services		503,989	(460,002)	43,987
		(39,252)	(Surplus) / deficit on revaluation of Property Plant and Equipment assets				(2,945)
		54,748	Actuarial (gains) / losses on pensions assets / liabilities				(82,203)
		15,496	Other Comprehensive Income and Expenditure				(85,148)
		71,144	Total Comprehensive Income and Expenditure				(41,161)

Movements in Reserves Statement

Statement of Accounts 2019/20

Newport City Council

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves.

The (surplus) or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts required to be charged to the Council Fund Balance for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory Council Fund (surplus) / deficit before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Council Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at the 31 Mar 2018 carried forward	(6,500)	(88,892)	(8,901)	(104,293)	82,122	(22,171)
Movement in reserves during 2018/19						
(Surplus) / deficit on the provision of services	55,648	-	-	55,648	-	55,648
Other comprehensive Income and Expenditure	-	-	-	-	15,496	15,496
Total Comprehensive Income and Expenditure	55,648	-	-	55,648	15,496	71,144
Adjustments between accounting basis and funding basis under regulations (Note 9)	(54,998)	-	606	(54,392)	54,392	-
Net Increase / Decrease before Transfers to Earmarked Reserves	650	-	606	1,256	69,888	71,144
Transfer to/ from Earmarked Reserves	(650)	650	-	-	-	-
Increase/ Decrease in 2018/19	(0)	650	606	1,256	69,888	71,144
Balance at the 31 Mar 2019 carried forward	(6,500)	(88,242)	(8,295)	(103,037)	152,010	48,973
Balance at the 31 Mar 2019 carried forward	(6,500)	(88,242)	(8,295)	(103,037)	152,010	48,973
Movement in reserves during 2019/20						
(Surplus) / deficit on the provision of services	43,987	-	-	43,987	-	43,987
Other comprehensive Income and Expenditure	-	-	-	-	(85,148)	(85,148)
Total Comprehensive Income and Expenditure	43,987	-	-	43,987	(85,148)	(41,161)
Adjustments between accounting basis and funding basis under regulations (Note 9)	(28,051)	-	36	(28,015)	28,015	-
Net (Increase) / Decrease before Transfers to Earmarked Reserves	15,936	-	36	15,972	(57,133)	(41,161)
Transfer to/ from Earmarked Reserves (Note 10)	(15,936)	15,936	-	-	-	-
(Increase) / Decrease in 2019/20	-	15,936	36	15,972	(57,133)	(41,161)
Balance at the 31 Mar 2020 carried forward	(6,500)	(72,306)	(8,259)	(87,065)	94,877	7,812

Balance Sheet

Statement of Accounts 2019/20

Newport City Council

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Restated 31-Mar-19 £'000		Notes	31-Mar-20 £'000
495,864	Property, Plant and Equipment	14	501,064
17,354	Heritage Assets	15	17,354
14,704	Investment Property	16	10,897
251	Long Term Investments	17	251
23,115	Long Term Debtors	17	18,356
551,288	Long Term Assets		547,922
10,000	Short Term Investments	17	12,450
1,080	Assets Held for Sale	21	1,284
189	Inventories	18	201
43,325	Short Term Debtors	19	62,557
47,140	Cash and Cash Equivalents	20	(7,189)
101,734	Current Assets		69,303
(46,919)	Short Term Borrowing	17	(19,685)
(39,561)	Short Term Creditors	22	(36,755)
(5,372)	Provisions	23	(8,866)
(2,272)	Other Short Term Liabilities	17	(2,175)
(94,124)	Current Liabilities		(67,481)
(9,885)	Long Term Creditors	17	(13,252)
(10,639)	Long Term Provisions	23	(11,041)
(145,868)	Long Term Borrowing	17	(145,947)
(400,587)	Pension Liability	25	(347,150)
(40,892)	Other Long Term Liabilities	17	(40,166)
(607,871)	Long Term Liabilities		(557,556)
(48,973)	Net Assets		(7,812)
(103,037)	Usable Reserves	24	(87,065)
152,010	Unusable Reserves	25	94,877
48,973	Total Reserves		7,812

Cash Flow Statement

Statement of Accounts 2019/20

Newport City Council

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2018/19		Note	2019/20
£'000			£'000
55,648	Net (surplus) / deficit on the provision of services as shown on the Comprehensive Income and Expenditure Statement		43,987
(74,134)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	26	(49,748)
23,075	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	26	20,407
4,589	Net cash flows from Operating Activities		14,646
(10,002)	Investing Activities	27	11,802
(40,954)	Financing Activities	28	27,881
(46,367)	Net (increase) or decrease in cash and cash equivalents		54,329
773	Cash and cash equivalents at the beginning of the reporting period	20	47,140
47,140	Cash and cash equivalents at the end of the reporting period	20	(7,189)

Notes to the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

1 ACCOUNTING POLICIES

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014, and in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and is supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments which are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Discontinued Operations

Discontinued operations arise where an activity has permanently ceased; terminates during the period or within three months of the period end; has a material impact on the Council's service provision or on the Council's net expenditure; and the operation has clearly defined assets, liabilities, income and expenditure on operations for operational and financial reporting purposes.

Notes to the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Statement of Accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Prior Period Adjustments, Changes in Accounting Policies, and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Service revenue accounts and central support services are debited with the following amounts to recognise the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Council is not required to raise council tax to cover these charges but instead has to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This charge is known as the minimum revenue provision (MRP) and is calculated in accordance with an annual MRP policy approved by the Council.

Depreciation, impairment losses and amortisations are therefore replaced by the MRP in the Movement of Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Notes to the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Council Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pension on behalf of the Department for Education.
- The Local Government Pension Scheme, administered by Torfaen County Borough Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Schools and Education lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Torfaen County Borough (Greater Gwent) pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions around areas such as mortality rates and employee turnover rates, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Torfaen County Borough (Greater Gwent) pension fund attributable to the Council are included in the Balance Sheet at their bid value
 - Equity securities – quoted prices in active markets
 - Real Estate, investment funds and unit trusts, cash & cash equivalents = quoted prices not in active markets
- The change in the net pensions liability is analysed into the following components:

Service Costs

- **current service cost** – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- **net interest on the net defined benefit liability (asset)** - the net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements

- **the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Torfaen County Borough (Greater Gwent) pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Council Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Full pensions details are included in Notes 40 and 41.

Notes to the Statement of Accounts

Statement of Accounts 2019/20

Newport City Council

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as borrowings and investments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Notes to the Statement of Accounts

Statement of Accounts 2019/20

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For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Financial Assets measured at Fair Value through other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through other Comprehensive Income (FVOCI), held as a long-term investment.

The Council has made an irrevocable election to designate one of its equity instruments as FVOCI on the basis that it is held for non-contractual benefits, it is not held for trading but for strategic purposes. The asset was transferred to the new asset category on 1 April 2018.

The asset is initially measured and carried at fair value.

The value is based on the principal that the equity shares have no quoted market prices and is based on an independent appraisal of the company valuation.

Dividend income is credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are posted to Other Comprehensive Income and Expenditure and are balanced by an entry in the Financial Instruments Revaluation Reserve.

When the asset is de-recognised, the cumulative gain or loss previously recognised in Other Comprehensive Income and Expenditure is transferred from the Financial Instruments Revaluation Reserve and recognised in the Surplus or Deficit on the Provision of Services.

The same accounting treatment was adopted in the prior year when the asset was classified Transport Realisation account. The balance on this reserve was transferred to the new Financial Instruments Revaluation Reserve as at 1 April 2018.

Government Grants and Contributions

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income. Capital Grants are reversed out to the capital adjustment account as expenditure is incurred. Grants or contributions requiring return

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if conditions are not satisfied, are held on the balance sheet within creditors until the conditions are met at which point they are recognised in the Comprehensive Income and Expenditure Statement.

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The Council's Heritage Assets are held in a number of collections in varying locations across the Council. The Council holds collections of heritage assets in order to increase the knowledge, understanding and appreciation of the history and culture of the Council's local area.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some measurement rules are relaxed in relation to heritage assets as detailed below. The Council's collections of heritage assets are accounted for as follows.

Museum Collection

The Museum collection includes paintings (both oil and watercolour) and lithographs which are reported in the Balance Sheet at market value. The collection is generally re-valued every five years by the most appropriately deemed method. On occasion assets will be re-valued outside of this where they are loaned to other organisations. The assets within the collection are deemed to have indeterminate lives, and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations made with reference to appropriate commercial markets for the assets using the most relevant and recent information from sales at auctions.

Library Collection

The Central Library is home to a special book collection, which is reported in the Balance Sheet at market value. The collection is generally re-valued every five years by the most appropriately deemed method. The assets within the collection are deemed to have indeterminate lives, and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static, with acquisitions and donations very rare. Where they do occur acquisitions are recognised at cost and donations are recognised at a valuation made with reference to appropriate commercial markets.

Tredegar House – Property and Contents

Tredegar House is a 17th century Charles II mansion and grounds which is reported in the balance sheet at market value. In line with the Council's accounting policies on property, plant and equipment, the property is re-valued every five years, and depreciated over its estimated remaining useful life.

The contents of the property include paintings, furniture and other artefacts of the time period. These items are reported in the balance sheet at insurance value which is based on market values. These insurance valuations will be updated every five years. The artefacts within the collection are considered to have indeterminate lives; hence the Council does not consider it appropriate to charge depreciation.

The collection is relatively static, with acquisitions and donations very rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at a valuation ascertained by the museum's curators in accordance with the Council's policy on valuations of art collections.

Public Art and Features

The Council holds a large number of public art features, such as murals and statues, on public display throughout the local area. These are reported in the Balance Sheet at market value. The collection is re-valued every five years by the Council's internal experts based on anticipated replacement costs of the art, which is considered to

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closely represent their market value. The assets within the Public Art collection are deemed to have indeterminate lives, and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation, with valuations made with reference to appropriate commercial markets.

Archaeology

The Council does not consider that reliable cost information can be obtained for the items held within its archaeological collection. This is because of the diverse nature of the assets held and the lack of comparable market values. Consequently the Council does not generally recognise these assets on the balance sheet. However where specific costs can be identified, these will be capitalised, for example the freeze drying requirements of the Newport Ship. Depreciation on these items is considered on a case by case basis. The Council's acquisitions principally relate to the ancient ship discovered in the early 1990's. The Council does not normally make any purchases of archaeological items.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for these assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see impairment note in this summary of significant accounting policies.

The Council will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the Statement of Accounts and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (again see later notes in this summary of significant accounting policies).

Interest in Companies and Other Entities

The Council has considered the status of its relationships with its partner organisations and where not material these interests in other companies and entities are shown in a disclosure note in the notes to the Statement of Accounts. Newport Transport Ltd are consolidated with Newport City Councils statements in the group accounts.

Inventories and Long Term Contracts

The value of stocks at the year-end is recorded in the Statement of Accounts at historical cost. This valuation is not in accordance with IAS2 or the Code of Practice, which requires the value to be stated as the lower of cost and net realisable value (NRV). Any difference between cost and NRV is considered to be negligible and historical cost has been used for all valuations.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Jointly Controlled Operations and Jointly Controlled Assets

Joint operations are arrangements undertaken by the Council in conjunction with other ventures that make use of its assets and resources. Joint Committees are examples of Jointly Controlled Operations. Where material, the relevant proportion of the transactions and balances for Joint Committees are included within the Council's Financial Statements. These reflect the transactions and balances as per the draft accounts prepared for each Joint Committee.

A joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy, where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a

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straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment (PPE), Investment Properties, or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), and matched by a lease (long-term debtor) asset in the Balance Sheet. The Council currently recognises two such lease debtors in the accounts.

The Council utilises external care home facilities to support its customers' needs. In most instances occupancy is relatively small. However, there are two homes of 4 and 6 beds where occupancy is significant. Notwithstanding this, the valuation of these two properties is small compared to the total PPE asset base and therefore is not included in the figures shown in Note 14.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the Council Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the Council Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the Council Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overhead and Support Service

The costs of overheads and support services are no longer charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Code of Practice. The Statement of Accounts are now disclosed as per the management reporting structure of the Council. The overheads are now reported against where the budget for that spend is sat.

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Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The Council maintains a deminimus cost of £10,000 for any asset to be capitalised. However where groups of assets e.g. PCs are purchased individually fall below the deminimus level, these will be considered for capitalisation as a group of assets on a case by case basis.

Where the acquisition or creation of IT systems incorporates both physical hardware and licences to use the system, judgement is made as to whether this will be classified wholly as Property, Plant and Equipment or Intangible Assets, as per the CIPFA Code of Practice on Local Council Accounting.

Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Land and buildings – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV);
- Non-specialised operational properties – existing use value (EUV);
- Specialised operational properties (such as schools) – depreciated replacement cost (DRC);
- Vehicles, plant and equipment – depreciated historical cost as a proxy for current value on materiality grounds;
- Infrastructure assets – depreciated historical cost or nominal value if unavailable;
- Community assets – historic cost where available, or existing use value (EUV);
- Assets under construction – historical cost; and
- Investment properties and surplus assets – fair value, estimated at highest and best use from a market participant's perspective.

Assets are included in the balance sheet at current value and are re-valued where there have been material changes in the value, but as a minimum every five years. When Assets under Construction are completed, they are valued at the date of completion in line with the appropriate valuation method for the asset type. Valuations are on the basis recommended by CIPFA and in accordance with the statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off against that balance (up to the amount of the accumulated gains)

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- where there is no balance in the Revaluation Reserve or an insufficient balance the difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive income and Expenditure Account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Valuations are undertaken by Mrs Sarah Davies (MRICS), Estates Portfolio Officer at Newport Norse Ltd.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Council Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Adopted roads built by developers are in many respects seen as donated assets. Whilst donated assets are required to be measured at fair value at recognition, infrastructure assets are measured initially at historical cost and subsequently at depreciated historical cost rather than fair value.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance in the Revaluation Reserve the difference between the historic carrying value of the asset and its re-valued value is written off against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance the difference between the historic carrying amount of the asset and its re-valued value (impaired value) is written down against the relevant service line(s) in the Comprehensive income and Expenditure Account.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

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Depreciation is calculated on the following bases:

Asset	Policy	Life
Land	No depreciation charged	
Buildings	Straight line depreciation on estimated remaining life	As advised by Valuer
Infrastructure Assets	Straight line depreciation on estimated remaining life	10 to 60 years
Vehicles & Plant	Straight line depreciation on estimated remaining life or over the term of the lease in the case of assets acquired by finance leases	5 - 7 years
Computer Equipment	Straight line depreciation on estimated remaining life	Usually 5 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

No depreciation is charged in the year of acquisition or enhancement of an asset, and a full year's depreciation is charged in the year of disposal of a depreciating asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

Assets purchased or re-valued during the year are reviewed to confirm whether any part of the asset will have a significantly different useful life. Where this is the case the asset will be 'componentised' and the differing parts will be depreciated over their respective useful lives.

However, property assets will only be componentised where the total asset value is £2.5m or greater. These assets are componentised into Buildings, Land, Mechanical and Electrical plant and Externals elements on revaluation.

Non-current Assets Held for Sale and Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

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Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where responsibility for making available the required property, plant and equipment needed to provide services passes to the contractor. The Council is deemed to control the services provided under its PFI schemes and as ownership of the property, plant and equipment passes to the Council at the end of the contract, the Council carries the assets used under the contracts within its own balance sheet as part of property, plant and equipment.

The recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by a liability for amounts due to the scheme operator to pay for the assets. Non-current assets recognised on the balance sheet are re-valued and depreciated in the same way as property, plant and equipment directly owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year which recognises performance achieved – charged to the relevant service in the Income and Expenditure Account;
- Finance cost – an interest charge on the outstanding balance sheet liability, charged to Financing and Investment Income and Expenditure in the Income and Expenditure Account;
- Contingent rent – an amount paid in respect of the property during the contract, charged to Financing and Investment Income and Expenditure in the Income and Expenditure Account;
- Payment toward liability – used to write down the balance sheet liability towards the operator;
- Lifecycle replacement costs – recognising elements of the assets require regular replacement and therefore charged to fixed assets on the balance sheet, or revenue as appropriate.

The Council receives government grants to support its financing liabilities each year. In the early years of such contracts this income exceeds the Council's net expenditure on these schemes. The Council has agreed that it will transfer any consequential Income and Expenditure surpluses arising from its PFI arrangements, together with any additional revenue provision deemed necessary to a PFI Reserve. The reserve funds are released in the later years of the contract when payments exceed available revenue support.

Provisions

Provisions are shown where a past event has placed the Council in a position where it has an obligation that is likely to lead to it incurring a cost. The precise timing and value of the cost may be unknown but can be reliably estimated.

Provisions are charged to the Comprehensive Income and Expenditure Statement to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement.

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Estimates are reviewed at the end of each financial year and any changes are reflected within relevant service revenue accounts. When payments related to the obligation are eventually made they are charged to the provision set up in the Balance Sheet.

Contingent Assets / Liabilities

Contingent Assets and Liabilities are obligations or assets arising from past events where:

- The existence or value of the obligation is dependent on future events which are outside the control of the Council;
- It is not probable that a flow of economic benefits will be required to settle the obligation; and
- The obligation/contingent asset cannot be measured reliably.

Contingent Liabilities and Assets are not recognised in the Balance Sheet but are disclosed in Notes 43 and 44. The disclosure sets out the scale of potential costs and likelihood of these being realised.

Reserves

The Council maintains a range of reserves, reflecting both the extent to which its assets exceed its liabilities and any restrictions (statutory or voluntary) which are placed upon the usage of these balances. The main unrestricted reserve used to hold available Council funds is the Council Fund. Expenditure to be financed from an earmarked reserve is initially shown as a cost in the Comprehensive Income and Expenditure Statement. An offsetting transfer is then recorded in the Movement in Reserves Statement to ensure that there is no impact on General Fund or Council Tax.

Council Fund Balance: The Council holds a Council Fund Balance to meet future funding requirements and as a hedge against any unforeseen financial losses. The adequacy of the level of this reserve is reviewed annually by the Chief Finance Officer as part of the Council's budget approval process.

Earmarked Reserves:

The Council has discretion to set aside specific amounts as reserves where they wish to earmark available funds for future policy purposes; to cover contingencies or manage cash flows. These are summarised in Note 10. The most significant reserve is the Southern Distributor Road PFI which will meet future liabilities over the lifetime of the PFI scheme.

Unusable Reserves:

A number of reserves exist to manage the accounting for non-current assets, financial instruments and employee benefits; these do not represent usable funds for the Council, these are explained in the relevant policies and notes and are classed as Unusable Reserves, found in Note 25.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax. This expenditure does form part of the Council's Capital Financing Requirement.

Schools Accounting Policy

The Code confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not in the group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

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Value Added Tax (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected on income is paid over to HM Revenue and Customs, and all VAT paid on expenditure is recovered from them. Income and expenditure arising from changes in legislation affecting amounts claimed are included against services unless significant in which case, they appear as Exceptional Items on the Comprehensive Income and Expenditure Statement.

Carbon Reduction Commitment Allowances

The Council has been required to participate in the Carbon Reduction Energy Efficiency Scheme. This scheme ended on 31 March 2019. The Council was required to purchase allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, i.e. carbon dioxide produced as energy used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense have been recognised. The liability will be discharged by surrendering allowance. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. These currently include:

- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021. The adoption of IFRS 16 will likely have a material impact to the accounts but the exact impact is not yet known.
- **IAS 19 Employee Benefit** will require the remeasurement net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.
- **Amendments to IAS 28 Investment in Associates and Joint Ventures: Long term Interests in Associates and Joint Ventures**
- **Annual Improvements to IFRS Standards 2015-2017 Cycle:** IAS 12 Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity and IAS 23 Borrowing Costs – Borrowing Costs Eligible for Capitalisation

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There remains a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision;
- Following the publication of updated guidance from CIPFA the Council has reviewed its recognition and treatment of the various types of schools and the assets they operate from. Schools governing bodies are

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separate entities to the Council but for the purpose of preparing Statement of Accounts they are within the group boundary and their activities must be reported.

Despite the fact they are separate bodies, in recognition of the unique nature of the relationship Councils are required to report any material expenditure, income, assets and liabilities of these schools within its primary statements. Specific consideration has to be given as to whether the assets from which these schools operate meet the necessary criteria (in terms of access to services and control) to be recognised as Council assets under IAS16.

In Newport's case it has been judged that faith schools (voluntary aided or controlled) which are not sited on Council land and over which it has no long term guarantees of availability do not meet the criteria for recognition as an asset under IAS16. This results in the exclusion of 9 schools from the Council's non-current assets.

4 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Head of Finance on 6th July 2020. Events taking place after this date are not reflected in the financial statements or notes.

5 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contain estimated figures that are based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The economic impact of the Covid-19 pandemic presents challenges to the Council and its service users. It has been recognised that it will have a significant impact upon ongoing operations and the finances associated with providing services and any assumptions we have made about the future as well of areas of estimation within the statement of accounts.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results Differ from Assumptions
Provisions	The Council makes a number of provisions for liabilities that it may face where a reasonable estimate of value can be made. In most cases these are subject to legal claims such as Insurance claims and other items as disclosed in the provisions note. Provisions relating to landfill sites, due to their significant value and long life are subject to a high level of estimation of future liabilities, this is detailed further in the provisions note.	The provisions are based on information known at the Balance Sheet date and best estimates and professional internal and external advice is used to determine value and number of provisions. The outcomes of such issues will have an impact on the outturn of the Council in future years, however due to the uncertain nature of these events, these are difficult to quantify.
Provisions in relation to Arrears	At 31 March 2020, the Council had amounts it was owed for items such as sundry debtors, Council Tax, Non Domestic Rates (NDR) and rents. After taking into account trends in past collection experience and other relevant changes	Improvements in collection will improve future reported outturn position, however where customers are finding it difficult to pay for Council services, this will require

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	that may impact on collectability such as the economic climate, a level of impairment is assumed which may or may not be deemed to be sufficient.	increases in the level of provisions currently set aside.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Due to the uncertainty about the actual useful life of an asset there is uncertainty of this charge if the useful life was to change.	If the useful life of assets is reduced, depreciation increases and the net carrying value of the assets falls.
Fair value measurements	<p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model.) Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the senior external valuer).</p>	<p>The Council uses a selection of valuation methods to measure the fair value of its surplus assets, investment properties and financial assets and liabilities.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets).</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement particularly for the investment properties.</p>

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<p>Valuation of operational property</p>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid. The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>Depreciation charges for operational buildings will change in direct relation to changes in estimated current value.</p>
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<p>Fair value measurement of investment property</p>	<p>The Council's external valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, it has been difficult to value property assets. Values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.</p>
<p>Pensions Liability</p>	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>To account for the McCloud Judgement (public service pensions age discrimination cases) the actuary has made an estimated adjustment to these liabilities from the 2019 valuation data to ensure that it is captured in the 31 March 2020 IAS19 balance sheet figures. The impact is recorded as a past service cost of which £1,599,000 of the total £1,953,000 relate to McCloud</p> <p>As a result of the Covid-19 outbreak and the impact that it has had globally the Pension Fund auditor of the Greater Gwent Pension Fund has reported that certain investments held within the fund as having estimation uncertainty attached to them. NCC's share of these assets is £11.4m.</p>	<p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>The actuary has advised the effects of a 0.5% increase in the following criteria:</p> <p>Discount Rate – £79.8m amendment to liability.</p> <p>Salary Increase Rate – £8.7m amendment to liability.</p> <p>Pension Increase Rate - £70.4m amendment to liability.</p>

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6 MATERIAL ITEMS OF INCOME AND EXPENSE

There are no items classed as exceptional items in 2019/20 (nil for 2018/19)

7 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2019/20	Adjustments for Capital Purposes	Net change for Pension Adjustments	Accumulated Absences	Other Adjustments	Total Adjustments
Adjustments from General Fund to arrive at CIES amounts	£'000	£'000	£'000	£'000	£'000
Children and Young People	253	2,426	5	353	3,037
Adults and Community	293	2,512	(27)	9	2,787
Education	3,977	653	(653)	1,212	5,189
Schools	4,190	5,681	1,457	2,337	13,665
Regen Investment + Housing	2,888	2,510	112	1,273	6,783
Streetscene and City Services	12,373	2,293	10	400	15,076
Corporate Services	1,077	2,866	15	900	4,858
Other Non Department Costs (Non Service)	95	(16)	-	(29,985)	(29,906)
Net Cost of Service	25,146	18,925	919	(23,501)	21,489
Other Income and Expenditure from Funding Analysis	(13,852)	9,842	-	28,316	24,306
Difference between General Fund surplus or deficit and CIES Surplus or Deficit	11,294	28,767	919	4,815	45,795

2018/19	Adjustments for Capital Purposes	Net change for Pension Adjustments	Accumulated Absences	Other Adjustments	Total Adjustments
Adjustments from General Fund to arrive at CIES amounts	£'000	£'000	£'000	£'000	£'000
Children and Young People	272	1,785	7	(749)	1,315
Adults and Community	339	2,155	17	169	2,680
Education	4,654	502	30	7	5,193
Schools	31,081	4,200	(673)	690	35,298
Regen Investment + Housing	7,599	1,870	17	1,106	10,592
Streetscene and City Services	14,819	1,610	6	561	16,996
Corporate Services	1,508	2,257	15	(308)	3,472
Other Non Department Costs (Non Service)	78	(1,505)	-	(43,507)	(44,934)
Net Cost of Service	60,350	12,874	(581)	(42,031)	30,612
Other Income and Expenditure from Funding Analysis	(13,622)	-	-	38,658	25,036
Difference between General Fund surplus or deficit and CIES Surplus or Deficit	46,728	12,874	(581)	(3,373)	55,648

Adjustments for Capital Purposes

- 1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
 - a. Other operating expenditure – adjusts for capital disposals with a transfer of income on the disposal of assets and the amounts written off for those assets
 - b. Financing and investment income and expenditure – the statutory charges for capital financing such as Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices
 - c. Taxation and non specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Changes for Pension adjustments

- 2) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income
 - a. For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service cost
 - b. For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES

Adjustments for Accumulated Absences

- 3) Adjustments for accumulated absences – this column recognises when employees render the services which increase their entitlement to future paid absences. Accumulated paid absences are those that can be carried forward for use in future periods if the current period's entitlement are not used in full, such as carry forward of unused annual leave.

Other Differences

- 4) Other differences between the amounts debited / credited to the Comprehensive Income and Expenditure Statement and amounts payables / receivable to be recognised under statute:
 - a. For financing and investment income and expenditure the other differences column recognises adjustments to the general fund for the timing differences for premiums and discounts
 - b. The other differences that are recognised is any adjustment which is required to be completed to reconcile the reported outturn to Cabinet, to that which is it classified with the accounts. The adjustment of £30.0m under 'Other Non Department Costs (Non service)' includes adjustments for Levies, Council Tax Reduction Scheme, reserve balances, minimum revenue provision and any other income and expenditure.
 - c. The £28.3m will include any other adjustments, including PFI.

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8 EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

	2018/19	2019/20
	£'000	£'000
Expenditure		
Employee Benefits Expenses	189,358	204,688
Other Services Expenditure	205,335	227,393
Depreciation, Amortisation, Impairment	56,074	28,141
Interest Payments	22,544	20,729
Precepts and Levies	21,959	23,271
(Gain)/Loss on Disposal of assets	4,484	(233)
Total Expenditure	499,754	503,989
Income		
(Gain)/Loss on Disposal of assets	-	238
Fees, Charges and other service income	(30,056)	(28,796)
Interest and investment income	(1,395)	(1,633)
Income from Council tax and non-domestic rates	(112,746)	(118,891)
Government grants and contributions	(299,909)	(310,920)
Total Income	(444,106)	(460,002)
(Surplus) or Deficit on the Provision of Services	55,648	43,987

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9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions, as being available to the Council to meet future capital and revenue expenditure.

	Usable Reserves		Movement in Unusable Reserves £'000
	Council Fund Balance £'000	Capital Receipts Reserve £'000	
2019/20			
Adjustments primarily involving the Capital Adjustment Account:	120	-	(120)
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Account	(13,035)	-	13,035
Charges for depreciation and impairment of non-current assets	(26,159)	-	26,159
Revaluation losses on PPE & Assets Held for Sale	2,197	-	(2,197)
Movements in the fair value of Investment Properties	(3,808)	-	3,808
Capital grants and contributions applied	19,724	-	(19,724)
Revenue expenditure funded from capital under statute	(3,881)	-	3,881
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(1,108)	-	1,108
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	13,155	-	(13,155)
Statutory provision for the financing of capital investment	10,109	-	(10,109)
Capital expenditure charged against the General Fund	3,046	-	(3,046)
Adjustments primarily involving the Capital Receipts Reserve:	880	36	(916)
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	880	(880)	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	916	(916)
Transfer from Deferred Capital Receipts Reserve on receipt of cash	-	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:	-	-	-
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:	635	-	(635)

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Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	635	-	(635)
Adjustments primarily involving the Pensions Reserve:	(28,767)	-	28,767
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	(46,217)	-	46,217
Employer's pensions contributions and direct payments to pensioners payable in the year	17,450	-	(17,450)
Adjustment primarily involving the Accumulated Absences Account:	(919)	-	919
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(919)	-	919
TOTAL ADJUSTMENTS	(28,051)	36	28,015

2018/19 Comparative figures

	Usable Reserves		
	Council Fund Balance	Capital Receipts Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:	(36,902)	-	36,902
Reversal of Items debited or credited to the Comprehensive Income and Expenditure Account	(48,050)	-	48,050
Charges for depreciation and impairment of non-current assets	(51,210)	-	51,210
Revaluation losses on Property Plant and Equipment	(5,044)	-	5,044
Movements in the market value of Investment Properties	166	-	(166)
Capital grants and contributions applied	20,559	-	(20,559)
Revenue expenditure funded from capital under statute	(6,088)	-	6,088
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6,433)	-	6,433
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:	11,148	-	(11,148)
Statutory provision for the financing of capital investment	9,781	-	(9,781)
Capital expenditure charged against the General Fund	1,367	-	(1,367)

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Adjustments primarily involving the Capital Receipts Reserve:	2,530	606	(3,136)
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,530	(2,530)	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	3,136	(3,136)
Transfer from Deferred Capital Receipts Reserve on receipt of cash	-	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:	-	-	-
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:	634	-	(634)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	634	-	(634)
Adjustments primarily involving the Pensions Reserve:	(21,821)	-	21,821
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 41)	(37,619)	-	37,619
Employer's pensions contributions and direct payments to pensioners payable in the year	15,798	-	(15,798)
Adjustment primarily involving the Accumulated Absences Account:	561	-	(561)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	561	-	(561)
TOTAL ADJUSTMENTS	(54,998)	606	54,392

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10 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund as balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Council Fund expenditure in 2019/20.

	Movements between Reserves		Via Comprehensive I&E Account		Balance at 31-Mar-20
	Balance at 31-Mar-19	Transfers Out	Transfers In	Transfers Out	
	£'000	£'000	£'000	£'000	£'000
Council Fund	(6,500)	-	-	-	(6,500)
Balances held by schools for future use	(3,130)	-	-	2,017	(1,113)
Risk Reserves					
Music Service	(127)	-	-	-	(127)
Pay Reserve	(1,418)	-	-	-	(1,418)
Insurance Reserve	(2,831)	-	-	2,167	(664)
MMI Insurance Reserve	(602)	-	-	-	(602)
Health & Safety	(16)	-	-	-	(16)
Education Achievement Service	(92)	-	-	-	(92)
Schools Redundancies	(845)	-	-	120	(725)
General Investment Risk Reserve	(5,201)	-	(2,902)	8,454	(1,009)
European Funding I2A & CFW	(278)	-	-	4	(120)
Metro Bus	(9)	-	-	-	(9)
GEMS Redundancies	(78)	-	-	-	(78)
Enabling Reserves					
Capital Expenditure	(6,532)	-	(350)	1,609	(70)
Invest to Save	(11,099)	-	-	1,161	(9,938)
Super Connected Cities	(554)	-	-	128	(426)
Landfill Reserve	(345)	-	-	13	(332)
Christmas Lights	(30)	-	-	30	-
School Works	(384)	-	-	132	(200)
School Reserve Other	(182)	-	-	-	(182)
Investment Reserve	(747)	-	-	405	(342)
Usable Capital Receipts	(8,295)	-	-	916	(880)
Streetscene Manager Support	(154)	-	-	37	(117)
Smoothing Reserves					
STEP School Computers	(311)	-	-	311	-
Municipal Elections	(92)	-	-	-	(38)
Local Development Plan	(611)	-	-	-	(14)
Glan Usk PFI	(1,605)	-	-	-	(2)
Southern Distributor Road PFI	(43,881)	2,902	-	288	-
Building Control	(132)	-	-	28	(104)
Loan modification IFRS 9	(1,242)	-	-	157	(1,085)
Other Reserves					
Works of art	(21)	-	-	-	(21)
Theatre & Arts Centre	(232)	-	-	-	(232)
Cymorth Income	(33)	-	-	8	(25)
Blaen-y-plant remodeling	(8)	-	-	-	(10)

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Homeless Prevention	(38)	-	-	-	-	(38)
Environmental Health - Improve Air Quality	(49)	-	-	-	-	(49)
Refurbishment of a Children / Older People Homes	(113)	-	-	72	-	(41)
Apprenticeship Scheme Reserve	(51)	-	-	22	-	(29)
City Economic Development Reserve	(90)	-	-	-	-	(90)
Welsh Language Standards	(174)	-	-	5	-	(169)
Port Health	(13)	-	-	-	(3)	(16)
CRM	(431)	-	-	187	-	(244)
Financial System Upgrade	-	-	-	-	(400)	(400)
Events	(266)	-	-	50	-	(216)
MTFP Reserve	(1,762)	-	(44)	1,176	(1,407)	(2,037)
Voluntary Sector Grants	(66)	-	-	17	-	(49)
Bus Wifi	(35)	-	-	18	-	(17)
SENCOM	(250)	44	-	206	-	-
Bus Subidy	(40)	-	-	25	-	(15)
Feasibility Reserve	(177)	-	-	87	(27)	(117)
IT Development	(351)	-	-	298	-	(53)
Leisure Delivery Plan	(165)	-	-	62	-	(103)
Chartist Tower	(950)	350	-	344	-	(256)
Joint Committee City Deal Reserve	(399)	-	-	-	(227)	(626)
Civil Parking Enforcement	-	-	-	-	(175)	(175)
Total	(103,037)	3,296	(3,296)	20,554	(4,582)	(87,065)

Key Reserves to note are:

- **Invest to save reserve** - established to enable funding of specific projects which demonstrate savings to the revenue budget within pay-back period within approximately 5 years;
- **School reserves** - these are balances held by schools for their future use;
- **Capital Expenditure reserve** - established to fund specific capital schemes and risks included in the Capital Programme;
- **Insurance reserve** - to assist in the management of the Council's insurance risks. To meet excesses and costs of claims against the Council and to provide cover on self-insured risks;
- **MMI Insurance reserve** - established to assist with potential future funding requirements of MMI in line with the agreed 'Scheme of Arrangement';
- **Pay reserve** - established to fund potential pay liabilities in future years;
- **Usable capital receipts reserve** - holds proceeds from sale of property, plant and equipment, used to finance new capital expenditure;
- **Southern Distributor Road and Glan Usk PFI reserves** – the funding for these two projects were received from Welsh Government upfront, and is held in a reserve to pay the annual capital repayments to the contractor over the life of the project;
- **General Investment Risk Reserve** – the council are involved in providing support towards regeneration activities within the city. This reserve has been established to provide sensible mitigation any potential risks arising from any support the council has given.

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11 OTHER OPERATING EXPENDITURE

31-Mar-19		31-Mar-20
£'000		£'000
	Precepts and levies:	
277	Community Councils	369
6,963	South Wales Fire Authority	7,028
755	Natural Resources Wales	755
13,964	Police and Crime Commissioner for Gwent	15,119
139	(Gains) and Losses on assets held for sale	(233)
4,345	Loss / (Profit) on the disposal of non-current assets	238
26,443	Total	23,276

12 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

31-Mar-19		31-Mar-20
£'000		£'000
13,629	Interest Payable and similar charges	10,888
8,915	Pensions interest cost and expected return on pensions assets	9,841
(172)	Interest receivable and similar income	(256)
(1,223)	Income and expenditure in relation to investment properties and changes in their fair value	2,432
21,149	Total	22,905

13 TAXATION AND NON SPECIFIC GRANT INCOME

31-Mar-19		31-Mar-20
£'000		£'000
(66,441)	Council tax income	(71,654)
(46,305)	Non domestic rates	(47,237)
(166,485)	Non-ring fenced government grants	(167,106)
(19,171)	Capital grants and contributions	(17,431)
(298,402)	Total	(303,428)

National Non-Domestic Rates (NNDR)

The total rateable value for non-domestic rates was £144,460,983 at 31 March 2020 (£145,871,004 at 31 March 2019). The rate poundage for occupied properties was 52.6p per £ of rateable value (51.4p in 2018/19) with empty properties being charged at 52.6p (51.4p in 2018/19).

In 2019/20 Newport received £47.2m from the Welsh NNDR pool in support of its services (£46.3m – 2018/19).

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Local Taxation Council Tax Collection

	31-Mar-19 £'000	31-Mar-20 £'000
INCOME		
Council Taxes (net of Council Tax benefits)	(66,573)	(72,333)
Council Tax benefits	(10,856)	(11,234)
Total income	<u>(77,429)</u>	<u>(83,567)</u>
EXPENDITURE		
Precepts payable		
- Gwent Police Authority	13,964	15,119
- Community Councils	277	369
Newport Council Fund requirement	61,806	66,268
Council tax written off and provided for	131	678
Total expenditure	<u>76,178</u>	<u>82,434</u>
Net surplus for the year	<u>(1,251)</u>	<u>(1,133)</u>

Council Tax Requirement

	31-Mar-19		31-Mar-20	
	Dwellings	Tax Base	Dwellings	Tax Base
Total number of properties on valuation list	67,907	67,907	68,676	68,675
Adjusted as follows				
Less exempt properties @ 100%	1,892	(1,892)	2,044	(2,044)
Less single discounts @ 25%	24,532	(6,133)	24,636	(6,159)
Less multiple discounts @ 50%	1,264	(632)	1,201	(600)
Band D conversion		(135)		47
Losses on collection		(650)		(753)
Tax Base		<u>58,465</u>		<u>59,166</u>
		£		
Council tax requirement		76,046,868		81,755,539
Less payable to Gwent Police		(13,963,903)		(15,118,686)
Less payable to Community Councils		(276,935)		(368,518)
Net requirement Newport City Council		<u>61,806,030</u>		<u>66,268,335</u>
Band D tax for the year		<u>1,062</u>		<u>1,126</u>

Council Tax Requirement

This basic amount of £1,126.27 for a band D property (£1,061.87 in 2018/2019) is multiplied by the proportion specified for the particular band to give the individual amount due:

Band:	A	B	C	D	E	F	G	H	I
Multiplier:	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	21/9

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14 PROPERTY, PLANT AND EQUIPMENT

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2019	358,574	38,026	218,111	179	2,636	3,966	621,492	71,139
Additions	11,079	4,265	10,155	77	-	1,798	27,374	1,741
Donations	-	-	112	-	-	-	112	-
Re-classifications	3,720	-	156	-	52	(3,961)	(33)	-
Revaluations	2,192	-	-	-	(52)	-	2,140	-
Impairments	(3,746)	(174)	(61)	(77)	-	(23)	(4,081)	-
Disposals	(1,018)	(919)	-	-	-	-	(1,937)	-
At 31 March 2020	370,801	41,198	228,473	179	2,636	1,780	645,067	72,880
Accumulated Depreciation								
At 1 April 2019	(25,170)	(27,408)	(73,050)	-	-	-	(125,628)	(20,152)
Depreciation Charge in Year	(12,719)	(3,023)	(6,394)	-	-	-	(22,136)	(3,715)
Re-classifications	230	-	-	-	-	-	230	-
Revaluation Impact	2,565	-	-	-	-	-	2,565	-
Disposals	53	913	-	-	-	-	966	-
At 31 March 2020	(35,041)	(29,518)	(79,444)	-	-	-	(144,003)	(23,867)
Net Book Value								
At 1 April 2019	333,404	10,618	145,061	179	2,636	3,966	495,864	50,987
At 31 March 2020	335,760	11,680	149,029	179	2,636	1,780	501,064	49,013

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Restated	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2018	319,150	36,403	214,300	605	6,735	35,659	612,852	71,139
Additions	9,411	2,008	3,919	34	-	10,418	25,790	
Donations	-	-	-	-	-	-	-	-
Re-classifications	42,124	-	-	(146)	(1,001)	(42,005)	(1,028)	-
Revaluations	26,641	-	-	(231)	236	-	26,646	-
Impairments	(34,644)	-	(108)	(34)	-	(106)	(34,892)	-
Disposals	(4,108)	(385)	-	(49)	(3,334)	-	(7,876)	-
At 31 March 2019	358,574	38,026	218,111	179	2,636	3,966	621,492	71,139
Accumulated Depreciation								
At 1 April 2018	(27,836)	(24,493)	(66,741)	-	-	-	(119,070)	(20,152)
Depreciation Charge in Year	(10,664)	(3,280)	(6,309)	-	(4)	-	(20,257)	
Re-classifications	-	-	-	-	4	-	4	-
Revaluation Impact	12,021	-	-	-	-	-	12,021	-
Disposals	1,309	365	-	-	-	-	1,674	-
At 31 March 2019	(25,170)	(27,408)	(73,050)	-	-	-	(125,628)	(20,152)
Net Book Value								
At 1 April 2018	291,314	11,910	147,559	605	6,735	35,659	493,782	50,987
At 31 March 2019	333,404	10,618	145,061	179	2,636	3,966	495,864	50,987

Following a review of commercial properties categorised under Operational Land and Building by our valuar at Newport Norse Ltd against the accepted definition of investment properties a number of properties were moved from Operational Land and Buildings to Investment Properties in 2019/20. Subsequently this has prompted a prior year event meaning we have restated the Brought forward balance from 2018/19 by £6.9m

The Council also has a number of schools located within the Newport area which are Voluntary Aided and Voluntary Controlled and which are not owned by the Council. Although these schools are recognised as located within the Council's boundary, they are not disclosed within the Balance Sheet as they are not Council owned assets.

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Capital Commitments

The Council continued its programme of capital investment in 2019/20 to improve the infrastructure and facilities in Newport. Of this programme, the Council is contractually committed to carry out works as follows:

Capital Commitments

	31-Mar-19	31-Mar-20
	£'000	£'000
Adults & Community Services	10	-
Children & Young Peoples Services	-	-
Corporate	-	-
Education	401	110
City Services	448	322
RIH	1,762	-
Total	2,621	432

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is re-valued at least every five years. All valuations were carried out externally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

	Other Land & buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at Historic Cost	879	41,198	228,472	-	-	1,781	272,329
Valued at current value as at:							
31 March 2020	31,296	-	-	-	2,636	-	33,931
31 March 2019	165,525	-	-	179	-	-	165,704
31 March 2018	19,828	-	-	-	-	-	19,828
31 March 2017	22,686	-	-	-	-	-	22,686
31 March 2016	127,123	-	-	-	-	-	127,123
Total Cost or Valuation	367,336	41,198	228,472	179	2,636	1,781	641,601

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Newport City Council

Fair Value Measurement of Surplus Assets

Details of the Council's surplus assets and information about the fair value hierarchy as at 31 March 2020 are as follows:

<i>Recurring fair value measurements using:</i>	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2020
	£'000	£'000	£'000
Residential properties	-	2,021	2,021
Commercial units/Land	-	615	615
Total	-	2,636	2,636

Comparative figures as at 31 March 2019 were:

<i>Recurring fair value measurements using:</i>	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2019
	£'000	£'000	£'000
Residential properties	-	2,021	2,021
Commercial units/Land	-	615	615
Total	-	2,636	2,636

There were no transfers between any of the levels during the year.

Significant Observable Inputs – Level 2: There are no assets included in Level 2.

Significant Unobservable Inputs – Level 3: The remainder of the residential properties and commercial units/land located in the area are measured using the best information available and using the Valuer's experience to make assumptions on how the market would assess the value of the asset. These are therefore categorised as Level 3 in the fair value hierarchy as significant unobservable inputs are used in determining the fair value measurement.

In estimating the fair value of the Council's surplus assets, the highest and best use of these assets has been considered. This is not necessarily the existing use and assumptions have been made to arrive at this assessment of value. However, from the list of relevant assets for 2019/20, there has been no change in the valuation techniques used during the year for surplus assets.

The fair value of the Council's surplus assets portfolio is measured annually at each reporting date. All valuations are carried out by an external valuer, Newport Norse Ltd, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation experts work closely with the Council's Finance Officers.

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15 HERITAGE ASSETS

Reconciliation of the carrying value of heritage assets held by the Council

	Museum & Library Collections	Tregar House & Park	Public Art & Features	Archaeology	Total Heritage Assets
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation					
At 1 April 2019	12,914	1,280	3,057	103	17,354
Revaluations	-	-	-	-	-
At 31 March 2020	12,914	1,280	3,057	103	17,354
Accumulated Depreciation	-	-	-	-	-
Write back depreciation	-	-	-	-	-
At 1 April 2019	-	-	-	-	-
Depreciation charge in year	-	-	-	-	-
At 31 March 2020	-	-	-	-	-
Net Book Value					
At 1 April 2019	12,914	1,280	3,057	103	17,354
At 31 March 2020	12,914	1,280	3,057	103	17,354

	Museum & Library Collection	Tregar House & Park	Public Art & Features	Archaeology	Total Heritage Assets
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation					
At 1 April 2018	12,914	1,930	3,057	103	18,004
Revaluations	-	(650)	-	-	(650)
At 31 March 2019	12,914	1,280	3,057	103	17,354
Accumulated Depreciation	-	45	-	-	45
Write back depreciation	-	-	-	-	-
At 1 April 2018	-	(36)	-	-	(36)
Depreciation charge in year	-	(9)	-	-	(9)
At 31 March 2019	-	-	-	-	-
Net Book Value					
At 1 April 2018	12,914	1,894	3,057	103	17,968
At 31 March 2019	12,914	1,280	3,057	103	17,354

Further information on the collections held

Museum Collection

The Council has developed its collection since 1888. The collection now illustrates the changing face of the South Wales rural and industrial landscape and includes donations from the Arts Council of Wales and the Contemporary Art Society for Wales.

Elements of the collection are regularly exhibited at the museum on a rotating basis. Key elements of the collection include:

- 19th and 20th century mainly British oil paintings, watercolours, drawings and prints with particular attention directed to topographical works relating to Newport. The collection represents the work of a large number of artists including James Flewitt Mullock, David Cox, Dame Laura Knight, Stanley Spencer, William Roberts, Merlyn Evans and William Russell Flint;
- Contemporary paintings by Welsh artists or artists living in Wales. These include works by Falcon Hildred, Harry Holland, Thomas Rathmell, Evan Charlton, Felicity Charlton, Ernest Zobole and Jack Crabtree;
- Contemporary prints including work by Patrick Caulfield, Derek Boshier, John McFarlane, Chris Orr, Terry Millington, Anthony Davies and Norman Ackroyd;
- Decorative arts including Staffordshire figures, commemorative ware and studio ceramics. These include the Iris and John Fox collection, the John Wait teapot collection and works by Jane Hamlyn, Lucie Rie, Nicholas Homoky, Geoffrey Swindell and Morgan Hall.

Library Local Studies Collection

The Local Studies Collection stored within the Central Library contains published and archival materials relating to the history, geography and literature of South East Wales. Key elements within the collection are:

- A. The Delaney Letters** – A collection of nine volumes of correspondence containing the bulk of the papers of Mary Delaney (1700-1788). Among the papers are a number by distinguished contemporaries; including three fine autograph letters signed by Mary's friend Jonathan Swift, one by her suitor John Wesley, two by the Anglo Saxon scholar Elizabeth Elstob and one by the bluestocking Elizabeth Montagu. Also present is an autograph epitaph by Horace Walpole.
- B. Papers of Sir Charles Hanbury Williams (1702 – 1759)** – These comprise some eighteen volumes of Hanbury Williams's secretarial letterbooks and original correspondence from his postings as Minister or Ambassador to Dresden Poland and Russia; plus his autograph "Journal begun at Berlin in June 1750", two volumes of autograph verse, a volume containing twelve autograph letters to him by Horace Walpole (1744-45), as well as by Lord Chesterfield, Hardwicke and others.
- C. The Haines Collection** – A collection of over 2,000 books, pamphlets and manuscripts relating to Monmouthshire, compiled by William Haines and donated to the library by Sir Garrod Thomas in 1924.
- D. The Chartist Collection** – A collection of printed books, pamphlets and manuscripts relating to the uprising of 1839. The key element of the collection is the 25 volumes of original trial depositions.

Tredegar House & Park

Tredegar House is one of the best examples of a 17th century Charles II mansion in Britain. The contents of the property include paintings, furniture and other artefacts of the time period. From 16 March 2012 the property has

been leased to the National Trust for Wales. Further information on the preservation and management of this property can be found on their website at <http://www.nationaltrust.org.uk>.

Public Arts & Fixtures

The Council holds a large number of public art features, such as murals and statues, on public display throughout the local area.

Archaeology

There are a number of archaeological sites within the Council area, and as a result, over the last 25 years this collection has substantially increased in size.

The archaeology collections of the Newport Museum and Art Gallery include:

- ❖ Prehistoric material from the old County of Gwent most notably the Severn Estuary;
- ❖ Roman material mostly from the Roman sites of Caerwent and Caerleon, Mill Street;
- ❖ Medieval material representing mostly castles and abbeys;
- ❖ Collections of local and non-local prehistoric flints; and
- ❖ Associated archive material.

In addition some material originating from excavations carried out on historic monuments on behalf of the Welsh Office (CADW), and excavations prior to new developments is held – most significantly, the Newport Ship timbers and associated artefacts.

The management of the collections is overseen by the Museum and Art Gallery Manager. The Museum and Arts Gallery manager manages a small team of professional staff which curates the collections and monitors its wellbeing. A project to establish a full computerised inventory of the collections began in 2006 and encompasses all collections cared for by the Museums & Heritage Service. Completing the documentation plan remains an important goal for the museum, but due to staffing resourcing issues the timetable for completion has slipped drastically and it cannot be determined when it will be completed. This programme of work allows for improvements in storage conditions and highlights specific conservation needs of objects and collections. While the in-house focus is on preventive conservation measures which aim to stabilise an object's condition, specialist active conservation treatment is out-sourced and generally sought before objects are displayed.

The Curatorial team are also responsible for all acquisitions and disposals of collections' objects. Each potential acquisition is assessed against a number of criteria set out in the Museums Acquisitions and Disposals Policy and in some cases specifically approved by the Cabinet member for Leisure and Culture. Most objects added to the collections are donated by individuals or organisations. Purchases are few and far between and are often carried out with grant aid from external bodies such as The Art Fund or the V&A Purchase Grant Fund. The disposal process follows ethical guidelines published by the Museums Association, an umbrella organisation for museums and museum professionals in the UK. It favours the transfer of objects to other organisations within the public domain.

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16 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	31-Mar-19	31-Mar-20
	£'000	£'000
Rental income from investment property	(1,293)	(1,483)
Direct operating expenses arising from investment property	73	303
Net (gain) / loss	(1,220)	(1,180)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	31-Mar-19	31-Mar-20
	£'000	£'000
Restated		
Balance at start of the year	14,498	14,704
Additions	25	-
Disposals	(27)	-
Net gains/ (losses) from fair value adjustments	140	(3,807)
Transfers:		
- to/ from Property, Plant and Equipment	(3)	-
- to/ from Assets Held for Sale	71	(33)
- to/ from Public Conveniences	-	33
- to/ from Commercial Properties	-	-
Balance at end of the year	14,704	10,897

Following a review of commercial properties categorised under Operational Land and Building by our valuer at Newport Norse Ltd against the accepted definition of investment properties a number of properties were moved from Operational Land and Buildings to Investment Properties in 2019/20. Subsequently this has prompted a prior year event meaning we have restated the Brought forward balance from 2018/19 by £6.9m

Fair Value Measurement of Investment Property

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2020 are as follows:

<i>Recurring fair value measurements using:</i>	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2020
	£'000	£'000	£'000
Office units	1,412	253	1,665
Commercial units	3,268	5,964	9,232
Total	4,680	6,217	10,897

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Comparative figures as at 31 March 2019 were:

<i>Recurring fair value measurements using:</i>	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value as at 31 March 2019
	£'000	£'000	£'000
Restated			
Office units	1,056	245	1,301
Commercial units	7,561	5,842	13,403
Total	8,617	6,087	14,704

There were no transfers between any of the levels during the year.

Significant Observable Inputs – Level 2: The fair value for some of the commercial units has been based on an income approach in the current market, having regard to the passing rent being adopted and utilising comparable evidence of other similar lettings in close proximity where rent reviews are due. Where appropriate, rent has been capitalised in line with what the market is currently demanding, following research into appropriate yields and multipliers relevant to local conditions. The level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant Unobservable Inputs – Level 3: The office units and many of the commercial units in the local Council area are also based on rent information where it exists, but in the absence of comparable evidence for specific properties, having to factor in assumptions such as the duration and timing of cash inflows and outflows, rent growth, occupancy levels and bad debt levels. These properties are therefore categorised as Level 3 in the fair value hierarchy as significant unobservable inputs are used to determine the measurements.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use. There has been no change in the valuation techniques used during the year for investment properties.

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3:

	31-Mar-20 £'000	Valuation technique used to measure fair value	Unobservable inputs and Sensitivity
Office Units	253	Hardcore and Topslice*	Rental growth, Collection of rent, Discount rate, Basis of occupation
Commercial Units	5,964	Term and Reversion, Hardcore and Topslice	Rental growth, Special purchaser, Discount rate

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out by an external valuer, Newport Norse Ltd, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation experts work closely with the Council's finance officers.

*Term and Reversion and Hardcore and Topslice are form of valuation methods

Term and Reversion capitalises the rent received at an appropriate yield derived from comparables up until the next lease event; rent review or lease renewal. Then an ERV (Estimated Rental Value) is determined again from comparables and this is capitalised (usually at a slightly higher yield to reflect the risk of the uncertainty of the ERV) in perpetuity deferred for the amount of time until the next lease event. Both values are added together to give the whole capital value.

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Hardcore and Topslice is an alternative method to using term and reversion. The 'Hardcore' or the rent received is capitalised in perpetuity at an appropriate yield. An ERV is assumed and the Hardcore is deducted from this figure to determine the 'Topslice'. This is then also capitalised in perpetuity at the same yield as the Hardcore and then deferred for the amount of time until the next lease event. Both values are added together to give the whole capital value.

17 FINANCIAL INSTRUMENTS

a) Financial Instruments – Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grant, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's non-derivative financial liabilities held during the year measured at amortised cost comprised:

- Long-term loans from Public Works Loan Board and commercial lenders
- Short-term loans from other local authorities
- Overdraft with Santander bank
- Finance leases detailed in Note 35
- Private Finance Initiative contracts detailed in Note 36
- Trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year and held under the following classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- Cash in hand
- Bank current and deposit accounts with Santander bank
- Loans to companies and individuals as detailed in the note
- Transferred debt from a number of local authorities as a result of local government reorganisation
- Trade receivables for goods and services delivered

Unquoted equity investments held at cost, comprising:

- Equity investments in Newport Transport Ltd

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b) Financial Instruments – Balances

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets

	Non-Current		Current	
	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000
Financial assets at amortised cost:				
- Investments	-	-	10,000	12,450
- Debtors:				
- Financial assets held at contract amount	-	-	16,019	15,394
- Tredegar house lease premium	7,561	7,322	241	241
- Finance Leases	5,825	6,419	-	-
- Friars Walk Income Share	7,500	7,500	-	-
- Friars Walk Bad Debt Provision	-	(7,500)	-	-
- Other long-term debtors	2,229	4,615	-	-
- Cash & Cash Equivalents	-	-	47,140	(7,189)
Amortised Cost Total	23,115	18,356	73,400	20,896
Financial assets at Fair Value through other comprehensive income - designated equity instrument	251	251	-	-
Total Financial Assets	23,366	18,607	73,400	20,896

Financial Liabilities

	Non-Current		Current	
	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000
Financial liabilities at amortised cost:				
- Borrowing	145,868	145,947	46,919	19,685
- Creditors*	9,885	13,252	30,589	20,887
- PFI & Lease liabilities	40,892	40,166	2,272	2,175
Total Financial Liabilities	196,645	199,365	79,780	42,747

*Current debtors of £15.4m excludes £47.2m of non-contractual current debtors that do not meet the definition of financial assets at amortised cost."

Current creditors of £20.9m excludes £15.8m of non-contractual current creditors that do not meet the definition of financial liabilities at amortised cost.

Items of Income, Expense, Gains and Losses

	31-Mar-19 £'000	31-Mar-20 £'000
Interest expense	13,629	10,888
Interest and Investment Income	(172)	(256)
Net Gain/(Loss) for the year	13,457	10,632

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c) Financial Instruments – Fair Values

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local Council loans.
- The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options. Lenders’ options to propose an increase to the interest rate on the loan contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity at 31st March.
- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

	Fair Value Level	Balance Sheet 31-Mar-19 £'000	Fair Value 31-Mar-19 £'000	Balance Sheet 31-Mar-20 £'000	Fair Value 31-Mar-20 £'000
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	2	109,265	130,370	101,973	126,782
Long-term LOBO loans	2	30,000	47,470	30,000	50,654
Other long-term loans and loan stock	2	45,000	49,174	5,000	7,826
Lease payables and PFI liabilities	3	43,164	74,675	42,244	70,708
Total		227,429	301,689	179,217	255,971
Liabilities for which fair value is not disclosed*		48,996		62,895	
Total Financial Liabilities		276,425		242,112	
Recorded on balance sheet as:					
Short-term creditors		30,589		20,887	
Short-term borrowing		43,451		19,685	
Long-term creditors		9,885		13,252	
Long-term borrowing		149,336		145,947	
Other short-term liabilities		2,272		2,175	
Other long-term liabilities		40,892		40,166	
Total Financial Liabilities		276,425		242,112	

Fair values of the Council’s financial assets is not significantly different to the amortised cost as recognised on the balance sheet.

Notes to the Statement of Accounts

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18 INVENTORIES

Inventories are purchased and used by the Council at historical cost. Work in progress is included at cost.

	31-Mar-19 £'000	31-Mar-20 £'000
Stocks		
Building Services	170	181
Leisure & Catering	3	1
Museum Shop	-	-
Printing/Stationery	6	9
Monwel Hankinson	10	10
	<u>189</u>	<u>201</u>

19 SHORT TERM DEBTORS

Short term debtors are shown in the Balance Sheet net of provisions for bad and doubtful debts:

	31-Mar-19			31-Mar-20		
	Gross £'000	Provision £'000	Net £'000	Gross £'000	Provision £'000	Net £'000
General	19,215	(3,374)	15,841	19,157	(3,763)	15,394
Council tax payers	6,303	(3,633)	2,670	7,081	(4,086)	2,995
NHS bodies	1,555	-	1,555	4,592	-	4,592
Central government bodies*	20,289	-	20,289	38,306	-	38,306
Other local authorities	2,970	-	2,970	1,270	-	1,270
	<u>50,332</u>	<u>(7,007)</u>	<u>43,325</u>	<u>70,406</u>	<u>(7,849)</u>	<u>62,557</u>

* Central government bodies debtors include grants issued by Welsh Assembly Government that were initially issued to other Local Authorities, who act as banking facilities, but relate to funds directly for Newport City Council. This figure also includes £9.865m in relation to Welsh Government debtors for Covid-19 Business Grants.

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20 CASH AND CASH EQUIVALENTS

The cash held by the Council represents petty cash balances held by numerous establishments throughout the Council and any credit bank balances that are not included within our “pooled account” with Santander.

The bank overdraft includes un-cleared payments within the banking system. In practice, the treasury management policy of the Council is to maintain the pooled bank account balance as near to zero as possible to minimise interest charges on overdrawn balances and maximise interest earned by short-term lending of surplus funds. The actual pooled bank balance at the close of business on 31 March 2020 was £20k in credit, (31 March 2019 – £36k in credit).

The balance of Cash and Cash Equivalents is made up of the following elements:

	31-Mar-19	31-Mar-20
	£'000	£'000
Short-Term borrowings classified as cash equivalent	-	-
Cash held by the authority	52,850	5,247
Bank Current accounts	(5,710)	(12,436)
Total Cash and Cash Equivalents	47,140	(7,189)

21 ASSETS HELD FOR SALE

	31-Mar-19	31-Mar-20
	£'000	£'000
Assets at the start of the year	234	1,080
New Appropriations	-	35
Assets newly classified as held for sale:	-	-
Surplus Assets	1,045	-
Investment Properties	3	33
Property, Plant and Equipment	28	-
Revaluation losses	(139)	-
Revaluation gains	25	273
Assets declassified as held for sale:	-	-
to Property, Plant and Equipment	-	-
Community Land	(1)	-
to Surplus Assets	(115)	-
Assets sold	-	(137)
Assets at year-end	1,080	1,284

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Newport City Council

22 SHORT TERM CREDITORS

The following is an analysis of the short term creditors shown in the Balance Sheet:

	31-Mar-19	31-Mar-20
	£'000	£'000
General	(30,669)	(20,887)
Central government bodies	(3,780)	(7,577)
Prepayments of council tax	(1,151)	(1,304)
NHS bodies	(80)	(218)
Other local authorities	(3,881)	(6,769)
	<u>(39,561)</u>	<u>(36,755)</u>

23 PROVISIONS

Provisions represent sums set aside for liabilities or losses which are likely to be incurred or certain to be incurred, but where the amount or timing of such liability is not certain. In the case of each of the provisions listed below, the amount of the liability and the timing of the resulting transfer of economic benefits are uncertain.

	31-Mar-19	Further provisions	Amounts used	Unused amounts reversed	31-Mar-20
	£'000	£'000	£'000	£'000	£'000
Current Provisions					
Accumulated absence provision	(3,435)	(918)	-	-	(4,353)
Social Services Settlement	(41)	-	41	-	-
Social Care Tasks	(464)	(80)	314	-	(230)
Insurance / MMI Provision	(732)	(3,296)	849	-	(3,179)
Energy Provision	(200)	-	-	-	(200)
Other	(500)	(404)	-	-	(904)
	<u>(5,372)</u>	<u>(4,698)</u>	<u>1,204</u>	<u>-</u>	<u>(8,866)</u>
Long Term Provisions					
Landfill Capping	(5,647)	-	249	-	(5,398)
Other	(4,992)	(651)	-	-	(5,643)
	<u>(10,639)</u>	<u>(651)</u>	<u>249</u>	<u>-</u>	<u>(11,041)</u>

Accumulated Absences	Accounting provision to recognise impact of accruing leave at the end of the year. No payment is made as employees have to take leave prior to leaving the Council. This is therefore not cash backed.
Insurance / MMI	Provision for known insurance claims which currently being made against the Council for a variety of incidents. These insurance claims have been assessed as having either a 'likely' or 'reasonable' chance of payout.
Landfill Capping	Provision to comply with recommended practice in respect of costs relating to the future capping of Landfill sites once they have been fully utilised. The estimation for the landfill provision is made up of two elements, the estimated cost of capping the site and the aftercare costs once the site has been capped. The Council undertook a thorough review of both of these elements during 2016/17.

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Social Care Tasks / Settlement	There are two provisions for Social Services, Social Care Tasks provision which was set up in 2017/18 which is money set aside for the estimated liability for Local Authorities to settle historical liabilities stemming from the Supreme Court ruling August 2017 on the funding of tasks performed by a registered nurse. Whilst the majority was used in 2019/20, additional monies were received from the Welsh Government to be used in 2020/21. The second provision was for Social Care Settlement which relates to legal charges expected in relation to a court case settlement. This was used in 2019/20.
Energy Provision	Amount set aside for energy bills from previous years that are expected to be paid in 2020/21. Due to problems with billing with the energy supplier, the Council is unable to be certain of what service areas this will impact upon or the certainty over the value of the bills that will ultimately be paid therefore this has been set aside as a provision.
Other	The majority of this is in relation to the income subsidy that is due for Friars Walk until 2032. The £7.5m in relation to the risk of non-payment of the Friars Walk debtor is included within a long-term bad debt provision as shown in highlighted in note 17. The other amount included is related to the City Deal Joint Venture.

24 USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 10.

25 UNUSABLE RESERVES

	31-Mar-19	31-Mar-20
	£'000	£'000
Revaluation Reserve	(161,563)	(163,939)
Capital Adjustment Account	(94,625)	(96,232)
Financial Instruments Adjustment Account	4,451	3,816
Deferred Capital Receipt Reserve	(21)	(21)
Financial Instruments Revaluation Reserve	(251)	(251)
Pensions Reserve	400,586	347,150
Accumulated Absence Account	3,435	4,354
	152,012	94,877

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation or;
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated in the Capital Adjustment Account.

Notes to the Statement of Accounts

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	31-Mar-19	31-Mar-20
	£'000	£'000
Balance at 1 April	(127,237)	(161,564)
Upward revaluation of assets	(41,460)	(5,319)
Downward revaluation of assets and impairment losses not charged to provision of services	2,208	2,374
Surplus or deficit on revaluation of non-current assets not charged to provision of services	(39,252)	(2,945)
Difference between fair value depreciation and historic cost depreciation	-	-
Accumulated gains on assets sold or scrapped	4,925	570
Amount written off to the Capital Adjustment Account	4,925	570
Balance at 31 March	(161,564)	(163,939)

Capital Adjustment Account

The requirement to maintain a Capital Adjustment Account commenced in April 2007 as a requirement of the 2007 SORP. The opening balance represented the closing value of the previously maintained Capital Financing Account and Fixed Asset Restatement Account. The Account represents a store of capital resources set aside to meet past capital expenditure.

	31-Mar-19	31-Mar-20
	£'000	£'000
Balance at 1 April	(123,468)	(94,625)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	51,210	26,159
Revaluation losses/gains on Property, Plant and Equipment	4,905	(2,197)
Amortisation of intangible assets	-	-
Revenue Expenditure Funded from Capital under Statute	6,088	3,881
Amount of non-current assets written off on disposal or sale as part of the gain/ loss on disposal to the Comprehensive Income and Expenditure Statement	6,433	1,108
	68,636	28,951
Adjusting amounts written out of the Revaluation Reserve	(4,923)	(571)
Net written out amount of the cost of non-current assets consumed in the year	63,713	28,380
Capital financing applied in the year:		
Use of Capital Receipts Reserve to finance new capital expenditure	(3,136)	(916)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing - Non REFCUS	(20,559)	(19,724)
Statutory provision for the financing of capital investment charged against the Council Fund balances	(9,781)	(10,109)
Capital expenditure charged against the Council Fund balance	(1,367)	(3,046)
	(34,843)	(33,795)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(166)	3,808
Movements in the market value of Assets Held for Sale debited or credited to the Comprehensive Income and Expenditure Statement	139	-
Balance at 31 March	(94,625)	(96,232)

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Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the Council Fund Balance through the Movement in Reserves Statement. Over time, the expense is posted back to the Council Fund Balance in accordance with statutory arrangements for spreading the burden on the Council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the account at the end of the year will be charged to the Council Fund over the next 40 years.

	31-Mar-19	31-Mar-20
	£'000	
Balance at 1 April	5,085	4,451
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Proportion of premiums incurred in previous financial years to be charged against the Council Fund Balance in accordance with statutory requirements	(634)	(635)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(634)	(635)
Balance at 31 March	4,451	3,816

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gain recognised on the disposal of non-current assets for which a cash settlement has yet to be received. Under statutory arrangements, the Council does not treat these gains as usable for financing capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

	31-Mar-19	31-Mar-20
	£'000	£'000
Balance at 1 April	(21)	(21)
Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	-	-
Transfer to Capital Receipts Reserve	-	-
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-
Balance at 31 March	(21)	(21)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

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However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	31-Mar-19	31-Mar-20
	£'000	£'000
Balance at 1 April	324,017	400,586
Actuarial gains or losses on pensions assets and liabilities	54,748	(82,203)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	37,619	46,217
Employer's pensions contributions and direct payments to pensioners payable in the year	(15,798)	(17,450)
Balance at 31 March	400,586	347,150

Accumulated Absences Reserve

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	31-Mar-19	31-Mar-20
	£'000	£'000
Balance at 1 April	3,996	3,435
Settlement or cancellation of accrual made at the end of the preceding year	(3,996)	(3,435)
Amounts accrued at the end of the current year	3,435	4,354
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(561)	919
Balance at 31 March	3,435	4,354

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26 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	31-Mar-19	31-Mar-20
	£'000	£'000
Interest received	(55)	(224)
Interest paid	13,610	13,566
	13,555	13,342

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	31-Mar-19	31-Mar-20
	£'000	£'000
Depreciation	(20,266)	(22,136)
Impairment and downward valuations	(39,364)	(1,826)
(Increase) / Decrease in creditors	4,416	242
Increase / (Decrease) in debtors	6,826	11,427
Increase / (Decrease) in stock	33	12
Pensions liability	(21,821)	(28,767)
Carrying amount of non-current assets sold	(3,451)	(1,108)
Other non cash adjustments	(507)	(7,592)
	(74,134)	(49,748)

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	31-Mar-19	31-Mar-20
	£'000	£'000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,530	880
Any other items for which the cash effects are investing or financing cash flows	20,545	19,527
Net cash flows from operating activities	23,075	20,407

27 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	31-Mar-19	31-Mar-20
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	23,801	26,797
Purchase of short-term and long-term investments	(10,445)	2,450
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,530)	(880)
Other receipts from investing activities	(20,828)	(16,565)
Net cash flows from investing activities	(10,002)	11,802

28 CASH FLOW STATEMENT - FINANCING ACTIVITIES

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	31-Mar-19	31-Mar-20
	£'000	£'000
Cash receipts of short- and long-term borrowing	(61,055)	(38,513)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,975	726
Repayments of short- and long-term borrowing	18,127	65,668
Net cash flows from financing activities	(40,953)	27,881

29 MEMBERS' ALLOWANCES AND EXPENSES

All Councils are required to publish details of the amounts paid to elected members each year. Information on the amounts actually paid to each Council member is published on the Council's web site. The total allowances and expenses paid in the financial year was £943,977 (2018/19 – £926,465). All members are entitled to the same basic allowance of £13,868) per annum (2018/19 - £13,600). Each member holding the following positions are also paid additional responsibility allowances as detailed below:

	31-Mar-19	31-Mar-20
	£	£
Leader of the Council	34,700	35,232
Deputy Leader	20,200	20,732
Mayor	8,200	8,700
Deputy Mayor	2,700	3,700
Cabinet Member (x7)	15,700	16,232
Chair of Scrutiny Forum (x4)	8,700	8,700
Chair of Planning (x1)	8,700	8,700
Chair of Democratic Services (x1)	8,700	8,700
Chair of Licensing (x1)	8,700	8,700
Opposition Leader	8,700	8,700

During the 2019/20 financial year, a total of nine Lay (unelected) Members served for the Authority. Seven of these Lay Members claimed a total of £4,662.14, including both fees and expenses (2018/19: £3,084.35 claimed by six Lay (unelected) Members) to sit on a number of committees.

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30 OFFICER REMUNERATION

The remuneration paid to the Council's senior employees was as follows:

Post Holder Information		Salary/ Payment* £	Car Allowances & Mileage £	Pensions contributions £	Total £
Chief Executive - (left Authority 6th October 2019)	2019/20	73,752	465	15,635	89,852
	2018/19	140,092	900	28,299	169,291
Chief Executive - (Appointed 7th Oct 2019 - 22nd March 2020)	2019/20	62,768	435	-	63,204
	2018/19	-	-	-	-
Strategic Director - People (left Authority 30th November 2019)	2019/20	73,312	600	15,498	89,409
	2018/19	105,867	900	21,385	128,152
Strategic Director - Place	2019/20	113,428	900	24,047	138,375
	2018/19	107,093	900	21,633	129,626
Chief Education Officer	2019/20	80,713	675	17,111	98,499
	2018/19	76,890	675	15,532	93,097
Head of Law and Regulation (Monitoring Officer)	2019/20	82,726	450	17,538	100,714
	2018/19	81,104	450	16,383	97,937
Head of Finance (Section 151 Officer)	2019/20	82,726	-	17,538	100,264
	2018/19	81,104	-	16,383	97,487
Head of People & Business Change	2019/20	82,726	675	17,538	100,939
	2018/19	81,104	675	16,383	98,162
Head of Regeneration, Investment & Housing Services	2019/20	80,713	1,080	17,111	98,904
	2018/19	77,204	1,080	15,595	93,879
Head of Adult & Community Services *	2019/20	85,273	675	18,078	104,026
	2018/19	79,130	675	15,984	95,789
Head of Children & Young People Services	2019/20	82,726	1,080	17,538	101,344
	2018/19	79,130	1,080	15,984	96,194
Head of City Services	2019/20	80,713	675	17,111	98,499
	2018/19	76,932	675	15,593	93,200

Note * The Head of Adult & Community Service was paid additional sums (£2,547 Salary and £497 Pension Contribution) for undertaking the additional Statutory role of Director of Social Services from 20th November 2019. The Statutory role of Director of Social Services is ordinarily undertaken by the current vacant post of Strategic Director - People.

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Election Returning Officer Fees

During 2019/20 the Chief Executive received £10,513.50 for his / her role as the Authorities Returning Officer. (In 2018/19, he received £1,555)

There were no employees whose salary, excluding pension contributions, exceeded £150,000 per annum.

The ratio between the Council's highest paid employee and the median position for 2019/20 was 1:6.1 (2018/19 was 1:6.6). The median position for the Council for 2019/20 is £22,911 (2018/19 was £21,074). These figures do not include taxable expenses and benefits in kind as this is not likely to make a material difference to the ratios.

The Council's other employees receiving more than £60,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts, the figures below include amounts that are paid to employees on redundancy.

	Restated		31-Mar-20	
	Teaching	Other	Teaching	Other
£105,000 - £109,999	-	-	-	-
£100,000 - £104,999	1	-	2	-
£95,000 - £99,999	3	-	1	2
£90,000 - £94,999	2	-	2	-
£85,000 - £89,999	2	-	1	2
£80,000 - £84,999	2	-	6	1
£75,000 - £79,999	5	1	6	1
£70,000 - £74,999	8	-	14	1
£65,000 - £69,999	20	1	16	2
£60,000 - £64,999	15	-	22	4
Total	58	2	70	13

The number of exit packages, with the total cost per band and the total cost of the compulsory and other redundancies are set out below:

The below table shows the cost of redundancies that took place during the 2019/20 financial year.

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total Cost of exit packages in each band
	31-Mar-20	31-Mar-20	31-Mar-20	31-Mar-20
£0 - £20,000	-	28	28	266,070
£20,001 - £40,000	-	19	19	529,747
£40,001 - £60,000	2	8	10	472,874
£60,001 - £80,000	1	-	1	78,730
£80,001 - £100,000	-	-	-	-
Total	3	55	58	1,347,421

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	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages	Total Cost of exit packages in each band
	31-Mar-19	31-Mar-19	31-Mar-19	31-Mar-19 £
£0 - £20,000	1	66	67	591,975
£20,001 - £40,000	-	13	13	353,658
£40,001 - £60,000	-	3	3	129,501
£60,001 - £80,000	-	1	1	71,297
£80,001 - £100,000	-	-	-	-
Total	1	83	84	1,146,431

31 EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and for any non-audit services provided by the Council's external auditors:

	Restated 31-Mar-19	31-Mar-20
	£'000	£'000
Fees payable with regard to external audit of accounts	192	192
Fees payable in respect of local government measure	105	103
Fees payable for the certification of grant claims and returns for the year	81	60
Fees payable for other financial audit work	1	1
Total	379	356

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32 GRANTS INCOME

The Council credited the following grants, contributions and donations to the Revenue Comprehensive Income and Expenditure Statement in 2019/20:

	Restated	
	31-Mar-19	31-Mar-20
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	166,485	167,106
Contribution from Non-Domestic Rate	46,305	47,237
Total	212,790	214,343
	31-Mar-19	31-Mar-20
	£'000	£'000
Credited to Services		
Education Grants		
Education Improvement Grant	5,447	5,675
ISB Funding	6,410	6,380
Pupil Deprivation	4,881	4,996
LA Education Grant	2,779	3,734
Teachers' Pensions Grant	-	2,021
Other *	826	1,060
Education Contributions		
Gwent Music	385	168
Other	582	2,177
Education Donations	622	421
Social Services		
Supporting People	6,518	6,473
Substance Misuse	4,405	4,870
Children & Communities Grant - Families First Preventions	519	519
Children & Communities Grant - Families First	953	943
Youth Offending Service	334	333
Regional Domestic Violence	389	389
Home First	212	832
Sustainable Social Services	701	1,501
Other *	1,130	2,075
Social Services Contributions		
Section 28A funding	2,095	2,095
Intermediate care fund	974	2,819
Substance Misuse	-	1,745
Other	2,652	2,695
Social Services Donations	1	1
Regeneration, Investment & Housing Grants		
Children & Communities Grant - Communities First Grants	541	553
Childcare Offer Delivery	1,624	7,083
Children & Communities Grant - Flying Start	5,574	5,583
Children & Communities Grant - Families First Youth	364	337
Communities for Work	1,187	1,180

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Inspire to Achieve	999	912
Inspire to Work	426	491
Adult Education	372	409
Other *	1,647	2,795
Regeneration, Investment & Housing Contributions	17	6
Regeneration, Investment & Housing Donations	2	-
City Services Grants		
Housing Benefit Subsidy	827	843
Sustainable Waste	846	794
Concessionary Fares	2,556	2,859
Other	1,389	2,066
City Services Contributions	43	73
Corporate Services Grants		
Housing Benefit Subsidy	48,327	44,575
NNDR	316	322
Training	360	375
Other *	1,544	1,437
Corporate Service Contributions		
Other	119	190
Corporate Service Donations	18	-
	111,913	126,805

Where grants, contributions and donations are given, subject to conditions being met, they are held as Capital Grants Received in Advance (Unapplied) until the conditions are met.

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33 RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Welsh Government

The Welsh Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Grants received from government departments are set out in the analysis in Note 32.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2019/20 is shown in Note 29. During 2019/20, works and services to the value of £17.1m were commissioned from or paid to companies in which seventeen members had an interest. (2018/19: £17.4m where twenty four members had an interest). As at 31st March 2020, the balances outstanding for related parties were debtors of £887k (2018/19 £1.5m) and creditors of £2.8m (2018/19 £2.6m).

Newport Norse has invited one member of the Council on the board in their capacity as an elected member, not as a private individual. Financial information in relation to Newport Norse is disclosed in the table on the next page

There were payments of £2.4m made to Waste Savers Ltd in 2019/20 (£3.9m in 2018/19). This company is independent from the Council. As at 31st March 2020, the balances outstanding for Wastesavers were debtors of £7k (£15.9k in 2018/19) and creditors of £356k (2018/19 £292k). There are no members on the board of Wastesavers Ltd but, there is one Member of the Council on the board of Wastesavers Charitable Ltd, the parent company of Wastesavers Ltd. The council contract with the company for waste recycling services.

Newport City Council also made payments to Newport Live amounting to £247k in 2019/20 (2018/19 £507k), this is a company that has charitable status and is independent from the Council. The company has invited two members of the Council on the board, in their capacity as elected members, not private individuals. Newport Live is contracted by the Council to run its sport and leisure services. As at 31st March 2020, the balances outstanding for Newport Live were debtors of £205k (£22k in 2018/19) and creditors of £112k (2018/19 £17.4k).

There were 3 declarations of interest submitted where grants have been paid to voluntary organisations. There were two for Gwent Association for Voluntary Organisation for which payments totalled £58k (2018/19 £60k) and one for Newport Women's Aid totalling £119k (2018/19 £206k).

Officers

There is one Senior Officer (Strategic Director of Place) who is elected to the board of Newport Norse and NPS Newport Unlimited as well as being a director of CSC Foundry Limited. No other Senior Officers hold any other positions of seniority within any other Public Sector body.

Other Public Bodies

Precepts and Levies – details of precepts collected on behalf of other organisations and an analysis of amounts levied on the Council by other bodies can be found in note 11 to these accounts.

Entities Controlled or Significantly Influenced by the Council

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Entities which are controlled or significantly influenced by the Council include two limited companies. The South East Wales Education Achievement Service Ltd and Newport Norse Ltd. The South East Wales Education Achievement Service Ltd is a company limited by guarantee, with the five Local Authorities in the Gwent area each being a member of the company. The objects of the company are to provide services to the participating authorities in relation to their functions in the field of education and, subject to the participating authorities' unanimous prior approval, to other local authorities and other persons exercising functions in the field of education.

Newport Norse Ltd oversees the Council's property maintenance, estates, facilities management and capital projects design functions. Newport Norse and their subsidiary NPS Newport Limited, are Joint Venture Companies in which the Council has a 20% share and minority representation on the Board. The Council has a 50% "gain share" in the profits, which reduces the Council's service charge.

The Council has two pooled budget arrangements in the form of Section 33 Partnership Agreements between the five local authorities in the Gwent area and the Aneurin Bevan Local Health Board. The first of which is The Gwent Wide Integrated Community Equipment Service (GWICES) which is for the provision of an efficient and effective integrated community equipment service to users who are resident in the partner localities. This agreement came into effect on 1 October 2008.

The second is The Gwent Frailty Programme for the delivery of a range of services to avoid hospital admissions, facilitate early discharge and help individuals remain "happily independent". The Community Resource Teams (CRTs) provide integrated Urgent Response, Re-enablement and Falls services within each locality in line with agreed Locality Annual Commissioning Plans (LCPs).

The Council also participates in six joint ventures. Gwent Joint Records Committee which is the official archive service for the local authorities in the Monmouthshire area, the recognised place of deposit for public records and ecclesiastical parish records for the Diocese of Monmouth.

The Greater Gwent Cremation Committee oversees the management of the Gwent Cremation facilities.

The Project Gwyrdd is a partnership between, Caerphilly Borough County Council, The County Council of the City and County of Cardiff, Monmouthshire County Council, Newport Council and Vale of Glamorgan Council. This partnership has been set up to deliver long term, environmental, sustainable and cost effective solution for waste after recycling and composting has been maximised through economy of scale.

The Welsh Purchasing Consortium (WPC) is a collaborative procurement organisation made up of 19 unitary local Authorities from South, Mid, North East and West Wales. Contracting activity within the WPC is undertaken by individual member Authorities on behalf of the whole membership on a reciprocal basis.

The Coroners Joint Committee which oversees the management of the Gwent Coroners service.

The Cardiff Capital Region City Deal was entered into by the Council in 2017. This is a £1.28 billion programme which will achieve a 5% uplift in the region's GVA by delivering a range of programmes which will increase connectivity, improve physical and digital infrastructures, as well as regional business governance.

The table below shows the receipts and the payments that Newport City Council has with each related party throughout the 2019/20 financial year. It also shows any outstanding balances as at 31st March 2020.

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	2018/19			2019/20		
	Receipts	Payments	Outstanding Balances/ Commitments	Receipts	Payments	Outstanding Balances/ Commitments
	£'000	£'000	£'000	£'000	£'000	£'000
Limited Companies						
The South East Wales Education Achievement Service Ltd	-	1,152	-	-	1,118	-
Newport Norse	-	4,679	126	(23)	6,818	2,207
Pooled Budgets						
The Gwent Wide Integrated Community Equipment Service (GWICES)	-	325	-	-	331	-
The Gwent Frailty Programme	-	1,720	-	-	1,768	-
Joint Ventures						
Gwent Joint Records Committee	-	289	-	-	289	-
Greater Gwent Cremation Committee	(385)	206	-	(261)	617	-
Project Gwyrdd	-	27	-	-	27	-
Coroners Joint Committee	-	308	-	-	199	-
Cardiff Capital Region City Deal (from 2017/18)	-	1,208	-	-	4,211	-

Subsidiary Company

Newport Transport Ltd is a company wholly owned by the Council. Newport Transport's board includes five Council Members and one Council officer nominated by the Council. The services provided principally related to maintenance work on the Council's vehicle fleet. Details of financial transactions are detailed within the Group Accounts.

Trust Funds and Third Party Assets

The Council passed a number of its trust fund holdings to the Community Foundation in Wales and with the agreement of the Charities Commission, passed the management of a number of other dormant funds to schools in 2008/09. The Council acts as sole trustee for the remaining Education trust funds which had a value of £35,801 as at 31 March 2020. (2019: £33,294)

The Council operates 166 (2018/19: 160) appointee bank accounts holding £1,395,396.50 (2018/19: £1,359,345). These relate to third party monies held by the Council on behalf of its Social Service clients. These figures have been excluded from cash and cash equivalent figures reported in the accounts.

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Newport City Council

34 CAPITAL EXPENDITURE AND CAPITAL FINANCING

	31-Mar-19 £'000	31-Mar-20 £'000
Opening Capital Financing Requirement	279,845	276,377
<u>Capital investment</u>		
Property, Plant and Equipment	25,287	27,486
Heritage Assets	-	-
Revenue Expenditure Funded from Capital Under Statute	6,088	3,881
Long Term Debtors	-	3,659
<u>Sources of finance</u>		
Capital receipts	(3,136)	(916)
Government grants and other contributions	(20,559)	(19,724)
Sums set aside from revenue	(1,292)	(2,930)
Direct revenue contributions	(75)	(20)
Minimum Revenue Provision	(9,781)	(10,109)
Closing Capital Financing Requirement	276,377	277,704
Explanation of movements in year		
Increase in underlying need to borrow:		
Supported by government financial assistance	4,058	4,077
Un-supported by government financial assistance	1,825	5,917
Assets acquired under finance leases	131	-
Bullet Repayment of PFI Liability	-	-
Assets acquired under PFI contracts	299	1,442
Minimum Revenue Provision	(9,781)	(10,109)
Increase/ (Decrease) in Capital Financing Requirement	(3,468)	1,327

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Notes to the Statement of Accounts

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Newport City Council

35 LEASES

Council as Lessee

Finance Leases

The Council has acquired a number of vehicles and equipment under finance leases. The assets acquired under these leases are included in Property Plant and Equipment in the balance sheet at the following net amounts as these are cancellable.

	31-Mar-19	31-Mar-20
	£'000	£'000
Vehicle, Plant, Furniture and Equipment	106	39
	<u>106</u>	<u>39</u>

The Council is committed to making minimum payments under these leases, comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31-Mar-19	31-Mar-20
	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments)		
- current	70	64
- non-current	36	39
Finance costs payable in future years	5	4
Minimum lease payments	<u>111</u>	<u>107</u>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20
	£'000	£'000	£'000	£'000
Not later than one year	75	68	70	64
Later than one year and not later than five years	36	39	36	39
	<u>111</u>	<u>107</u>	<u>106</u>	<u>103</u>

Operating Leases

The Council has acquired some of its buildings and fleet by operating leases. All vehicles acquired are now within the secondary rental period of the lease agreement and therefore payments due are excluded from the table below. The minimum lease payments due on properties under non-cancellable leases in future years are:

	31-Mar-19	31-Mar-20
	£'000	£'000
Not later than one year	896	984
Later than one year and not later than five years	2,227	2,858
Later than five years	2,481	2,133
	<u>5,604</u>	<u>5,975</u>

Council as Lessor

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Finance Leases

The Council has finances lease with the Kingsway Shopping Centre with a remaining term of 240 years and for Chartist Tower with remaining life of 248 years. The Council has a gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31-Mar-19 £'000	31-Mar-20 £'000
Finance lease debtor (net present value of minimum lease payments)		
- current	-	-
- non-current	5,824	5,824
Unearned finance income	123,777	123,248
Unguaranteed residual value of property	-	-
Gross Investment in the lease	<u>129,601</u>	<u>129,072</u>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000
Not later than one year	529	529	-	-
Later than one year and not later than five years	2,116	2,116	-	-
Later than five years	126,956	126,427	5,824	5,824
	<u>129,601</u>	<u>129,072</u>	<u>5,824</u>	<u>5,824</u>

Operating Leases

The Council leases out some property under operating leases for the following purposes:

- to enable the Council to provide services for the local community; or
- to provide an income stream to help support the council tax levy.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31-Mar-19 £'000	31-Mar-20 £'000
Not later than one year	1,062	972
Later than one year and not later than five years	3,188	3,175
Later than five years	13,152	12,619
	<u>17,402</u>	<u>16,766</u>

The Council leases out a number of farms on a life tenancy basis. These leases have been assumed to have a 99 year lease term.

Tredegear House Lease

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The Council has a lease premium with Tredegar House which relates to expenditure to the National Trust for their running of Tredegar House. The payments due to the National Trust over the life of the lease are as follows:

	31-Mar-19 £'000	31-Mar-20 £'000
Not later than one year	-	-
Later than one year and not later than five years	2,005	2,005
Later than five years	472	472
	<u>2,477</u>	<u>2,477</u>

36 PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Southern Distributor Road PFI Scheme

Newport City Council entered into a 40 year contract with Morgan Vinci Ltd to design, build, operate and finance the Southern Distributor Road. The contract specifies minimum standards of performance over a range of areas including reductions in journey time, reduction in the level of congestion, accident levels, improvements in road safety and road availability. The contractor took on the obligation to construct and maintain the road to an acceptable minimum standard.

The road was opened on 13th December 2004 and the agreement has a 40 year life.

Property Plant and Equipment

The assets used to provide services on the Southern Distributor Road are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 14.

Payments

The Council makes an agreed annual payment which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments, remaining to be made under the PFI contract at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions), are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2020/21	783	1,606	4,727	7,116
Payable within two to five years	3,396	6,612	19,526	29,535
Payable within six to ten years	4,588	10,036	24,826	39,449
Payable within eleven to fifteen years	5,384	11,736	25,308	42,427
Payable within sixteen to twenty years	5,908	12,710	24,937	43,555
Payable within twenty one to twenty five years	2,704	5,284	9,371	17,359
Total	<u>22,763</u>	<u>47,983</u>	<u>108,696</u>	<u>179,441</u>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding is as follows:

	31-Mar-19 £'000	31-Mar-20 £'000
Balance outstanding at start of year	35,324	33,959

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Payments during the year	(1,365)	(198)
Balance outstanding at year-end	33,959	33,761

Glan Usk Primary School

2019/20 was the eleven year of a 25 year PFI contract for the construction and facilities management of Glan Usk Primary School.

The school operates its core areas 44 weeks per annum including a multi-use gaming area and an artificial turf pitch. The multi-use gaming area and the artificial turf pitch are also available to the community during non-school hours.

The contract operates minimum standards for the services to be provided by the contractor, with deductions from the fees payable being made if facilities are unavailable or performance is below minimum standards.

Property Plant and Equipment

The assets used to provide services on the Glan Usk Primary School are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 14.

Payments

The Council makes an agreed annual payment which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2020 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £'000	Reimbursement of Capital Expenditure £'000	Interest £'000	Total £'000
Payable in 2020/21	773	569	725	2,068
Payable within two to five years	3,304	2,332	2,893	8,528
Payable within six to ten years	5,281	2,599	3,410	11,289
Payable within eleven to fifteen years	4,683	3,041	3,521	11,245
Payable within sixteen to twenty years	-	-	-	-
Total	14,041	8,540	10,548	33,132

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding is as follows:

	31-Mar-19 £'000	31-Mar-20 £'000
Balance outstanding at start of year	9,729	9,101
Payments during the year	(628)	(561)
Balance outstanding at year-end	9,101	8,540

37 IMPAIRMENT LOSSES

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Impairment losses and impairment reversals by class of assets are disclosed within the Property, Plant and Equipment balances consolidated in Note 14. The amounts are charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure dependent on the class of impairment.

During 2019/20 the Council has recognised the following impairment losses:

	31-Mar-19	31-Mar-20
	£'000	£'000
Land & Buildings	34,644	3,746
Community Assets	34	77
Infrastructure Assets	108	61
Vehicles Plant & Equipment	-	174
Assets Under Construction	106	23
Heritage Assets	-	-
Total	34,892	4,081

38 CAPITALISATION OF BORROWING COSTS

There was no capitalisation of borrowing costs in 2018/19 or 2019/20

39 TERMINATION BENEFITS

The Council completed redundancies of 60 employees in 2019/20, incurring liabilities of £1.4m (84 employees at £1.2m in 2018/19). See Note 30 for the number of exit packages and total cost per band. All balances were payable to Council officers, as part of the Council's general services rationalisation and efficiencies programme.

40 PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2019/20 the Council paid £11.3m to the Teachers' Pension Scheme in respect of teachers' retirement benefits, representing 16.4% of pensionable pay from April to August and 23.68% of pensionable pay from September to March. The figures for 2018/19 were £8.7m and 16.4%. As at the 31 March 2020 contributions of £1.1m were payable (31 March 2019: £0.7m).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for within Note 41 as "Unfunded Teachers' Discretionary Benefits".

41 DEFINED BENEFITS PENSIONS SCHEMES

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Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Torfaen County Borough Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement (Unfunded Teachers Discretionary Benefits) – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Council Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme 31-Mar-19 £'000	Unfunded Teachers Discretionary Benefits 31-Mar-19 £'000	Local Government Pension Scheme 31-Mar-20 £'000	Unfunded Teachers Discretionary Benefits 31-Mar-20 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	28,672	-	34,423	-
Past service cost (including curtailments)	32	-	1,953	-
Effect of settlements	-	-	-	-
Financing and Investment Income and Expenditure				
Interest income on plan assets	(12,571)	-	(11,848)	-
Interest cost on defined benefit obligation	21,781	(295)	21,427	262
Total Post Employment Benefit Charged to the Surplus/Deficit on Provision of Services	37,914	(295)	45,955	262
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
Changes in Demographic Assumptions	-	-	(37,681)	(697)
Return on assets excluding amounts included in net interest	(15,047)	-	51,164	-
Changes in financial assumptions	69,986	(228)	(81,311)	(406)
Other experience	63	(26)	(13,326)	54

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Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	55,002	(254)	(81,154)	(1,049)
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services post employment benefits in accordance with the Code	37,914	(295)	45,955	262
Actual amount charged against the Council Fund Balance for pensions in the year				
Employer contributions	14,387	-	16,063	-
Contributions in respect of unfunded benefits	1,411	(958)	1,387	(960)
	15,798	(958)	17,450	(960)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2020 is a gain of £82.2m (2018/19 showed a loss of £54.7m).

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme 31-Mar-19	Unfunded liabilities: Teachers Discretionary Benefits 31-Mar-19	Funded liabilities: Local Government Pension Scheme 31-Mar-20	Unfunded liabilities: Teachers Discretionary Benefits 31-Mar-20
	£'000	£'000	£'000	£'000
Opening balance at 1 April	(778,584)	(11,803)	(882,246)	(11,393)
Current service cost	(28,672)	-	(34,423)	-
Interest cost on defined benefit obligation	(21,191)	(295)	(21,427)	(262)
Plan participants contributions	(4,320)	-	(4,522)	-
Actuarial gains and losses arising on changes in financial assumptions	(69,530)	(228)	81,311	406
Changes in Demographics Assumptions	-	-	37,681	697
Other experience	(11)	(26)	13,326	(54)
Benefits paid	20,094	958	21,879	960
Past service cost (including curtailments)	(32)	-	(1,953)	-
Effect of settlements	-	-	-	-
Closing balance at 31 March	(882,246)	(11,394)	(790,374)	(9,646)

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme

	31-Mar-19	31-Mar-20
	£'000	£'000
Opening balance at 1 April	466,370	493,054
Interest income on plan assets	12,571	11,848
Return on assets excluding amounts included in net interest	15,047	(51,164)
Employer contributions	15,798	17,450
Contributions by scheme participants	4,320	4,522

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Newport City Council

Benefits paid	(21,052)	(22,839)
Settlements	-	-
Closing balance at 31 March	493,054	452,871

The actual return on scheme assets in the year was £39.316m (2018/19: £27.618m).

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £347m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by maintaining contributions at an appropriate rate over the remaining working life of employees, as assessed by the scheme actuary;
- finance is only required to be raised to cover the teachers' pensions when the pensions are actually paid. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 is £15.5m. Expected contributions to the Teachers' Pension Scheme in the year to 31 March 2021 are £13.4m

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Estimated duration of benefit obligation is 18 years. Both the Teachers' Discretionary Benefits and Greater Gwent (Torfaen) Pension Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Greater Gwent (Torfaen) Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Unfunded Teachers Discretionary Benefits	
	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men (years)	21.5	20.6	21.5	21.5
- Women (years)	23.9	22.9	23.9	23.9
Longevity at 65 for future pensioners:				
- Men (years)	23.6	21.6	23.6	23.6

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- Women (years)	26.1	24.6	26.1	26.1
Other Assumptions:				
Rate of CPI Inflation	2.5%	1.9%	2.5%	2.5%
Rate of increase in salaries	2.9%	2.2%	N/A	N/A
Rate of increase in pensions	2.5%	1.9%	2.5%	2.5%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.4%
Take-up of option to convert annual pension	50.0%	50.0%	N/A	N/A

The Teachers' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme assets consist of the following categories.

	31-Mar-19	31-Mar-20
	£'000	£'000
Equities	72,822	66,985
Investment Funds	367,146	337,606
Property	13,333	11,398
Alternatives	37,361	32,903
Cash	2,393	3,980
	493,054	452,871

42 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a number of financial risks:

- Credit risk - failure to receive amounts due to the Council;
- Liquidity risk - insufficient funds to meet its commitments;
- Market risk - financial instability arising from changes in interest rates and stock markets.

The economic impact of the Covid-19 pandemic presents challenges to the financial services industry and its institutions. The main risk to the Council is credit risk, its ability to raise finance and to a limited degree the interest rate payable and receivable on new loans and investments. However, these risks are mitigated as described in this note.

The Council's overall risk management programme focuses on unpredictability of financial markets and minimises any adverse effects on the resources available to fund services. Risk management is undertaken by the central treasury team, under policies approved by the Council in its treasury management and investment strategy. Specifically it manages the risks listed as follows:

Credit Risk

The assessment of credit losses is based on information about past events, current conditions but also future forecasts. The economic outlook for the Councils' financial assets (investments and debtors) as a result of the COVID-19 pandemic must be taken into account when making this assessment, based on the available information. The Council needs to consider the risk of default of its financial assets, the exposure to that default risk and the estimated loss as a result of the default. This will be dependent on the nature of their financial assets held at amortised cost and the impact of the pandemic in its local area (as well as national economic events). However, as shown in note 17, the council has assessed the financial risk with its investments and debtors in light of the current financial situation, and has made a bad debt provision of £7.5m, it also has a general risk reserve for investments, totalling £658k.

Arising from deposits with banks and financial institutions, as well as credit exposure to the Council's customers, this risk is minimised by only making deposits with financial institutions once they meet minimum credit criteria. Details are included in the annual investment strategy. The strategy requires the Council to invest its funds prudently and to have regard to security and liquidity of its investments before seeking the highest rate of return or yield. The Council's objective when investing funds is to strike an appropriate balance between risk and return minimising the risk of incurring losses from default and the risk of receiving unsuitably low investment income. This Council has no recent experience of non-payment of its investments and therefore assesses its credit risk in this area as negligible.

The Council formally reviews its approved counterparties which are formalised in its treasury management strategy. In addition the approved counterparties credit ratings are regularly reviewed in conjunction with the treasury management advisors, Arlingclose Ltd.

Arlingclose provides the Council with credit services which use sophisticated modelling approaches with credit ratings from the major credit rating agencies. These counterparty listings are based on credit ratings and by counterparty type (Secured and Unsecured banks, Government, Corporate and Registered Providers).

The Annual Investment Strategy documents the maximum amounts and time limits in respect of each financial institution. The credit limits were not exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not currently apply credit ratings to its council tax and trade debtors although this is always under review. Its exposure to non-payment of these debts is summarised as:

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	Amount at 31 Mar 2020	Historic experience of default	Estimated Exposure to non- repayment Mar 2020	Estimated Exposure at 31 Mar 2019
	£'000	%	£'000	£'000
Council tax debts	7,081	1.10	78	69
Trade debtors	10,587	1.52	161	110
			239	179

The Council expects repayment of its general debt within 30 days. However, £3.5m of the £10.6m is past this due date. The general debt is analysed as:

	31-Mar-19	31-Mar-20
	£'000	£'000
Less than thirty days	5,512	7,106
Less than three months	629	1,206
Three months to one year	473	937
More than one year	654	1,339
	7,268	10,587

The Council has also provided loan agreements to third party organisations who are undertaking city regeneration. The loans are subject to the usual commercial warranties to ensure security of assets. The Council are not aware of any historical default issues. These loans are expected to be paid back in full on the agreed dates. Please see financial instrument Note 17 and Contingent Asset Disclosure note 44 for additional disclosures.

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council has ready borrowing access to the money market and the Public Works Loans Board to cover short term unforeseeable events. However, there is a risk that the Council may need to replenish significant borrowings at a time that interest rates are not favourable. Consequently, under its Treasury Management Strategy it sets limits on the proportion of variable rate borrowings in accordance with CIPFA's Treasury Management recommended practice, currently all of the borrowing is on fixed rate.

	Restated	
<u>Loan maturity</u>	31-Mar-19	31-Mar-20
	£'000	£'000
Less than one year	46,805	19,616
Between one and two years	3,811	5,327
Between two and five years	14,029	33,781
More than five years	128,144	107,552
	192,789	166,276

All trade and other payables are repayable in less than one year. The restatement in 2019/20 reflects the repayment of principle of loans for those that have fixed regular repayment of principle rather than the maturity date as it was previously stated.

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Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to changes in interest rates on its borrowings and investments. These are very complex to the extent that an increase in interest rates would have the following effects:

- Borrowing at variable rates will see an increase in the expenses interest charged to the Income and Expenditure account;
- Investments at variable rates will see an increase in the income interest shown on the Income and Expenditure account.

In terms of the financial impact of the Covid-19 situation it has been recognised that it will have a significant impact upon ongoing operations and the finances associated with providing services. The Council will continue to work closely with partnering organisations such as Welsh Government, other councils and bodies which help it to deliver the services.

The impact of interest rate changes in borrowing and investment held at variable interest rates will impact on the Council's Income and Expenditure account and therefore it's Council Fund Balances.

The Council has a number of strategies to manage the interest rate risk, as contained within its treasury management and investment strategy. Where it is economically sound to do so the Council will, during falling interest rates, repay early high cost fixed rate loans to limit loss exposure.

The treasury management team actively assesses the Council's interest rate exposure and feeds this into its medium term financial planning process. This minimises any adverse effects. The Council does not currently have any borrowing at variable interest rates.

Price Risk

The Council does not generally invest in equity shares and therefore has no exposure to movement in share price.

Foreign Exchange Risk

The Council has a small Euro bank account of approximately €2,000. The exposure to losses arising from movement in exchange rates is therefore negligible.

43 CONTINGENT LIABILITIES

There are a number of contingent liabilities identified as at 31 March 2020:

- **MMI Insurances** - The Council manages the residual insurance fund of the former Gwent County Council on behalf of Torfaen, Blaenau Gwent, Caerphilly and Monmouth. Municipal Mutual Insurance Limited (MMI) covers some of the claims of both ex- authorities (Gwent CC and Newport Borough Council). Following a High Court case in March 2012, MMI has now confirmed that they will be unable to settle the remaining claims in total, and each Council is now required to meet a balance of the remaining claims.

In April 2013, Ernst & Young, the Scheme Administrators advised that the levy to be paid by Members had been set 15% of the Council's claim value. In 2013/14 a levy of £463k was paid (based on claims value of £3.1m). In 2016/17 an additional levy of £347k (10% levy) was required by the scheme administrators, making the total levy paid to date (£810k) 25%. There is a risk that a further levy could be applied, the Council holds an earmarked reserve to mitigate this risk.

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- **Insurance Claims** - The Council manages current insurance claims made against it on an on-going basis. There are a number of claims against the Council that are not included within its general insurance cover. These relate to discrimination, employment tribunals, copyright claims and civil litigation. As at 31 March 2020 the total claims outstanding were £4.5m. A provision has been made for claims totalling £3.2m as detailed in Note 23, as these have been assessed as being probable in terms of likely settlement. The Council also has an insurance reserve to mitigate against a percentage of the balance of claims as it is difficult to quantify the amount of these claims and the likelihood of the liability, and the Council is disputing all of the claims
- **Newport City Homes** - As part of the legal agreements associated with the transfer of the housing stock in 2008, the Council provided a number of property-related, employment, planning, environmental and other warranties to Newport City Homes and its funders which are for a period of 35 years from the date of transfer. The property-related warranties are limited to £9,000 per property (as at 2008 index linked to RPI), and cover 9,144 separate properties. Other warranties and indemnities would only apply after Newport City Homes has committed pre-determined levels of expenditure within its Business Plan. To date there has been no call on these warranties.
- **Financial Guarantees** – The Council has entered into a number of agreements to act as guarantor; in particular regarding the safeguarding of former employees' pension rights when their employment was transferred to third party organisations. There is no quantifiable liability to the Council; however there remains a potential liability in future years.
- **Council Investments** – The council have invested with a small number of external companies. Despite the financial uncertainty which surrounds the impact of Covid-19, repayment of any outstanding debt is still expected, However, due to the fact that it is difficult to quantify the long term impact of Covid-19, there is a risk attached to the repayment of this debt. The council will closely monitor the situation over the next 12 months.
- **Landfill Tax (WRA)** - In July 2019 the Welsh Revenue Authority (WRA) opened an enquiry into the 2018/19 financial year in relation to Landfill Tax and the Loss of Ignition (LOI) tests required as part of the return. Newport City Council recognises that there were failings in the LOI testing process and are working with the WRA to provide all information required for their enquiry. It is currently unknown what sanctions will be imposed on the Council, but there is likely to be a reclaim of unpaid tax and further potential of penalties being issued if there is deemed to be careless behaviour. It is currently very uncertain what the value of the repayment/penalty will be and due to the current Covid-19 pandemic the enquiry has been put on hold but it remains open. During 2019 all efforts have been made to ensure all processes and procedures at the landfill site are properly documented and fully compliant with the relevant legislation. The WRA have also opened an enquiry for the 2019/20 financial year, however we do not anticipate any issues relating to that year. Landfill Tax was also payable prior to 2018/19 which was due to HMRC, there is potential that HMRC could open up an enquiry for Landfill Tax payable prior to 2018/19 also.
- **McCloud Judgement** - A legal challenge was recently brought by a group of firefighters and judges against the UK Government. The group claimed that changes to their relevant pension schemes in 2015 (specifically the introduction of new career average schemes, with transitional arrangements for those close to retirement age) were discriminatory.

In December 2018, the Court of Appeal upheld the challenge, confirming that these changes to pension schemes discriminated on the grounds of age. This decision was further upheld by the Supreme Court in June 2019, which denied the UK Government permission to appeal. This matter is widely referred to as the 'McCloud judgement'.

The UK Government accepts that this judgement has implications for other public sector pension schemes including the Greater Gwent Pension Fund, of which the Council is a member. It is anticipated that the costs of providing a remedy to affected employees will be significant.

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The Council's actuary has assessed the financial impact of this legal judgement to be an estimated increase in the pension liability of £1,599,000 which has been included within the pension liability within Past Service Costs.

A LGPS consultation to provide a remedy was published in July 2020, with the consultation finishing in October 2020. The final impact on the pension scheme will not be known until the final proposals are set out by the UK Government.

44 CONTINGENT ASSETS

No contingent assets were identified at 31 March 2020.

INTRODUCTION

The group accounts that follow comply with the requirement of the 2019/20 Code that a Local Council with interests in subsidiaries, associates and joint ventures should prepare group accounts in addition to its single entity accounts. These accounts consolidate the operating results and balances of Newport City Council and its subsidiary Newport Transport Limited. At the point of consolidation, the draft accounts were available and are what are included within the Group Accounts.

Where a note is identical to Newport City Councils individual accounts, no further disclosure has been made.

For 2018/19, the group accounts have been restated. This is due to the fact that the final audited set of Newport Transport accounts were not published until after the deadline for Local Authorities final 2018/19 accounts. All notes have been restated where necessary to correspond to the final 2018/19 Newport Transport Accounts.

ACCOUNTING POLICIES APPLICABLE TO THE GROUP ACCOUNTS

Basis of Consolidation

The group accounts have been prepared on the basis of full consolidation of the financial transactions and balances of Newport City Council and Newport Transport Ltd. Inter-group transactions and balances between the Council and its subsidiary have been eliminated in full.

Accounting policies

The accounting policies for both Newport City Council and Newport Transport are materially aligned.

Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Group Statement of Accounts and associated notes have been prepared using unaudited draft accounts provided by Newport Transport. A degree of estimation and assumption was required to complete these Group accounts within the required timescales.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

Group Total 2018/19				Group Total 2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	Restated £'000		£'000	£'000	£'000
30,744	(3,578)	27,165	Children's and Young People Services	33,763	(5,029)	28,734
75,040	(27,470)	47,571	Adults and Community Services	81,376	(31,347)	50,029
24,137	(4,221)	19,916	Education	23,702	(4,879)	18,823
149,169	(20,894)	128,275	Schools	135,437	(25,227)	110,210
39,402	(18,840)	20,562	Regeneration, Investment and Housing	41,899	(25,378)	16,521
59,623	(20,626)	38,997	City Services	57,281	(18,684)	38,597
25,420	(4,658)	20,762	Corporate Services	27,197	(4,601)	22,596
53,527	(51,300)	2,227	Other Non Department Costs	60,335	(44,792)	15,543
457,062	(151,587)	305,475	Cost of services	460,990	(159,937)	301,053
27,812	-	27,812	Other operating expenditure	24,413	238	24,651
22,746	(1,395)	21,351	Financing and investment income and expenditure	24,708	(1,632)	23,076
-	-	-	(Surplus) / deficit on discontinued operations	-	-	-
-	(298,424)	(298,424)	Taxation and non-specific grant income	-	(303,575)	(303,575)
507,620	(451,406)	56,214	(Surplus) / Deficit on Provision of services	510,111	(464,906)	45,205
		(39,252)	(Surplus) / deficit on revaluation of Property Plant and Equipment assets			(2,945)
		54,954	Actuarial (gains) / losses on pensions assets / liabilities			(83,570)
		(35)	Other gains / losses required to be included in the Comprehensive Income and Expenditure Statement			260
		-	Share of other comprehensive income and Expenditure of Subsidiaries			-
		15,667	Other Comprehensive Income and Expenditure			(86,255)
		71,881	Total Comprehensive Income and Expenditure			(41,050)

GROUP BALANCE SHEET AS AT 31 MARCH 2020

Total 2018/19 Restated £'000		Notes	Total 2019/20 £'000
500,513	Property, Plant and Equipment	6	505,383
17,354	Heritage Assets		17,354
14,704	Investment Property		10,897
-	Long Term Investments		-
23,115	Long Term Debtors		18,356
555,686	Long Term Assets		551,990
10,000	Short Term Investments		12,450
1,080	Assets Held for Sale		1,284
413	Inventories		390
44,210	Short Term Debtors	9	63,053
46,936	Cash and Cash Equivalents	11	(6,542)
102,639	Current Assets		70,635
(46,919)	Short Term Borrowing		(19,685)
(41,991)	Short Term Creditors	10	(38,969)
(5,372)	Provisions		(8,866)
(2,272)	Other Short Term Liabilities		(2,175)
(96,554)	Current Liabilities		(69,695)
(10,094)	Long Term Creditors	8	(14,636)
(10,639)	Long Term Provisions		(11,041)
(145,868)	Long Term Borrowing		(145,947)
(405,479)	Pension Liability	5	(350,939)
(40,892)	Other Long Term Liabilities		(40,166)
-	Deferred tax liability		-
(612,972)	Long Term Liabilities		(562,729)
(51,201)	Net Assets		(9,799)
(103,037)	Usable Reserves		(87,065)
154,238	Unusable Reserves		96,864
51,201	Total Reserves		9,799

GROUP MOVEMENTS IN RESERVE STATEMENT FOR YEAR ENDING 31 MARCH 2020

GROUP	Council Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Restated						
Balance at the 31 Mar 2018 carried forward	(6,500)	(88,892)	(8,901)	(104,293)	83,830	(20,463)
Movement in reserves during 2018/19 (Surplus) / deficit on the provision of services	55,648	-	-	55,648	566	56,214
Other comprehensive Income and Expenditure	-	-	-	-	15,667	15,667
Total Comprehensive Income and Expenditure	55,648	-	-	55,648	16,233	71,881
Adjustments between accounting basis and funding basis under regulations	(54,998)	-	606	(54,392)	54,175	(217)
Net Increase / Decrease before Transfers to Earmarked Reserves	650	-	606	1,256	70,408	71,664
Transfer to/ from Earmarked Reserves	(650)	650	-	-	-	-
Increase/ Decrease in 2018/19	(0)	650	606	1,256	70,408	71,664
Balance at the 31 Mar 2019 carried forward	(6,500)	(88,242)	(8,295)	(103,037)	154,238	51,201
Balance at the 31 Mar 2019 carried forward	(6,500)	(88,242)	(8,295)	(103,037)	154,238	51,201
Movement in reserves during 2019/20 (Surplus) / deficit on the provision of services	43,987	-	-	43,987	1,218	45,205
Other comprehensive Income and Expenditure	-	-	-	-	(86,257)	(86,257)
Total Comprehensive Income and Expenditure	43,987	-	-	43,987	(85,039)	(41,052)
Adjustments between accounting basis and funding basis under regulations	(28,051)	-	36	(28,015)	27,665	(350)
Net (Increase) / Decrease before Transfers to Earmarked Reserves	15,936	-	36	15,972	(57,374)	(41,402)
Transfer to/ from Earmarked Reserves (Note 10)	(15,936)	15,936	-	-	-	-
(Increase) / Decrease in 2019/20	-	15,936	36	15,972	(57,374)	(41,402)
Balance at the 31 Mar 2020 carried forward	(6,500)	(72,306)	(8,259)	(87,065)	96,864	9,799

GROUP CASH FLOW STATEMENT FOR YEAR ENDING 31 MARCH 2020

Restated Total 2018/19 £'000		Note	Total 2019/20
56,214	Net (surplus) / deficit on the provision of services as shown on the Comprehensive Income and Expenditure Statement		45,205
(74,940)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	13	(52,548)
23,039	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	13	20,525
4,313	Net cash flows from Operating Activities		13,182
(9,893)	Investing Activities	14	11,896
(40,412)	Financing Activities	15	28,400
(45,992)	Net (increase) or decrease in cash and cash equivalents		53,478
944	Cash and cash equivalents at the beginning of the reporting period	11	46,935
46,935	Cash and cash equivalents at the end of the reporting period	11	(6,542)

The notes to the Council's Core Financial statements apply also to the Group Accounts with the following additions and exceptions.

1 REMUNERATION

The number of employees of the Council and its subsidiary whose remuneration is over £60,000 per annum is shown below.

	Total	
	31-Mar-19	31-Mar-20
£135,000 - £139,999	-	-
£120,000 - £124,999	-	-
£115,000 - £119,999	1	-
£110,000 - £114,999	-	-
£105,000 - £109,999	-	1
£100,000 - £104,999	1	2
£95,000 - £99,999	3	4
£90,000 - £94,999	2	2
£85,000 - £89,999	3	3
£80,000 - £84,999	2	7
£75,000 - £79,999	6	7
£70,000 - £74,999	9	16
£65,000 - £69,999	21	18
£60,000 - £64,999	15	27
Total	63	87

Further information regarding the remuneration of the employees of Newport Transport is contained within the company's 2019/20 Financial Statements.

The disclosure for Members allowances is the same as for the single entity accounts.

2 RELATED PARTY DISCLOSURE

Related party transactions and balances of the group are as contained in note 33 to the single entity financial statements.

3 EXTERNAL AUDIT COSTS

In 2019/20 the following fees were paid by the council and its subsidiary in respect of audit and inspection.

	Total	
	Restated 31-Mar-19 £'000	31-Mar-20 £'000
Fees payable with regard to external audit of accounts	209	213
Fees payable in respect of local government measure	105	103
Fees payable for the certification of grant claims and returns for the year	84	60
Fees payable for other financial audit work	1	1
Total	399	377

4 LEASES

Operating leases

The Group has acquired some of its buildings and fleet by operating leases. Newport Transport also has commitments under non-cancellable operating leases. The minimum lease payments due under non-cancellable leases in future years for the Group are:

	Restated 31-Mar-19 £'000	31-Mar-20 £'000
	Not later than one year	1,048
Later than one year and not later than five years	2,325	2,884
Later than five years	2,481	2,133
	5,854	6,113

Finance Leases

Both the Council and Newport Transport have acquired a number of vehicles and equipment under finance leases. The assets acquired under these leases are included in Property Plant and Equipment in the balance sheet at the following net amounts as these are cancellable:

	31-Mar-19 £'000	31-Mar-20 £'000
	Vehicle, Plant, Furniture and Equipment	625
	625	207

Both the Council and Newport Transport are committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

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	Restated	31-Mar-19 £'000	31-Mar-20 £'000
Finance lease liabilities (net present value of minimum lease payments)			
- current		589	232
- non-current		245	80
Finance costs payable in future years		5	4
Minimum lease payments		839	316

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-19 £'000	31-Mar-20 £'000
Not later than one year	594	236	589	232
Later than one year and not later than five years	245	80	245	80
	839	316	834	312

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5 PENSIONS

The following sums were charged to the Group Comprehensive Income and Expenditure Statement in the year in respect of Pensions:

	Local Government Pension Scheme Newport Council 31-Mar-19 £'000	Unfunded Teachers Discretionary Benefits Newport Council 31-Mar-19 £'000	Newport Transport 31-Mar-19 £'000	Local Government Pension Scheme Newport Council 31-Mar-20 £'000	Unfunded Teachers Discretionary Benefits Newport Council 31-Mar-20 £'000	Newport Transport 31-Mar-20 £'000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Current service cost	28,672	-	45	34,423	-	50
Past service cost (including curtailments)	32	-	-	1,953	-	-
Effect of settlements	-	-	-	-	-	-
Finance and Investment Income and Expenditure:						
Interest income on plan assets	(12,571)	-	(356)	(11,848)	-	(325)
Interest cost on defined benefit obligation	21,781	(295)	500	21,427	262	467
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	37,914	(295)	189	45,955	262	192
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:						
Remeasurement of the net defined benefit liability comprising:						
Changes in Demographic Assumptions	-	-	-	(37,681)	(697)	(734)
Return on assets excluding amounts included in net interest	(15,047)	-	(456)	51,164	-	1,391
Changes in financial assumptions	69,986	(228)	662	(81,311)	(406)	(679)
Other experience	63	(26)	-	(13,326)	54	(1,345)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	55,002	(254)	206	(81,154)	(1,049)	(1,367)

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	Funded liabilities: Local Government Pension Scheme - Newport Council 31-Mar-19 £'000	Unfunded liabilities: Teachers Discretionary Benefits Newport CC 31-Mar-19 £'000	Funded liabilities: Local Government Pension Scheme - Newport Transport 31-Mar-19 £'000	Funded liabilities: Local Government Pension Scheme - Newport Council 31-Mar-20 £'000	Unfunded liabilities: Teachers Discretionary Benefits Newport CC 31-Mar-20 £'000	Funded liabilities: Local Government Pension Scheme - Newport Transport 31-Mar-20 £'000
<u>Movement in Reserves Statement</u>						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services post employment benefits in accordance with the Code	37,914	(295)	189	45,955	262	192
<u>Actual amount charged against the Council</u>						
<u>Fund Balance for pensions in the year</u>						
Employers' contributions payable to scheme	14,387	-	61	16,063	-	41
Contributions in respect of unfunded benefits	1,411	(958)	-	1,387	(960)	-
	15,798	(958)	61	63,405	(698)	233

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Reconciliation of Scheme Assets

Restated

Assets and Liabilities in Relation to Retirement

Benefits

	Local Government Pension Scheme Newport Council	Unfunded Teachers Discretionary Benefits Newport Council	Newport Transport	Local Government Pension Scheme Newport Council	Unfunded Teachers Discretionary Benefits Newport Council	Newport Transport
	31-Mar-19	31-Mar-19	31-Mar-19	31-Mar-20	31-Mar-20	31-Mar-20
	£'000	£'000	£'000	£'000	£'000	£'000
Reconciliation of present value of the scheme liabilities (defined benefit obligation):						
Opening balance at 1 April	(778,584)	(11,803)	(19,737)	(882,246)	(11,394)	(19,914)
Current service cost	(28,672)	-	(45)	(34,423)	-	(50)
Interest cost on defined benefit obligation	(21,191)	(295)	(500)	(21,427)	(262)	(467)
Plan participants contributions	(4,320)	-	(7)	(4,522)	-	(7)
Related deferred tax asset	-	-	-	-	-	889
Actuarial gains and losses arising on changes in financial assumptions	(69,530)	(228)	(662)	81,311	406	679
Changes in Demographic Assumptions	-	-	-	37,681	697	734
Other experience	(11)	(26)	-	13,326	(54)	1,345
Benefits paid	20,094	958	1,037	21,879	960	1,058
Past service cost (including curtailments)	(32)	-	-	(1,953)	-	-
Effect of settlements	-	-	-	-	-	-
Closing balance at 31 March	(882,246)	(11,394)	(19,914)	(790,374)	(9,647)	(15,733)

	Newport Council	Newport Transport	Newport Council	Newport Transport
	31-Mar-19	31-Mar-19	31-Mar-20	31-Mar-20
	£'000	£'000	£'000	£'000
Local Government Pension Scheme				
Restated				
Opening balance at 1 April	466,370	14,177	493,054	14,020
Interest income on plan assets	12,571	356	11,848	325
Return on assets excluding amounts included in net interest	15,047	456	(51,164)	(1,391)
Employer contributions	15,798	61	17,450	41
Contributions by scheme participants	4,320	7	4,522	7
Benefits paid	(21,052)	(1,037)	(22,839)	(1,058)
Settlements	-	-	-	-
Closing balance at 31 March	493,054	14,020	452,871	11,944

	Local Government Pension Scheme		Unfunded Teachers Discretionary Benefits Pension Scheme		Newport City Transport Pension Scheme	
	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20	31-Mar-19	31-Mar-20
Mortality assumptions:						
Longevity at 65 for current pensioners:						
- Men (years)	21.5	20.6	21.5	21.5	21.5	20.60
- Women (years)	23.9	22.9	23.9	23.9	23.9	22.9
Longevity at 65 for future pensioners:						
- Men (years)	23.6	21.6	23.6	23.6	23.6	21.60
- Women (years)	26.1	24.6	26.1	26.1	26.1	24.60
Other Assumptions:						
Rate of CPI Inflation	2.5%	1.9%	2.5%	2.5%	2.5%	2.3%
Rate of increase in salaries	2.9%	2.2%	N/A	N/A	2.9%	2.8%
Rate of increase in pensions	2.5%	1.9%	2.5%	2.5%	2.5%	1.9%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.4%	2.5%	2.3%
Take-up of option to convert annual pension	50.0%	50.0%	N/A	N/A	50.0%	50.0%

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Estimated duration of benefit obligation is 18 years. The Teacher's Discretionary Benefits and Great Gwent (Torfaen) Pension Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Greater Gwent (Torfaen) Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the actuary have been:

Group Accounts

Statement of Accounts 2019/20

Newport City Council

6 PROPERTY, PLANT & EQUIPMENT

Total 2019/20	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation								
At 1 April 2019	360,854	50,597	218,111	179	2,636	4,125	636,502	71,139
Additions	11,097	4,300	10,155	77	-	1,812	27,441	1,741
Donations	-	-	112	-	-	-	112	-
Re-classification	3,800	80	156	-	52	(4,121)	(33)	-
Revaluations	2,192	-	-	-	(52)	-	2,140	-
Impairments	(3,746)	(174)	(61)	(77)	-	(23)	(4,081)	-
Disposals	(1,018)	(930)	-	-	-	-	(1,948)	-
At 31 March 2020	373,179	53,873	228,473	179	2,636	1,793	660,133	72,880
Accumulated Depreciation and Impairment								
At 1 April 2019	(25,939)	(36,650)	(73,050)	-	-	-	(135,639)	(20,152)
Depreciation Charge in Year	(12,807)	(3,682)	(6,394)	-	-	-	(22,883)	(3,715)
Re-classification	230	-	-	-	-	-	230	-
Revaluation Impact	2,565	-	-	-	-	-	2,565	-
Disposals	53	924	-	-	-	-	977	-
At 31 March 2020	(35,898)	(39,408)	(79,444)	-	-	-	(154,750)	(23,867)
Net Book Value								
At 1 April 2019	334,915	13,947	145,061	179	2,636	4,125	500,863	50,987
At 31 March 2020	337,281	14,465	149,029	179	2,636	1,793	505,383	49,013

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2018/19	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property Plant and Equipment	PFI Assets within PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Restated								
Cost or Valuation								
At 1 April 2018	320,564	48,955	214,300	605	6,735	35,833	626,992	71,139
Additions	9,459	2,027	3,919	34	-	10,448	25,887	-
Donations	-	-	-	-	-	-	-	-
Re-classification	42,124	-	-	(146)	(1,001)	(42,050)	(1,073)	-
Revaluations	27,109	-	-	(231)	236	-	27,114	-
Impairments	(34,644)	-	(108)	(34)	-	(106)	(34,892)	-
Disposals	(4,108)	(385)	-	(49)	(3,334)	-	(7,876)	-
At 31 March 2019	360,504	50,597	218,111	179	2,636	4,125	636,152	71,139
Accumulated Depreciation and Impairment								
At 1 April 2018	(28,522)	(32,997)	(66,741)	-	-	-	(128,260)	(20,152)
Depreciation Charge in Year	(10,747)	(4,018)	(6,309)	-	(4)	-	(21,078)	-
Re-classification	-	-	-	-	4	-	4	-
Revaluation Impact	12,021	-	-	-	-	-	12,021	-
Disposals	1,309	365	-	-	-	-	1,674	-
At 31 March 2019	(25,939)	(36,650)	(73,050)	-	-	-	(135,639)	(20,152)
Net Book Value								
At 1 April 2018	292,042	15,958	147,559	605	6,735	35,833	498,732	50,987
At 31 March 2019	334,565	13,947	145,061	179	2,636	4,125	500,513	50,987

7 FINANCIAL INSTRUMENTS

Newport Transport only enters in basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payables, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Group Accounts

Statement of Accounts 2019/20

Newport City Council

8 LONG TERM CREDITORS

	31-Mar-19	31-Mar-20
	£'000	£'000
Section 106 deposits	(6,161)	(6,182)
Other long term creditors	(3,857)	(8,454)
	<u>(10,018)</u>	<u>(14,636)</u>

In addition to the financial instruments disclosures in the single entity accounts it should be noted, on consolidation, the Council's shareholding in Newport Transport ceases to be a financial instrument, as the consolidation balance sheet includes the net assets of the subsidiary and their corresponding net worth. The increase in the fair value is eliminated in the consolidation process.

9 DEBTORS

	31-Mar-19			31-Mar-20		
	Gross	Provision	Net	Gross	Provision	Net
Restated	£'000	£'000	£'000	£'000	£'000	£'000
General	20,100	(3,374)	16,726	19,653	(3,763)	15,890
Council tax payers	6,303	(3,633)	2,670	7,081	(4,086)	2,995
NHS bodies	1,555	-	1,555	4,592	-	4,592
Central government bodies	20,289	-	20,289	38,306	-	38,306
Other local authorities	2,970	-	2,970	1,270	-	1,270
	<u>51,217</u>	<u>(7,007)</u>	<u>44,210</u>	<u>70,902</u>	<u>(7,849)</u>	<u>63,053</u>

10 CREDITORS

TOTAL	Restated	
	31-Mar-19	31-Mar-20
	£'000	£'000
Restated		
General	(33,099)	(23,101)
Central government bodies	(3,780)	(7,577)
Prepayments of council tax	(1,151)	(1,304)
NHS bodies	(80)	(218)
Other local authorities	(3,881)	(6,769)
	<u>(41,991)</u>	<u>(38,969)</u>

11 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash equivalents is made up of the following elements;

	Restated	
	31-Mar-19 £'000	31-Mar-20 £'000
Restated Short-Term Investments classified as cash equivalent	-	-
Cash held by the authority	52,850	5,247
	52,850	5,247
Bank Current accounts	(5,915)	(11,789)
Total Cash and Cash Equivalents	46,935	(6,542)

12 PROVISIONS

There are no provisions to include, other than those detailed in the Single Entity accounts.

13 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	31-Mar-19	31-Mar-20
	Restated £'000	£'000
Interest received	(55)	(224)
Interest paid	13,552	13,537
Loss on disposal of tangible assets	-	-
Taxation	22	147
	13,519	13,460

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	31-Mar-19	31-Mar-20
	Restated £'000	£'000
Depreciation	(21,086)	(22,883)
Impairment and downward valuations	(39,364)	(1,826)
(Increase) / Decrease in creditors	3,831	(1,566)
Increase / (Decrease) in debtors	7,543	11,369
Increase / (Decrease) in stock	43	(24)
Pensions liability	(21,949)	(28,918)
Carrying amount of non-current assets sold	(3,451)	(1,108)
Other non cash adjustments	(507)	(7,592)
	(74,940)	(52,548)

Group Accounts

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Newport City Council

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	31-Mar-19	31-Mar-20
	£'000	£'000
Restated		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	2,912	880
Any other items for which the cash effects are investing or financing cash flows	20,509	19,645
Net cash flows from Operating activities	23,421	20,525

14 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	31-Mar-19	31-Mar-20
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	23,852	26,863
Purchase of short-term and long-term investments	(10,445)	2,450
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2,530)	(880)
Other receipts from investing activities	(20,770)	(16,537)
Net cash flows from investing activities	(9,893)	11,896

15 CASH FLOW STATEMENT - FINANCING ACTIVITIES

	31-Mar-19	31-Mar-20
	£'000	£'000
Cash receipts of short- and long-term borrowing	(61,055)	(38,512)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	1,975	726
Repayments of short- and long-term borrowing	18,669	66,186
Net cash flows from financing activities	(40,411)	28,400

16 TAXATION

Newport Transport Tax Liability is as follows:

	31-Mar-19	31-Mar-20
	£'000	£'000
Restated		
Corporation tax		
Current tax on profits for the year	-	-
Total Current Tax	-	-
Deferred Tax		
Origination and reversal of timing differences	(21)	(27)
Changes to tax rates	-	(118)
Adjustment in respect of prior periods	-	(1)
Total deferred tax	(21)	(146)
Taxation on loss on ordinary activities	(21)	(146)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	31-Mar-19
	£'000
Loss on Ordinary Activities before Tax	(588)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	(111)
Effects of:	
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	1
Capital allowances for year in excess of depreciation	15
Changes in deferred tax rate	14
Adjustments to tax charge in respect of prior periods	-
Rate difference regarding other comprehensive income	(4)
Deferred tax not recognised	64
Other timing differences leading to an increase (decrease) in taxation	-
Changes in provisions leading to an increase (decrease) in the tax charge	-
Total tax charge for the year	(21)

17 Unusable Reserves

	31-Mar-19	31-Mar-20
	£'000	£'000
NT Profit and loss	2,445	2,554
Revaluation Reserve	(162,031)	(164,757)
Capital Adjustment Account	(94,625)	(96,232)
Financial Instruments Adjustment Account	4,451	3,816
Deferred Capital Receipt Reserve	(21)	(21)
Pensions Reserve	400,586	347,150
Accumulated Absence Account	3,435	4,354
	154,238	96,864

GLOSSARY OF TERMS

- **Accruals Basis**
The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.
- **Actuarial Gains and Losses Re-measurement of Net Defined Benefit Liability**
Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because events have not coincided with the actuarial assumptions made for the last valuation and the actuarial assumptions have changed.
- **Agency Services**
These are services that are performed by or for another Council or public body, where the principal (the Council responsible for the service) reimburses the agent (the Council carrying out the work) for the costs of the work.
- **Appointed Auditors**
The Audit Commission appoints external auditors to every Local Council, from one of the major providers of registered auditors. The Welsh Audit Office is the Council's appointed Auditor.
- **Authorised Limit**
This represents the legislative limit on the Council's external debt under the Local Government Act 2003.
- **Balances**
The balances of the Council represent the accumulated surplus of income over expenditure on any of the Funds.
- **Capital Adjustment Account**
The Account accumulates (on the debit side) the write-down of the historical cost of Property, Plant and Equipment as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.
- **Capital Expenditure**
This is expenditure on the acquisition of property, plant and equipment, or expenditure, which adds to, and not merely maintains, the value of an existing fixed asset.
- **Capital Financing Charges**
This is the annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals.
- **Capital Receipts**
Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

Glossary of Accounting Related Terminology

Statement of Accounts 2018/19

Newport City Council

- **Carrying Amount**
The Balance Sheet value recorded of either an asset or a liability.
- **Chartered Institute of Public Finance and Accountancy (CIPFA)**
CIPFA is the leading professional accountancy body for public services.
- **Community Assets**
This is a category of Property, Plant and Equipment that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples include parks and historical buildings not used for operational purposes.
- **Contingency**
This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.
- **Contingent Liabilities or Assets**
These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's Statement of Accounts.
- **Council Tax Requirement**
This is the estimated revenue expenditure on General Fund services that needs to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.
- **Creditors**
Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.
- **Current Service Cost**
Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.
- **Debtors**
These are sums of money due to the Council that have not been received at the date of the Balance Sheet.
- **Deferred Capital Receipts**
These represent capital income still to be received after disposals have taken place and wholly consists of principal outstanding from the sale of council houses.
- **Depreciation**
This is the measure of the wearing out, consumption, or other reduction in the useful economic life of Property, Plant and Equipment.
- **Derecognition**
Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Glossary of Accounting Related Terminology

Statement of Accounts 2018/19

Newport City Council

- **Discounts**
Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the requirements of the Code, gains arising from the repurchase or early settlement of borrowing have been written back to revenue. However, where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains have been recognised over the life of the replacement loan.
- **Earmarked Reserves**
The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.
- **External Audit**
The independent examination of the activities and accounts of Local Authorities to ensure the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.
- **Fair Value**
Fair value is the price at which an asset could be exchanged in an arm's length transaction, less any grants receivable towards the purchase or use of the asset.
- **Financial Regulations**
These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.
- **Housing Benefit**
This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Council's own tenants are known as rent rebate and that paid to private tenants as rent allowance.
- **Impairment**
A reduction in the value of a fixed asset below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.
- **Infrastructure Assets**
A category of Property, Plant and Equipment which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. Examples of such assets are highways, footpaths, bridges and water and drainage facilities.
- **International Financial Reporting Standard (IFRS)**
These are the defined Accounting Standards that must be applied by all reporting entities to all Statement of Accounts in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with Statement of Accounts of the other entities.
- **Joint Venture**
A Joint Venture is an arrangement under which two or more parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

Glossary of Accounting Related Terminology

Statement of Accounts 2018/19

Newport City Council

- **Lender Option Borrower Option (LOBO)**

A LOBO is a type of loan instrument. The borrower borrows a principal sum for the duration of the loan period (typically 20 to 50 years), initially at a fixed interest rate. Periodically (typically every six months to 3 years), the lender has the ability to alter the interest rate. Should the lender make this offer, the borrower then has the option to continue with the instrument at the new rate or alternatively to terminate the agreement and pay back the principal sum with no other penalty.

- **Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

- **Materiality**

An item would be considered material to the Statement of Accounts if, through its omission or non-disclosure, the Statement of Accounts would no longer show a true and fair view.

- **Minimum Revenue Provision (MRP)**

MRP is the minimum amount which must be charged to a Council's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government and Housing Act 1989. Net debt is the Council's borrowings less cash and liquid resources.

- **Precept**

The amount levied by various Authorities that is collected by the Council on their behalf.

- **Premiums**

These are discounts that have arisen following the early redemption of long term debt, which are written down over the lifetime of replacement loans where applicable.

- **Prior Period Adjustments**

These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

- **Private Finance Initiative (PFI)**

A Central Government initiative which aims to increase the level of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

- **Public Works Loan Board (PWLB)**

An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities

- **Related Parties**

Related parties are Central Government, other Local Authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above and the Pension Fund. For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

Glossary of Accounting Related Terminology

Statement of Accounts 2018/19

Newport City Council

- **Reporting Standards**

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Council. It is based on International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

- **Revaluation Reserve**

The Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

- **Service Reporting Code of Practice (SERCOP)**

Prepared and published by CIPFA, the Service Reporting Code of Practice (SERCOP) is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SERCOP establishes proper practices with regard to consistent financial reporting for services in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

- **Treasury Management**

This is the process by which the Council controls its cash flow and its borrowing and lending activities.

- **Trust Funds**

These are funds administered by the Council on behalf of charitable organisations and/or specific organisations.

- **Unsupported (Prudential) Borrowing**

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

SERCOP	Service Reporting Code of Practice
CAA	Capital Adjustment Account
CERA	Capital Expenditure charged to Revenue Account
CFA	Capital Financing Account
CIPFA	Chartered Institute of Public Finance & Accountancy
Code	CIPFA Code of Recommended Accounting Practice
EIB	European Investment Bank
ERDF	European Regional Development Fund
GAAP	Generally Accepted Accounting Practice
GAVO	Gwent Association of Voluntary Organisations
GCC	Gwent County Council
GEST	Grants for Education Support & Training
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
LMS	Local Management of Schools
MRP	Minimum Revenue Provision
NCA	Notional Credit Approval
NNDR	National Non-Domestic Rates
NPV	Net Present Value
NRV	Net Realisable Value
PFI	Private Finance Initiative
PWLB	Public Works Loan Board
RICS	Royal Institution of Chartered Surveyors
RSG	Revenue Support Grant
SEWREC	South East Wales Racial Equality Council
TTF	Treasury Task Force
WIP	Work in Progress

Further information about the Statement of Accounts is available from:

Head of Finance
Civic Centre
Newport
South Wales
NP20 4UR

This is part of the Council's policy of providing full information about the Council's affairs. In addition, interested members of the public have a statutory right to inspect the Statement of Accounts before the audit is completed. The availability of the Statement of Accounts for inspection is advertised in the local press, as is the notice of completion of the audit.



Report

Audit Committee

Part 1

Date: 28th September 2020

Subject Audit Wales Financial Sustainability Report

Purpose To present to Audit Committee Audit Wales report on their 'Financial Sustainability Assessment on Newport City Council'

Author Head of Finance

Ward All

Summary As part of the programme of regulatory activity, and in accordance with the Well-being for Future Generations Act 2015, Audit Wales (AW) undertakes a programme of work to ensure the Council is discharging its duties under the Act. The report outlines AW findings from the review and concludes that: "The Council has a relatively strong financial position, but has recently recognised the need to develop a more strategic and sustainable approach to consolidate its position"

Proposal Audit Committee are requested to note the outcome of the review, the Council's response and implementing the necessary actions raised.

Action by Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Corporate Management Team

Signed

Background

The Audit Wales (AW) is an independent public body that aims to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes. As part of the Council's regulatory activity, the AW undertakes a programme of work to ensure the Council is discharging its duties.

In 2019/20, AW undertook a review of 'Financial Sustainability Assessment on Newport City Council'. This was part of a national review and all Councils across Wales were assessed using a consistent framework.

The intention was then to produce a national report on the sector as a whole but due to the Covid-19 pandemic, this has been delayed given the potential and still uncertain impact on Council finances from this. A national report, taking into account the current position of Council finances and building on their 2019/20 review at individual Councils is due to be produced in the Autumn 2020.

In conclusion, AW found that "The Council has a relatively strong financial position, but has recently recognised the need to develop a more strategic and sustainable approach to consolidate its position"

Summary of findings from Audit Wales report

Detailed findings of the report is attached at Appendix 1 (Welsh) and Appendix 2 (English).

The summary and some of the underlying main issues and observations are listed below for Members attention and information.

The Council has a relatively strong financial position, but has recently recognised the need to develop a more strategic and sustainable approach to consolidate its position. The AW reached this conclusion because of the following observations and evidence:

- (1) The Council does not yet have a sustainable strategy to support financial resilience and sustainability over the medium term:
 - We found that although the Council has a high-level medium-term financial projection that sets out its key financial challenges, its focus has primarily been on annual budgeting. The Council has recognised that it has not yet developed a strategic change programme to deliver a balanced and sustainable medium-term financial position.
 - The Council does not explicitly consider sustainable development in its medium-term projection and it does not have a medium-term approach to close its forecast deficit. The Council has not set out a strategic vision for the future direction of council services in light of the financial deficit. The Council recognises that further work is required to ensure the budget is balanced

Response/Actions: The Council recognises this and the newly appointed Chief Executive will work with Business Change/Finance colleagues to develop a more strategic approach with the Council's Strategic & Corporate Management Teams based on the development of strategies and medium term plans for key elements within service areas which will need to take into account the financial challenges forecasted. This is challenging due to the lack of certainty of future funding from Welsh Government.

The current Covid-19 pandemic and local elections in 2023 means this work will unavoidably delayed until 2021 realistically and will need to incorporate any new administration's strategic plans for the city from 2023.

- (2) While the Council has continued to underspend against its budget in recent years, its plans highlight that maintaining financial balance over the coming years will be more difficult;

- In recent years, overall the Council has underspent against its annual budget. However, within this overall underspend position, the financial outturn position has consistently reported continued overspends in a number of key service areas including social care and education
- Year on year the Council has seen significant overspends within service areas (excluding schools), in areas such as looked after children's out of county placements, adult community care, additional learning needs and independent fostering. These areas of budgetary pressure present an ongoing risk to the Council's financial position.
- The overall underspends in the table above have been supported by factors such as Council Tax surpluses, underspends against the Council Tax Reduction Scheme and revenue contingency budgets, and corporate services underspends, which have outweighed the pressures above. However, many of these underspends are uncertain in nature and there is no guarantee that they will continue in the future.
- Delegated school budgets are also under significant pressure with a forecast overspend of £3.1 million in 2019-20. This would see overall school reserves falling below zero at the end of the year. Such overspends by schools could add further pressure to the Council's financial position.

Response/Actions: The Council has consistently shown good financial management during difficult periods and is confident it will continue with this. It has a budget contingency to manage a limited amount of unforeseen budget issues and is also now putting in place specific review meetings with services where they overspend to understand the position and actions being taken. It continues to work hard with schools and many are now implementing 'deficit recovery plans' though the position has deteriorated since the WA review here.

(3) While the Council's delivery of planned savings has been strong in recent years, its ability to continue to deliver savings within demand-led services is becoming more challenging;

- the Council achieved 92% of its planned savings in 2018-19
- Education and social care accounted for the majority of the underachievement and those service areas contain some of the Council's major budget pressure areas

Response/Actions: The Council has a good track record in delivering savings and this is monitored carefully by Strategic & Corporate Management Teams

(4) The Council has a high level of useable reserves, although most are currently earmarked for specific use;

- We found that the Council has not previously made any unplanned use of reserves to fund revenue budget pressures and in recent years has increased its overall level of reserves. The Council has only started to use reserves from 2018-19 to balance its budget.
- While many of the reserve balances could be applied by the Council for alternative use if needed, they are to some extent already earmarked for a specific future purpose (other than the £6.5 million Council Fund reserve). Therefore, using such earmarked reserves could lead to planned future activity being curtailed or delayed, or risks being inappropriately managed, unless they were later replenished.
- Furthermore, the Council identifies that the following reserves from the above list are not readily available for alternative use: school reserves of £3.1 million (for the specific use of individual schools only), and capital receipts reserves of £8.3 million (largely limited to use on capital projects). This leads to a total of £91.1 million of 'usable reserves' which the Council could access, but would consequently have to manage the impact of such use

Response/Actions: The overall position on reserves is 'somewhat distorted' by the single earmarked PFI reserve which currently make up nearly 50% of total reserves and represents a pre-payment of grant by WG to fund a large part of the Council's PFI costs over the next c18 years. The Council has a good level of reserves and whilst these are virtually all earmarked, they do ultimately provide, in the last resort, some mitigation for overspending / funding. If this was to happen, then future projects, which were funded from these reserves, may not be able to progress or in using other reserves, budgetary provision would need to be made to 'repay' these, creating further pressure on the Council's medium term financial plan (MTFP). There are no

easy, impact free solutions through reserves but they do ultimately provide some cover/capacity in the last resort.

(5) While council tax represents a growing proportion of the Council's income, its level of arrears is increasing;

- We found that although the proportion of the Council's budget funded by council tax is increasing, council tax arrears have increased over time.
- Between 2008-09 and 2018-19, the Council has improved the amount of council tax it collects annually from 95.8% to 96.6%. Despite this improvement, council tax arrears have increased from £2.2 million in 2008-09 to £4.6 million in 2018-19, an increase of 109%. This compares to an increase in annual council tax debit of 69% over the same period. Over this period, in real terms the Council's arrears balance has fallen from the 4th lowest in Wales to the 12th lowest.

Response/Action: The Council has consistently raised more Council Tax cash over the last few years than budget. This is because of the in-year collection of Council Tax, which is below budget, but still reasonable, the collection of arrears and the growing tax base in the city. The current Covid-19 pandemic period is an on-going challenge to Council Tax collection and is being managed and reviewed.

The Head of Finance (HoF), with the revenues manager is currently developing an improvement plan in the revenues function & customer services to improve collection rates.

(6) In implementing its commercialisation strategy, the Council will need to manage risks associated with any increased borrowing.

- The Council's overall cost of borrowing in 2018-19 was 9.1% of its total net revenue budget, which was high in comparison with other Welsh councils
- The Council has made previous efforts to limit its borrowing as far as possible by using 'internal borrowing' (that is, using available internal resources first before borrowing from other entities). Over time, the Council will need to borrow from third parties to cover for previous internal borrowing, in order to fund its planned activity. Doing so will attract further interest costs in the medium to long term. The Council will therefore need to carefully consider the affordability of further interest costs when deciding whether to take on any further external borrowing above that already planned.
- In April 2019, the Council's Cabinet agreed a commercialisation strategy which aims to contribute to addressing the financial deficit that the Council faces. The strategy includes three main approaches:
 - current services provided on a more commercial basis;
 - new services being provided by the Council; and
 - property investment, both commercial and residential.
- The Cabinet agreed to examine each of these areas and to examine business cases before taking any decisions. It agreed in its Capital Strategy to establish a £50 million property investment fund to be funded via additional borrowing, but no such investments have yet been undertaken. The Cabinet recognised that such an approach creates additional financial risks with the significant increase in the Council's long-term debt and potential uncertainty around the return on any investments. Given these risks, Cabinet agreed a framework in which it will review and assess opportunities to assess the level of risk and benefit within agreed parameters.

Response/Action: The HoF will be preparing an updated Capital Strategy for the Council which will need to set out future borrowing limits for the Council and will need to be cognisant of, and address the relatively large borrowing levels the Council currently has. This will be approved as part of the 2021/22 budget process.

There have been no investments made in properties in pursuit of the commercialisation strategy and there is likely to be a change in borrowing rules from PWLB which will prohibit borrowing from the PWLB for this purpose. The current commercialisation strategy has not developed since

the departure of the previous Chief Executive who was going to drive this. In light of the above, the HoF will need to discuss how we progress this with the new Chief Executive and Leader of the Council.

Financial Summary

There are no direct financial consequences stemming from the report here and the AW review. It confirms the Council is in a good position but has some issues it needs to address in the short to medium term.

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?
Findings of the report are not considered as part of further financial monitoring and reporting	Medium	Low	Regular monitoring and reporting of the Council's financial position and actions identified to manage key financial risks.	Corporate Management Team

Links to Council Policies and Priorities

This work is aligned with the Council's Well-being Plan, Corporate Plan Well-being objectives and Strategic Recovery Aims.

Options Available and considered

- a) To note the outcomes from the Audit Wales report and its findings;
- b) To disregard the contents of the report and its findings.

Preferred Option and Why

The preferred option is (a) and for Audit Committee to note the outcomes of the report and to be provided with regular updates on the progress of the service area implementing the necessary management actions.

Comments of Chief Financial Officer

The review was carried out in 2019, utilising facts from previous financial years and the Council's balance sheet as at March 2019. The position since then has changed significantly with the onset of the Covid-19 pandemic which has put unprecedented pressure on Council finances across the UK. Audit Wales's initial plan was to prepare a national report on the whole sector but this has been delayed to this Autumn which can take account of the issues raised. In the meantime, the Council is working hard to manage the financial impacts of Covid-19 and this is reported through normal monitoring processes to senior management and Cabinet.

The AW report confirms that the Council has, in overall terms, a good financial position and manages its finances well. It highlights a number of issues which are challenging as the Council moves forward such as its relatively high level of debt, on-going overspending in demand led services and delivery of savings but more significantly, the need to develop a medium term approach to planning services / savings.

Comments of Monitoring Officer

There are no specific legal issues arising from the report. The Report from WAO sets out their findings following a review of the Council's financial sustainability, in accordance with the overriding objectives of the Well-being of Future Generations (Wales) Act. The overall conclusion is that the Council is in a relatively strong financial position but further work is required to develop a more strategic and sustainable approach in the medium to long term. The cover report identifies key elements of the WAO findings and sets out proposed actions to address those issues. Audit Committee are required to consider the report and the proposed actions, in exercise of their statutory role to oversee the effectiveness of the Council's internal controls and the administration of its financial affairs, and formulate any comments or recommendations.

Comments of Head of People and Business Change

The Council welcomes the report from Audit Wales as part of our regulatory framework and there are no staffing / governance impacts raised in this report. As highlighted by the Head of Finance, the Council has demonstrated good financial management and prudence over the years and in this current administration which has involved both the Council's Cabinet and senior managers. With the impact of Covid 19 the Council has been careful to ensure services are managing their budgets effectively and raising any potential financial risks that could impact on the delivery of the Council's objectives and budget. As reflected across the Welsh public sector, medium to long term planning is a challenging area, and we will need consider the future Welsh Government's (WG) priorities and plans as we go into WG elections next year and local council elections in 2022

Comments of Cabinet Member

The Cabinet Member has noted the findings of the Audit Wales report and management responses to implementing the necessary actions to improve the delivery of the service.

Local issues

None

Scrutiny Committees

Not Applicable

Equalities Impact Assessment and the Equalities Act 2010

Not Applicable

Children and Families (Wales) Measure

Not Applicable

Wellbeing of Future Generations (Wales) Act 2015

The Councils financial sustainability is a key underpin for the Council in delivering on the requirements of the Act. In particular:

- Having a long term strategic approach to planning services within the funding /resources available
- Taking a long term approach to managing debt levels which will impact on the Councils finances in the long term
- Ensuring financial sustainability to secure development and delivery of essential services

These issues are being addressed, as needed, in the actions noted in the report

Crime and Disorder Act 1998

Not applicable

Consultation

Not applicable.

Background Papers

Appendix 1 – Audit Wales Report August 2020 (Welsh)

Appendix 2 – Audit Wales Report August 2020 (English)

Dated: September 2020

Mae'r dudalen hon yn wag yn



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Financial Sustainability Assessment – **Newport City Council**

Audit year: 2019-20

Date issued: August 2020

Document reference: 1987A2020-21

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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Summary report

Summary

What we reviewed and why

- 1 The project sought to assess the sustainability of councils' short to medium-term financial position.
- 2 This included a focus on the financial strategy of each council as well as reviewing financial 'indicators' of each council's financial position in relation to:
 - Performance against budget
 - Delivery of savings plans
 - Use of reserves
 - Council tax
 - Borrowing

Exhibit 1: about the Council

This exhibit sets out some background information on the Council's net revenue budget, the number of staff it employs and the value of its fixed assets.



The Council's net revenue budget for 2019-20 was £280.6m¹



The Council employs around 5,750 people, including around 1,350 teachers²



The Council's fixed assets as at 31 March 2019 were £503m³

- 3 We undertook this assessment because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services.

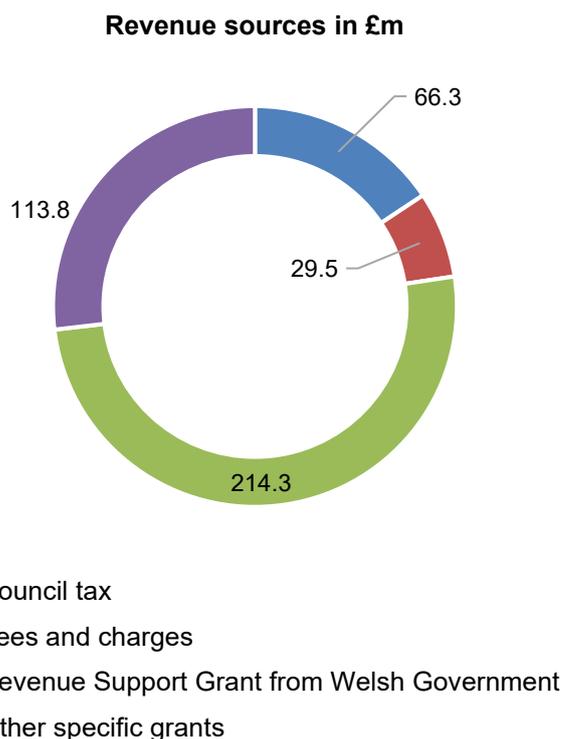
¹ Newport City Council Budget Dashboard 2019-20

² Council Officers

³ Newport City Council 2018-19 Statement of Accounts

Exhibit 2: the Council's sources of revenue

The pie chart below shows how much money the Council received from different funding sources during 2018-19.



Source – Council self-assessment

4 We undertook the review during the period October 2019 to December 2019.

What we found

- 5 Overall we found that: **The Council has a relatively strong financial position, but has recently recognised the need to develop a more strategic and sustainable approach to consolidate its position.** We reached this conclusion because:
- the Council does not yet have a sustainable strategy to support financial resilience and sustainability over the medium term;
 - while the Council has continued to underspend against its budget in recent years, its plans highlight that maintaining financial balance over the coming years will be more difficult;
 - while the Council's delivery of planned savings has been strong in recent years, its ability to continue to deliver savings within demand-led services is becoming more challenging;

- the Council has a high level of useable reserves, although most are currently earmarked for specific use;
- while council tax represents a growing proportion of the Council's income, its level of arrears is increasing; and
- in implementing its commercialisation strategy, the Council will need to manage risks associated with any increased borrowing.

Detailed report

The Council has a relatively strong financial position, but has recently recognised the need to develop a more strategic and sustainable approach to consolidate its position

The Council does not yet have a sustainable strategy to support financial resilience and sustainability over the medium term

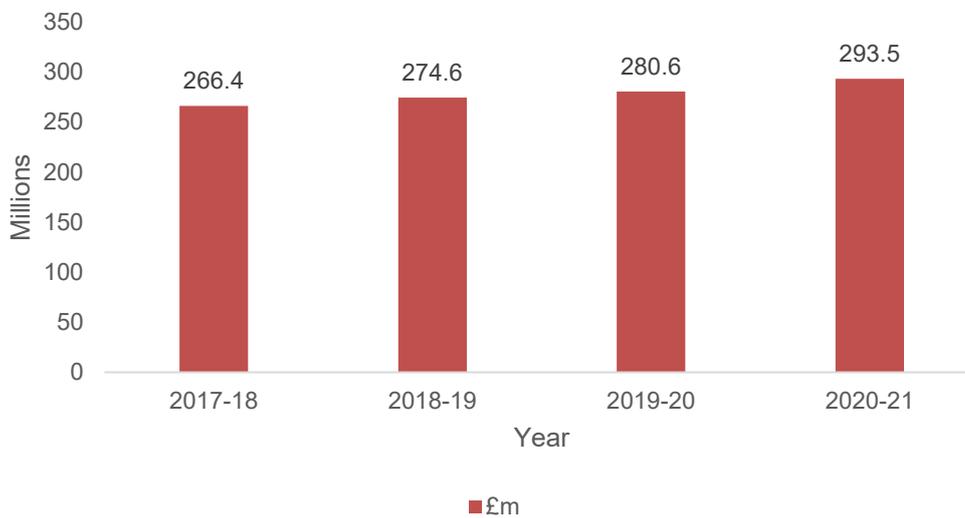
Why strategic financial planning is important

- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify how it intends to respond to those pressures, and particularly how they will meet projected funding gaps.

What we found

- 7 We found that although the Council has a high-level medium-term financial projection that sets out its key financial challenges, its focus has primarily been on annual budgeting. The Council has recognised that it has not yet developed a strategic change programme to deliver a balanced and sustainable medium-term financial position.
- 8 We reached this conclusion because:
 - The Council's net revenue budget has increased between 2017-18 and 2020-21. However, in real terms the Council has seen a reduction in its net revenue expenditure on services during the same period.
 - **Exhibit 3** below sets out the Council's total net budget between 2017-18 and 2020-21:

Exhibit 3: total net budget between 2017-18 and 2020-21⁴

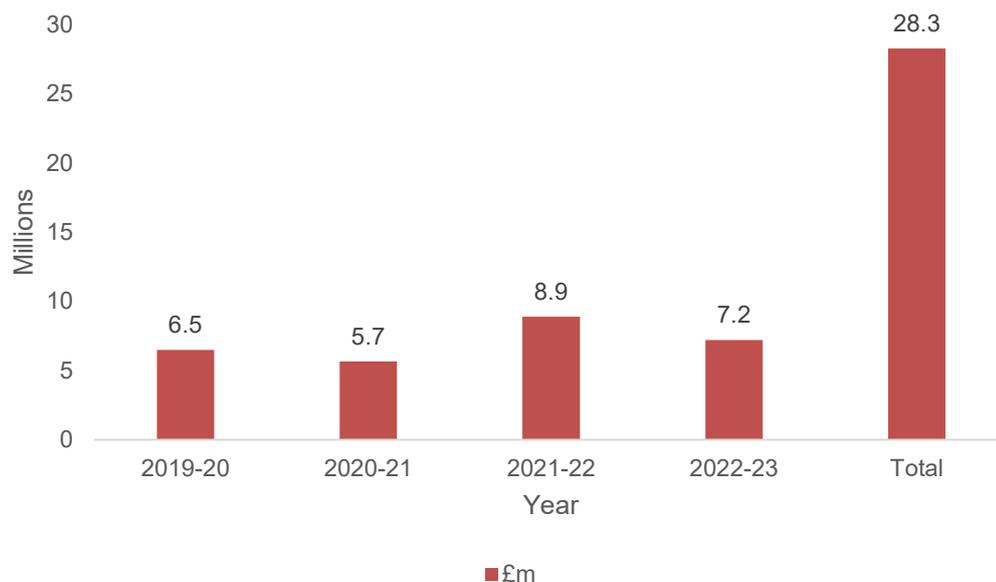


- The Council's medium term financial projection presented to elected members is a high-level summary of the financial challenge facing the Council between 2020-21 and 2022-23. In December 2019, prior to the announcement of the Welsh Government's revenue support grant settlement, the Council projected an overall deficit of £21.8 million between 2020 and 2023, of which £5.6 million arises in 2020-21. Exhibit 4 below sets out the Council's projected funding gap between 2019 and 2023.

⁴ Newport City Council Statement of Accounts

Exhibit 4: projected funding gap⁵

The following graph shows the funding gap that the Council has identified for this year, and the following three years.



- The Council's projection for 2020-21 was based on a 1% increase in revenue support grant (RSG) from the Welsh Government. In December 2019, the Council's final RSG settlement from the Welsh Government for 2020-21 was 5.4%, which equates to a £14 million cash increase. However, some of this increase includes amounts previously provided by the Welsh Government as specific grants for teachers' pensions and social services. Taking this into account, the Council estimates that it will receive £7 million more than it originally anticipated from the Welsh Government in 2020-21.
- The Council's projection contains a summary of the key assumptions used to model the size of the financial challenge, including forecasts of capital and revenue expenditure, and pay and demand pressures. Brief details of the pressures and their impact are also presented to Council Members.
- The Council does not explicitly consider sustainable development in its medium-term projection and it does not have a medium-term approach to close its forecast deficit. The Council has not set out a strategic vision for the future direction of council services in light of the financial deficit. The Council recognises that further work is required to ensure the budget is balanced

⁵ Source – 2019-20 figure taken from Newport City Council 12 December 2018 Cabinet meeting – Agenda Item; 2019-20 Budget and Medium Term Financial Projections. 2020-21 onwards figures taken from Newport City Council 20 December 2019 Cabinet meeting – Agenda Item; Revenue Budget and MTFP Draft Proposals.

over the medium term whilst meeting its Corporate Plan and wellbeing objectives.

- Although the Council has identified a range of planned savings to meet its financial deficit to 2022-23, those planned savings of £5.7 million in 2020-21, £759,000 in 2021-22 and £585,000 in 2022-23 do not completely close the anticipated deficit of £21.8 million, and the Council recognises that delivering savings will become more difficult.
- The Council has previously used alternative delivery models for its leisure and property services as well as working collaboratively to deliver school improvement services regionally with other councils through the Education Achievement Service. During the course of our review, the Council has indicated that in future it may consider a wide range of options to deliver services sustainably, but has not yet agreed on a strategy to do so.
- The Council has not undertaken a Council-wide review of statutory and discretionary services to inform its current financial projections. We have found evidence of such a review of statutory and discretionary services in our recent Environmental Health Follow Up review⁶.

While the Council has continued to underspend against its budget in recent years, its plans highlight that maintaining financial balance over the coming years will be more difficult

Why accurately forecasting expenditure is important

- 9 It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.

What we found

- 10 In recent years, overall the Council has underspent against its annual budget. However, within this overall underspend position, the financial outturn position has consistently reported continued overspends in a number of key service areas including social care and education. The Council recognises that in light of the forecast demand led pressures, it will be more challenging to deliver against its budget.

⁶ Wales Audit Office, [Newport City Council – Environmental Health follow-up review, 2020](#)

11 We reached this conclusion because:

- in the past two years the Council delivered against its budget and **Exhibit 5** below sets out this performance.

Exhibit 5: amount of overspend/underspend relative to total net revenue budget

The following exhibit shows the amount of overspend or underspend for the Council’s overall net revenue budget for the last two years and also its forecast end of year position for 2019-20 as at October 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18 ⁷¹	£266.4m	£265.1m	£1.3m underspend	0.5% underspend
2018-19 ⁸²	£274.6m	£272.2m	£2.4m underspend	0.9% underspend
2019-20 as of end of October 2019 ⁹	£280.6m	£281.3m	£0.7m overspend	0.2% overspend

- Year on year the Council has seen significant overspends within service areas (excluding schools), in areas such as looked after children’s out of county placements, adult community care, additional learning needs and independent fostering. These areas of budgetary pressure present an ongoing risk to the Council’s financial position.
- The overall underspends in the table above have been supported by factors such as Council Tax surpluses, underspends against the Council Tax Reduction Scheme and revenue contingency budgets, and corporate services underspends, which have outweighed the pressures above. However, many of these underspends are uncertain in nature and there is no guarantee that they will continue in the future.
- Delegated school budgets are also under significant pressure with a forecast overspend of £3.1 million in 2019-20. This would see overall school reserves

⁷ 2017-18 data taken from Revenue Budget Out-Turn Reports presented to Cabinet June 2018.

⁸ 2018-19 data taken from Revenue Budget Out-Turn Reports presented to Cabinet June 2019.

⁹ 2019-20 data taken from Newport City Council 20 December 2019 Cabinet meeting – Agenda Item; Revenue Budget and MTFP Draft Proposals Appendix 8 Financial Resilience.

falling below zero at the end of the year. Such overspends by schools could add further pressure to the Council's financial position.

- Whilst the Council has identified its current major budget pressures, it has not set out how it intends to strategically manage these budget pressures in a sustainable way.
- In the past 18 months, the Council has sought to address its looked after children's out of county residential placements budget pressure. In 2019, we reviewed the Council's actions in addressing that budget pressure and found that although it has taken some effective measures to address its budget pressures for out of county placements, significant ongoing pressures remain and more work is required to develop a sustainable long-term approach.

While the Council's delivery of planned savings has been strong in recent years, its ability to continue to deliver savings within demand-led services is becoming more challenging

Why the ability to identify and deliver savings plans is important

- 12 The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures. Where savings plans are not delivered this can result in overspends that require the use of limited reserves whilst increasing the level of savings required in future years to compensate for this. Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.

What we found

- 13 In recent years the Council has delivered a high level of its planned savings. However, demand led services such as social care and education are now finding it more challenging to deliver planned savings.
- 14 We reached this conclusion because:
- the Council achieved 92% of its planned savings in 2018-19, as illustrated in **Exhibit 6** below.

Exhibit 6: savings delivered during 2018-19 as a percentage of planned savings¹⁰

The following exhibit sets how much money the Council intended to save through planned savings during 2018-19 and how much of this it actually saved.

£8.6m	£7.9m	£0.7m	92%
Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved

- Education and social care accounted for the majority of the underachievement and those service areas contain some of the Council's major budget pressure areas.
- The Council has identified a range of planned savings to close its financial shortfall of £21.8 million until 2022-23. However, the level of those savings beyond 2020-21 is £1.3 million which is considerably lower than the level required and this demonstrates that its approach to meeting its financial deficit is generally short term. The Council recognises that delivering savings will become much more difficult going forward.
- Of the £7.0 million savings planned for 2019-20, £1.5 million will be delivered through a technical accounting adjustment (Minimum Revenue Provision) and £879,000 is a reduction in its Council tax reduction scheme. The Council's monitoring reports showed that at the end of October 2019, it was on target to make 93% of its planned savings in 2019-20 with the majority of that underachievement in social care.
- The Council has recognised that in order to achieve the necessary savings between 2020-21 and 2022-23 it will need to take a different approach to that which it has used to date. The Council has indicated that it plans to undertake a root and branch review of its eight service areas to help increase its financial resilience.
- Savings plans for 2019-20 that we reviewed generally had robust underpinning data and assumptions. However, in a small number of cases the Council is not forecasting that it will fully achieve the planned savings initially. In response, the Council would therefore need to either defer those savings to subsequent years or recognise them as future budgetary pressures, either of which adds further pressure to the Council's financial position.

¹⁰ Source – Newport City Council, 2019

- Draft savings proposals for 2020-21 that we reviewed varied in the level of detailed assumptions and underpinning data and many of the proposals set out limited anticipated impact of the reduced funding.
- Although draft savings proposals refer to the Well-Being of Future Generations Act 2015, it is unclear how the Council has consistently used the principles of the Act to inform decision making around those savings. The Council also carries out fairness and equality impact assessments on savings proposals.

The Council has a high level of usable reserves, although most are currently earmarked for specific use

Why sustainable management of reserves is important

- 15 Healthy levels of usable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support 'invest to save' initiatives designed to reduce the ongoing cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

What we found

- 16 We found that the Council has not previously made any unplanned use of reserves to fund revenue budget pressures and in recent years has increased its overall level of reserves. The Council has only started to use reserves from 2018-19 to balance its budget.
- 17 We reached this conclusion because:
- The Council has a strong track record of protecting its reserves. Between 2012-13 and 2017-18, the Council added to its reserve balances.
 - According to its 2018-19 Statement of Accounts the Council held a total of £103.0 million in usable reserves, consisting of:
 - £47.9 million of 'smoothing reserves', set aside by the Council to smooth funding variations over periods of time (£45.5 million of this relates to two PFI schemes which will be wound down over the next 18 years);
 - £28.5 million of 'enabling reserves', retained for potential future investment including an Invest to Save reserve of £11.1 million and usable capital receipts of £8.3 million;
 - £11.5 million of 'risk reserves', held to mitigate against specific risks previously identified by the Council;
 - £6.5 million of Council Fund, available for any purpose;

- £5.5 million of 'other reserves', held for specific projects/issues; and
- £3.1 million of reserve balances relating to individual schools.
- While many of the above reserve balances could be applied by the Council for alternative use if needed, they are to some extent already earmarked for a specific future purpose (other than the £6.5 million Council Fund reserve). Therefore, using such earmarked reserves could lead to planned future activity being curtailed or delayed, or risks being inappropriately managed, unless they were later replenished.
- Furthermore, the Council identifies that the following reserves from the above list are not readily available for alternative use: school reserves of £3.1 million (for the specific use of individual schools only), and capital receipts reserves of £8.3 million (largely limited to use on capital projects). This leads to a total of £91.1 million of 'usable reserves' which the Council could access, but would consequently have to manage the impact of such use. **Exhibit 7** below sets out the Council's level of usable reserves against its annual budget in 2018-19.

Exhibit 7: amount of reserves vs annual budget, 2018-19¹¹

This exhibit shows the amount of usable reserves the Council had during 2018-19 compared with its net revenue budget for the same year.



- 2018-19 was the first time in recent years that the Council used its reserves to balance its budget. It used £1.2 million in 2018-19, and plans to only use £900,000 in 2019-20 and £459,000 in 2020-21. The Council forecasts that its usable reserves will fall to £71.5 million in 2019-20 and £66.0 million in 2020-21.
- The Council has a published reserves strategy and elected members are informed of the Council's position in relation to all reserves when agreeing the Council's budgets annually. In 2019-20, elected members agreed to

¹¹ Source – Newport City Council, 2019

maintain the Council Fund at £6.5 million, supported by a revenue contingency of £1.5 million in the budget. The Council assessed that the risks in the budget were low enough to allow for this level of general reserve, although it is below the 5% of net revenue expenditure excluding schools (£9.2 million) that the Council uses as a guiding principle in establishing the minimum Council Fund level.

While council tax represents a growing proportion of the Council's income, its level of arrears is increasing

Why council tax collection rates are important

- 18 Failure to collect the amount of council tax due to the Council will result in less income. This in turn may increase the financial pressures on the Council and require it to make additional savings. Whilst council tax is not the biggest source of funding for councils in Wales, it remains a key income source.

What we found

- 19 We found that although the proportion of the Council's budget funded by council tax is increasing, council tax arrears have increased over time.
- 20 We reached this conclusion because:
- The Council set its tax-base for 2019-20 based on an increase of 1.2% (£58.5 million in 2018-19 to £59.2 million in 2019-20), significantly higher than the all-Wales average of 0.5% to 0.8% over the last few years. This resulted in a £634,000 increase in council tax income but consequently reduced the Revenue Support Grant increase from the Welsh Government by £391,000.
 - In real terms, the percentage of gross budget funded by council tax has risen from 9.2% in 2008-09 to 13.3% in 2018-19. Although the proportion of gross expenditure funded by council tax has increased, it remains the second lowest across all councils in Wales. The Council estimates that if it were to increase council tax to the average level across Wales, this would equate to around £7 million in additional funding. However, this would require a council tax increase of around 18%.
 - Between 2008-09 and 2018-19, the Council has improved the amount of council tax it collects annually from 95.8% to 96.6%. Despite this improvement, council tax arrears have increased from £2.2 million in 2008-09 to £4.6 million in 2018-19, an increase of 109%. This compares to an increase in annual council tax debit of 69% over the same period. Over this period, in real terms the Council's arrears balance has fallen from the 4th lowest in Wales to the 12th lowest.
 - The Council's medium-term financial projection (setting out an overall deficit of £21.8 million between 2020 and 2023) is modelled on the basis of a 4%

council tax increase annually until 2022-23 but full Council considers and sets the level of council tax on an annual basis. Those projections are below the council tax increases agreed in the past two financial years (5.95% in 2019-20 and 4.8% in 2018-19). In December 2019, Cabinet agreed to consult on a council tax increase of 7.95%.

Exhibit 8: council tax collection rates¹²

This exhibit shows the percentage of council tax due that the Council collected during 2018-19.



Cash collected from Council Tax at 31 March 2019 was **£64.4m** (96.6%) against a collectable debit of **£66.7m**

In implementing its commercialisation strategy, the Council will need to manage risks associated with any increased borrowing

Why maintaining sustainable levels of borrowing is important

- 21 Borrowing can be a valuable source of funding, for example to fund large scale capital projects such as new schools or leisure centres. However, the cost of repaying borrowing including interest costs can have a long-term impact on ongoing revenue budgets. Councils that fail to properly balance the benefits and costs of borrowing with their current and predicted revenue budgets risk reducing the amount of funding available for service delivery. Borrowing to fund commercial activity has the potential to generate additional income to fund council services, however, it can also bring significant risks that would be associated with any commercial activity.

¹² Source: Stats Wales Council Tax Collection Rates in Wales: 2018-19

What we found

- 22 We found that in implementing a new emerging commercialisation strategy, the Council will need to manage the associated risks in terms of borrowing.
- 23 We reached this conclusion because:
- The Council has limited income from commercial properties, 0.4% of its overall net expenditure budget. In 2018-19, the Council disclosed rental income of £1.3 million from investment properties valued at £7.8 million.
 - In 2018-19, the Council had total outstanding borrowings of £192.8 million from a mixture of sources including the Public Works Loan Board (PWLB), Lender Option Borrower Option (LOBO) loans, and other long-term loans. On top of this amount, the Council has further obligations to meet under Public Finance Initiative (PFI) and lease arrangements.
 - The Council's overall cost of borrowing in 2018-19 was 9.1% of its total net revenue budget, which was high in comparison with other Welsh councils. A large driver of this cost of borrowing is the Council's PFI obligations, which contribute over £5 million of annual interest costs for the Council alone (out of total annual interest costs of £13.6 million).
 - The Council has made previous efforts to limit its borrowing as far as possible by using 'internal borrowing' (that is, using available internal resources first before borrowing from other entities). Over time, the Council will need to borrow from third parties to cover for previous internal borrowing, in order to fund its planned activity. Doing so will attract further interest costs in the medium to long term. The Council will therefore need to carefully consider the affordability of further interest costs when deciding whether to take on any further external borrowing above that already planned.
 - In April 2019, the Council's Cabinet agreed a commercialisation strategy which aims to contribute to addressing the financial deficit that the Council faces. The strategy includes three main approaches:
 - current services provided on a more commercial basis;
 - new services being provided by the Council; and
 - property investment, both commercial and residential.
 - The Cabinet agreed to examine each of these areas and to examine business cases before taking any decisions. It agreed in its Capital Strategy to establish a £50 million property investment fund to be funded via additional borrowing, but no such investments have yet been undertaken. The Cabinet recognised that such an approach creates additional financial risks with the significant increase in the Council's long-term debt and potential uncertainty around the return on any investments. Given these risks, Cabinet agreed a framework in which it will review and assess opportunities to assess the level of risk and benefit within agreed parameters.

Exhibit 9: Council borrowing¹³

The exhibit below shows the total amount of money that the Council has borrowed to fund commercial investments, as well as the cost of all the borrowing that the Council has as a proportion of its net revenue budget.



£0m

Amount of borrowing to fund commercial investments



9.1%

Cost of total borrowing as a proportion of net revenue budget 2018-19¹⁴

¹³ Source – Newport City Council, 2019

¹⁴ This figure includes the interest costs of PFI and MRP

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Asesiad o Gynaliadwyedd Ariannol – **Cyngor Dinas Casnewydd**

Blwyddyn archwilio: 2019-20

Dyddiad cyhoeddi: Awst 2020

Cyfeirnod y ddogfen: 1987A2020-21

Paratowyd y ddogfen hon ar gyfer defnydd mewnol Cyngor Dinas Casnewydd fel rhan o waith a gyflawnir yn unol ag Adran 17 o Ddeddf Archwilio Cyhoeddus (Cymru) 2004 ac adran 18 o Fesur Llywodraeth Leol (Cymru) 2009.

Ni chymerir unrhyw gyfrifoldeb gan yr Archwilydd Cyffredinol na staff Swyddfa Archwilio Cymru mewn perthynas ag unrhyw aelod, cyfarwyddwr, swyddog neu gyflogai arall yn eu cymhwyster unigol, nac mewn perthynas ag unrhyw drydydd parti.

Os ceir cais am wybodaeth y gall y ddogfen hon fod yn berthnasol iddi, tynnir sylw at y Cod Ymarfer a gyhoeddwyd o dan adran 45 Deddf Rhyddid Gwybodaeth 2000.

Mae Cod adran 45 yn nodi'r arfer o ran trin ceisiadau a ddisgwylir gan awdurdodau cyhoeddus, gan gynnwys ymgynghori â thrydydd partion perthnasol. Mewn perthynas â'r ddogfen hon, mae Archwilydd Cyffredinol Cymru a Swyddfa Archwilio Cymru yn drydydd partion perthnasol. Dylid anfon unrhyw ymholiadau ynglŷn â datgelu neu ailddefnyddio'r ddogfen hon i Swyddfa Archwilio Cymru yn swyddog.gwybodaeth@archwilio.cymru.

Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Saesneg. This document is also available in English.

Cynnwys

Mae gan y Cyngor sefyllfa ariannol gymharol gryf, ond yn ddiweddar mae wedi cydnabod yr angen i ddatblygu dull mwy strategol a chynaliadwy i gyfnerthu ei sefyllfa.

Adroddiad cryno

Crynodeb 4

Adroddiad manwl

Mae gan y Cyngor sefyllfa ariannol gymharol gryf, ond yn ddiweddar mae wedi cydnabod yr angen i ddatblygu dull mwy strategol a chynaliadwy i gyfnerthu ei sefyllfa 7

Nid oes gan y Cyngor strategaeth gynaliadwy eto i gefnogi cydnherthedd a chynaliadwyedd ariannol dros y tymor canolig 7

Er bod y Cyngor wedi parhau i danwario yn erbyn ei gyllideb dros y blynyddoedd diwethaf, mae ei gynlluniau'n amlygu'r ffaith y bydd mantoli'r cyfrifon ariannol dros y blynyddoedd nesaf yn anos 10

Er bod y modd y mae'r Cyngor wedi cyflawni arbedion wedi'u cynllunio wedi bod yn gryf dros y blynyddoedd diwethaf, mae ei allu i barhau i gyflawni arbedion o fewn gwasanaethau sy'n ymateb i'r galw'n dod yn fwy o her 12

Mae gan y Cyngor lefel uchel o gronfeydd wrth gefn defnyddiadwy, er bod y rhan fwyaf ar hyn o bryd wedi'u clustnodi ar gyfer defnydd penodol 14

Er bod y dreth gyngor yn cynrychioli cyfran gynyddol o incwm y Cyngor, mae lefel ei ôl-ddyledion yn cynyddu 16

Wrth roi strategaeth fasnacheiddio newydd ar waith, bydd angen i'r Cyngor reoli risgiau sy'n gysylltiedig ag unrhyw lefelau benthyca uwch 18

Adroddiad cryno

Crynodeb

Yr hyn y gwnaethom ei adolygu a pham

- 1 Roedd y prosiect yn ceisio asesu cynaliadwyedd sefyllfa ariannol cynghorau yn y tymor byr a chanolig.
- 2 Roedd hyn yn cynnwys ffocks ar strategaeth ariannol pob cyngor yn ogystal ag adolygu 'dangosyddion' ariannol o sefyllfa ariannol pob cyngor mewn perthynas â'r canlynol:
 - Perfformiad yn erbyn y gyllideb
 - Cyflawni cynlluniau arbedion
 - Defnyddio cronfeydd wrth gefn
 - Y dreth gyngor
 - Benthycu

Arddangosyn 1: ynglŷn â'r Cyngor

Mae'r arddangosyn hwn yn nodi peth gwybodaeth gefndir am gyllideb refeniw net y Cyngor, nifer y staff y mae'n eu cyflogi a gwerth ei asedau sefydlog.



Roedd cyllideb refeniw net y Cyngor ar gyfer 2019-20 yn £280.6m¹



Mae'r Cyngor yn cyflogi tua 5,750 o bobl, gan gynnwys tua 1,350 o athrawon²



Roedd asedau sefydlog y Cyngor ar 31 Mawrth 2019 yn £503m³

- 3 Fe gynhaliom ni'r asesiad hwn am ein bod wedi adnabod cynaliadwyedd ariannol fel risg i allu cynghorau i sefydlu trefniadau priodol i sicrhau gwerth am arian o ran defnyddio adnoddau. Yn rhannol, cafodd hyn ei oleuo gan brofiadau diweddar rhai cynghorau yn Lloegr, ein gwybodaeth am y sefyllfa ariannol mewn cynghorau yng Nghymru, a'r duedd gyffredinol bod adnoddau ar gyfer llywodraeth leol yn lleihau ar y cyd â galw cynyddol am rai gwasanaethau.

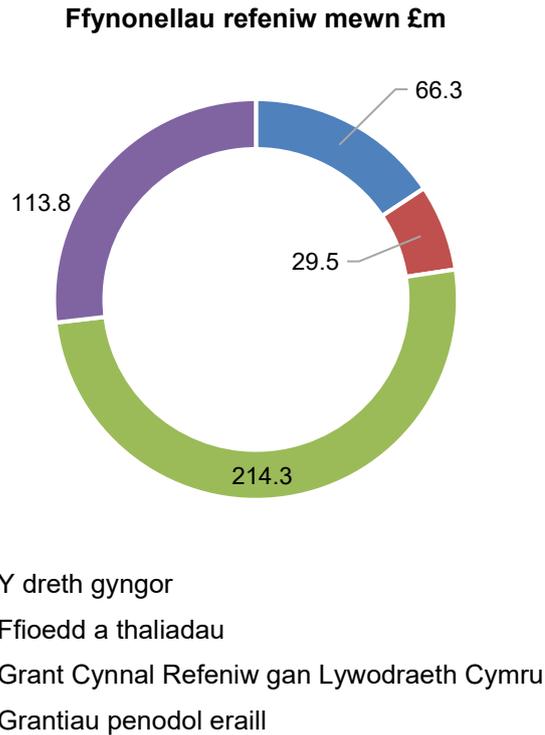
¹ Dangosfwrdd Cyllideb Cyngor Dinas Casnewydd 2019-20

² Swyddogion y Cyngor

³ Datganiad Cyfrifon Cyngor Dinas Casnewydd 2018-19

Arddangosyn 2: ffynonellau refeniw'r Cyngor

Mae'r siart cylch isod yn dangos faint o arian a gafodd y Cyngor o wahanol ffynonellau cyllid yn ystod 2018-19.



Ffynhonnell – hunanasesiad y Cyngor

- 4 Fe gynhaliom ni'r adolygiad yn ystod y cyfnod rhwng mis Hydref 2019 a mis Rhagfyr 2019.

Yr hyn a ganfuom

- 5 Ar y cyfan, canfuom fel a ganlyn: **Mae gan y Cyngor sefyllfa ariannol gymharol gryf, ond yn ddiweddar mae wedi cydnabod yr angen i ddatblygu dull mwy strategol a chynaliadwy i gyfnerthu ei sefyllfa.** Daethom i'r casgliad hwn am y rhesymau canlynol:
 - nid oes gan y Cyngor strategaeth gynaliadwy eto i gefnogi cydnerthedd a chynaliadwyedd ariannol dros y tymor canolig;
 - er bod y Cyngor wedi parhau i danwario yn erbyn ei gyllideb dros y blynyddoedd diwethaf, mae ei gynlluniau'n amlygu'r ffaith y bydd mantoli'r cyfrifon ariannol dros y blynyddoedd nesaf yn anos;

- er bod y modd y mae'r Cyngor wedi cyflawni arbedion wedi'u cynllunio wedi bod yn gryf dros y blynyddoedd diwethaf, mae ei allu i barhau i gyflawni arbedion o fewn gwasanaethau sy'n ymateb i'r galw'n dod yn fwy o her;
- mae gan y Cyngor lefel uchel o gronfeydd wrth gefn defnyddiadwy, er bod y rhan fwyaf ar hyn o bryd wedi'u clustnodi ar gyfer defnydd penodol;
- er bod y dreth gyngor yn cynrychioli cyfran gynyddol o incwm y Cyngor, mae lefel ei ôl-ddyledion yn cynyddu; ac
- wrth roi strategaeth fasnacheiddio newydd ar waith, bydd angen i'r Cyngor reoli risgiau sy'n gysylltiedig ag unrhyw lefelau benthyca uwch.

Adroddiad manwl

Mae gan y Cyngor sefyllfa ariannol gymharol gryf, ond yn ddiweddar mae wedi cydnabod yr angen i ddatblygu dull mwy strategol a chynaliadwy i gyfnerthu ei sefyllfa

Nid oes gan y Cyngor strategaeth gynaliadwy eto i gefnogi cydnerthedd a chynaliadwyedd ariannol dros y tymor canolig

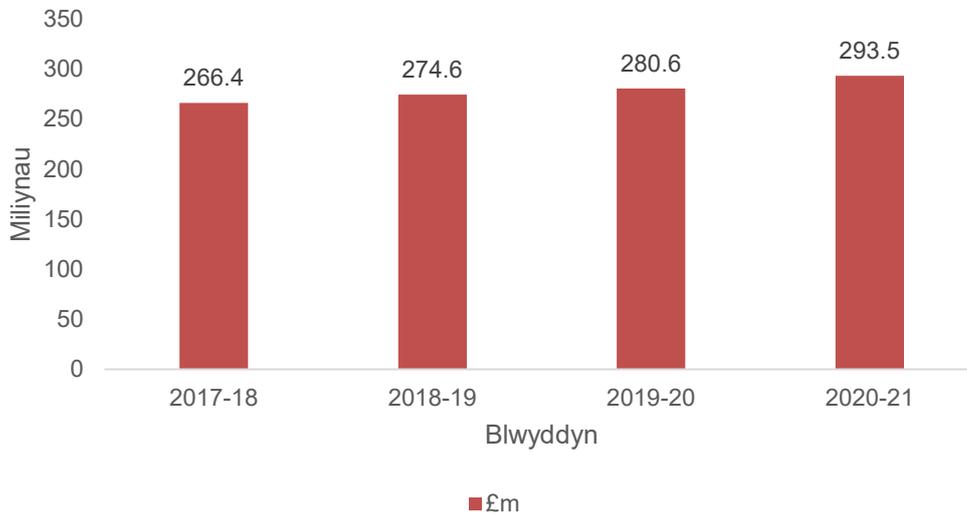
Pam fod cynllunio ariannol strategol yn bwysig

- 6 Mae strategaeth ariannol eglur a chadarn yn bwysig i adnabod y lefel debygol o gyllid sydd ar gael i gyngor, yn ogystal â lefel ddisgwyliedig y galw am wasanaethau a chost eu darparu. O ystyried y pwysau o ran cyllid a fu'n ddiweddar ac a ragwelir ar gyfer yr holl gynghorau mae hefyd yn bwysig nodi sut y mae'n bwriadu ymateb i'r pwysau hynny, ac yn enwedig sut y bydd yn llenwi bylchau a ragwelir yn y cyllid.

Yr hyn a ganfuom

- 7 Canfuom fel a ganlyn: Er bod gan y Cyngor amcanestyniad ariannol tymor canolig lefel uchel sy'n nodi ei heriau ariannol allweddol, mae ei ffocws yn bennaf wedi bod ar gyllidebu blynyddol. Mae'r Cyngor wedi cydnabod nad yw wedi datblygu rhaglen newid strategol eto i gyflawni sefyllfa ariannol dros y tymor canolig sy'n fantoledig ac yn gynaliadwy.
- 8 Daethom i'r casgliad hwn am y rhesymau canlynol:
 - Mae cyllideb refeniw net y Cyngor wedi cynyddu rhwng 2017-18 a 2020-21. Fodd bynnag, mewn termau real mae gwariant net y Cyngor ar wasanaethau wedi gostwng yn ystod yr un cyfnod.
 - Mae **Arddangosyn 3** isod yn nodi cyfanswm cyllideb net y Cyngor rhwng 2017-18 a 2020-21:

Arddangosyn 3: cyfanswm y gyllideb net rhwng 2017-18 a 2020-21⁴

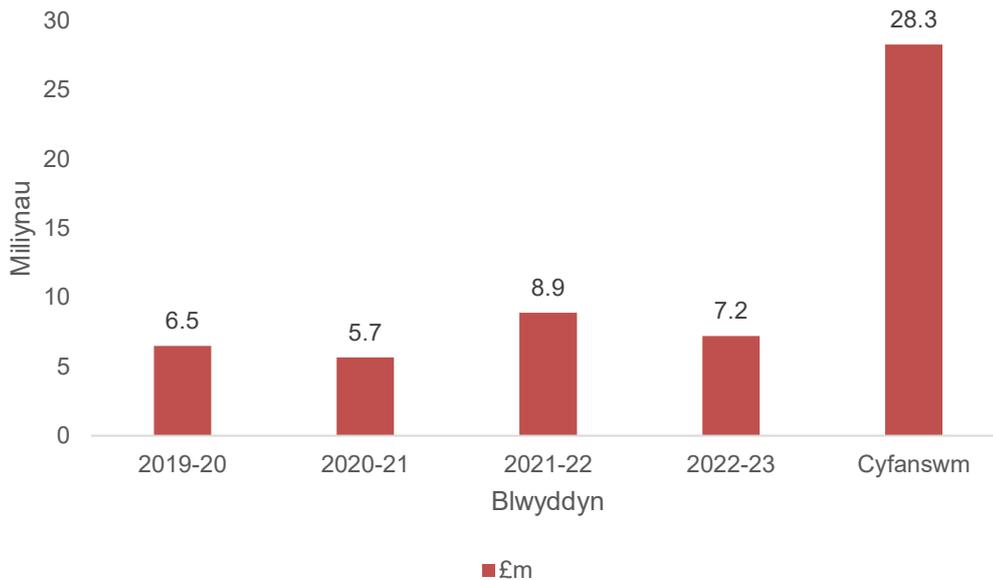


- Mae amcanestyniad ariannol tymor canolig y Cyngor a gyflwynir i aelodau etholedig yn grynodedb lefel-uchel o'r her ariannol sy'n wynebu'r Cyngor rhwng 2020-21 a 2022-23. Ym mis Rhagfyr 2019, cyn cyhoeddi setliad grant cynnal refferiw Llywodraeth Cymru, roedd y Cyngor yn rhagweld diffyg ar y cyfan o £21.8 miliwn rhwng 2020 a 2023, y mae £5.6 miliwn ohono'n codi yn 2020-21. Mae **Arddangosyn 4** isod yn nodi'r bwch a ragamcanir yng nghyllid y Cyngor rhwng 2019 a 2023.

⁴ Datganiad Cyfrifon Cyngor Dinas Casnewydd

Arddangosyn 4: bwloch o ran cyllid a ragamcanir⁵

Mae'r graff canlynol yn dangos y bwloch o ran cyllid y mae'r Cyngor wedi'i adnabod ar gyfer eleni, a'r tair blynedd ganlynol.



- Roedd amcanestyniad y Cyngor ar gyfer 2020-21 yn seiliedig ar gynnydd o 1% yn y grant cynnal refeniw (GCR) gan Lywodraeth Cymru. Ym mis Rhagfyr 2019, 5.4% oedd setliad GCR terfynol y Cyngor gan Lywodraeth Cymru ar gyfer 2020-21, sy'n cyfateb i gynnydd o £14 miliwn mewn arian parod. Fodd bynnag, mae peth o'r cynnydd hwn yn cynnwys symiau a ddarparwyd yn flaenorol gan Lywodraeth Cymru fel grantiau penodol ar gyfer pensiynau athrawon a'r gwasanaethau cymdeithasol. Gan ystyried hyn, mae'r Cyngor yn amcangyfrif y bydd yn cael £7 miliwn yn fwy nag a ragwelwyd yn wreiddiol gan Lywodraeth Cymru yn 2020-21.
- Mae amcanestyniad y Cyngor yn cynnwys crynodeb o'r tybiaethau allweddol a ddefnyddiwyd i fodelu maint yr her ariannol, gan gynnwys rhagolygon o wariant cyfalaf a refeniw, a phwysau o ran cyflogau a'r galw. Cyflwynir crynodeb byr sy'n manylu ar y pwysau a'u heffaith i Aelodau'r Cyngor hefyd.
- Nid yw'r Cyngor yn ystyried datblygu cynaliadwy'n benodol yn ei amcanestyniad tymor canolig ac nid oes ganddo ddull dros y tymor canolig i unioni'r diffyg a ragwelir ganddo. Nid yw'r Cyngor wedi nodi gweledigaeth strategol ar gyfer cyfeiriad gwasanaethau'r Cyngor yn y dyfodol yng ngoleuni'r diffyg ariannol. Mae'r Cyngor yn cydnabod bod angen gwaith

⁵ Ffynhonnell – ffigur 2019-20 wedi'i gymryd o gyfarfod Cabinet Cyngor Dinas Casnewydd 12 Rhagfyr 2018 – Eitem ar yr Agenda; Cyllideb 2019-20 ac Amcanestyniadau Ariannol Tymor Canolig. Ffigurau o 2020-21 ymlaen wedi'u cymryd o gyfarfod Cabinet Cyngor Dinas Casnewydd 20 Rhagfyr 2019 – Eitem ar yr Agenda; Cyllideb Refeniw a Chynigion Drafft y Cynllun Ariannol Tymor Canolig.

pellach i sicrhau bod y gyllideb yn cael ei mantoli dros y tymor canolig gan hefyd gyflawni'r amcanion yn ei Gynllun Corfforaethol a'i amcanion llesiant.

- Er bod y Cyngor wedi adnabod ystod o arbedion wedi'u cynllunio i fynd i'r afael â'i ddiffyg ariannol hyd at 2022-23, nid yw'r arbedion wedi'u cynllunio hynny o £5.7 miliwn yn 2020-21, £759,000 yn 2021-22 a £585,000 yn 2022-23 yn unioni'r diffyg a ragwelir o £21.8 miliwn yn llwyr, ac mae'r Cyngor yn cydnabod y bydd cyflawni arbedion yn mynd yn anos.
- Yn flaenorol mae'r Cyngor wedi defnyddio modelau darparu amgen ar gyfer ei wasanaethau hamdden ac eiddo yn ogystal â chydweithio i ddarparu gwasanaethau gwella ysgolion yn rhanbarthol gyda chynghorau eraill trwy'r Gwasanaeth Cyflawni Addysg. Yn ystod ein hadolygiad, mae'r Cyngor wedi dynodi y bydd o bosibl yn rhoi ystyriaeth yn y dyfodol i ystod eang o opsiynau ar gyfer darparu gwasanaethau'n gynaliadwy, ond nid yw wedi cytuno ar strategaeth i wneud hynny eto.
- Nid yw'r Cyngor wedi cynnal adolygiad ar draws y Cyngor cyfan o wasanaethau statudol a dewisol i oleuo'i amcanestyniadau ariannol cyfredol. Rydym wedi canfod tystiolaeth o adolygiad o'r fath o wasanaethau statudol a dewisol yn ein Hadolygiad Dilydol o lechyd yr Amgylchedd⁶.

Er bod y Cyngor wedi parhau i danwario yn erbyn ei gyllideb dros y blynyddoedd diwethaf, mae ei gynlluniau'n amlygu'r ffaith y bydd mantoli'r cyfrifon ariannol dros y blynyddoedd nesaf yn anos

Pam ei bod yn bwysig rhagweld gwariant yn gywir

- 9 Mae'n bwysig bod gorwariant a thanwariant yn cael eu cadw dan reolaeth a bod gwariant gwirioneddol mor agos â phosibl at y lefelau y cynlluniwyd ar eu cyfer. Mae Cyngor sy'n methu â rhagweld gwariant yn gywir a chynllunio'n gywir ar ei gyfer yn wynebu risg o greu pwysau ariannol nas rhagwelwyd a allai beryglu'r gallu i bennu cyllideb fantoledig. Gall patrymau sylweddol o danwariant fod yn lleihau gallu cyngor i gyflawni ei amcanion allweddol neu gyflawni ei gyfrifoldebau statudol.

Yr hyn a ganfuom

- 10 Dros y blynyddoedd diwethaf, ar y cyfan mae'r Cyngor wedi tanwario yn erbyn ei gyllideb flynyddol. Fodd bynnag, o fewn y sefyllfa hon o danwariant ar y cyfan, mae'r sefyllfa alldro ariannol wedi nodi'n gyson bod gorwariannau parhaus mewn nifer o feysydd gwasanaeth allweddol gan gynnwys gofal cymdeithasol ac addysg.

⁶ Swyddfa Archwilio Cymru, [Cyngor Dinas Casnewydd – Adolygiad dilydol o lechyd yr Amgylchedd, 2020](#)

Mae'r Cyngor yn cydnabod, yng ngoleuni'r pwysau a ragwelir wrth ymateb i'r galw, y bydd cyflawni yn erbyn ei gyllideb yn fwy o her.

11 Daethom i'r casgliad hwn am y rheswm canlynol:

- yn y ddwy flynedd ddiwethaf fe gyflawnodd y Cyngor yn erbyn ei gyllideb ac mae **Arddangosyn 5** isod yn nodi'r perfformiad hwn.

Arddangosyn 5: swm y gorwariant/tanwariant yn berthynol i gyfanswm y gyllideb refeniw net

Mae'r arddangosyn canlynol yn dangos swm y gorwariant neu'r tanwariant ar gyfer cyllideb refeniw net y Cyngor ar y cyfan am y ddwy flynedd ddiwethaf a hefyd y sefyllfa diwedd blwyddyn a ragwelir ganddo ar gyfer 2019-20 yn seiliedig ar y sefyllfa ym mis Hydref 2019.

	Cyllideb Wreiddiol y gyllideb refeniw net	Alldro Gwirioneddol y gyllideb refeniw net	Swm y gwarged/ gorwariant ar y cyfan	Gwahaniaeth canrannol o'i gymharu â'r gyllideb refeniw net
2017-18 ⁷¹	£266.4m	£265.1m	Tanwariant o £1.3m	Tanwariant o 0.5%
2018-19 ⁸²	£274.6m	£272.2m	Tanwariant o £2.4m	Tanwariant o 0.9%
2019-20 yn seiliedig ar y sefyllfa ar ddiwedd mis Hydref 2019 ⁹	£280.6m	£281.3m	Gorwariant o £0.7m	Gorwariant o 0.2%

- O un flwyddyn i'r llall bu gorwariannau sylweddol o fewn meysydd gwasanaeth (heb gynnwys ysgolion) y Cyngor, mewn meysydd megis lleoliadau y tu allan i'r sir ar gyfer plant sy'n derbyn gofal, gofal oedolion yn y gymuned, anghenion dysgu ychwanegol a maethu annibynnol. Mae'r pwysau ariannol yn y meysydd hyn yn risg barhaus i sefyllfa ariannol y Cyngor.

⁷ Data 2017-18 wedi'i gymryd o Adroddiadau Alldro'r Gyllideb Refeniw a gyflwynwyd i'r Cabinet ym mis Mehefin 2018.

⁸ Data 2018-19 wedi'i gymryd o Adroddiadau Alldro'r Gyllideb Refeniw a gyflwynwyd i'r Cabinet ym mis Mehefin 2019.

⁹ Data 2019-20 wedi'i gymryd o gyfarfod Cabinet Cyngor Dinas Casnewydd 20 Rhagfyr 2019 – Eitem ar yr Agenda; Cyllideb Refeniw a Chynigion Drafft y Cynllun Ariannol Tymor Canolig Atodiad 8 Cydnerthedd Ariannol.

- Mae'r tanwariannau ar y cyfan yn y tabl uchod wedi cael eu hategu gan ffactorau megis gwargedau'r Dreth Gyngor, tanwariannau yn erbyn Cynllun Gostyngiadau'r Dreth Gyngor a chyllidebau hapddigwyddiadau refeniw, a thanwariannau yn y gwasanaethau corfforaethol, sydd wedi gwrthbwysu'r pwysau uchod. Fodd bynnag, mae llawer o'r tanwariannau hyn yn ansicr o ran eu natur ac ni ellir gwarantu y byddant yn parhau yn y dyfodol.
- Mae cyllidebau dirprwyedig ysgolion dan bwysau sylweddol hefyd gyda gorwariant rhagamcanol o £3.1 miliwn yn 2019-20. Byddai hyn yn golygu bod cronfeydd wrth gefn ysgolion ar y cyfan yn cwmpo islaw sero ar ddiwedd y flwyddyn. Gallai gorwariannau o'r fath gan ysgolion ychwanegu pwysau pellach at sefyllfa ariannol y Cyngor.
- Er bod y Cyngor wedi adnabod ei brif bwysau cyllidebol ar hyn o bryd, nid yw wedi nodi sut y mae'n bwriadu mynd ati'n strategol i reoli'r pwysau cyllidebol hyn mewn ffordd gynaliadwy.
- Yn y 18 mis diwethaf, mae'r Cyngor wedi ceisio mynd i'r afael â'r pwysau ar ei gyllideb a achosir gan leoliadau preswyl y tu allan i'r sir ar gyfer plant sy'n derbyn gofal. Yn 2019, fe wnaethom adolygu camau gweithredu'r Cyngor i fynd i'r afael â'r pwysau hynny ar y gyllideb a chanfuom, er ei fod wedi cymryd rhai mesurau effeithiol i fynd i'r afael â'r pwysau ar ei gyllideb a achosir gan leoliadau y tu allan i'r sir, fod pwysau parhaus sylweddol yn dal i fodoli a bod angen rhagor o waith i ddatblygu dull hirdymor cynaliadwy.

Er bod y modd y mae'r Cyngor wedi cyflawni arbedion wedi'u cynllunio wedi bod yn gryf dros y blynyddoedd diwethaf, mae ei allu i barhau i gyflawni arbedion o fewn gwasanaethau sy'n ymateb i'r galw'n dod yn fwy o her

Pam fod y gallu i adnabod a chyflawni cynlluniau arbedion yn bwysig

- 12 Mae'r gallu i adnabod meysydd lle gellir gwneud arbedion ariannol penodol, ac i wneud yr arbedion hynny wedyn, yn agwedd allweddol ar sicrhau cynaliadwyedd ariannol parhaus yn erbyn cefnlen o bwysau ariannol cynyddol. Lle nad yw cynlluniau arbedion yn cael eu cyflawni gall hyn arwain at orwariannau sy'n golygu bod angen defnyddio cronfeydd wrth gefn cyfyngedig gan gynyddu lefel yr arbedion y mae eu hangen ar gyfer blynyddoedd yn y dyfodol i wneud iawn am hyn. Lle nad yw cynlluniau arbedion yn cael eu cyflawni a lle mae'n ofynnol i feysydd gwasanaeth wneud arbedion heb eu cynllunio, mae hyn yn cynyddu'r risg naill ai na fydd arbedion yn gyson â blaenoriaethau'r Cyngor, neu o ddatrysiadau 'byrdymor' nad ydynt yn gynaliadwy dros y tymor canolig.

Yr hyn a ganfuom

- 13 Dros y blynyddoedd diwethaf mae'r Cyngor wedi cyflawni lefel uchel o'i arbedion wedi'u cynllunio. Fodd bynnag, mae gwasanaethau sy'n ymateb i'r galw megis

gofal cymdeithasol ac addysg bellach yn ei chael yn fwy o her cyflawni arbedion wedi'u cynllunio.

14 Daethom i'r casgliad hwn am y rheswm isod:

- cyflawnodd y Cyngor 92% o'i arbedion wedi'u cynllunio yn 2018-19, fel a ddangosir yn **Arddangosyn 6** isod.

Arddangosyn 6: arbedion a gyflawnwyd yn ystod 2018-19 fel canran o'r arbedion wedi'u cynllunio ¹⁰

Mae'r arddangosyn canlynol yn nodi faint o arian yr oedd y Cyngor yn bwriadu ei arbed trwy arbedion wedi'u cynllunio yn ystod 2018-19 a faint o hyn y gwnaeth ei arbed mewn gwirionedd.

£8.6m

Cyfanswm yr arbedion wedi'u cynllunio

£7.9m

Arbedion wedi'u cynllunio a gyflawnwyd

£0.7m

Arbedion wedi'u cynllunio nas cyflawnwyd

92%

Canran yr arbedion a gyflawnwyd

- Addysg a gofal cymdeithasol oedd yn rhoi cyfrif am y mwyafrif o'r arbedion nas cyflawnwyd ac mae'r meysydd gwasanaeth hynny'n cynnwys rhai o'r prif bwysau ar gyllideb y Cyngor.
- Mae'r Cyngor wedi adnabod ystod o arbedion wedi'u cynllunio i fynd i'r afael â'r diffyg yn ei gyllideb o £21.8 miliwn tan 2022-23. Fodd bynnag, mae lefel yr arbedion hynny y tu hwnt i 2020-21 yn £1.3 miliwn sy'n sylweddol is na'r lefel sy'n ofynnol ac mae hyn yn dangos bod ei ddull o fynd i'r afael â'i ddiffyg ariannol yn fyrdymor ar y cyfan. Mae'r Cyngor yn cydnabod y bydd yn anos o lawer cyflawni arbedion yn y dyfodol.
- O'r £7.0 miliwn o arbedion sydd wedi'u cynllunio ar gyfer 2019-20, bydd £1.5 miliwn yn cael eu cyflawni trwy addasiad cyfrifyddu technegol (Darpariaeth Isafswm Refeniw) ac mae £879,000 yn ostyngiad yng nghynllun gostyngiadau'r Dreth Gyngor. Roedd adroddiadau monitro'r Cyngor yn dangos ei fod, ar ddiwedd mis Hydref 2019, ar y trywydd iawn i gyflawni 93% o'i arbedion wedi'u cynllunio yn 2019-20 gyda'r mwyafrif o'r rhai na fyddent yn cael eu cyflawni ym maes gofal cymdeithasol.
- Er mwyn cyflawni'r arbedion angenrheidiol rhwng 2020-21 a 2022-23, mae'r Cyngor wedi cydnabod y bydd angen iddo ddefnyddio dull gwahanol i'r un y mae wedi'i ddefnyddio hyd yma. Mae'r Cyngor wedi dynodi ei fod yn bwriadu

¹⁰ Ffynhonnell – Cyngor Dinas Casnewydd, 2019

cynnal adolygiad gwraidd a changen o'i wyth maes gwasanaeth i helpu i gynyddu ei gydnerthedd ariannol.

- Ar y cyfan, roedd gan gynlluniau arbedion ar gyfer 2019-20 a adolygwyd gennym ddata a thybiaethau tanategol cadarn. Fodd bynnag, mewn nifer fach o achosion nid yw'r Cyngor yn rhagweld y bydd yn cyflawni'r arbedion wedi'u cynllunio i ddechrau. Mewn ymateb, byddai angen i'r Cyngor felly ohirio'r arbedion hynny i flynyddoedd dilynol neu eu cydnabod fel pwysau cyllidebol yn y dyfodol, y mae'r naill neu'r llall yn ychwanegu pwysau pellach at sefyllfa ariannol y Cyngor.
- Roedd cynigion drafft ar gyfer arbedion yn 2020-21 a adolygwyd gennym yn amrywio o ran lefel y tybiaethau manwl a'r data tanategol ac roedd llawer o'r cynigion yn nodi effaith ddisgwyliedig gyfyngedig o ganlyniad i'r lefel is o gyllid.
- Er bod cynigion drafft ar gyfer arbedion yn cyfeirio at Ddeddf Llesiant Cenedlaethau'r Dyfodol 2015, nid yw'n glir sut y mae'r Cyngor wedi defnyddio egwyddorion y Ddeddf yn gyson i oleuo penderfyniadau ynglŷn â'r arbedion hynny. Mae'r Cyngor hefyd yn cynnal asesiadau o degwch cynigion ar gyfer arbedion ac o'u heffaith ar gydraddoldeb.

Mae gan y Cyngor lefel uchel o gronfeydd wrth gefn defnyddiadwy, er bod y rhan fwyaf ar hyn o bryd wedi'u clustnodi ar gyfer defnydd penodol

Pam ei bod yn bwysig rheoli cronfeydd wrth gefn yn gynaliadwy

- 15 Mae lefelau iach o gronfeydd wrth gefn defnyddiadwy yn rhwyd ddiogelwch bwysig i ategu cynaliadwyedd ariannol. Yn ogystal â bod ar gael i ariannu pwysau annisgwyl o ran cyllid, gall cronfeydd wrth gefn defnyddiadwy fod yn ffynhonnell cyllid bwysig i ariannu mentrau 'buddsoddi i arbed' sydd wedi'u bwriadu i leihau cost barhaus darparu gwasanaethau hefyd. Mae cynghorau sy'n dangos patrwm o ddefnydd heb ei gynllunio o gronfeydd wrth gefn i lenwi bylchau yn eu cyllideb refeniw sy'n arwain at ostyngiadau ym malansau eu cronfeydd wrth gefn yn lleihau eu cydnerthedd i ariannu pwysau cyllidebol nas rhagwelwyd mewn blynyddoedd yn y dyfodol.

Yr hyn a ganfuom

- 16 Canfuom nad yw'r Cyngor wedi gwneud unrhyw ddefnydd heb ei gynllunio o gronfeydd wrth gefn yn y gorffennol i ariannu pwysau ar y gyllideb refeniw a'i fod wedi cynyddu lefel ei gronfeydd wrth gefn ar y cyfan dros y blynyddoedd diwethaf. Dim ond o 2018-19 y mae'r Cyngor wedi dechrau defnyddio cronfeydd wrth gefn i fantoli ei gyllideb.

17 Daethom i'r casgliad hwn am y rhesymau canlynol:

- Mae gan y Cyngor hanes cryf o warchod ei gronfeydd wrth gefn. Rhwng 2012-13 a 2017-18, fe ychwanegodd y Cyngor at falensau ei gronfeydd wrth gefn.
- Yn ôl ei Ddatganiad Cyfrifon ar gyfer 2018-19 roedd gan y Cyngor gyfanswm o £103.0 miliwn mewn cronfeydd wrth gefn defnyddiadwy, a hynny'n cynnwys:
 - £47.9 miliwn o 'gronfeydd wrth gefn esmwytháu', a neilltuwyd gan y Cyngor i esmwytháu amrywiadau mewn cyllid dros gyfnodau o amser (mae £45.5 miliwn o hyn yn ymwneud â dau gynllun Menter Cyllid Preifat a fydd yn cael eu dirwyn i ben dros y 18 mlynedd nesaf);
 - £28.5 miliwn o 'gronfeydd wrth gefn galluogi', a gedwir ar gyfer buddsoddi posibl yn y dyfodol gan gynnwys cronfa wrth gefn Buddsoddi i Arbed o £11.1 miliwn a derbyniadau cyfalaf defnyddiadwy o £8.3 miliwn;
 - £11.5 miliwn o 'gronfeydd wrth gefn risg', a ddelir i liniaru effeithiau unrhyw risgiau penodol a nodwyd yn flaenorol gan y Cyngor;
 - £6.5 miliwn o Gronfa'r Cyngor, sydd ar gael at unrhyw ddiben;
 - £5.5 miliwn o 'gronfeydd wrth gefn eraill', a ddelir ar gyfer prosiectau/materion penodol; a
 - £3.1 miliwn o falensau cronfeydd wrth gefn sy'n ymwneud ag ysgolion unigol.
- Er y gallai balansau unrhyw rai o'r cronfeydd wrth gefn uchod gael eu cymhwyso gan y Cyngor ar gyfer defnydd arall pe bai angen, maent eisoes wedi'u clustnodi i ryw raddau ar gyfer diben penodol yn y dyfodol (ac eithrio Cronfa'r Cyngor, sydd â swm wrth gefn o £6.5 miliwn). Felly gallai defnyddio cronfeydd wrth gefn wedi'u clustnodi o'r fath arwain at gwtogi ar weithgarwch arfaethedig yn y dyfodol neu oedi cyn ei gyflawni, neu at reoli risgiau'n amhriodol, oni bai eu bod yn cael eu hail-lenwi'n ddiweddarach.
- Ar ben hynny, mae'r Cyngor yn nodi nad yw'r cronfeydd wrth gefn canlynol o'r rhestr uchod ar gael yn rhwydd ar gyfer defnydd arall: cronfeydd wrth gefn ysgolion o £3.1 miliwn (ar gyfer defnydd penodol gan ysgolion unigol yn unig), a chronfeydd wrth gefn derbyniadau cyfalaf o £8.3 miliwn (sy'n bennaf yn gyfyngedig i gael eu defnyddio ar brosiectau cyfalaf). Mae hyn yn arwain at gyfanswm o £91.1 miliwn o 'gronfeydd wrth gefn defnyddiadwy' y gallai'r Cyngor gael mynediad atynt, ond y byddai'n rhaid iddo reoli effaith defnydd o'r fath o ganlyniad. Mae **Arddangosyn 7** isod yn nodi lefel y Cyngor o gronfeydd wrth gefn defnyddiadwy yn erbyn ei gyllideb flynyddol yn 2018-19.

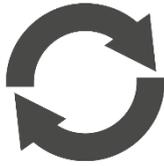
Arddangosyn 7: swm y cronfeydd wrth gefn o'i gymharu â'r gyllideb flynyddol, 2018-19¹¹

Mae'r arddangosyn hwn yn dangos swm y cronfeydd wrth gefn defnyddiadwy a oedd gan y Cyngor yn ystod 2018-19 o'i gymharu â'i gyllideb referniw net ar gyfer yr un flwyddyn.



£274.6m

Cyllideb Referniw Net



£91.1m

Cyfanswm Cronfeydd wrth Gefn Defnyddiadwy



33%

Cyfanswm Cronfeydd wrth Gefn Defnyddiadwy fel canran o'r Gyllideb Referniw Net

- 2018-19 oedd y tro cyntaf dros y blynyddoedd diwethaf i'r Cyngor ddefnyddio'i gronfeydd wrth gefn i fantoli ei gyllideb. Defnyddiodd £1.2 miliwn yn 2018-19, ac mae'n bwriadu defnyddio dim ond £900,000 yn 2019-20 a £459,000 yn 2020-21. Mae'r Cyngor yn rhagweld y bydd ei gronfeydd wrth gefn defnyddiadwy'n gostwng i £71.5 miliwn yn 2019-20 a £66.0 miliwn yn 2020-21.
- Mae gan y Cyngor strategaeth cronfeydd wrth gefn gyhoeddedig ac mae aelodau etholedig yn cael eu hysbysu ynghylch sefyllfa'r Cyngor mewn perthynas â'r holl gronfeydd wrth gefn wrth gytuno ar gyllidebau'r Cyngor yn flynyddol. Yn 2019-20, fe gytunodd aelodau etholedig i gynnal Cronfa'r Gyngor ar lefel o £6.5 miliwn, a hynny'n cael ei ategu gan ddarpariaeth hapddigwyddiadau o £1.5 miliwn yn y gyllideb. Canfu asesiad gan y Cyngor fod y risgiau yn y gyllideb yn ddigon isel i alluogi'r lefel isel hon o gronfa wrth gefn gyffredinol, er ei bod yn is na'r 5% o wariant referniw net heb gynnwys ysgolion (£9.2 miliwn) y mae'r Cyngor yn ei ddefnyddio fel egwyddor arweiniol wrth gyfrifo'r lefel isaf ar gyfer Cronfa'r Cyngor.

Er bod y dreth gyngor yn cynrychioli cyfran gynyddol o incwm y Cyngor, mae lefel ei ôl-ddyledion yn cynyddu

Pam fod cyfraddau casglu'r dreth gyngor yn bwysig

- 18 Bydd methu â chasglu swm y dreth gyngor sy'n ddyledus i'r Cyngor yn arwain at lai o incwm. Gall hyn yn ei dro gynyddu'r pwysau ariannol ar y Cyngor a'i gwneud yn

¹¹ Ffynhonnell – Cyngor Dinas Casnewydd, 2019

ofynnol iddo wneud arbedion ychwanegol. Er nad y dreth gyngor yw ffynhonnell cyllid fwyaf cyngorau yng Nghymru, mae'n dal i fod yn ffynhonnell incwm allweddol.

Yr hyn a ganfuom

- 19 Canfuom fel a ganlyn: Er bod y gyfran o gyllideb y Cyngor a ariennir gan y Dreth Gyngor yn cynyddu, mae ôl-ddyledion treth gyngor wedi cynyddu dros amser.
- 20 Daethom i'r casgliad hwn am y rhesymau canlynol:
 - Fe bennodd y Cyngor ei sylfaen dreth ar gyfer 2019-20 yn seiliedig ar gynnydd o 1.2% (£58.5 miliwn yn 2018-19 i £59.2 miliwn yn 2019-20), a oedd yn sylweddol uwch na'r cyfartaledd ar gyfer Cymru gyfan o 0.5% i 0.8% dros y blynyddoedd diwethaf. Mae hyn wedi arwain at gynnydd o £634,000 yn incwm y dreth gyngor ond o ganlyniad fe arweiniodd at ostyngiad o £391,000 yn y cynnydd yn y Grant Cynnal Refeniw gan Lywodraeth Cymru.
 - Mewn termau real, mae'r ganran o'r gyllideb gros a ariennir gan y dreth gyngor wedi codi o 9.2% yn 2008-09 i 13.3% yn 2018-19. Er bod y gyfran o'r gwariant gros a ariennir gan y dreth gyngor wedi cynyddu, mae'n dal i fod yr ail isaf ar draws yr holl gynghorau yng Nghymru. Yn ôl amcangyfrifon y Cyngor, pe bai'n cynyddu'r dreth gyngor i'r lefel gyfartalog ledled Cymru, byddai hyn yn cyfateb i tua £7 miliwn o gyllid ychwanegol. Fodd bynnag, byddai angen cynnydd o oddeutu 18% yn y dreth gyngor i gyflawni hyn.
 - Rhwng 2008-09 a 2018-19, mae'r Cyngor wedi gwella'r ganran o'r dreth gyngor y mae'n ei chasglu'n flynyddol o 95.8% i 96.6%. Er gwaethaf y gwelliant hwn, mae ôl-ddyledion y dreth gyngor wedi cynyddu o £2.2 miliwn yn 2008-09 i £4.6 miliwn yn 2018-19, sy'n gynnydd o 109%. Mae hyn yn cymharu â chynnydd yn nebyd y dreth gyngor bob blwyddyn o 69% dros yr un cyfnod. Dros y cyfnod hwn, mewn termau real mae balans ôl-ddyledion y Cyngor wedi cwmpo o'r 4ydd isaf yng Nghymru i'r 12fed isaf.
 - Caiff amcanestyniad ariannol tymor canolig y Cyngor (sy'n nodi diffyg ar y cyfan o £21.8 miliwn rhwng 2020 a 2023) ei foddelu ar sail cynnydd blynyddol o 4% yn y dreth gyngor tan 2022-23 ond mae'r Cyngor llawn yn ystyried ac yn pennu lefel y dreth gyngor yn flynyddol. Mae'r amcanestyniadau hynny'n is na'r codiadau yn y dreth gyngor y cytunwyd arnynt yn y ddwy flynedd ariannol ddiwethaf (5.95% yn 2019-20 a 4.8% yn 2018-19). Ym mis Rhagfyr 2019, fe gytunodd y Cabinet i ymgynghori ynghylch cynnydd yn y dreth gyngor o 7.95%

Arddangosyn 8: cyfraddau casglu'r dreth gyngor ¹²

Mae'r arddangosyn hwn yn dangos y ganran o'r dreth gyngor a oedd yn ddyledus a gasglwyd gan y Cyngor yn ystod 2018-19.



Roedd yr arian a gasglwyd o'r Dreth Gyngor ar 31 Mawrth 2019 yn **£64.4m** (96.6%) o'i gymharu â debyd casgladwy o **£66.7m**

Wrth roi strategaeth fasnacheiddio newydd ar waith, bydd angen i'r Cyngor reoli risgiau sy'n gysylltiedig ag unrhyw lefelau benthyca uwch

Pam ei bod yn bwysig cynnal lefelau benthyca cynaliadwy

- 21 Gall benthyca fod yn ffynhonnell cyllid werthfawr, er enghraifft i ariannu prosiectau cyfalaf ar raddfa fawr megis ysgolion neu ganolfannau hamdden newydd. Fodd bynnag, gall cost ad-dalu arian a fenthyciwyd gan gynnwys costau llog gael effaith hirdymor ar gyllidebau refeniw parhaus. Mae cynghorau sy'n methu â tharo cydbwysedd priodol rhwng manteision a chostau benthyca ar y naill law a'u cyllidebau refeniw cyfredol a rhagamcanol ar y llaw arall yn wynebu risg o leihau swm y cyllid sydd ar gael i ddarparu gwasanaethau. Mae benthyca i ariannu gweithgarwch masnachol yn cynnig y potensial i greu incwm ychwanegol i ariannu gwasanaethau'r cyngor; fodd bynnag, gall hefyd ddwyn risgiau sylweddol a fyddai'n gysylltiedig ag unrhyw weithgarwch masnachol.

¹² Ffynhonnell: StatsCymru – Cyfraddau Casglu'r Dreth Gyngor yng Nghymru: 2018-19

Yr hyn a ganfuom

- 22 Canfuom fel a ganlyn: Wrth roi strategaeth fasnacheiddio newydd sy'n dod i'r amlwg ar waith, bydd angen i'r Cyngor reoli'r risgiau cysylltiedig o ran benthycia.
- 23 Daethom i'r casgliad hwn am y rhesymau canlynol:
- Incwm cyfyngedig sydd gan y Cyngor o eiddo masnachol, 0.4% o'i gyllideb gwariant net ar y cyfan. Yn 2018-19, datgelodd y Cyngor incwm rhent o £1.3 miliwn o eiddo buddsoddi yr oedd ei werth yn £7.8 miliwn.
 - Yn 2018-19, roedd gan y Cyngor gyfanswm benthyciadau a oedd yn dal yn ddyledus o £192.8 miliwn o gymysgedd o ffynonellau gan gynnwys y Bwrdd Benthyciadau Gwaith Cyhoeddus (PWLb), benthyciadau Opsiwn Rhoddwr Benthyciadau Opsiwn Cymerwr Benthyciadau (LOBO), a benthyciadau hirdymor eraill. Ar ben y swm yma, mae gan y Cyngor rwymedigaethau pellach i'w cyflawni dan drefniadau Menter Cyllid Preifat (PFI) a phrydlesu.
 - Roedd cost benthycia'r Cyngor ar y cyfan yn 2018-19 yn 9.1% o gyfanswm ei gyllideb refeniw net, a oedd yn uchel o'i gymharu â chynghorau eraill Cymru. Un o brif ysgogiadau'r gost benthycia hon yw rhwymedigaethau Menter Cyllid Preifat y Cyngor, sydd eu hunain yn cyfrannu dros £5 miliwn o gostau llog blynyddol ar gyfer y Cyngor (allan o gyfanswm costau llog blynyddol o £13.6 miliwn).
 - Mae'r Cyngor wedi gwneud ymdrechion blaenorol i gyfyngu ar ei lefelau benthycia hyd y gellir trwy ddefnyddio 'benthycia mewnol' (hynny yw, defnyddio adnoddau mewnol sydd ar gael yn gyntaf cyn benthycia gan endidau eraill). Dros amser, bydd angen i'r Cyngor fenthycia gan drydydd partïon i gymryd lle benthyciadau mewnol blaenorol, er mwyn ariannu ei weithgarwch arfaethedig. Bydd gwneud hynny'n dwyn costau llog pellach yn y tymor canolig a hir. Felly bydd angen i'r Cyngor roi ystyriaeth ofalus i fforddiadwyedd costau llog pellach wrth benderfynu a yw'n mynd i gymryd benthyciadau allanol pellach y tu hwnt i'r hyn sydd eisoes yn yr arfaeth.
 - Ym mis Ebrill 2019, fe gytunodd Cabinet y Cyngor ar strategaeth fasnacheiddio sydd wedi'i bwriadu i gyfrannu at unioni'r diffyg ariannol y mae'r Cyngor yn ei wynebu. Mae'r strategaeth yn cynnwys tri phrif ddull:
 - darparu gwasanaethau cyfredol ar sail fwy masnachol;
 - darparu gwasanaethau newydd gan y Cyngor; a
 - buddsoddi mewn eiddo, yn eiddo masnachol a phreswyl.
 - Fe gytunodd y Cabinet i archwilio pob un o'r meysydd hyn ac i archwilio achosion busnes cyn gwneud unrhyw benderfyniadau. Cytunodd yn ei Strategaeth Gyfalaf y byddai'n sefydlu cronfa buddsoddi mewn eiddo sy'n werth £50 miliwn a fydd yn cael ei hariannu trwy fenthyciadau ychwanegol, ond ni ymgwymerwyd ag unrhyw fuddsoddiadau o'r fath eto. Cydnabu'r Cabinet fod dull o'r fath yn creu risgiau ariannol ychwanegol gyda'r cynnydd sylweddol yn nyled hirdymor y Cyngor ac ansicrwydd posibl ynghylch yr adenillion ar unrhyw fuddsoddiadau. O ystyried y risgiau hyn, fe gytunodd y

Cabinet ar fframwaith lle bydd yn adolygu ac yn asesu cyfleoedd i asesu lefel y risg a budd o fewn paramedrau y cytunwyd arnynt.

Arddangosyn 9: Arian a fenthyciwyd gan y Cyngor ¹³

Mae'r arddangosyn isod yn dangos cyfanswm yr arian y mae'r Cyngor wedi'i fenthycu i ariannu buddsoddiadau masnachol, yn ogystal â chost yr holl fenthyciadau sydd gan y Cyngor fel cyfran o'i gyllideb referniw net.



£0m

Swm y benthyciadau i ariannu buddsoddiadau masnachol



9.1%

Cost cyfanswm y benthyciadau fel cyfran o'r gyllideb referniw net 2018-19¹⁴

¹³ Ffynhonnell – Cyngor Dinas Casnewydd, 2019

¹⁴ Mae'r ffigur hwn yn cynnwys costau llog Mentrau Cyllid Preifat a'r Ddarpariaeth Isafswm Referniw

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Report

Audit Committee

Part 1

Date: 28 September 2020

Item: 9

Subject Draft Work Programme

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

Author Democratic & Services Officer

Ward General

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

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

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

Action by Audit Committee

Timetable Immediate

Background

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

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

29 October 2020
Internal Audit Plan 2020/21– Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Corporate Risk Register (Quarter 1 April to June)
Audit Committee Self-Evaluation Exercise
Treasury Management Report
Lessons Learned 2019/20
Referrals to Audit Committee

Financial Summary

Please see comments from Chief Financial Officer below.

Risks

If proper work programming procedures are not put in place, the organisation and prioritisation of the work programme is put at risk. The work of the Audit Committee could become disjointed from the work of the rest of the Council, which could undermine the positive contribution Audit Committee makes to service improvement.

This report is presented to each Committee every month in order to mitigate that risk. The specific risks associated with individual topics on the work programme will need to be addressed as part of the Committee's investigations.

Comments of Chief Financial Officer

There will be financial consequences for some of the reviews undertaken. These will be commented upon as the reports are presented. The preparing and monitoring of the work programme is done by existing staff for which budget provision is available.

Comments of Monitoring Officer

I have no comments, as there are no legal implications.

Staffing Implications: Comments of Head of People and Business Change

There are no staffing implications within this report. Any staffing implications of the reviews in the work programme will need to be addressed in individual reports.

Background Papers

None.

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

29 October 2020
Internal Audit Plan 2020/21– Progress (Quarter 2)
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 2, July to September)
Corporate Risk Register (Quarter 1 April to June)
Audit Committee Self-Evaluation Exercise
Treasury Management Report
Lessons Learned 2019/20
Referrals to Audit Committee

28 January 2021
Internal Audit Plan – Progress (Quarter 3)
Financial Memorandum on the 2019-20 Financial Audit
Treasury Management Report
Corporate Risk Register (Quarter 2 July to September)
Internal Audit Unsatisfactory Audit Opinions (6 monthly report)
Referrals to Audit Committee

25 March 2021
Corporate Risk Register (Quarter 3) & Risk Appetite Statement
SO24/Waiving of Contract SOs: Quarterly report reviewing Cabinet/CM urgent decisions or waiving Contract SOs (Quarter 3, October to December)
WAO Annual Report on Grants Works 2019-20
Annual Governance Statement (draft statement)
Member Development Self Evaluation Exercise
Referrals to Audit Committee

Mae'r dudalen hon yn wag yn