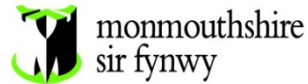


# Public Document Pack



County Hall  
Rhadyr  
Usk  
NP15 1GA

Dydd Mercher, 20 Tachwedd 2019

## Hysbysiad o gyfarfod

### Pwyllgor Archwilio

Dydd Iau, 28ain Tachwedd, 2019 at 2.00 pm,  
Neuadd Y Sir, Y Rhadyr, Brynbuga, NP15 1GA

### AGENDA

Item No	Item	Pages
1.	Ymddiheuriadau am absenoldeb	
2.	Datganiadau o Fuddiant	
3.	Fforwm Agored i'r Cyhoedd	
4.	I nodi Rhestr Weithred y cyfarfod diwethaf	1 - 2
5.	Trosolwg o Drefniadau Rheoli Perfformiad	3 - 16
6.	Pwyllgor Archwilio: Hunanarfarnu	
7.	Adroddiad Trysorlys Canol Blwyddyn	17 - 30
8.	Diweddariad a datblygiad Q2	To Follow
9.	Cyfrifon Archwiliedig Cronfa Degwm Cyngor Sir Fynwy	To Follow
10.	ISA 260 neu Gyfwerth ar gyfer Cronfeydd Ymddiriedolaeth	To Follow
11.	Cadarnhau cofnodion y cyfarfod blaenorol	31 - 36
12.	I gadarnhau dyddiad y cyfarfod nesaf fel y 9fed o Ionawr 2020	

**Paul Matthews**  
**Prif Weithredwr**



## CYNGOR SIR FYNWY

### MAE CYFANSODDIAD Y PWYLLGOR FEL SY'N DILYN:

Cynghorwyr Sir:

P White  
P. Clarke  
A. Easson  
M. Feakins  
J. Higginson  
M. Lane  
P. Murphy  
V. Smith  
B. Strong  
J. Watkins  
S.B. Jones  
J. Saunders

## Gwybodaeth Gyhoeddus

### **Mynediad i gopiâu papur o agendâu ac adroddiadau**

Gellir darparu copi o'r agenda hwn ac adroddiadau perthnasol i aelodau'r cyhoedd sy'n mynychu cyfarfod drwy ofyn am gopi gan Gwasanaethau Democrataidd ar 01633 644219. Dylid nodi fod yn rhaid i ni dderbyn 24 awr o hysbysiad cyn y cyfarfod er mwyn darparu copi caled o'r agenda hwn i chi.

### **Edrych ar y cyfarfod ar-lein**

Gellir gweld y cyfarfod ar-lein yn fyw neu'n dilyn y cyfarfod drwy fynd i [www.monmouthshire.gov.uk](http://www.monmouthshire.gov.uk) neu drwy ymweld â'n tudalen Youtube drwy chwilio am MonmouthshireCC. Drwy fynd i mewn i'r ystafell gyfarfod, fel aelod o'r cyhoedd neu i gymryd rhan yn y cyfarfod, rydych yn caniatáu i gael eich ffilmio ac i ddefnydd posibl y delweddau a'r recordiadau sain hynny gan y Cyngor.

### **Y Gymraeg**

Mae'r Cyngor yn croesawu cyfraniadau gan aelodau'r cyhoedd drwy gyfrwng y Gymraeg neu'r Saesneg. Gofynnwn gyda dyledus barch i chi roi 5 diwrnod o hysbysiad cyn y cyfarfod os dymunwch siarad yn Gymraeg fel y gallwn ddarparu ar gyfer eich anghenion.

# Nodau a Gwerthoedd Cyngor Sir Fynwy

## Ein diben

Adeiladu Cymunedau Cynaliadwy a Chydnerth

### Amcanion y gweithiwn tuag atynt

- Rhoi'r dechrau gorau posibl mewn bywyd i bobl
- Sir lewyrchus a chysylltiedig
- Cynyddu i'r eithaf botensial yr amgylchedd naturiol ac adeiledig
- Llesiant gydol oes
- Cyngor gyda ffocws ar y dyfodol

## Ein Gwerthoedd

**Bod yn agored.** Rydym yn agored ac yn onest. Mae pobl yn cael cyfle i gymryd rhan mewn penderfyniadau sy'n effeithio arnynt, dweud beth sy'n bwysig iddynt a gwneud pethau drostynt eu hunain/eu cymunedau. Os na allwn wneud rhywbeth i helpu, byddwn yn dweud hynny; os bydd yn cymryd peth amser i gael yr ateb, byddwn yn esbonio pam; os na allwn ateb yn syth, byddwn yn ceisio eich cysylltu gyda'r bobl a all helpu - mae adeiladu ymddiriedaeth ac ymgysylltu yn sylfaen allweddol.

**Tegwch.** Darparwn gyfleoedd teg, i helpu pobl a chymunedau i ffynnu. Os nad yw rhywbeth yn ymddangos yn deg, byddwn yn gwranddo ac yn esbonio pam. Byddwn bob amser yn ceisio trin pawb yn deg ac yn gyson. Ni allwn wneud pawb yn hapus bob amser, ond byddwn yn ymrwymo i wrando ac esbonio pam y gwnaethom weithredu fel y gwnaethom.

**Hyblygrwydd.** Byddwn yn parhau i newid a bod yn hyblyg i alluogi cyflwyno'r gwasanaethau mwyaf effeithlon ac effeithiol. Mae hyn yn golygu ymrwymiad gwirioneddol i weithio gyda phawb i groesawu ffyrdd newydd o weithio.

**Gwaith Tîm.** Byddwn yn gweithio gyda chi a'n partneriaid i gefnogi ac ysbrydoli pawb i gymryd rhan fel y gallwn gyflawni pethau gwych gyda'n gilydd. Nid ydym yn gweld ein hunain fel 'trefnwyr' neu ddatrysyr problemau, ond gwnawn y gorau o syniadau, asedau ac adnoddau sydd ar gael i wneud yn siŵr ein bod yn gwneud y pethau sy'n cael yr effaith mwyaf cadarnhaol ar ein pobl a lleoedd.

# Agenda Item 4

## Audit Committee Actions 12<sup>th</sup> September 2019

<b>Agenda Item:</b>	<b>Subject</b>	<b>Officer</b>	<b>Outcome</b>
5 (c/f 25 <sup>th</sup> July 2019)	Performance management	Chief Officer, Resources	Update to be provided at September meeting

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**SUBJECT:** Overview of Performance Management Arrangements

**MEETING:** Audit Committee

**DATE:** 28 November 2019

**DIVISIONS/WARDS AFFECTED:** All

## **1 PURPOSE**

- 1.1 To ensure that members understand the Council's performance framework.
- 1.2 To present an update on the current effectiveness of the authority's performance management arrangements.

## **2 RECOMMENDATIONS:**

- 2.1 That members use the update provided to inform their understanding of the effectiveness of the operation of the authority's performance management arrangements and identify any areas where they feel action needs to be taken or further information provided.

## **3. KEY ISSUES:**

- 3.1 Performance Management is about establishing a shared understanding of what needs to be achieved and making sure that it happens. The council currently has an established performance framework; this is the way in which we translate our purpose - building sustainable and resilient communities - into action and ensure that everyone is pulling in the same direction to deliver real and tangible outcomes. This is shown in appendix 3.
- 3.2 Our performance framework:
  - Translates our purpose, which we share with our partners on the PSB, into the council's own well-being objectives, which are based on the same well-being assessment as the Public Service Board objectives, and form the backbone of our five priority goals in the corporate plan.
  - Places an expectation on teams to translate these into specific, measurable actions in their service business plans
  - Contains a broad range of data to monitor impact and measure the performance of services
  - Requires employees to receive regular appraisals to demonstrate how they are contributing to the objectives

Other key processes that are part of and/or facilitate aspects of the framework, include the Whole Authority Strategic Risk Assessment and self-evaluation arrangements.

- 3.3 The council's performance framework needs to continue to evolve to reflect and plan for the challenges and opportunities facing council services. The Well-being of Future Generations Act is one example where our framework has been adapted to support services to apply the act and continue to think more about the long-term.
- 3.4 Appendix 1 provides an appraisal of the arrangements that make up the framework to ensure that Audit Committee are able to take an overview of their effectiveness. Each arrangement has been scored based on the council's self-evaluation framework:

Level 6 Excellent; Level 5 Very Good; Level 4 Good; Level 3 Adequate, Level 2 Weak; and Level 1 Unsatisfactory. The committee last received an update providing an overview on performance management arrangements in November 2018.

- 3.5 Cabinet also agreed, as part of the Corporate Plan commitment, an annual report to be received by Audit Committee, on the continued effectiveness of the council's strategic planning framework, ensuring the necessary checks and balances are in place around monitoring, evaluation, decision-making and policy-making. The report in appendix 1 forms the basis of this evaluation for performance monitoring and evaluation; further information assessing the effectiveness of decision-making and policy-making is in appendix 2.
- 3.6 The council also places reliance on regulatory assessments as a vital part of our framework. These are Wales Audit Office (WAO), who examine the authority's corporate arrangements; Estyn, in relation to education provision; and the Care Inspectorate Wales, in relation to social services. Where applicable, the most recent findings of regulatory work have been factored into the appraisal of arrangements.
- 3.7 Audit Committee receive relevant Wales Audit Office performance audit reports throughout the year as they are published, which include any further areas of the council's arrangements where it is considered the authority needs to take action. The conclusion of these reports is consolidated within the regular Proposals for Improvement update report provided to the committee.

#### **4. RESOURCE IMPLICATIONS**

- 4.1 There are no additional resource implications as a result of this report. However, there may be resource implications in undertaking further actions as directed by Senior Leadership Team or as recommended by the Audit Committee.

#### **5. AUTHOR:**

Richard Jones, Performance Manager

#### **6. CONTACT DETAILS:**

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## Appendix 1 - appraisal of performance management arrangements

	Well-being Objectives & Improvement Objectives
Purpose:	<p>The Council has a responsibility under the Well-being of Future Generations (Wales) Act 2015 to set well-being objectives. To achieve this we must:</p> <ul style="list-style-type: none"> <li>• Set and publish well-being objectives (initially by 31<sup>st</sup> March 2017)</li> <li>• Take all reasonable steps to meet those objectives</li> <li>• Publish a statement about well-being objectives</li> <li>• Detail arrangements to publish an annual report of progress</li> </ul> <p>The Council is also still required under the Local Government (Wales) Measure 2009 to set annual Improvement Objectives, produce an Improvement Plan and report annually on progress. The Welsh Government is consulting on a proposal to repeal Part 1 of the Measure, which would remove this requirement in future years.</p>
Evaluation Score:	Level 4 - Good
Position October 2019	<p>The council's Corporate Plan 2017-2022, approved in February 2018, sets out the Council's five organisational goals, which also incorporate our well-being objectives, supported by 22 commitments to action we will take and the ways in which they will be measured in the run-up to 2022. The purpose and priorities set for Monmouthshire in the Corporate Plan also reflect our contribution to well-being objectives set for the county by the PSB well-being plan.</p> <p>In February 2019 Council adopted the goals contained in the Corporate Plan 2017-22, as the Council's Improvement Objectives for 2019-20 in order to comply with the requirements of the Local Government (Wales) Measure 2009. Wales Audit Office have issued a certificate of compliance stating the Council has discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements of the Local Government Measure 2009.</p> <p>The annual report on progress and performance in 2018/19 on the corporate plans was presented to Council in September 2019 and outlined the progress made to achieve the goals identified in the corporate plan. Our progress against each goal was assessed on a scale of 1 to 6, unsatisfactory to excellent. Three goals were identified as being 'Adequate' and two as being 'Good'. A further evaluation of activity and progress was carried out on each of the 22 commitments to action that sit under each goal, with a progress rating provided for each of either: progressing well, taking steps, attention needed or no activity. Criteria for each rating was identified, there was feedback provided regarding the methodology used for these progress ratings, which will be considered for future reporting. Wales Audit Office have issued a certificate of compliance for the audit of Monmouthshire County Council's assessment of 2018-19 performance.</p> <p>This year utilising a tool provided by the Future Generations Commissioner, we undertook a self-reflection of our progress to date in meeting the requirements of the Well-being of Future Generations Act, how we are embedding these in our corporate plan goals (also our well-being objectives) and to identify further progress we can make to embed the principles of the Act. The Future Generations Commissioner provided feedback on our self-reflection, and identified ways in which we were progressing well, and also areas where could strengthen our contribution to the Act. This provided a helpful perspective on our work to date, and facilitated shared learning with other organisations who have responsibilities under the act. Areas for</p>

	<p>consideration and improvement have been reflected upon and where relevant, incorporated into our most recent annual report. Some of the feedback may take longer to embed and the impact may not be recognised immediately; we continue to work to strengthen the application of the act in our work.</p> <p>A mid-term review of the commitments in the Corporate Plan is being undertaken. This will ensure that the aspirations and activity in the plan remain relevant reflect the latest thinking on issues of importance to our communities such as the recent motion declaring a climate emergency.</p>
Key future actions	Finalise the mid-term review of the Corporate Plan and ensure any amended or new actions are fully embedded into business plans.
	Continue to utilise feedback from the Future Generations Commissioner’s self-reflection tool to strengthen application of the sustainability principles and contribution towards the well-being goals.

### Service Plans

Purpose:	Each service sets a Service Business Plan for a three year period (currently 2019-2022). Service Business planning and regular evaluation of our performance is fundamental to how we operate. It allows services to plan for the future, assess what went well, learn from what didn’t and measure the impact the service has made on people and places of Monmouthshire. Service Plans ensure clear alignment between the council’s priorities and objectives, and detail the actions the service will be undertaking, performance measures to assess progress and risks facing the service and mitigating actions.
Evaluation Score:	Level 3 - Adequate
Position October 2019	<p>The Corporate Plan sets a clear direction for the council up to 2022. To ensure its effective delivery, the role and purpose of service planning was reviewed in 2018 and a revised process established. The revised Service Business Planning (SBP) process ensured services planned for the present and the future as it introduced a three-year duration for all plans.</p> <p>Service planning is based on principles that services must comply with in their plans. The principles are based on six key areas: Purpose, Evaluate, Action, Impact and Alignment, Data and Risks.</p> <p>The principles and template were further updated as part of the 2019/22 planning process. As well as ongoing support, two service business planning workshops have been held. The workshops were developed to provide practical support on business planning.</p> <p>2019/2022 plans have been corporately appraised by the Policy and Performance team against the principles. This demonstrates that there remains variability in the overall quality and completeness of some plans, which limits the effectiveness of these plans as a mechanism through which the service plans, reviews performance and is held to account. Feedback and assistance is being provided to services, where required, to strengthen their planning.</p> <p>Performance against the plans is assessed quarterly by services. The plans are available on the council’s intranet, The Hub, and are accessible to officers and members providing increased</p>

<b>Key future actions</b>	<p>transparency and facilitating challenge, by managers, leaders and cabinet members, of progress and clear alignment to the vision and strategic direction of the organisation. Quarterly updates are not always completed within timescales set, which lessens their ability to be utilised in a timely manner for accountability.</p> <p>Supporting the business planning process, the Council’s enabling strategies were refreshed - Digital, People, Asset Management, Procurement and Commercial. The delivery of which is aligned with in the relevant service business plan. Progress made against all strategies will need to continue to be reviewed to ensure timescales are on track and activities are continuing to make progress against set objectives.</p>
<b>Key future actions</b>	<p>Support services to implement feedback from the appraisal of 2019/22 business plans to strengthen the quality of planning.</p>

Performance data and information	
<b>Purpose:</b>	<p>Performance data and information is essential to our performance framework. This comprises of nationally set performance indicators and locally set indicators that services have developed to measure the impact of their service.</p> <p>All staff and members need to regularly access and use performance and analysis of performance effectively and efficiently to evaluate the performance of a service.</p>
<b>Evaluation Score:</b>	<p>Level 4 – Good</p>
<b>Position October 2019</b>	<p>The data quality process continues to be strengthened and is continually amended to take account of previous audit feedback. Internal guidance notes on completing national and local performance indicators are produced setting clear requirements for data compilers. There is continued support from the Policy and Performance team with a specific and clearly defined role for Internal Audit to quality assure data and the systems producing the data.</p> <p>In 2019 the internal audit of nationally set indicators has been given a draft control rating of “substantial” assurance and for local performance indicators (those used in the Council’s Corporate Plan) provisionally there are no major weaknesses identified in the indicators tested during the audit. There remain recommendations from the internal audit reports that require further attention to ensure data quality processes are improved.</p> <p>The Council’s Corporate Plan goals set out a range of measures that are used to evaluate progress. Developing the right metrics of community well-being is a continuing process, to allow us to evaluate the efficiency and effectiveness of current service delivery while also track progress against longer term community well-being objectives. To do this we also continue to work with our Public Service Board partners at a local level as well as across the Gwent area.</p> <p>The appraisal of service business plans demonstrates that there is variability in the overall quality and completeness of performance indicators utilised to assess performance in service business plans. Feedback and assistance is being provided to services, where required, to strengthen their planning. It is recognised that there is a particular difficulty in developing performance measures, targets and risks to data quality when setting up new</p>

policies, initiatives or arrangements. These areas will be continue to be targeted for performance team support.

The “data hub”, the council’s performance measurement area has been streamlined to ensure the information is up to date and focussed on the most pertinent performance data, tracking progress on measures set in the Corporate Plan and national performance indicators.

We are continuing to develop a more comprehensive understanding of the authority’s data assets, share experiences about good practice and identify future opportunities that will help turn data into actionable knowledge. Ensuring the organisation makes the best possible use of the information it holds remains a focus and is linked to commitments made in the Corporate Plan to increase the publication and use of open data to increase accountability and revise performance and improvement plans.

The technology is being tested to enable the creation of data dashboards, which will make use of automated open data feeds, where possible, and other internal and external data sources. The development of pilot dashboards has begun, including work through Monmouthshire Public service Board exploring displaying selected data items that were used in the well-being assessment. The learning from these pilots will be used to inform the future direction.

Work to develop our approach to open data has been progressed and our open data webpage has been refreshed. We are looking at how we can further develop our open data offer to build on existing information that is already published on our website such as council spend data.

**Key future actions**

Continue to strengthen the data quality process using internal audit feedback

Support services to make better use of data to inform service planning and transformation including: data visualisation, data analysis and developing the Council’s use of open data.

Strategic Risk Assessment	
<b>Purpose:</b>	<p>The strategic risk assessment captures the High and Medium level risks that face the council in line with the council’s risk management policy. This ensures that:</p> <ul style="list-style-type: none"> <li>• Strategic risks are identified and monitored by the authority</li> <li>• Risk controls are appropriate and proportionate</li> <li>• Senior managers and elected members systematically review the strategic risks facing the authority</li> </ul>
Staff Appraisal (Check-In, Check-Out)	
<b>Purpose:</b>	<p>Appraisals enable all staff to understand what is expected of them, to agree how values and behaviours are linked to how we perform at work and to ensure that all of our work links to the wider purpose of the organisation. Managers at every level are expected to set the right standards, coach, motivate, feedback on poor performance and recognise those people who deliver good performance.</p>
<b>Evaluation Score:</b>	<p>Level 3 – adequate</p>
<b>Position October 2019</b>	<p>The employee performance framework, ‘Check-In, Check-Out’ (CICO) provides a value-based performance assessment approach between staff and line managers.</p> <p>Based on feedback received, the CICO process has been reviewed and rolled out with more robust guidance, video tutorials and supportive training.</p> <p>In December 2016 Wales Audit Office completed a follow up review on the council’s Human Resources arrangements, following their corporate assessment in 2015. The review found the council has “improved its approach to staff appraisals but not all staff are having their annual appraisals”. Activity to address some of the proposals for improvement from these reports remain ongoing.</p> <p>Work is continuing in order to increase understanding of the CICO process and maximise completion; it has been included in the new manager’s Induction training.</p> <p>A longer term, more effective recording module was developed that allowed managers to record the completed CICO directly into the HR system. This has had varying degrees of success due to a number of factors, namely issues with the system preventing the input of CICOs, and also reports from some managers that they prefer to complete the CICOs differently and not utilise the system as they feel it provides a better experience for their staff. To enable managers to complete the reviews in a way that suits them and their teams, all managers have been instructed to input the completed CICO numbers into their quarterly business plan updates. This way, the CICO rate can be recorded without the need to impose the electronic system. Information has been provided via service business plan update guidance to support managers to utilise the plans to record rates of completed CICOs.</p> <p>Furthermore, HR have started the procurement process for a new HR/payroll system and are currently running a series of supplier days for HR/Payroll system providers to present their products. CICO or performance appraisal is on the list of requirements for the new system.</p>
<b>Key future actions</b>	<p>Increase understanding and use of the check-in, check-out process and improve recording mechanisms</p>

	<p>The risk assessment will evolve as new information comes to light. It is available on the council's intranet, the hub, and can therefore be used by select committees throughout the year, it is also specifically reported to audit committee annually and signed off by Cabinet once a year as an accurate record of the risks facing the organisation.</p>
<p><b>Evaluation Score:</b></p>	<p>Level 3 – Adequate</p>
<p><b>Position October 2019</b></p>	<p>The risk assessment is prepared and updated, in line with the Council's strategic risk management policy, by drawing on a wide range of evidence including service plans, performance measures, regulatory reports and progress on the previous risk assessment.</p> <p>The up-to-date risk log is accessible to members on The Hub. This ensures that select committees are able to re-visit the information at any point in the year to re-prioritise their work plan as appropriate.</p> <p>The latest risk register has been reviewed to ensure it includes risks to the delivery of the Corporate Plan. All service business plans have been reviewed to identify any strategic risks that require escalation to the strategic risk register. The strategic risk register was reported to audit committee in January 2019 and Cabinet in March 2019. The latest risk register identifies 13 strategic risks.</p> <p>The WAO whole authority review of children's safeguarding reported in August 2018 states the strategic risk register reflects ownership of, and responsibility for, risk at an appropriately senior management and cabinet level. The report made a proposal for improvement to re-frame the strategic risk register, to enable a SMART-er approach to measuring impact of actions taken in mitigation of identified risk. The format of the strategic risk register has been updated to include timescales and responsibility holders for each mitigating action and includes an update on the progress and impact of implementing each action identified.</p> <p>An internal audit report on the Council's strategic risk management arrangements identified a number of areas for improvement; work has continued to address these. A refresh of the Council's strategic risk management policy and guidance has been completed. The refresh took account of the feedback from the Internal Audit report. An action plan to address any remaining areas for improvement from the internal audit report on the Council's strategic risk management arrangements continues to be updated and reviewed.</p> <p>Risk assessment is a key principle of service business planning. The appraisal of service business plans shows that risk assessments in plans remains an area that is particularly identified for improvement to strengthen the capture and management of risks facing services.</p> <p>In line with the Well-being of Future Generations Act, identification and mitigation of longer-term risks that will impact on future generations at community level, but will have a lesser impact on the medium term delivery of council services is an area for continued development. Through working with the Public Service Board we are developing our understanding of future risks and opportunities and how we respond to them in</p>

	Monmouthshire.
Key Future Actions	Continue implementation of the action plan to improve risk management arrangements in response to the findings from Internal Audit.
	Support services to implement feedback from the appraisal of 2019/22 business plans to strengthen the quality of planning.
	Ensure risk management arrangements, identify and mitigate, as appropriate, longer-term risks that will impact on future generations at community level, in line with the Well-being of Future Generations Act.

Self-Evaluation	
<b>Purpose:</b>	Self-evaluation allows us to appraise what we have done, assess what went well, learn from what didn't and plan future activity informed by what we did and the impact made.
<b>Evaluation Score:</b>	Level 3 – adequate
<b>Position October 2019</b>	<p>Over the last few years there has been a focus on improving self-evaluation arrangements by continuing to embed self-evaluation within the council's existing arrangements and implementing specific programmes of work and aligning these more closely with the budget setting process.</p> <p>The first annual report on progress and performance in 2018/19 on the Corporate Plan was presented to Council in September 2019 and outlined the progress made to achieve the goals identified in the plan. This report is intended to meet the requirements of the local government measure of publishing an assessment of performance by 31 October 2019, whilst meeting the Well-being of Future Generations Act requirement of reporting performance before 31 March. Wales Audit Office have issued a certificate of compliance for audit of Monmouthshire County Council's assessment of 2018-19 performance.</p> <p>The report also evaluates the progress made in line with the nine expectations set out by the Future Generations Commissioner, in the 'Well-being in Wales: The journey so far' report published in May 2018. The annual report is supplemented with a six-monthly report to Cabinet to ensure ongoing monitoring of progress.</p> <p>The statutory guidance for the Well-being of Future Generations Act states that public bodies need to demonstrate their well-being objectives are contributing to the achievement of the well-being goals; all reasonable steps are being taken to meet the well-being objectives; and well-being objectives are consistent with the sustainable development principle. To ensure continued efforts to meet the requirements of the Act, we have completed a self-reflection tool provided by the Future Generations Commissioner.</p> <p>The tool supported us to assess our progress to date in meeting the requirements of the Act, how we are embedding these in our corporate plan goals (also our well-being objectives) and to identify further progress we can make to embed the principles of the Act. We identified our objectives were making good progress, and assessed that generally we are where we expected to be, whilst recognising that with some objectives the stage reached, or the impact made, has varied. We recognised that over short timescales, it is not always possible to demonstrate progress with longer term and complex changes, and there are factors not always directly in the Council's control to change.</p> <p>The Future Generations Commissioner provided feedback on our self-reflection, and identified ways in which we were progressing well, and areas where could strengthen our contribution to the Act. The feedback provided a helpful perspective and insight on our work to date, and facilitated shared learning with other organisations who have responsibilities under the act. This information has already been utilised to improve</p>



	<p>our arrangements through integration into the Corporate Plan Annual Report 2018/19. The feedback will continue to be used throughout the performance planning framework to improve our contribution to the well-being objectives, as and when appropriate. Some of the feedback may take longer to embed and the impact may not be recognised immediately; we continue to work to strengthen the application of the act in our work.</p> <p>A key principle of Service Business Planning is evaluation. Each service completes an evaluation of service performance annually in their business plan to evaluate impact made and to inform future actions. Managers update Service Business Plans quarterly; this includes evaluating the progress and impact of actions, performance measures and risks. The service business plan appraisal identified that evaluations are mostly comprehensively completed, although the use of data to support them could be improved.</p>
<p><b>Key Future Actions</b></p>	<p>Apply the Future Generation’s Commissioner’s feedback from the self-reflection tool in the council’s arrangements.</p>
	<p>Continue to produce an annual report on the continued effectiveness of the council’s strategic planning framework</p>
	<p>Support services to implement feedback from the appraisal of 2019/22 business plans to strengthen the quality of planning.</p>

**Appendix 2 - Assessing the effectiveness of decision – making and policy making**

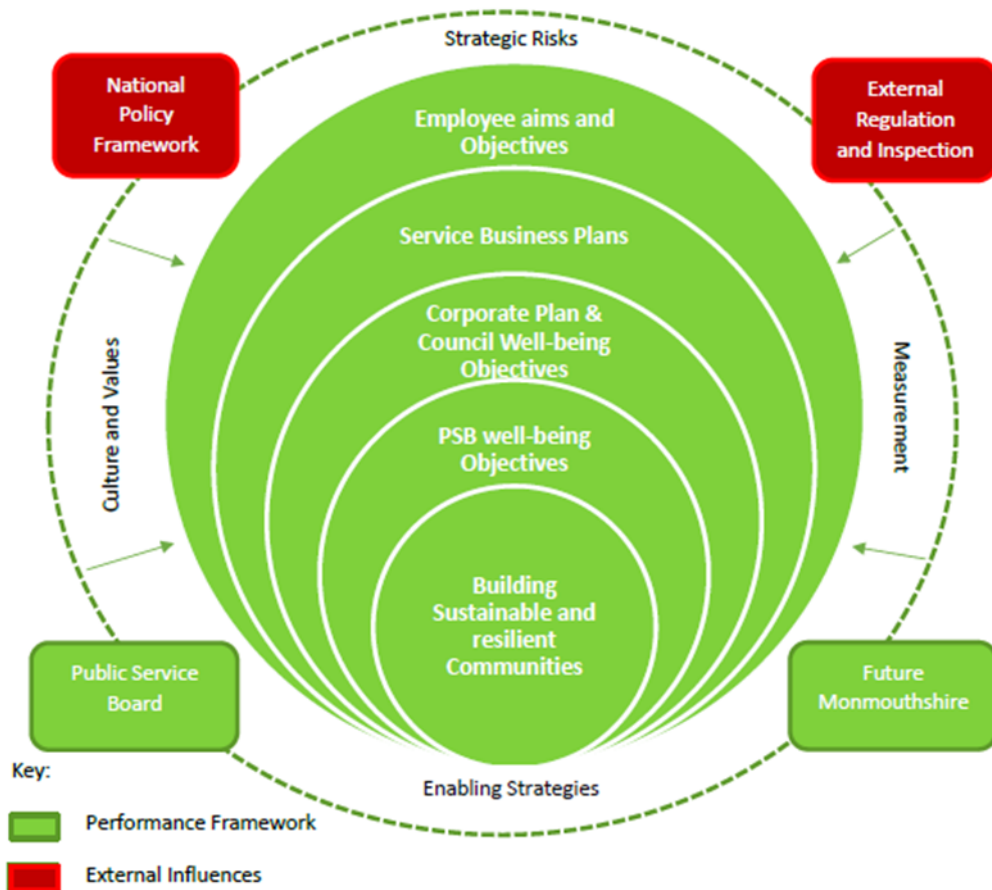
<b>Decision Making &amp; Policy Making</b>	
<b>Purpose:</b>	Decision making and policy making is an important part of our governance arrangements and is about how we ensure we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Good governance is essential for the effective use of public money and the continued delivery of efficient and effective public services. The scrutiny process is an integral part of this and ensures openness, transparency and accountability in the council’s decision-making.
<b>Evaluation Score:</b>	Level 3 – Adequate
<b>Position October 2019</b>	<p>The council’s 2018/19 Annual Governance Statement demonstrates that Monmouthshire has governance arrangements in place to meet the challenges of the governance principles and that a review has been undertaken to assess the effectiveness of those arrangements. We have demonstrated that in most areas, we have effective governance arrangements in place which are continually improving, but also recognise that there is further work to do with areas for improvement identified.</p> <p>An updated report writing template and guidance note for reports to members has been developed and implemented. A new process has been introduced to ensure more timely and complete forward planners. A monthly members bulletin highlighting forthcoming key decisions and significant issues under scrutiny was introduced with limited success and will continue to evolve. A new section on evaluation was incorporated into reports and Democratic Services Committee has endorsed a process to ensure effective oversight of the evaluation of decisions working with Audit Committee and Chairs of Select Committees, although this has yet to be fully implemented.</p> <p>The Democratic Services Committee working group has been exploring proposals to increase public involvement in scrutiny and therefore inform service change proposals put to Cabinet and Council. Scrutiny capacity has been bolstered to provide some of the capacity needed to work in new ways and improvements to the robustness of forward planners will help councillors prioritise the issues where public involvement can add the greatest value.</p> <p>A Wales Audit Office ‘Overview and Scrutiny: Fit for the Future?’ report completed in August 2018, concluded Monmouthshire County Council is continually developing its scrutiny function and is aware of future challenges, but support arrangements for the Public Service Board scrutiny committee need to be strengthened.</p> <p>The council’s scrutiny committees undertake a wide range of scrutiny of council business from ongoing work programmed items, such as Revenue and Capital Financial monitoring and performance monitoring, to specific policy development/review.</p>

	<p>In place of scrutiny Task and Finish Groups, a scrutiny workshop approach has been established to ensure 'value added scrutiny' that delivers timely outcomes. The workshops provide a timely and effective method of engaging members in shaping the future strategic direction, and help the council to respond more promptly and dynamically to challenges posed.</p> <p>The Public Service Board Select Committee has agreed to a change in title and terms of reference of the committee, which will it to scrutinise wider public service provision and where powers allow, to provide greater accountability of services delivered in collaboration or by external partners. The changes will provide enhanced governance arrangements for services delivered to Monmouthshire citizens.</p>
<b>Key Future Actions</b>	<p>Implement training on the revised report writing template and guidance.</p> <p>Implement the process for the evaluation of decisions made by Council and Cabinet</p> <p>Continue to produce an annual report on the continued effectiveness of the council's strategic planning framework</p>

## Performance Management Framework

Our performance management framework makes sure that everyone is pulling in the same direction to deliver real and tangible outcomes.

Building sustainable and resilient communities is the unifying purpose of the diverse range of services for which we are responsible. We are a partner in the Public Service Board, which is responsible for setting well-being objectives for the county. The council’s own well-being objectives are set by the Council based on the same well-being assessment as the PSB objectives and, form the backbone of our Five Organisational Goals in the corporate plan. Each of our teams has a business plan that aligns to these objectives. We have a range of performance measures that we use to keep track of our progress. Our risk management policy enables us to manage strategic risks to our delivery. Our employee aims and objectives show the contributions that individual colleagues make to these objectives and delivering our vision in accordance with our values.





**SUBJECT: MID-YEAR TREASURY REPORT 2019/20**

**MEETING: Audit Committee**

**DATE: 28th November 2019**

**DIVISION/WARDS AFFECTED: Whole Authority**

## **1 PURPOSE:**

- 1.1 To provide an interim mid-year update on treasury management activity for the first 6 months of 2019/20 in accordance with the Authority's Treasury Management Strategy Statement for 2019/20.

## **2 RECOMMENDATIONS:**

- 2.1 That Members review the treasury management activities in the first half of 2019/20 using this report and discuss with officers any changes to the process that should be considered for incorporation into the 2020/21 Treasury Management Strategy Statement.

## **3 SUMMARY:**

- 3.1 Sections 4 to 13 are based on a template provided by Arlingclose, the Authority's Treasury Management advisors with figures and other details specific to Monmouthshire County Council provided by the Authority's treasury management team.
- 3.2 In March 2005 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports to allow scrutiny of the treasury management process. The CIPFA Code requires the Authority to have regard to the security & liquidity of its investments before seeking additional returns (see 8.2).
- 3.3 The Authority's treasury management strategy for 2019/20 was approved at Council on the 7th March 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 3.4 The 2017 Prudential Code requires the Authority to have a Capital Strategy approved by full Council, laying out how to best meet the wide range of objectives the Authority has with limited capital resources. This was approved by Council on the 19th September 2019 and will be updated annually.
- 3.5 The Treasury Management Code which was revised in 2017/18 now covers non-treasury investments as well as treasury investments requiring Authorities to show how they provide

due diligence on these investments in the same way as it does for Treasury investments (see Section 9). The Authority has not increased its holding of non-treasury investments in the first half of 2019/20 but is still looking to spend the full balance of the approved £50m by the end of 2020/21.

- 3.6 The first 6 months of 2019/20 has been another 6 months of economic uncertainty for the UK due to the extension of the Brexit deadline and a deepening slowdown in Europe. Politics abroad has also continued to be a big driver of financial markets for example with continuing tensions between the US and China. The Bank of England maintained rates at 0.75% to support the economy.
- 3.7 Gilt interest rates fell partly due to this uncertainty so the Authority took out £7m of long term borrowing to lock in some longer term benefit from these low rates, a good decision with hindsight as PWLB rates rose by 1% in October 19.
- 3.8 At the 31<sup>st</sup> March 2019 the Authority had a borrowing CFR (Capital Financing Requirement) of £183.9m and gross external borrowing of £178.3m. As detailed in 5.3, gross borrowing increased marginally up to £180.1m in the 6 months to the 30<sup>th</sup> September but net borrowing fell from £158.0 m to £148.9m due to a short term increase in investments.
- 3.9 The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) – see section 8. The investment in strategic pooled funds has now been increased from £2m to £3m. These funds have returned income of £63,000 in the first 6 months of the year. Capital losses of £45,000 including a one off £39,000 will be absorbed by the surplus held in the Financial Instruments revaluation reserve.
- 3.10 As shown in section 10, the Authority is forecasting a saving of £243,000 for 2019/20 in the areas of interest payable and interest receivable against a total net budget of £4.0m.
- 3.11 A new indicator of interest rate risk is detailed at 12.3. It is the % rise in net revenue expenditure which would be caused by a hypothetical increase in interest rates of 1%. This indicator showed an increase of £75,000 to £316,000 from March 19 to September 19.
- 3.12 As reported in Sections 11 to 12, the Authority complied with the Cipfa code of practice on treasury management and the 2019/20 Treasury management strategy, during the year.

#### **4 EXTERNAL CONTEXT**

- 4.1 **Economic background:** UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.
- 4.2 The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the

services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from 0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

- 4.3 Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and committed to leaving the EU on 31st October. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal was in place by 19th October. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful. The bill however was passed into law and Mr Johnson obtained an extension from the EU to the 31<sup>st</sup> January 2020.
- 4.4 Subsequent to the initial drafting of this report, Mr Johnson successfully negotiated a deal with the EU and MP's accepted the deal in principal but required more time before they would vote formerly on the deal. Following that decision the Government proposed a general election, which will now be on the 12<sup>th</sup> December. As the political parties still hold radically different views on Brexit, this has brought more / prolonged political uncertainty.
- 4.5 Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.
- 4.6 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.
- 4.7 **Financial markets:** After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.
- 4.8 Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

- 4.9 This fall in gilt yields, accompanied by an increase in borrowing by Local Authorities from the PWLB, prompted the PWLB to increase its lending rates by 1% from the 9th October 2019. PWLB rates are set with reference to gilts so that the new PWLB rates in October 19 closely resemble the rates in place a year earlier when gilt yields were 1% higher. Normal movements in PWLB rates result from changes to the rates on gilts. This rise, relative to gilts, was highly unusually being overnight and immediate so no ameliorating action could be taken.
- 4.10 Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.
- 4.11 Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.
- 4.12 There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

## 5 LOCAL CONTEXT

- 5.1 On 31<sup>st</sup> March 2019, the Authority had net borrowing of £158.0m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. See Table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31.3.19 Actual £m</b>
General Fund CFR	186.3
Less: *Other debt liabilities	(2.4)
<b>Loans CFR</b>	<b>183.9</b>
<b>External borrowing</b>	<b>(178.3)</b>
Internal (over) borrowing	5.6
Less: Usable reserves	18.1
Less: Working capital	7.9
<b>Net (investments)</b>	<b>(20.4)</b>

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



- 5.2 The Authority pursued its strategy of keeping borrowing and investments below their underlying levels (by £5.6m), sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
- 5.3 The treasury management position at 30<sup>th</sup> September 2019 and the change during the year is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.3.19 Balance £m</b>	<b>Movement £m</b>	<b>30.9.19 Balance £m</b>	<b>30.9.19 Rate %</b>
Long-term borrowing	106.6	6.2	112.8	3.1
Short-term borrowing	71.7	(4.4)	67.3	0.85
<b>Total borrowing</b>	<b>178.3</b>	<b>1.8</b>	<b>180.1</b>	
Long-term investments	0.0	0.0	0.0	N/A
Pooled Funds	2.0	1.0	3.0	5.2
Short-term investments	9.0	8.3	17.3	0.7
Cash and cash equivalents	9.3	1.6	10.9	Incl above
<b>Total investments</b>	<b>20.3</b>	<b>10.9</b>	<b>31.2</b>	<b>1.1%</b>
<b>Net borrowing</b>	<b>158.0</b>	<b>(9.1)</b>	<b>148.9</b>	

- 5.4 £7.0m of new long term PWLB borrowing was taken out in September 2019 to take advantage of low PWLB rates and reduce the Authority's interest rate exposure. Net borrowing fell due to less demand for cash in the short term but as the decision to take out additional PWLB borrowing was a fairly short term decision, there was a resulting temporary increase in gross borrowing and therefore in investments which are planned to fall in the next quarter.

## **6 BORROWING STRATEGY DURING THE PERIOD**

- 6.1 At 30th September 2019 the Authority held £180.1m of loans, an increase of £1.8m from 31st March 2019, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.3.19 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.19 Balance £m</b>	<b>30.9.19 Weighted Average Rate %</b>	<b>30.9.19 Weighted Average Maturity (years)</b>
Public Works Loan Board	85.6	3.8	89.4	3.2	16.1
WG Interest free loans	4.7	0.0	4.7	0.0	7-12
Banks (LOBO)	13.6	0.0	13.6	4.8	22.3
Local authorities (short-term)	68.5	(2.0)	66.5	0.87	0.4
Local authorities (long-term)	5.9	0.0	5.9	Incl above	Incl above
<b>Total borrowing</b>	<b>178.3</b>	<b>1.8</b>	<b>180.1</b>		

- 6.2 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 6.3 In the 2019/20 Treasury Strategy, the Authority forecast its CFR to be increasing by £21m through 2019/20 due to its 2019/20 budgeted capital programme funded by borrowing. A significant part of this CFR increase related to budgeted acquisitions of property investments. Long term borrowing required to fund these will be taken out once any such deals have been entered into.
- 6.4 With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to continue with the practice of using short-term loans instead of long term loans up to 50% of total net borrowing excluding those relating to Property investments. As this 50% limit was seen to be approaching and long term PWLB rates were low, £7.0m PWLB maturity loans were acquired in September split between 5 and 10 year maturity. The resulting movement in long and short term loans is shown in table 3 above.
- 6.5 **LOBO loans:** The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year. If a bank did exercise this option, the Authority's position would be to repay and replace with PWLB loans which are cheaper.

## **7 OTHER DEBT ACTIVITY**

- 7.1 Total debt other than borrowing stood at £2.4m on 30th September 2019, taking total gross debt to £180.1m. The most significant elements are the outstanding liability brought on balance sheet relating to the Monnow Vale PFI scheme (£0.7m) and Welsh Government Funds held by Monmouthshire CC pending lending onto external parties (£1.3m).

## 8 TREASURY INVESTMENT ACTIVITY

8.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half year, the Authority's investment balances ranged between £10 and £37 million. Of this £7-8 million is invested in longer term investments to achieve higher returns while at the same time meeting the Authority's minimum investment balance of £10 million to satisfy the requirements under the Mifid II directive. The investment position is shown in table 4 below.

**Table 4: Treasury Investment Position**

	<b>31.3.19 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.19 Balance £m</b>	<b>30.9.19 Income Return %</b>	<b>30.9.19 Weighted Average Maturity Days</b>
Banks & building societies (unsecured)	4.0	4.0	8.0		62
Government (incl. local authorities)	12.9	0.4	13.3	0.7%	11
Money Market Funds	1.5	5.4	6.9		Overnight
Multi asset income Pooled Funds	2.0	0.5	2.5	5.2%	NA
Property Pooled Funds	0.0	0.5	0.5		NA
<b>Total investments</b>	<b>20.4</b>	<b>10.8</b>	<b>31.2</b>		

8.2 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

8.3 Credit risk associated with investments is managed by placing deposits with banks with a credit rating A- or above & keeping duration within advised levels (£8m), using Government backed counterparties (£13.3m) and by diversification within the investment instrument (£9.9m). The risk of low returns is managed by lending for longer durations (£4m) and strategic pooled funds (£3m).

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

**Table 5: Investment Benchmarking - Treasury investments managed in-house including money market funds, excluding pooled funds**

	Credit Score #	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days) *	Rate of Return %
31.03.2019	3.84	AA-	35	36	0.69
30.09.2019	3.81	AA-	46	24	0.62
Similar LAs	4.46	AA-	52	96	0.78
All LAs	4.28	AA-	62	28	0.83

\*Weighted average maturity # Lower values are a higher credit worthiness

- 8.5 £3m of the Authority’s investments are held in externally managed strategic pooled funds, either multi-asset or property based where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £63,000 in the first 6 months of the year. Due to total capital losses of £45,000, the resultant total return was £18,000. £39,000 of these losses were due to the bid offer spread on units purchased in year in the property fund which is a one off loss at purchase date. Total capital gains of £46,000 were brought forward from 2018/19 in the Financial Instruments revaluation reserve which will absorb the total loss so far. Gains and losses going through this reserve will not affect the Council Fund until units are sold by which time it is probable that the losses from the bid/offer spread would have been reversed. The average return for these funds during the first 6 months was 3.4% total return made up of a 5.2% income return less a 1.8% capital loss (0.5% excluding the one off bid offer spread). The income return will be fed through the Council fund and can be used to support services.
- 8.6 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority’s investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down over months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.
- 8.7 **Readiness for Brexit:** At the 30<sup>th</sup> September, the scheduled leave date for the UK to leave the EU was 31<sup>st</sup> October 2019 and there remained little political clarity as to whether a deal would be agreed by that date and there was a possibility that the exit date would be pushed back yet again. As 31<sup>st</sup> October approached the Authority ensured there were enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.
- 8.8 The Welsh Government is consulting on proposed changes to its Statutory Guidance on Local Government Investments to be effective from the 2020/21 financial year. This involves a complete re-write along the lines of the guidance issued last year by the Ministry of Housing,

Communities and Local Government (MHCLG) for local authorities in England. The definition of investments is widened to include “all of the financial and non-financial assets a local authority has invested money into primarily or partially for the purpose of generating a surplus including investment property” providing it has been made using the power to invest contained in the Local Government Act 2003. In addition, loans to wholly-owned companies or associates, to a joint venture, or to a third party count as investments, irrespective of the purpose or legal power used. The deadline for responses to the consultation was 30th September.

## **9 NON-TREASURY INVESTMENTS**

- 9.1 The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.
- 9.2 At the 30th September, the Authority held £34m of such non-financial asset investments:
- Oak Grove Solar Farm £5.3m NBV
  - Castlegate Business Park & service loan £7.7m NBV
  - Newport Leisure Park & service loan £21.0m NBV
- 9.3 The rest of the Authority’s Investment Properties have been held for over a decade and are retained purely for income or capital gain and at 31st March 2019 consisted of:
- Agricultural Properties £26.4m NBV
  - Industrial Properties and Retail Units £2.7m NBV
- 9.4 These investments generated approximately £1m of investment income in 2018/19 for the Authority after taking account of direct costs. In comparison to the total expenditure budget for the Authority for 2019/20 of £161m, this net income is important but not highly significant. £50m of new investments in Commercial Property was approved by council for 2018/19-2020/21. So far £31m of this budget has been spent.

## **10 Treasury Performance**

- 10.1 The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in table 6 below.

**Table 6: Performance**

<b>Interest Payable</b>	<b>Forecast @ Month 6 £'000</b>	<b>2019/20 Budget £'000</b>	<b>Over/ (Under)</b>	<b>Explanation</b>
<b>PWLB</b>	2,798	2,916	(118)	£50k - rate on variable rate PWLB loan is less than budgeted, £85k – budgeted loan used to fund Newport leisure park less £17k - additional LT loans taken out to reduce int rate risk
<b>Market loans</b>	652	652	0	On target
<b>Short term loans</b>	584	616	(32)	Better ST borrowing rates than budgeted
<b>Total Interest payable on borrowing</b>	<b>4,034</b>	<b>4184</b>	<b>(150)</b>	

<b>Interest Receivable</b>	<b>Forecast @ Month 6 £'000</b>	<b>2019/20 Budget £'000</b>	<b>Over/ (Under)</b>	<b>Explanation</b>
<b>Invested cash short term</b>	(111)	(85)	(26)	Increase in rates following increase in Bank of England base rate plus higher levels of cash investments held
<b>Pooled Funds</b>	(123)	(120)	(3)	About 4% return on investment
<b>Finance lease income</b>	(64)	0	(64)	Interest element of lease payments not budgeted
<b>Income from Investments</b>	<b>(298)</b>	<b>(205)</b>	<b>(93)</b>	
<b>Net Over/ (Under) spend</b>	<b>3,736</b>	<b>3,979</b>	<b>(243)</b>	

## **11 COMPLIANCE**

11.1 The Chief Finance Officer reports that all treasury management activities undertaken during the reporting period complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

11.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

**Table 7: Debt Limits**

	<b>Maximum In period</b>	<b>30.9.19 Actual</b>	<b>2019/20 Operational Boundary</b>	<b>2019/20 Authorised Limit</b>	<b>Complied? Yes/No</b>
Borrowing	180.1	180.1	189.7	220.0	Yes
PFI, Finance Leases & other LT liabilities	2.4	2.4	3.0	4.5	Yes
<b>Total debt</b>	<b>182.5</b>	<b>182.5</b>	<b>192.7</b>	<b>224.5</b>	<b>Yes</b>

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

**Table 8: Investment Limits**

<b>Investment type</b>	<b>Half year Maximum</b>	<b>2019/20 Limit</b>	<b>Complied? Yes/No</b>
<b>Local Authorities per counterparty</b>	nil	£2m or 10%	<b>Yes</b>
<b>Banks per counterparty, rating A- or above</b>	£2m	£2m	<b>Yes</b>
<b>Money Market Funds</b>	£2m	10% and £2m	<b>Yes</b>
<b>Any group of strategic pooled funds under the same management</b>	£1m	£2m	<b>Yes</b>
<b>Limit per non-UK country</b>	nil	£4m	<b>Yes</b>
<b>Investments over 1 year</b>	nil	£6m	<b>Yes</b>
<b>Non-specified investments other than pooled funds</b>	nil	£6m	<b>Yes</b>

## **12 TREASURY MANAGEMENT INDICATORS**

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

12.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the

arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	<b>30.9.19 Actual</b>	<b>2019/20 Target</b>	<b>Complied?</b>
Portfolio average credit rating / score	AA-/3.84	A-/ 5.0	<b>Yes</b>

- 12.3 **Interest Rate Exposures:** This indicator informs the reader of the value of the impact of a 1% rise in interest rates on the revenue account for the 12 months starting the 30<sup>th</sup> September 2019 and compares that impact to that calculated when the treasury strategy was set. For the impact of a 1% fall in rates reverse the direction of the movement.
- 12.4 Please note that this indicator does not relate specifically to the 1% increase in PWLB rates noted in 4.9. This indicator relates mainly to short term loans or variable rate loans which the Authority currently acquires from the Market place rather than the PWLB. Our existing PWLB variable rate loan was not affected by the increase in rates although it could not be replaced at such a good rate through the PWLB at maturity.

Interest rate risk indicator	<b>30.9.19 level</b>	<b>31/3/19 Level</b>	<b>+ve impact is punitive</b>
Forecast impact on revenue over the next 12 months of a 1% <u>rise</u> in interest rates	<b>£316,000</b>	<b>£241,000</b>	<b>£75,000</b>

- 12.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates plus 1%. The punitive impact of £75,000 is mainly due to an increase in short term borrowing levels. Although not set as a limit, 10% of the Council fund balance, £690,000 is a useful comparator for this potential call on reserves.
- 12.6 To supplement this indicator, the treasury team also set a limit on the ratio of net variable rate debt to total net debt. £13.5m of PWLB variable rate debt is included in variable, whereas £13.6m of LOBO loans which could be called in under one year are classed as fixed as they are unlikely to be called and could be replaced with PWLB loans at a lower rate if this occurred.



Limit on net variable rate debt as a % of total net debt	Actual 30th September 2019 £m		Limit £m
	All debt & investments	Excluding debt for Property Investments	
Variable rate debt	81.4	80.4	
Variable rate investments #	28.2	28.2	
Net variable rate debt	53.2	52.2	
Fixed rate debt	98.8	68.8	
Fixed rate investments	0.0	0.0	
Net fixed rate debt	98.8	68.8	
% net variable rate debt to total net debt	<b>35.0%</b>	<b>43.1%</b>	<b>50%</b>

#This table excludes Strategic Pooled Fund investments as they do not contain significant interest rate risk

12.7 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Refinancing risk indicator	Actual 30 <sup>th</sup> Sept 2019 £m / %		Lower limit	Upper limit
	£m	%		
Under 12 months – LOBO loans	£13.6	7.5%	0%	60%
Under 12 months – short term loans	£66.5	36.9%		
Under 12 months – maturing LT loans	£1.3	0.7%		
Under 12 months – variable rate LT loans	£13.5	7.5%		
12 months and within 24 months – other	£10.8	6.0%	0%	20%
24 months and within 5 years	£12.5	6.9%	0%	40%
5 years and within 10 years	£14.1	7.8%	0%	30%
10 years and above	£47.8	26.5%	0%	100%

12.8 Time periods start on the 30<sup>th</sup> September 2019. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

12.9 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
<b>Actual principal invested beyond year end</b>	<b>£0m</b>	<b>£0m</b>	<b>£0m</b>
<b>Limit on principal invested beyond year end</b>	<b>£6m</b>	<b>£6m</b>	<b>£6m</b>
<b>Complied?</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

### **13 OUTLOOK FOR THE REMAINDER OF 2019/20**

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

13.2 There appears no near-term resolution to the trade dispute between China and the US, a dispute that the US appears comfortable exacerbating further. With the 2020 presidential election a year away, Donald Trump is unlikely to change his stance.

13.3 Parliament appears to have frustrated UK Prime Minister Boris Johnson’s desire to exit the EU on 31st October. The probability of a no-deal EU exit in the immediate term has decreased, although a no-deal Brexit cannot be entirely ruled out for 2019 and the risk of this event remains for 2020. The risk of a general election in the near term has, however, increased.

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

13.5 Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Official Bank Rate</b>													
<b>Upside risk</b>	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Cas</b>	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
<b>Downside risk</b>	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

# Public Document Pack Agenda Item 11

## MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held  
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00  
pm

**PRESENT:** County Councillor P White (Chairman)

County Councillors: A. Easson, M. Feakins, M. Lane, P. Murphy,  
B. Strong and J. Watkins

### **OFFICERS IN ATTENDANCE:**

Mark Howcroft	Assistant Head of Finance
Andrew Wathan	Chief Internal Auditor
Peter Davies	Chief Officer, Resources
Wendy Barnard	Democratic Services Officer
Ann-Marie Harkin	Wales Audit Office Director
Emma Davies	Performance Officer
Jonathan Davies	Central Accountancy Finance Manager
Richard Jones	Performance Manager
Lesley Russell	Accountant
Rhodri Davies (WAO)	Wales Audit Office Team Leader

### **APOLOGIES:**

County Councillors P. Clarke, J. Higginson, V. Smith and S. Woodhouse

#### **1. Declarations of Interest**

No declarations of interest were made by Members.

#### **2. Public Open Forum**

No members of the public were present at the meeting.

#### **3. To note the Action List from the previous meeting**

Performance Management: The Chief Officer, Resources, provided an update on staff appraisals explaining that the required data is not currently being collected effectively. Some departments provide responses and others currently do not. This leads to difficulty in defining a cross authority picture

The introduction of a Performance Indicator to the corporate improvement planning process has been completed. Additionally, it was explained that the guidance needs strengthening as practice varies across the authority aligned to the wide variety of roles undertaken and the need to adopt an appropriate style of appraisal accordingly.

It was agreed that this matter would remain on the Action List and that a further report would follow after the next quarter.

#### **4. ISA 260 response to Accounts**

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

Wales Audit Officers introduced the ISA260 report on the authorities audited accounts for 2018/19. It was confirmed that it is proposed to award an unqualified audit opinion.

Reference was made to significant issues arising from the audit as follows:

- Uncorrected misstatements: Those set out below have been discussed with management but remain uncorrected. It was requested that these are corrected, if not, reasons for non-correction were requested. Non-correction will not affect the unqualified audit opinion.
  - i) Pension Liability understated by £1,941,000 following the McCloud ruling recorded as a contingent liability.
  - ii) Non-consolidation of related business and operations
  - iii) Expenditure overstated by £178,705 as prepayment journal not posted at year-end
- Misstatements corrected by management were reported because they were over the trivial level.
- Other significant issues arising from the audit included:
  - i) Some concerns were voiced about the qualitative aspects of accounting practices and financial reporting; specifically a significant number of rounding errors (in excess of 100). It was noted that management has decided not to adjust for these errors. Additionally a number of high value casting errors were noted.
  - ii) Some areas for improvement included a 'Schedule of Deliverables' as not all appropriate working papers were available at the commencement of the audit.

The Wales Audit Officers were grateful for the close co-operation of the Finance Team during the audit process.

This and the following item were considered together.

#### **5. Audited Statement of Accounts**

The Assistant Head of Finance provided the authority's response to the ISA 260 Report and reminded the Committee that the authority is trialling a new process this year where the Council Leader will sign off the Audited Statement of Accounts following verification by Audit Committee to assist with the new, shortened timescales.

Referring to uncorrected misstatements, a joint progress document for 2018/19 was presented but it was also explained that:

- **Pension Liabilities:** In 2015, there was a change to public sector pension regulations that required provision of protection to a small group of people approaching retirement (firefighters and judges). Legal challenges centring on possible age discrimination resulted in further appeals by the government being ruled out. Whilst it is currently unclear where the cost of the additional pension liability will rest, the authority has calculated the possible effect of providing a remedy to eligible staff members accordingly.
- **Non- consolidation of business and other operations:** It was explained that the authority's accounting policies don't require consolidation of joint concerns. The Cardiff City Deal appears in the statement of accounts as an adjusted entry as the figure exceeded the

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

materiality level. Consideration will be given to the best method of presenting future consolidation of accounts for better clarity.

- **Expenditure overstated by £178,705 as prepayment journal not posted at year-end:** This was explained as a consequence of shortening the timescales to finalise accounts. The process has been reduced by four weeks and work is in progress to remove a further four weeks from the process which will involve more estimation and work with other areas of the Council to meet deadlines for the earlier closure of accounts.

Comments and questions were raised by Committee Members as follows:

- Regarding the uncorrected misstatements, it was questioned if the language in the report is too negative and complex for a lay person to understand. It was requested that more thought could be given to this aspect and the inclusion of explanations to avoid misconception.
- In response to a question, it was clarified that there are in excess of 100 rounding errors in excess of £1000 and commented that this is unclear in the report.

Wales Audit Officers confirmed that drawing attention to uncorrected misstatements is a requirement of auditing standards and they have been presented in a balanced way proportionate to the total being above the trivial level. The amount is not material and there is no requirement to address it.

- In response to a question, it was confirmed that the level of materiality is £2.9m consistent with all Welsh authorities. This reflects the level of error that users of the accounts would not be willing to accept.
- It was queried if adjustments will be necessary due to the activity of the Investment Committee during 2019/20. It was confirmed that feedback from the previous year accounts will be used to inform and refine process.
- It was questioned if there was a possibility that the accounts could be materially misstated as a result of fraud. It was confirmed that this is a standard question asked of all authorities and public organisations; the answer was provided that there was nothing of concern to report. It was added that the authority is consulted on this and reassurance was provided.

The recommendations were noted as:

2.1 That the final Monmouthshire County Council Statement of Accounts for 2018/19 (Appendix 1), be accepted as a True and Fair view of the Council's Statement of Accounts and approved for publication by the statutory deadline of 15th September 2019.

2.2 That the year-end financial reporting refinements outlined in the Joint progress document (Appendix 2) are accepted and implemented where agreed by the Authority in preparation for the 2019/20 statement of accounts.

The Committee accepted the accounts as presented and expressed gratitude to the Finance Manager, Assistant Head of Finance and the Finance Team for preparing the accounts and concluding the audit successfully.

#### **6. Treasury outturn report**

The Finance Manager presented the new, easier to read report. This was the second report for 2018/19.

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00 pm

A Member, in relation to the activity of the Investments Committee, questioned the statement that "Total debt rose above the operational boundary when the loan was taken out to pay for the purchase of Newport Leisure Park which had not been allowed for in the operational boundary included in the 2018/19 treasury strategy" and enquired if treasury strategy will be adjusted next year if the recommendations of the Investments Committee are to be continued.

The difference between operation boundary and absolute limit was explained. The expenditure of nearly £30m exceeded the operational boundary but not the absolute limit of £50m for three years. Spending on Castlegate and Newport Leisure Park is within the absolute limit.

The recommendation that Members note the results of treasury management activities and the performance achieved in 2018/19 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of the Council was agreed.

#### **7. Wales Audit Office proposals for improvement for Audit Committee**

The Performance Manager presented the Wales Audit Office proposals for improvement to September 2019 following a performance audit work programme with the Council.

A Member referred to open actions in respect of Democratic Services and Scrutiny and questioned if the timetable is ambitious due to the amount time being taken to introduce forward work planners. The Head of Policy and Governance was confident on timescales going forward.

The recommendations were agreed:

- That members consider the current position of proposals and future actions being taken to address them seeking assurance that adequate progress is being made.
- That members refer on any issues contained within WAO national studies to other committees for consideration where they identify there are findings of particular relevance to the council. No issues were identified.

#### **8. Internal Audit Progress report**

The Chief Internal Auditor presented the first quarterly report on the performance of the internal audit team and progress against the 2019/20 agreed audit plan as at 30<sup>th</sup> June 2019.

30% of the planned work has been started with 11% being at draft report stage. There has been one substantial assurance opinion and limited assurance opinion issued. Work has included finalising draft reports outstanding at 31<sup>st</sup> March 2019, performance indicators, grant claims, special investigations and provision of financial advice to services. The 11% of the plan completed is just below the target of 12%.

The jobs that have been issued with opinions are National Performance Indicators and Castle Park Primary School.

In response to a question, it was confirmed that there is a Limited opinion in respect of Castle Park Primary School and more information will follow in the next quarter report.

The Committee noted the audit opinions issued and the progress made by the Section towards meeting the 2019/20 Operational Audit Plan and the Section's performance indicators at the 3 months stage of the financial year.

## **MONMOUTHSHIRE COUNTY COUNCIL**

**Minutes of the meeting of Audit Committee held  
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 12th September, 2019 at 2.00  
pm**

### **9. Anti bribery Risk Assessment**

The Chief Officer for Resources gave a presentation providing an update on the recommendations subsequent to receipt of two subsequent limited audit opinions regarding Anti Bribery Compliance and Annual Risk Assessment.

Following the presentation, a Member asked for clarification of the level required for a fraud to be considered material. It was explained that there is no set level but there is a consistent and firm approach taken to fraud, and the consequences rely on the investigative work undertaken. Chief Officers will be kept informed of the progress of special investigations and, if fraud is uncovered, a decision will be taken on whether or not to deal with the matter internally or to refer the matter to the Police.

The Member asked if the authority relies on whistleblowers or what is discovered during audit work. It was confirmed that fraud can be exposed from use of the whistleblowing policy, through audit processes and also from anonymous allegations. Internal Audit will investigate the facts to substantiate or refute an allegation.

It was also explained that Internal Audit co-ordinate for the National Fraud Initiative (NFI) for the whole authority and submit data to the Cabinet Office which is compared with other public organisations. Matches are returned to the team to check and refer on as necessary.

A Member queried if there is sufficient staff in the team and it was confirmed that, when planning work, a decision will be taken on level of risk and necessary action will be taken to ensure key aspects of the audit plan are covered.

### **10. Forward Work Planner**

The Forward Work Planner is to be populated as fully as possible.

### **11. To confirm minutes of the previous meeting**

The minutes of the meeting held on the 25<sup>th</sup> July 2019 were confirmed and signed as a correct record.

### **12. To confirm the date of the next meeting as 17th October 2019.**

**The meeting ended at 3.30 pm**

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