

Public Document Pack



County Hall
Rhadyr
Usk
NP15 1GA

Wednesday, 17 February 2021

Notice of Meeting

Audit Committee

Thursday, 25th February, 2021 at 2.00 pm,
Remote Meeting

AGENDA

Item No	Item	Pages
1.	Apologies for Absence	
2.	Declarations of Interest	
3.	Public Open Forum	
4.	To note the action list from the previous meeting	1 - 2
5.	Internal Audit Progress Report - Quarter 3	3 - 10
6.	Treasury Policy and Strategy Report 2020-21	11 - 40
7.	Whole Authority Annual Complaints Report	41 - 56
8.	Forward Work Plan	57 - 60
9.	To confirm minutes of the previous meeting	61 - 68
10.	To confirm the date of the next meeting as 25th March 2021	

Paul Matthews
Chief Executive

MONMOUTHSHIRE COUNTY COUNCIL
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

Philip White (Co-opted Member)

County Councillor Peter Clarke

County Councillor Tony Easson

County Councillor Mat Feakins

County Councillor Jim Higginson

County Councillor Malcolm Lane

County Councillor Phil Murphy

County Councillor Val Smith

County Councillor Brian Strong

County Councillor Jo Watkins

County Councillor Bryan Jones

Llangybi

Fawr;

Dewstow;

Drybridge;

Severn;

Mardy;

Caerwent;

Llanbadoc;

Usk;

Caldicot

Castle;

Goytre

Fawr;

Welsh Conservative Party

Welsh Labour/Llafur Cymru

Welsh Conservative Party

Welsh Labour/Llafur Cymru

Welsh Conservative Party

Welsh Conservative Party

Independent Group

Welsh Conservative Party

Liberal Democrats

Welsh Conservative Party

Public Information

Access to paper copies of agendas and reports

A copy of this agenda and relevant reports can be made available to members of the public attending a meeting by requesting a copy from Democratic Services on 01633 644219. Please note that we must receive 24 hours notice prior to the meeting in order to provide you with a hard copy of this agenda.

Watch this meeting online

This meeting can be viewed online either live or following the meeting by visiting www.monmouthshire.gov.uk or by visiting our Youtube page by searching MonmouthshireCC.

Welsh Language

The Council welcomes contributions from members of the public through the medium of Welsh or English. We respectfully ask that you provide us with 5 days notice prior to the meeting should you wish to speak in Welsh so we can accommodate your needs.

Aims and Values of Monmouthshire County Council

Our purpose

Building Sustainable and Resilient Communities

Objectives we are working towards

- Giving people the best possible start in life
- A thriving and connected county
- Maximise the Potential of the natural and built environment
- Lifelong well-being
- A future focused council

Our Values

Openness. We are open and honest. People have the chance to get involved in decisions that affect them, tell us what matters and do things for themselves/their communities. If we cannot do something to help, we'll say so; if it will take a while to get the answer we'll explain why; if we can't answer immediately we'll try to connect you to the people who can help – building trust and engagement is a key foundation.

Fairness. We provide fair chances, to help people and communities thrive. If something does not seem fair, we will listen and help explain why. We will always try to treat everyone fairly and consistently. We cannot always make everyone happy, but will commit to listening and explaining why we did what we did.

Flexibility. We will continue to change and be flexible to enable delivery of the most effective and efficient services. This means a genuine commitment to working with everyone to embrace new ways of working.

Teamwork. We will work with you and our partners to support and inspire everyone to get involved so we can achieve great things together. We don't see ourselves as the 'fixers' or problem-solvers, but we will make the best of the ideas, assets and resources available to make sure we do the things that most positively impact our people and places.

Agenda Item 4

Audit Committee Actions 7th January 2021

Agenda Item:	Subject	Officer	Outcome

This page is intentionally left blank



**SUBJECT: INTERNAL AUDIT SECTION
Progress Reports for 9 Months into 20120/21**

**DIRECTORATE: Resources
MEETING: Audit Committee
DATE: February 2021
DIVISION/WARDS AFFECTED: All**

1. PURPOSE

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 31st December 2020.

To consider the performance of the Internal Audit Section over the first 9 months of the current financial year.

2. RECOMMENDATION(S)

That the Committee note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2020/21 Operational Audit Plan and the Section's performance indicators at the 9 months stage of the financial year.

3. KEY ISSUES

3.1 As reported previously to Audit Committee, the Internal Audit staff have been redeployed to support the 'test trace protect' initiative, business support grants process and undertake counter fraud checks since March 2020 as a result of the national pandemic, Covid-19. The realistic start date for the audit plan was 5th October 2020. The Auditor has already been seconded out of the team to support the Covid-19 business grants administration.

3.2 Audit work commenced from this date, undertaking the programme of audits in accordance with the revised 2020/21 agreed Operational Audit Plan where possible and in line with Covid-19 restrictions; the majority of site visits were put on hold.

3.3 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 9 months to 31st December 2020.

- 3.4 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate it is compliant with; these replaced the former Code of Practice for Internal Audit within Local Government.
- 3.5 A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Monmouthshire's peer review took place during 2017/18 with the outcome being that the team is generally compliant; no significant areas of non compliance.
- 3.6 Due to Covid 19 pandemic the 2020/21 Revised Audit Plan was agreed by the Audit Committee in September 2020.
- 3.7 The year end opinion for 2020/21 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems along with any assurance gained from other parties where relevant.

4. REASONS

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 16 audit jobs to draft stage from its revised 2020/21 Operational Audit Plan; 3 of these being opinion related and these are shown in the table at Appendix 1. The team was involved with grant claim certification; 3 claims audited.
- 4.2 In relation to the normal audit opinion related reports, 3 have been issued in draft by the end of the 3rd Quarter; all with *Considerable Assurance*. Work was also undertaken on the National Fraud Initiative (NFI), preparing data for submission. The team was involved with auditing grant claims which they have certified as either *qualified* or *unqualified*; all 3 were *Unqualified*, which is positive.
- 4.3 Extensive work has also been undertaken on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports to schools, Finance and Corporate functions, along with the provision of financial advice across directorates. Of the 95% Internal Audit recommendations made in previously issued audit reports which management agreed to implement, the audit team sample checked 65%; 65% of the recommendations tested have been implemented or partially implemented. This is lower than previous years. The intention is to report this into the Senior Leadership team (SLT) for consideration and timely action.

- 4.4 The team have not been able to undertake audits at schools as they ordinarily involve site visits which have been restricted due to Covid-19, as have other site visits. Follow up audits of MonLife tourist sites have not been able to have been undertaken as many of these are seasonal and have not been open as a result of Covid-19. Other work has not been progressed as intended as some service managers are still dealing with the pressures of Covid-19.
- 4.5 At the time of writing this report, the call on Internal Audit resources to support TTP in Q4 has been reduced; the audit resource can therefore be used to work through a further re-prioritised audit programme which will concentrate on opinion related audit jobs and getting draft reports out by the year end.
- 4.6 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.7 Finalisation work from 2019/20 continued; of the 20 reviews at draft report stage at 31 March 2020, 15 have subsequently been finalised. Audit Management are working on finalising all 2019/20 reports by 31st March 2021.
- 4.8 There has been minimal work undertaken on special investigations during 2020/21 so far by the team. Extensive work was undertaken during Q1 and Q2 on counter fraud relating to the issue of the Welsh Government business grants. Where the team was involved in frauds resulting from this work these were not identified as separate special investigations.
- 4.9 Appendix 3 of the report gives details of the Section's performance indicators as at 31st December 2020. As a result of the team not starting on its revised operational plan until October 2020, the focus will be to get opinion related audit reports out in draft to service managers. Therefore the normal suite of performance indicators will not be reported on this quarter.
- 4.10 25% of the revised Audit Plan has been completed as at 31 December 2020.
- 4.11 The team started the year with a full complement of staff in the team.
- 4.12 In Quarter 1 the team was involved with the verification and validation of the Council's annual performance indicators before they were submitted to Welsh Government. The team is also involved with the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council.

5. SERVICE MANAGEMENT RESPONSIBILITIES

- 5.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans they are accepting responsibility for addressing the issues identified within the agreed timescales.
- 5.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

6. FOLLOW UP AUDIT REVIEWS

- 6.1 Where 'Limited Assurance' opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These will be reported separately to the Audit Committee.

7. RESOURCE IMPLICATIONS

None.

8. CONSULTEES

Chief Officer Resources

Results of Consultation:

N/A

9. BACKGROUND PAPERS

Operational Audit Plan 2020/21

10. AUTHORS AND CONTACT DETAILS

Andrew Wathan, Chief Internal Auditor
Telephone: x.4243
Email: andrewwathan@monmouthshire.gov.uk

David Walton, Audit Manager
Telephone: x.4258
Email: davewalton@monmouthshire.gov.uk

AUDIT COMMITTEE FEBRUARY 2021

INTERNAL AUDIT SECTION PROGRESS REPORT 2020/21 – 9 MONTHS

APPENDIX 1

Internal Audit reviews from the 2020/21 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/20 are listed in the table below.

Internal Control Opinions give the auditor's overall conclusion on the control environment operating in each system/establishment under review. Opinions range from Substantial Assurance through to Limited Assurance.

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

Status of reports as at 31st December 2020

Internal Audit Services - Management Information for 2020/21 – Quarter 3

Opinion Summary	
Substantial	0
Considerable	3
Reasonable	0
Limited	0
Total	3

Job number	Directorate	Service	Job Name	Finalised	Opinion given
P2021/37	Resources	Finance	Business World Systems Administration	Finalised	Considerable
P2021/48	Social Care & Health	Children's Services	Review of Imprest Account	Draft	Considerable
P2021/61	Corporate	Cross Cutting	Safeguarding Arrangements	Draft	Considerable
P2021/03	Children & Young People	Achievement & Extended Services	Education Improvement Grant	Finalised	Unqualified
P2021/04	Children & Young People	Achievement & Extended Services	Pupil Deprivation Grant	Finalised	Unqualified
P2021/13	Enterprise	Enterprise & Community Animation	Housing Support Grant	Finalised	Unqualified

Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2021/09	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P2021/38	Resources	Finance	Monitoring Implementation of Audit Recommendations
P2021/64	Corporate	Cross Cutting	Monitoring Implementation of Audit Recommendations
P2021/10	Children & Young People	Schools	Audit Advice
P2021/12	Children & Young People	CYP Resources	Audit Advice
P2021/20	Enterprise	MonLife	Audit Advice
P2021/24	Enterprise	Placemaking, Housing, Highways & Flood	Audit Advice
P2021/34	Resources	People	Audit Advice
P2021/47	Social Care & Health	Integrated Services	Audit Advice
P2021/50	Social Care & Health	Children's Services	Audit Advice

Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed.

SUBSTANTIAL	<p>Substantial level of assurance.</p> <p>Very well controlled, with numerous strengths identified and any risks being less significant in nature.</p>
CONSIDERABLE	<p>Considerable level of assurance</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
REASONABLE	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
LIMITED	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.</p>

The table below summarises the finding ratings used during our audits:

RATING	RISK DESCRIPTION	IMPACT
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risks exist which could impact on the key business objectives. Immediate action required to address risks.</p>
2	Moderate	<p>(Important) – Risk identified that requires attention.</p> <p>Risks identified which are not business critical but which require management attention as soon as possible.</p>
3	Minor	<p>(Minimal) – Low risk partially mitigated but should still be addressed.</p> <p>Audit comments highlight a suggestion or idea that management may want to consider.</p>
4	Strength	<p>(No risk) – Good operational practices confirmed.</p> <p>Well controlled processes delivering a sound internal control framework.</p>

For grant claim audits:

Unqualified opinion - the terms and conditions of the grant were generally complied with;

Qualified opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

AUDIT COMMITTEE FEBRUARY 2021

**INTERNAL AUDIT SECTION PROGRESS REPORT
2020/21 – 9 MONTHS**

APPENDIX 3

Performance Indicators

N / A – not available

	2019/20	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	11%	27%	51%	77%	50% (84% pa)
2	Average no. of days from audit closing meeting to issue of a draft report	2 days	2 days	30 days	26 days	12 days
3	Average no. of days from receipt of response to draft report to issue of the final report	26 days	23 days	22 days	20 days	5 days
4	Percentage of recommendations made that were accepted by the clients	98%	98%	98%	98%	90%
5	Percentage of clients at least 'satisfied' by audit process	N/A	100%	100%	100%	90%
6	Percentage of directly chargeable time (actual v planned)	90%	98%	94%	90%	100%
7	Number of special investigations	2	3	3	3	Cumulative

	2020/21	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	N/A	N/A	25%		50%
2	Average no. of days from audit closing meeting to issue of a draft report	N/A	N/A	N/A		N/A
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A	N/A	N/A		N/A
4	Percentage of recommendations made that were accepted by the clients	N/A	N/A	N/A		N/A
5	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A		N/A
6	Percentage of directly chargeable time (actual v planned)	N/A	N/A	N/A		N/A
7	Number of special investigations	N/A	N/A	N/A		



REPORT

SUBJECT:	Draft 2021/22 Treasury Management Strategy
DIRECTORATE:	Resources
MEETING:	Audit Committee
DATE:	25th February 2021
DIVISION/WARDS AFFECTED:	Countywide

1. PURPOSE

1.1. The purpose of this report is to collect the Committee's views and response to the Council's draft Treasury Management Strategy and Minimum Revenue Provision policy which will then be reported to Council for their own consideration and subsequent approval. The report summarises and highlights the key areas relating to the strategy, alongside those areas of key implications and risks resulting from it which are brought to the Committees attention for their review and comment.

2. RECOMMENDATIONS

2.1. That Audit Committee considers and endorses for onward circulation and approval by full Council the draft Treasury Management Strategy 2021/22 (**Appendix 1**) including the:

- 2021/22 Treasury Management policy statement
- 2021/22 Minimum Revenue Provision Policy Statement
- 2021/22 Investment & Borrowing Strategies

2.2. That Audit Committee continues to review the Council's treasury activities on behalf of the Council by receiving the mid-year treasury management report and year-end report.

3. KEY ISSUES

Treasury Management Strategy

3.1. The treasury management strategy sets out the Council's longer term borrowing requirement and plans, which is driven mainly by the capital programme requirements and the resulting impact on the revenue budget.

3.2. It includes how it will manage and invest its surplus cash which also have various targets/limits set as part of prudential indicators and also includes additional guidance of the Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.

- 3.3. The strategy is a requirement of CIPFA's Prudential Code which sets out the requirement to ensure, within the frameworks set, that capital expenditure plans are:
- **Affordable:** Capital spend and programmes are within sustainable limits. Councils are required to take into account of current and forecast funding available to them and the totality of their capital plans and their costs in assessing affordability.
 - **Prudent:** Councils need to set borrowing limits (called 'operational' and 'authorised limits' – as part of the suite of prudential indicators) which reflect the Councils plan for affordable capital plans and their financing costs. On investing activities, Councils need to consider the balance between security, liquidity and yield which reflects their own risk appetite but which prioritises security and liquidity over yield.
 - **Sustainable:** Council's capital plans and the revenue cost of financing the current and future forecast borrowing/debt taken out for that needs to be sustainable in terms of the Councils overall finances and its impact on that.
- 3.4. The Audit Committee in its role as the Council's delegated body must receive as a minimum a semi-annual report and an annual report after its close on treasury management activities.
- 3.5. Overall responsibility for treasury management remains with the full Council. In effect, that body delegates the execution and administration of treasury management decisions to the Section 151 officer or deputy who will act in accordance with the Treasury management strategy and Treasury management policy statement (**Appendix 1**) and treasury management practices and CIPFA's Standard of Professional Practice on treasury management.
- 3.6. The detailed Treasury strategy for 2021/22 is included at **Appendix 1**. Key points of interest are summarised below.

Annual Minimum Revenue Provision (MRP) Policy Statement

- 3.7. The annual Minimum Revenue Provision is the mechanism used for spreading the capital expenditure financed by borrowing over the years to which benefit is provided. Regulations state that the authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent. In addition, there is the requirement for an Annual Minimum Revenue Provision Policy Statement to be drafted and submitted to full Council. This is attached in **Appendix 1**.
- 3.8. The Welsh Government issued revised MRP guidance in 2018. This is taken into account within the MRP Policy Statement.

Borrowing Strategy

- 3.9. The current economic environment is unprecedented and very much represents the bottom of the treasury cost curve for an Authority like Monmouthshire who is a net borrower. Despite this, it remains very difficult to currently justify locking into longer term borrowing to provide additional certainty to long term treasury costs and budgets given the immediate negative impact it would have on the revenue budget.

3.10. However, the capacity for internal borrowing (where the Council utilises internal resources and cash balances to reduce net borrowing costs) is expected to reduce over the medium to long term as the Council is expected to undertake external borrowing both for the refinancing of maturing loans and to fund increasing capital spend in the existing capital programme. It will remain as much 'internally borrowed' as is possible and increase actual external borrowing only when needed to manage its cash requirements. However, the Council may, where it feels necessary to mitigate the risk of interest rate rises, undertake borrowing early to secure interest rates within agreed revenue budgets. This will be done in line with advice from our Treasury Advisors.

Investment Strategy

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

3.12. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will look to increase its diversification into higher yielding asset classes, such as pooled funds, during 2021/22. The Authority continues to hold £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) and therefore consideration will be given to investing this balance with a more medium to long term outlook.

3.13. The approved counterparty list and limits are shown table 3 of **Appendix 1**.

3.14. Following review and advice from our treasury advisors, the investment limits proposed in the 2021/22 treasury strategy (shown in table 3 of **Appendix 1**) have been simplified quite significantly from the 2020/21 strategy. Over time the existing set of limits had become cumbersome and unworkable on a practical level and the revised criteria provide much needed clarity to the comparatively small treasury team making already complex investment decisions on a daily basis.

3.15. It is important to note that the counterparty rating limits and investment maturities act as limits and not targets and are further informed by bespoke periodic advice from our treasury advisers as to sustainability and financial robustness of specific counterparties.

Other Considerations influencing the strategy

3.16. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority's treasury management strategy for 2021/22.

- The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

- Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.
- The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends.

4. REASONS

- 4.1. The Authority is required to produce a Treasury Management Strategy including a Treasury Management Policy Statement and annual investment and borrowing strategies in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code").
- 4.2. The Authority is required to produce an MRP policy statement in order to comply with the Local Authorities (Capital Finance and Accounting) (Wales) Regulations, last amended in 2018.

5. OPTIONS APPRAISAL

- 5.1. Not applicable.

6. EVALUATION CRITERIA

- 6.1. Not applicable

7. RESOURCE IMPLICATIONS

- 7.1. In summary, the Treasury Strategy remains very similar to previous years, such that the Council remains a net borrower, and utilises internal resources to reduce net borrowing costs, known as internal borrowing.
- 7.2. In order to keep the Authority's borrowing costs lower, the external borrowing total is split fairly equally between long and short term recurrent borrowing. The short term borrowing achieves a reduction in cost but causes an increase in interest rate risk. Although interest rates could rise, it is not expected that short term rates over the MTFP window will exceed current long term rates. The Treasury team continues to optimise its loans and investments to reduce the net cost of borrowing while ensuring that security and liquidity levels are maintained at a suitable level and the various risks are properly managed.
- 7.3. The levels of Treasury debt and investments at the 31st December 2020 are provided in **Appendix 3**.
- 7.4. The medium-term treasury budgets, contained within the 2021/22 revenue budget proposals to be presented to Council shortly, were constructed in accordance with the strategy documents appended to this report. Consequently, there are no additional resource implications directly arising from this report.

7.5. The Council's indicative treasury budgets for the next 4 years are:

	Indicative Base Budget 2021/22	Indicative Base Budget 2022/23	Indicative Base Budget 2023/24	Indicative Base Budget 2024/25
Interest and Investment Income	(131,803)	(211,299)	(211,299)	(211,299)
Interest Payable on external debt	3,651,179	3,963,942	4,027,980	3,848,669
Charges required under Regulation	6,425,898	6,562,013	6,509,187	6,716,279
Total Treasury Budgets	9,945,274	10,314,656	10,325,868	10,353,649
Proportion of Net Revenue budget	6.2%	6.1%	5.8%	5.6%

7.6. However, there are some key future financial risks on medium-term treasury budgets concerning:

- The capital medium term financial plan for 2021/22 has been shared with members as part of the capital budget setting process which won't conclude until 11th March. Should additions be required that are funded from borrowing, then Treasury figures and consequences on capital financing requirement and external borrowing requirement would need to be updated.
- The risks associated with rising interest rates as indicated in the Treasury Strategy by the Interest rate risk indicator & limit. Base and short-term interest rates are expected to remain at current low levels in the medium term and the Treasury strategy allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates. However, the current and future economic environment is extremely uncertain in light of the UK Government response to the pandemic and the ongoing complexities around Brexit agreements and the ongoing position will need to continue to be closely monitored.
- The Authority continues to make plans to assess the capital receipts which can be obtained from selling property assets. Without these receipts being available to fund capital expenditure, new capital programmes will have to be funded by additional borrowing.

8. WELLBEING OF FUTURE GENERATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING AND CORPORATE PARENTING):

8.1. There are no implications directly arising from the recommendations and decisions highlighted in this report.

9. CONSULTEES:

Chief Officer, Resources (Acting Section 151 officer)

Arlingclose – Treasury Management Advisors to Monmouthshire CC

10. BACKGROUND PAPERS:

Appendix 1 – Treasury Management Strategy Statement 2021/22 including the Treasury Management policy statement, Minimum Revenue Provision policy statement and Investment & Borrowing Strategies

Appendix 2 – Arlingclose Economic & Interest Rate Forecast

Appendix 3 - Existing Investment & Debt Portfolio Position

Appendix 4 - Additional requirements of Welsh Government Investment Guidance

Appendix 5 – Prudential Indicators

11. AUTHORS:

Jonathan Davies – Acting Assistant Head of Finance (Deputy S151 officer)

Email: jonathandavies2@monmouthshire.gov.uk

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22**1. Treasury Management Policy Statement**

- 1.1. The Council is required by law to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice 2017 (The Code).
- 1.2. Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 1.3. The revised code allows the Audit Committee to approve the treasury strategy providing the Authority produces a capital strategy, while being clear that overall responsibility remains with full Council. Full Council is required to approve the investment strategy which is currently included in the same document as the treasury strategy and treasury policy and the combined document will continue to be approved by full Council in the current year.
- 1.4. The Council delegates responsibility for the implementation, monitoring and scrutiny of its treasury management policy, strategy and practices to the Audit Committee and for the execution and administration of treasury management decisions to the Section 151 officer or deputy, who will act in accordance with the organisations policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 1.5. As a minimum, the Audit Committee will receive reports on its treasury management policies, practices and activities including, an annual strategy and plan in advance of the year, a semi-annual report and an annual report after its close.
- 1.6. **Policies and objectives of treasury management activities**
- 1.7. The Council defines its treasury management activities as: "The management of the Council's investments, borrowing and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.8. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 1.9. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing

suitable performance measurement techniques, within the context of effective risk management.

1.10. ***Borrowing Strategy:*** The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk, refinancing risk and budgetary risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

1.11. ***Investment Strategy:*** The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

1.12. **Approach to Risk Management**

1.13. This section identifies the risks that the Council faces as a result of it undertaking treasury management activities.

- Liquidity risk
- Credit (or counterparty) risk
- Interest rate risk
- Inflation rate risk
- Exchange rate risk
- Market risk
- Refinancing risk
- Procedural risk
- Legal and regulatory risk

1.14. The Council manages these down to an acceptable level within the regulatory framework through the consideration and application of its treasury strategy and appropriate monitoring against agreed treasury & prudential indicators and limits.

2. **MRP Policy Statement 2020/21**

2.1. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The Welsh Government's Guidance on Minimum Revenue Provision most recently issued in 2018 places a duty on local authorities to make a prudent provision for debt redemption. Local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

2.2. In line with WG guidance, this annual MRP Policy Statement will be submitted to Council before the start of the financial year it relates to. If it is ever proposed to vary the terms of the original MRP Policy Statement during the year, a revised statement should be submitted to Council.

- 2.3. Authorities are permitted discretion in terms of the charge levied, albeit within certain parameters. A “prudent” period of time for debt repayment is defined as being one which reflects the period over which the associated capital expenditure provides benefits or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 2.4. MRP options recommended in the Guidance include:
- Option 1: Regulatory Method
 - Option 2: CFR Method
 - Option 3: Asset Life Method
 - Option 4: Depreciation Method

Note: This does not preclude other prudent methods.

MRP in 2021/22:

- 2.5. Options 1 and 2 can only be used for supported Non-HRA capital expenditure funded from borrowing (i.e. financing costs deemed to be supported through Revenue Support Grant from Welsh Government). Methods of making prudent provision for unsupported Non-HRA capital expenditure include Options 3 and 4 (which may also be used for supported Non-HRA capital expenditure if the Authority chooses).
- 2.6. ***MRP on Supported Borrowing funded Expenditure:*** The Authority’s policy is to apply Option 3, the Asset life method in respect of supported capital expenditure funded from borrowing. The charge will be 2% per annum, equivalent to equal instalments over a 50 year life.
- 2.7. ***MRP on Unsupported Borrowing funded Expenditure:*** The Authority’s policy is to apply Option 3, the Asset life method in respect of unsupported capital expenditure funded from borrowing. The MRP is calculated on an annuity basis within the asset life method, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money. The first MRP charge will be in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. These lives may be reduced if it is prudent to do so because the resultant income stream or useful life to the Authority is shorter.
- 2.8. ***MRP in respect of leases and PFI:*** MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the CIPFA Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.
- 2.9. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council may make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance

with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

2.10. The 2021/22 budget proposals reflect these positions.

3. Treasury Strategy

3.1. Introduction

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

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

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

4. External Context

4.1. **Economic background:** The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority's treasury management strategy for 2021/22.

4.2. The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK

economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

- 4.3. UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.
- 4.4. GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.
- 4.5. GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.
- 4.6. The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.
- 4.7. Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.
- 4.8. **Credit outlook:** After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost

pre-pandemic levels. Although uncertainty around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

- 4.9. The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.
- 4.10. Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, as does the UK not achieving a Brexit deal, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.
- 4.11. **Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.
- 4.12. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.
- 4.13. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 2.

5. **Local Context**

- 5.1. On 31st December 2020, the Authority held £171.3m of borrowing and £22.7m of treasury investments. This is set out in further detail at **Appendix 3**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.
- 5.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

Table 1: Balance sheet summary and forecast

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
General Fund CFR	189.5	213.8	213.9	226.3	224.0
Less: Other debt liabilities *	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
Loans CFR	187.0	211.4	211.5	223.9	221.6
Less: External borrowing **	(183.8)	(176.5)	(90.0)	(96.9)	(93.8)
Internal borrowing	3.3	34.9	121.6	127.0	127.8
Less: Usable reserves	(18.5)	(21.8)	(22.0)	(20.6)	(20.4)
[Less/Plus]: Working capital	(9.3)	(13.1)	(13.1)	(13.1)	(13.1)
(Investments) or External borrowing requirement	(24.5)	0.0	86.5	93.3	94.3

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

** shows only loans to which the Authority is committed and excludes optional refinancing

5.3. The Authority has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £94.3m over the forecast period.

5.4. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2021/22.

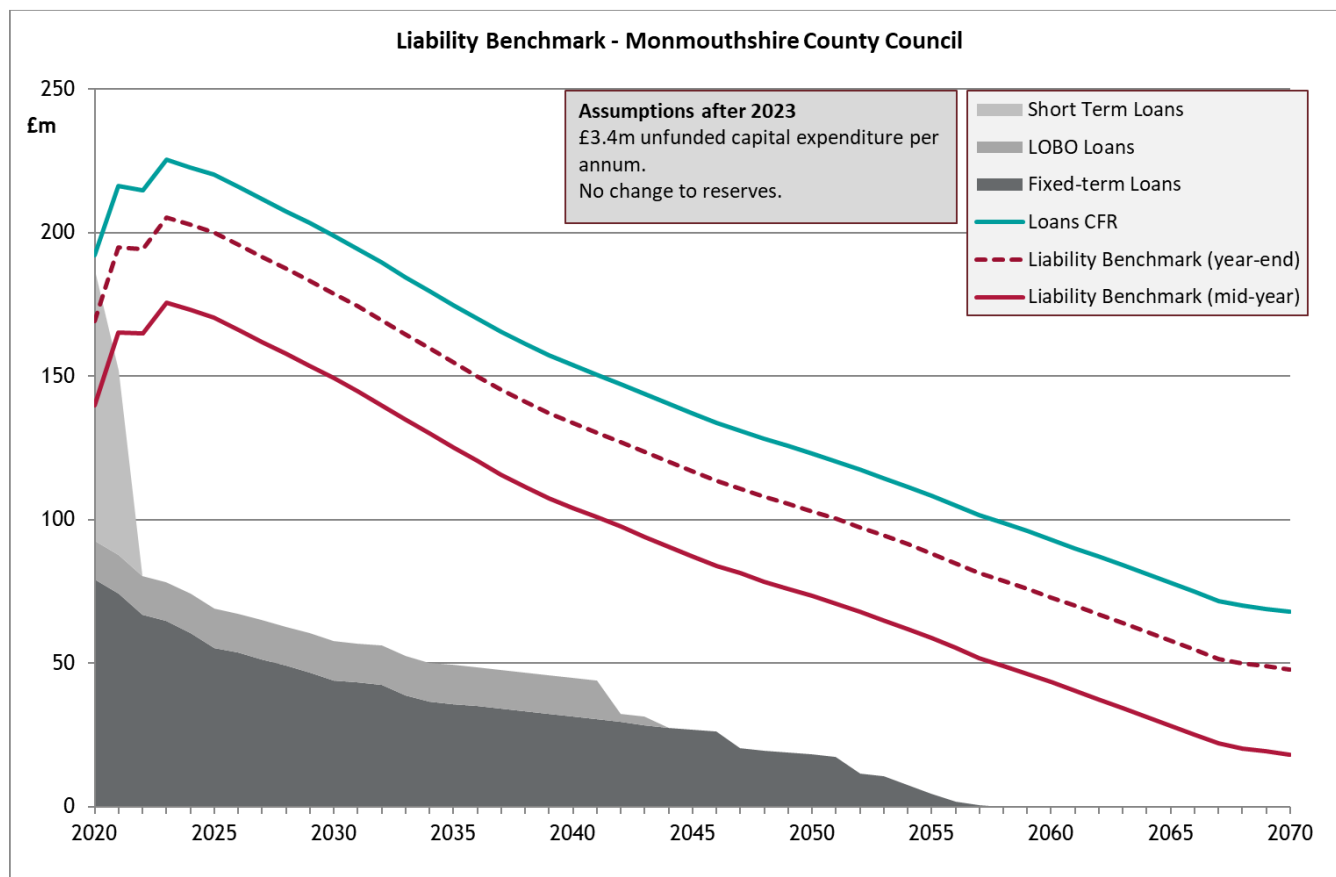
5.5. **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum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

Table 2: Liability benchmark

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loans CFR	187.0	211.4	211.5	223.9	221.6
Less: Usable reserves	-18.5	-21.8	-22.0	-20.6	-20.4
Less: Working capital	-9.3	-13.1	-13.1	-13.1	-13.1
Plus: Preferred investments	10.0	10.0	10.0	10.0	10.0
Liability benchmark	169.2	186.5	186.4	200.2	198.1

5.6. Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark, below assumes capital expenditure funded by borrowing is as the 2021/22 capital MTFP and thereafter £3.4m per year, minimum revenue provision on new capital expenditure is based on asset life as in the MTFP or 25 years and, income, expenditure and

reserves held are not increasing or decreasing beyond the MTFP window. This is shown in the chart below:



5.7. Our underlying need to borrow is shown by the top blue line. However, due to the use of reserves and working capital, the Authority is expected to need total external borrowing between the full red lower line and the dotted line above it. As our existing loans portfolio (shown in grey) reduce as loans mature, new loans will therefore be required to fill the gap between the grey area and the red lines over the longer term. The Authority intends to maintain about a 50% level of short term loans which will partly fill this gap, but we will still need to take out longer term loans, mainly to fund the capital investment built into the Capital MTFP.

6. Borrowing Strategy

6.1. The Authority currently holds £171.3m of loans, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to a total £176.5m in 2021/22. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £250.9m.

6.2. **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty

of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

- 6.3. **Strategy:** Given the significant cuts to public expenditure over recent years and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. A roughly equal balance of long and short term debt is, at the time of writing, taken as the right balance to maintain sufficient long term stability.
- 6.4. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 6.5. The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.
- 6.6. Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 6.7. In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.
- 6.8. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - any other UK public sector body
 - UK public and private sector pension funds (except the Greater Gwent Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
 - CSC Foundry Ltd

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

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

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

6.10. **LOBOs:** The Authority holds £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. All of these LOBOs have options during 2021/22, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

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

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

7. Treasury Investment Strategy

7.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £14.7m and £31.0m million, and similar levels are expected to be maintained in the forthcoming year.

7.2. Loans to organisations providing local public services and purchases of investment property are not considered to be treasury investments, and these are therefore covered separately in **Appendix 4**.

- 7.3. **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 7.4. **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 7.5. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will look to increase its diversification into higher yielding asset classes, such as pooled funds, during 2021/22. The Authority continues to hold £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) and therefore consideration will be given to investing this balance with a more medium to long term outlook.
- 7.6. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority’s “business model” for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 7.7. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	Unlimited
Local authorities & other government entities	5 years	£4m	Unlimited
Secured investments *	5 years	£4m	75%
Banks (unsecured) *	13 months	£2m (£3m total for the Councils operational bank)	50%
Building societies (unsecured) *	13 months	£2m	50%

Sector	Time limit	Counterparty limit	Sector limit
Registered providers (e.g. Housing Associations (unsecured) *)	5 years	£2m	50%
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other Investments	13 months	£2m	£5m

Credit rating	Banks unsecured	Banks secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£3m 13 months	£4m 5 years	n/a	£4m 5 years
AA+	£3m 13 months	£4m 5 years	n/a	£4m 5 years
AA	£3m 13 months	£4m 5 years	n/a	£4m 5 years
AA-	£3m 13 months	£4m 3 years	n/a	£4m 3 years
A+	£3m 13 months	£4m 2 years	n/a	£4m 2 years
A	£3m 13 months	£4m 2 years	n/a	£4m 2 years
A-	£3m 13 months	£4m 13 months	n/a	£4m 13 months

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and

there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

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

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

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to its own banker. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be limited to £3m. The Bank of England has stated that in the event of failure, banks with assets greater than £25

billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

- 7.8. **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 7.9. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 7.10. **Other information on the security of investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 7.11. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 7.12. **Investment limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £21.8m on 31st March 2021. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

7.13. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£4m per country

7.14. **Liquidity management:** The Authority is a net borrower and does not have an overdraft set up due to the high cost to do so. The treasury team maintain a cashflow model which calculates the net cashflow movements expected per year based on the capital medium term financial plan and informs the timing and amount of any longer term investment and borrowing decisions. The aim of short term liquidity management is to borrow only when the need arises and therefore to minimise net borrowing costs. The amount of investments, with duration over one day, held at any one time is a balance between increased returns and the time taken/dealing costs of identifying and implementing those investments.

8. Treasury Management Indicators

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

8.2. **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.

Credit risk indicator	Target
Portfolio average credit rating / score	A- / 5.0

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	60%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%

10 years and within 20 years	30%	0%
20 years and within 30 years	30%	0%
30 years and within 40 years	30%	0%
40 years and within 50 years	30%	0%
50 years and above	30%	0%

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

9. Related Matters

- 9.1. The CIPFA Code requires the Authority to include the following in its treasury management strategy:
- 9.2. **Financial derivatives:** In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.
- 9.3. **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Section 151 officer or deputy believes this to be the most appropriate status.
- 9.4. **Government Guidance:** Further matters required by the WG Guidance are included in Appendix 4.

10. Financial Implications

- 10.1. The budget for investment income in 2021/22 is £132k, based on an average investment portfolio of £10m. The majority of returns are expected to come from pooled fund investments with returns from Government or secured/unsecured investments expected to be negligible. The budget for debt interest paid in 2021/22 is £3.65m, based on an average debt portfolio of £176.5m at an average interest rate of 2.07%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

11. Other Options Considered

11.1. The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Arlingclose Economic & Interest Rate Forecast - November 2020**Underlying assumptions:**

- The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.
- The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.
- Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.
- Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.
- This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of a vaccine or if the UK leaves the EU without a deal.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Artingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Artingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Artingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
10yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Artingclose Central Case	0.30	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Artingclose Central Case	0.70	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.85
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
50yr gilt yield													
Upside risk	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70
Artingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80% PWLB HRA Rate = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Existing Investment & Debt Portfolio Position

	31st Dec 2020 Actual Portfolio £m	Average Rate %
External borrowing:		
Public Works Loan Board	74.5	3.53
LOBO loans from banks	13.6	4.80
Welsh Government Loans	5.3	0.00
Local authority & other ST loans	77.9	0.15
Total external borrowing	171.3	1.98
Treasury investments:		
Banks & building societies (unsecured)	4.0	0.00
Government (incl. local authorities)	10.2	0.00
Money Market Funds	5.5	0.01
Strategic pooled funds	3.0	4.00
Total treasury investments	22.7	0.53
Net debt	148.6	

Additional requirements of Welsh Government Investment Guidance

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

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

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

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy in line with its declaration of a Climate Emergency in 2019. The Authority's aim is to make the county of Monmouthshire zero carbon by 2030 and will revise the Corporate Plan, Well-being Plan, Local Development Plan and other relevant plans and policies in support of this. It will call on the Welsh Government and the UK Government to provide the necessary powers, resources and technical support to successfully meet the 2030 target.

Specified investments: The WG Guidance defines specified investments as those:

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

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

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

A local authority may choose to make loans & other investments in local enterprises, local charities, wholly owned companies and joint ventures where relevant to Council functions and to promote local economic growth.

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

Non-specified investments: Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies.

Non-financial investments: This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. The Authority's current Investment Property portfolio is divided into long held Investment Properties such as County Farms and the three more recently acquired commercial Investment Properties which support economic regeneration.

The total of the Authorities usable reserves forecast at 31st March 2021 is £21.8m. This represents 62% of the value of the Authorities Commercial Investment Properties acquired to date. Due to the due diligence process undertaken before Commercial Investments are entered into and the forecast income over the lifetime of the assets, these investments are considered to be prudent by the Authority.

Liquidity: The Authority's liquidity management has been detailed in the main Treasury report with regard to treasury activities. Before supporting local entities or placing a commercial investment the impact on liquidity is fully addressed, most commonly by taking out loans of an appropriate maturity to ensure funds are available for the life of the activity. £40,000 of seed funding was placed with SRS Ltd in 2011/12 with the intention of it remaining there for the long term to support that entity.

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will follow its Investment strategy for Commercial assets which ensures that any borrowed capital will be repaid with annual income earned from the investment or that an exit strategy identified during the due diligence will be followed.

Yield (net profit): The Authority utilises its profit generating investment activity to achieve a balanced revenue budget. Table 1 below details the proportion of treasury & property rental income to the net revenue budget and therefore its contribution to meeting the costs of delivery of the Authorities primary functions. Any Authority wide shortfall, including shortfalls resulting from lower than budgeted returns from Investments, will be addressed as part of that process to bring the Authority's outturn position back to a balanced position.

Table 1: Proportionality of Investments

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Net Revenue Budget	155.1	161.5	168.9	177.6
Investment income	3.3	3.3	3.3	3.3
Proportion	2.1%	2.1%	2.0%	1.9%

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisers and has used Alder King as advisers for the last 2 Commercial investment Property Acquisitions. The quality of these services is controlled by the Internal Estates team and also the Investment Committee appointed to oversee the Commercial Investments.

Borrowing in advance of need: Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the provisions in this guidance has entered into its commercial investments utilising Local Authority investment powers, which allow for the prudent management of its financial affairs where carried out reasonably and in accordance with an authority's primary function to serve the public. Returns from commercial investments help to ensure there are sufficient funds to continue to provide public services and promote economic regeneration.

Capacity and skills: The Section 151 officer is responsible for ensuring that those elected members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to:

1. take informed decisions as to whether to enter into a specific investment;
2. assess individual investments in the context of the strategic objectives and risk profile of the local authority; and
3. understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

The Audit Committee has a delegated responsibility to scrutinise the treasury management activity of the Authority, which ensures that elected members have the necessary opportunity to assess whether officers are operating within the boundaries of both the prudential framework and the internal boundaries approved within the TMSS. The Audit Committee is provided with training by the Authority's Treasury Management advisers periodically and have been presented with a questionnaire to assess further training requirements

Commercial deals: The investment committee is responsible for ensuring that those tasked with negotiating commercial deals have the appropriate skills and access to information to allow them to operate with regard to the principles of the prudential framework and regulatory regime within which the Authority operates.

Prudential Indicators

Capital Expenditure £m	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Capital Fund Services	61.2	25.0	24.3	9.0	9.2

Capital Financing £m	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
External Sources (Grants & S106 Contributions)	25.9	15.6	2.4	2.4	2.5
Own Resources (Capital receipt and reserves)	5.1	2.9	2.9	1.2	1.2
Borrowing & other Debt	30.2	6.5	19.0	5.4	5.5
Total	61.2	25.0	24.3	9.0	9.2

Gross Debt Forecast compared to CFR £m	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt (Inc. PFI, leases, right of use assets)	176.5	168.5	175.4	172.3	164.3
Capital Financing Requirement (Total)	189.4	213.9	226.3	225.2	224.0

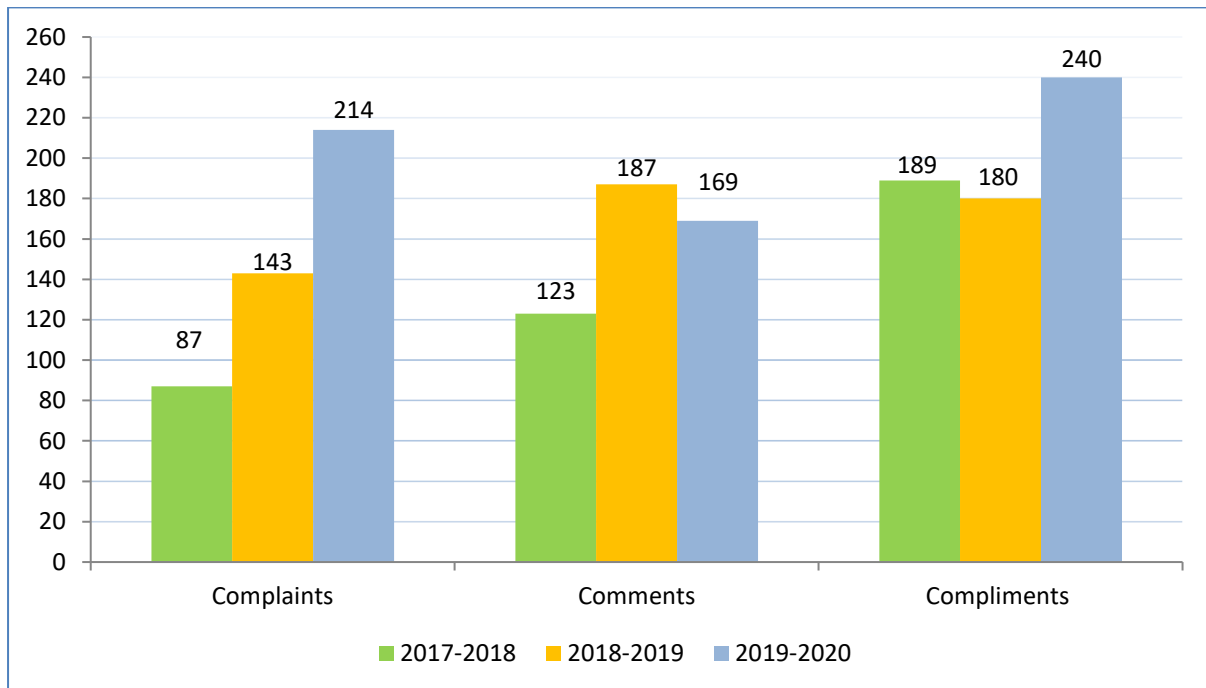
Authorised & Operational Borrowing Limits	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Authorised limit - borrowing	247.0	246.5	259.8	258.7	257.5
Operational boundary - PFI, leases & right of use assets	4.4	4.4	4.4	4.4	4.4
Authorised Limit - total external debt	251.5	250.9	264.2	263.1	261.9
Operational Boundary - borrowing	216.8	216.3	229.6	228.5	227.3
Operational Boundary - PFI, leases & right of use assets	2.9	2.9	2.9	2.9	2.9
Operational Boundary - total external debt	219.8	219.2	232.5	231.4	230.2

Proportion of Financing Costs to net revenue stream	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Interest £m	4.0	3.5	3.7	3.8	3.6
MRP £m	6.1	6.4	6.6	6.5	6.7
Total Financing costs £m	10.1	9.9	10.3	10.3	10.3
Net Revenue Stream (£m)	155.1	161.5	168.9	177.6	185.0
Proportion of net revenue stream %	6.54%	6.15%	6.08%	5.80%	5.58%



Whole Authority Customer Feedback

April 2019 – March 2020



Complaints

- 214 Complaints received

Stage 1 - Informal Resolution

- 207 Complaints started

Stage 2 – Formal Investigation

- 13 Formal complaints
 - 7 escalated
 - 5 new

Public Services Ombudsman for Wales

Of the above formal complaints received, 1 complainant went directly to the PSOW. He referred it back to us for subsequent investigation.

3 complainants progressed their complaint to the PSOW after formal investigation. The PSOW did not investigate their complaints.

1 complainant progressed their complaint to the PSOW after formal investigation and they are currently investigating.

Complaints: Examples of most common aspects of services complained about:

Waste & Street Services

By far this was the most complained about service.

- Repeated missed bin and food waste collections; irregularity of collections, missed assisted collections
- Service received at recycling centres.
- Staff conduct; communication with the department.

Development Management & Planning Policy

- Feels misled with current dwelling status
- Alleged failure to consult regarding revisions to planning status
- Enforcement issues
- Feels planning decision reached in undemocratic way
- Concerns regarding approval of planning applications
- Feels given incorrect information

Highways

- Rights of access
- Green field area not maintained
- Lack of road sweeping
- Delays due to work undertaken in town
- Potholes not repaired
- Failure to maintain hedges
- Flood risk posed due to blocked drainage culverts
- Issues with street lighting
- Poor communication and responses from department.

Passenger Transport

- Changes to school transport / length of journeys
- Bus passes not received
- Buses not operating, late / not arrived.
- Alleged incorrect information provided.
- Issues with bus route
- Issues with private hire bookings

Housing

- Issues with neighbours
- Issues with Homeseach application
- Issues regarding the Local Rural Connection policy
- Alleged abuse of the Housing Act

Others

- Rental of school facilities
- Noise nuisance
- General lack of response from various sections of the Council either by phone or email
- Staff conduct
- Traffic and safety during cycling event
- Alleged failure to provide suitable disabled toilets for learners
- Issues regarding firework display
- Process regarding making online payments

Stage 2 Formal Investigations concerned matters relating to:

- There are no child sized disabled toilets in primary schools in Monmouthshire.

There were 4 elements to the complaint, 3 were not upheld and one partially upheld.

- The Council failed to act on a noise nuisance complaint.

The complaint was not upheld.

- MCC incorrectly requested an Enhanced DBS check for a post.

There were 7 elements to the complaint, 5 were not upheld and 2 were upheld.

- Issues regarding procuring a tender not being evaluated correctly.

The complaint was not upheld.

- Issues regarding a planning application

The complainant didn't pursue his complaint.

- The transport provision is not reasonable given the distance from home to school and the bus journey time.

There were 3 elements of the complaint which were not upheld.

- The utilisation of public school facilities by a fundamentalist group which the complainant believes goes against the ethos and values of Welsh education and therefore is inappropriate for school facilities to be used in this way.

The complaint was not upheld.

- The planning application process

There were 3 elements of the complaint, two were not upheld and one partially upheld.

- The lack of updates on a service request providing unnecessary delay and frustration.

The complaint was upheld.

- Miscommunication between teams regarding allowances paid.

There were 4 elements of the complaint, 2 were partially upheld, one upheld and one not upheld.

- The school is not adhering to its complaint policy. Consequently, there is a lack of confidence in the school and Governing Body to deal with complaints.

The complaint was partially upheld

- Works in Chepstow

The complainant did not pursue his complaint.

Note: Social Services complaints are dealt with separately under the Social Services complaints procedure. **45** complaints were received, **82** comments and **144** compliments were made about the service.

Distribution YTD

	Total	Access to Service	Communication Issue	Data Protection	Decision Delay	Discrimination	Member Conduct	Quality of Service	Quality of Works	Reduction in Service	Result of Process	Service Delayed	Service not provided	Service Removed	Staff Conduct	Timescales
Overall Total	214	8	37			6		116	1	1	14				30	1
Landlord Services	1														1	
Property Services and Facilities Management	1										1					
People Services	2		1			1										
Digital Programme Office	1					1										
Revenues, Systems & Exchequer	5		3					1			1					
Total Resources	10		4			2		1			2				1	
Development Management & Planning Policy	13		1					4			7				1	
Housing and Communities	7		1			2					3				1	
Leisure	3		1					1							1	
Green Infrastructure and Countryside	3	1								1					1	
Events	1	1														
Highways Operations and SWTRA	10		9					1								
Highways and Flood Management	12		6			1		1	1						2	1
Monmouthshire Business, Youth Enterprise & RDP	1										1					
Catering and Cleaning	2														2	
Passenger Transport Unit	7	1	1					5								
Fleet Transport	1	1														
Waste and Street Services	121	1	7					99							14	
Enterprise not allocated	1		1													
Total Enterprise	182	5	27			3		111	1	1	11				22	1
Community Hubs, Contact Centre & Community Learning	3		2												1	
Legal Services	2		2													
Local Democracy	1					1										

Total Chief Executive	6		4			1								1	
Animal Health & Trading Standards	1														1
Environmental Health - Public Health	3							1		1					1
Finance	1							1							
Registrars	1														1
SCH not allocated	1														1
Total Social Care & Health	7							1		1					4
Additional Learning Needs and Special Learning Needs Service	2	2													
CYP not allocated	3	1	1					1							
Total Children & Young People	5	3	1					1							
External	4		1					1							2
Total Other	4		1					1							2

Comments

- 169 comments

Overall Total	169
Customer Relations	1
Digital Programme Office	3
Revenues, Systems & Exchequer	2
Resources not allocated	1
Total Resources	7
Building Control	5
Housing and Communities	2
Leisure	2
Monmouthshire Business, Youth Enterprise & RDP	1
Highways Operations and SWTRA	16
Highways and Flood Management	23
Passenger Transport Unit	7
Waste and Street Services	85
Enterprise not allocated	1
Total Enterprise	142
Communication	1
Community Hubs, Contact Centre & Community Learning	8
Total Chief Executive	9
Animal Health & Trading Standards	1
Environmental Health - Public Health	3
Total Social Care & Health	4
External	7
Total Other	7

A selection of comments received concerned:

Waste and Street Services

- So many comments about missed recycling collections; green waste not collected and that it is a payment service.

Highways

- Street lights turned off in the evenings / street lights not working.
- Lack of response from staff
- Issues with street address/postcode
- Issues with overhanging branches on trees on highway / overgrown footpaths and hedges.

- The car park in Withy Close in Magor is causing an environmental issue and a safety issue. The car park itself is a general mess, overflowing litter and brambles everywhere.
- Flooding and residual dirt in the driveway and around their bungalow following heavy or constant rainfall.
- Speed and road safety issues in Catbrook.
- Vehicle parked permanently in parking bay.
- Dangerous road junctions, broken signs and damaged road surfaces.
- Flooding issues
- Diversion due to A466 Closure, Catbrook June 2020 and residents only signs during diversion which starts in March.
- Issues with potholes.

Other

- The noise / dust whilst homes who are being built at Greystone Meadows is horrendous.
- Issues with local pages regarding waste on website not working
- Online bus timetable incorrect.
- Length of time to get through to Council too long.
- Process of post 16 school transport / issues re timekeeping of school transport.
- Lack of staff at Usk post office
- Lack of maintenance of changing rooms in leisure centre
- Limited amount of gym equipment in leisure centre

Compliments

- 240 Compliments

Overall Total	240
Customer Relations	3
Emergency Planning	1
Landlord Services	1
Revenues, Systems & Exchequer	2
Total Resources	7
Development Management & Planning Policy	6
Building Control	75
Housing and Communities	3
Leisure	6
Green Infrastructure and Countryside	7
Youth Service	19
Highways Operations and SWTRA	24

Passenger Transport Unit	1
Fleet Transport	1
Waste and Street Services	62
Total Enterprise	204
Communication	0
Community Hubs, Contact Centre & Community Learning	19
Chief Executive Not Allocated	1
Total Chief Executive	20
Animal Health & Trading Standards	2
Environmental Health - Public Health	4
Environmental Health -Commercial	2
Registrars	1
Total Social Care & Health	9

A selection of compliments received:

A range of compliments about the whole of the Council was received – staff thanked for their professionalism, their quick responses, their efficiency and helpful service.

Some examples:

Building Control send out a questionnaire after providing a service and therefore a large number of compliments are received about their advice given and efficient service.

Waste & Street Services

Although we received a large amount of complaints and comments regarding this service, we also received compliments, a selection below:

- As being (fairly) new in Chepstow, we are delighted at how seriously and effectively (and efficiently) Monmouthshire Council takes recycling and environmental responsibility.
- Carry on delivering a great service and system.
- I am writing to thank you for the prompt and effective cut back of the rogue bushes.
- Very heartfelt thank you to the lovely young lady at Llanfoist HWRC, who helped the 86 yr old lady out on a very hot day with unloading her car etc, she said the lady was very polite, charming and more than helpful, so thank you and well done.
- Thanks for all your help with Usk Open Gardens. It made such a difference.
- I would like to congratulate your department for not cutting the verges on the road from Trelleck to the Whitestone picnic area. There are common spotted orchids flowering on the section between Cleddon bog and Whitestone. This is the first time I have seen this in the 26 years we have lived here. It just shows what can be achieved with sensitive management.

- Email received in response to a request within 24 hours 'Thanks so much, what a service!'
- I wish to compliment you again on litter. I noticed how litter free the highway is along the A48 from Newport to Chepstow and also the surroundings areas.
- I would just like to say thank you very much for the bench that was installed by the big flowerbed in Kings Fee yesterday. I appreciate yours and your teams time is precious and that finances aren't what they could be.
- Planting on green in Portskewett (behind Hill Barn View) The community have been really impressed with this much more environmental friendly approach and it obviously brings with it cost savings too, so well done on this approach.
- I just wanted to thank you for arranging the Community Service Crew to come in over the half term, they did a fantastic job and we really appreciate their efforts, could you pass our gratitude to onto the team.
- Would just like to say that I called to the cemetery yesterday afternoon and how lovely it's beginning to look. With just a few bushes cut back & borders taken care of it's made such a difference.
- Just wanted to thank you and the team for the work to the Astro Turf over the weekend.
- Underpass - Dual Carriageway Monmouth, great. Thank you and your amazing team.
- A big thank you to the Garden Waste Crew who stopped to help lady who was struggling to move the garden waste bag, the crew stopped and helped by taking the bag emptying it and returning it to the property - the caller was very very grateful and would like her thanks passed to the crew.
- Thanks to you and your team for all your hard work. To be honest you haven't drawn breathe from the floods! Your hard work is appreciated.

Highways

- Sincere thanks to the team for their swift action taken today, in removing a further large tree that had decided to block Llanwenarth Breast Lane.
- Thank you so much for taking the trouble to get our lane right. The workers came back and improved on their earlier work and left some planeings for us for future repairs.
- The lane from Bethel Far Hill to Penarth Mill, thank you for such a magnificent job on our lane. Tenants have also remarked how good the lane is now.
- Thanks for all your help with Usk Open Gardens. It made such a difference.
- Sincere thanks to all those who worked on resurfacing and relining the B road from Monmouth to Chepstow. Local residents like me in the villages along the road are really enjoying having a safe road, especially before the winter.

- Just to say thanks for clearing the culverts out on the upper part of the B4293, as this will help stop the large pooling of water during the winter period.
- Thank you to the men who were out providing sandbags.
- Thank you to the council and, in particular, the two gentlemen who came to clear the reën with a dredger so that it wouldn't flood.
- Such diligence and hard graft on Sunday 23rd February 2020 was admirable. Amazing dedication to the 'task' in hand particularly on a Sunday, when the weather conditions were particularly challenging.

Community Hubs

- Excellent customer service. F really took ownership of the issue and helped me as a one stop shop. She did a great job.
- They are so helpful - nothing is too much trouble - brilliant people.
- Its wide service to the local community, the warm welcome we received when visiting the library.
- I just wanted to thank one of your employees who was so kind, helpful and compassionate to a friend of mine having difficulties with accommodation.
- Thank you again to you and your team, whilst in one of the worst times in my life, all of the staff were patient and amazing in my time of need.
- Ordered sandbags earlier today by phone. Thank you to the receptionist for being so professional. Sandbags already delivered! Wow what a service.
- Thank you for reading us a story. I had such a great time. I really like the library because it helps me learn. I really enjoyed it.

- **Youth Service / Leisure**

- Thanks so much for looking after them. He came home Sunday and slept all day! They had a great time although all a bit cold. A big thank you to all the other volunteers this weekend.
- Thank you so much for taking my daughter on her first Dof E expedition this weekend. She really enjoyed it. Just a bit tired this afternoon.
- I would also like to thank all the staff for helping E to achieve her DoE we are really proud parents and she couldn't have done it without your support.
- Just wanted to send you a quick email to let you know what a fantastic time I had at the Palace yesterday - it was a really memorable day and we couldn't have asked for nicer weather! Thank you, once again, for all your help in doing and finishing the award. Hope to see you over the summer when I volunteer.
- Thank you though for making me realise I just needed that routine to do things, you've really helped me.
- I'd just like to pass on how great the guy was who taught K's class this morning. L really enjoyed it and it was her first lesson without the waist float.
- Thank you for all your help organising the first ever JKA national course. Everything went really smoothly and the facilities were great. Thanks again and please pass on our thanks to all the staff involved.
- I am sending this note to say thank you to everyone for the real support you have given as I learn to swim.
- L has been amazing and always encouraged me to believe I could do it. Thanks L for your patience and coaching skills .I know it takes huge skill to teach old dogs new tricks! Today I managed two lengths and I feel a great sense of achievement as when we started this journey it did not seem possible and I could not have done without you training.
- I am writing to you as I feel it's a good point in my life now and I just wanted to just let you know how the youth centre/workers have helped me be who I am today.

Response Timescales

Our policy for responding to complaints at stage 1 is **10 working days** and for stage 2 formal investigation is **20 working days** plus a further 10 working days for Heads of Service to respond to the report's findings.

Whole Authority Timescales	2018/19		2019/20	
	Stage 1	Stage2	Stage 1	Stage 2
Up to 10 working days	94	1*	147	1^
11 – 30 working days	31	4	55	4
30+ working days	7	9	5	8
Total	132	14	207	13

*Received no further contact so complaint was closed

^No response to clarify complaint, therefore it was closed

Requests for service

These are recorded and acted upon:

Overall Total	22
Digital Programme Office	2
Total Resources	2
Highways and Flood Management	3
Highways Operations and SWTRA	1
Waste and Street Services	8
Total Enterprise	12
Communication	1
Total Chief Executive	1
Environmental Health - Public Health	4
Not allocated	1
Total Social Care & Health	5
External	2

Analysis of Complaints / Comments

Year	Stage 1 complaints	Stage 2 complaints	Comments	Compliments
2019-20	207	13	169	240
2018-19	132	14	187	180
2017-18	76	13	123	189
2016-17	79	11	153	168
2015-16	103	6	155	109

Service improvements

Complaints are generally resolved on an individual basis. Most formal investigation reports make recommendations for improvements to processes. These are followed up to ensure the recommendations are addressed.

Here are some examples where recommendations have been made for changes to practices / processes / procedures, as a result of people making complaints.

Apologies given where appropriate.

The noise monitoring equipment should be re-offered to enable an accurate measurement of the noise that the family are being subjected to.

Managers are reminded of the necessity to complete written risk assessments as part of the appraisal of all DBS Checks and ensure that Chief Officers, Head of Service and Safeguarding Team sign off the assessment.

Reiterate the legislative process for the public right of way so that the consultation process is clear.

MCC to continue to review learner travel allocations as and when changes have to be made.

MCC to develop a formal internal process for undertaking and reporting reasonability assessments for learner travel queries.

Language to be aligned throughout the process ie, planning and housing using consistently the same terms for the use of the property class.

Ensure that the review of payments and systems is undertaken and measures put in place to ensure that this administrative error will not happen to others in the future.

Commentary

It's important to look at pragmatic ways to resolve matters to ensure a reasonable outcome for all concerned. We work with managers to consider the best possible means of unravelling the problems highlighted in a timely way that satisfies all involved and provides good customer care. We work closely with the service areas to prevent complaints escalating and becoming repetitious.

An important part of dealing with and resolving complaints are the lessons learned. We aim to learn from what went wrong and improve for the future. Managers receive action plans after formal complaints are investigated that outline the recommendations made and for them to respond and implement them as part of the resolution of the complaint.

The increase in complaints continues to be a challenge as this year complaints increased by 57 % and comments decreased by 9%.

Great that compliments have increased from 180 in 2018- 2019 to 240 this year.

We still receive a fair amount of enquiries about issues across the Authority and earlier intervention and staff engaging directly with customers solves problems straight away, reducing the level of complaints received.

Customer feedback is welcomed as it allows us to continue to inform and improve the way we handle complaints.

Annette Evans, Customer Relations Manager

August 2020

AUDIT COMMITTEE FORWARD PLANNER 20 - 21

In order to add an item to the forward plan for Audit, the following information is needed to go on the forward plan. Please complete the relevant fields and send back to cherylcook@monmouthshire.gov.uk to add new items to the planner

Date of Meeting	Title	Description/Purpose	Ward Affected	Lead Officer	Report Type	Exempt?
25th Feb 21						
25.02.21	Internal Audit Progress report - quarter 3	This is a regular quarterly report which identified the performance of the IA team along with how well it is progressing against the agreed plan and the level of assurance it gives by way of opinions issued to service areas.		Andrew Wathan		
25.02.21	Treasury Policy and Strategy report 2020-21	This suite of documents includes the Treasury Policy, The Treasury Management Strategy, the Minimum Revenue Provision Policy & the Investment and Borrowing strategies for 2020/21. If approved the targets and limits included will be used to guide and control the management of the Authority's treasury activities for the year and also non treasury Investment activity.	All Wards	Jon Davies		

25.02.21	Whole Authority annual complaints report		All wards	Annette Evans		
25th Mar 2021						
25.03.21	Whole Authority Strategic Risk Assessment	To provide Audit Committee with an overview of the current strategic risks facing the authority in the Whole Authority Strategic Risk Assessment.		Richard Jones		
25.03.21	Annual Governance Statement review 2019-20	Provides overall assurance on the governance arrangements in place within MCC during financial year.		Andrew Wathan		
25.03.21	Annual Performance Review of Investment Committee			Deb Hill-Howells		
25.03.21	6 month update on unfavourable opinions - Internal Audit	At the conclusion of Internal Audit jobs an opinion on the adequacy of the internal control environment, governance and risk management processes is given. This report provides Audit Committee with an update of how services are progressing in order to demonstrate improvements		Andrew Wathan		
25.03.21	Audit Wales: Annual Audit Plan					

Apr-21	Information Breaches (twice yearly)			Matt Gatehouse		
Jun-21	Overview of Performance Management arrangements	To present an update on the current effectiveness of the Authority's performance management arrangements	Not Applicable	Performance Manager	Performance Review	

This page is intentionally left blank

Public Document Pack Agenda Item 9

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held
at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

PRESENT: Mr. P White (Chairman)
County Councillor J. Higginson (Vice Chairman)

County Councillor: P. Clarke, A. Easson, M. Feakins, M. Lane,
P. Murphy, V. Smith, B. Strong and J. Watkins

OFFICERS IN ATTENDANCE:

Andrew Wathan	Chief Internal Auditor
Peter Davies	Chief Officer, Resources
Roger Hoggins	Head of Service - Strategic Projects (Fixed Term)
Wendy Barnard	Democratic Services Officer
Gareth Lucey	Wales Audit Officer
Anthony Veale	Wales Audit Officer
Charlotte Owen	Wales Audit Officer
Emma Davies	Performance Officer
Richard Jones	Performance Manager
Jonathan Davies	Central Accountancy Finance Manager
Ian Saunders	Chief Operating Officer, MonLife
Richard Simpkins	Business and Commercial Manager - MonLife
Tracey Thomas	MonLife Engagement and Workforce Development Officer
Pauline Batty	Catering Manager
Cath Fallon	Head of Economy and Enterprise
Scott James	Strategic Procurement Manager
Matthew Gatehouse	Head of Policy and Governance

APOLOGIES:

None.

1. Declarations of Interest

Items 5 and 6: Personal, non-prejudicial interests were declared by County Councillors P. Murphy, A. Easson and M. Feakins as trustees of Monmouthshire Farms School Endowment Trust Fund.

2. Public Open Forum

No members of the public were present.

3. To note the Action List from the previous meeting

1. URGENT ITEMS OF BUSINESS

THE CHAIR AGREED TO CONSIDER THE FOLLOWING TWO ITEMS OF URGENT BUSINESS AS AN EMERGENCY RESPONSE TO THE CURRENT PANDEMIC.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

A) Statement from the Chief Internal Auditor and Chief Officer, Resources re: Internal Audit Team standing down to contribute to the Track, Trace and Protect (TTP) Function

The Chief Internal Auditor and Chief Officer, Resources provided the following statement to inform members of the Audit Committee why the Internal Audit team is temporarily stood down to provide corporate support to the Track, Trace and Protect (TTP) function currently managed by MCC Environmental Health Officers. The statement is as follows:

“TTP at Monmouthshire is being managed by our Environmental Health Officers. Just before Christmas they were inundated with high volume caseload such that there was a shout out for help and support from internal teams within MCC.

Discussions were held between the Chief Executive and Chief Officer Resources and it was felt that the Internal Audit team would have the appropriate skill set to support TTP. Consideration therefore had to be given to keeping the Internal Audit team operational carrying out its audit function, providing appropriate assurance on the internal control environment, governance arrangements and risk management process in place or to support a high profile corporate function during these unprecedented times with the continuing pandemic.

The impact of standing the IA team down to support TTP needed to be assessed.

The IA team currently consists of a Chief Internal Auditor (50%), 1 Audit Manager, 1 Principal Auditor, 2 Senior Auditors and 1 Auditor. The Auditor has already been seconded out of the team to support the Covid -19 business grants administration.

The proposal was for the Chief Internal Auditor to maintain support for the Chair of Audit Committee and provide appropriate reports into Audit Committee, the Audit Manager to retain 40% of audit time, 1 Principal Auditor to retain 25% of audit time with the rest of the team supporting TTP for a 2 month period. This would allow all current audit work to be reviewed and draft or final reports sent out, to deal with ongoing audit queries and to respond to any allegations of fraud.

To date 25% of the revised audit plan has been completed to at least draft report stage. When all reports currently under review are sent out 47% of the revised plan will be completed to at least draft report stage.

Although only 3 audit opinions have been issued, they have all been categorised as giving **Considerable Assurance**. 3 Grant claims have been audited and they have had unqualified opinions which is good and the terms and conditions of the grant had been met. Of the 7 opinion related audits currently under review, none are anticipated to result in a *Limited Assurance* opinion.

Over the past few years, key financial systems audited have received positive assurance opinions; there have been no significant changes to those systems or the management of them and no issues or frauds have been brought to the attention of Internal Audit so these would be considered as a medium risk and therefore would only be audited once every 2 or 3 years. Key financial systems were not in audit jobs yet to be completed within the revised IA plan.

Jobs in the revised IA plan, which will now not be completed were generally of a medium risk. They include schools where the team can't undertake site visits, follow up audits which will need to be rolled into 2021/22 due to the delay in finalising the reports, some service area reviews and some corporate reviews.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

The monitoring of the implementation of audit recommendations is a key job which the team undertakes across all service areas; this will continue.

Apart from the Covid-19 business grants frauds previously reported into Audit Committee the IA team are not dealing with any other special investigations currently. The first tranche of grants was quite significant where potential fraud was identified and reported to the police. The value of the later tranches of grant has been much lower although any concerns or suspected fraud issues are being referred to the Chief Internal Auditor / Audit Manager as we have an audit presence within that administration.

Although the volume of audit work will be less there will be no significant impact on the governance arrangements in place at Monmouthshire or the Annual Governance Statement as we have pretty sound governance arrangements in place currently.

The situation will be constantly kept under review by the Chief Officer Resources and the Chief Internal Auditor to bring the Internal Audit team back into the provision of internal audit services as and when appropriate; in particular if circumstances change or the risk profile changes.”

The Chief Officer, Resources, thanked the Internal Audit Team for their contribution to this important work and supported the level of comfort offered and the points made in the statement.

In terms of External Audit, the Audit Wales Officer confirmed that discussions have taken place with the Chief Internal Auditor and confirmed there is no significant impact on planned External Audit work.

Regarding financial audit work, there is less direct reliance on the work of the Internal Audit Team due to changes in audit standards. Planning work for the 2020/21 accounts will include a review of the overall control environment in the Council so it will be necessary to consider any impact on this. This process will continue in the next months and Audit Wales will consider this aspect and will keep the Committee informed.

Considering performance work, no significant impact is expected as a programme of local work is planned and there is ongoing dialogue with Council officers. Audit Wales will be flexible and pragmatic and will ensure that work thought worthy of further investigation is carried forward in the planning process for future years.

Members were invited to ask questions and make comments, as follows:

- County Councillor P. Murphy declared an personal , non-prejudicial interest as his wife is employed in TTP work. He was happy with Internal Audit’s contribution but also queried the level of involvement expected from the team, as there seems to be limited work available. It was responded that the situation will be under constant review and there will be flexibility. The Internal Audit (IA) Team is currently undergoing training. The TTP Manager will manage workload and if there is insufficient work, the IA Team will return to its substantive work on the Audit Plan. The Chief Officer updated the Committee that the level of testing had decreased temporarily after Christmas but is likely to rise causing work levels to increase. It is vital staff are trained and prepared to step in, and to also assist other regions as necessary.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

- A Member asked if MonLife staff normally working in closed leisure centres etc. have been employed on TTP. It was confirmed that many MonLife/Leisure services closed when the new restrictions were brought in on 20th December 2020 and a number of staff have been redeployed to TTP and the vaccination programme. The furlough scheme is still open to the authority to recover some costs for staff not redeployed. However, redeployment would be the first priority.

B) Statement on the impact of Covid 19 on the financial affairs of the authority

The Chair requested a statement from the Chief Officer, Resources on the impact of Covid 19 on the financial affairs of the authority as currently being experienced and, asked if this could be a regular feature of Audit Committee Meetings for the duration of the pandemic.

The Chief Officer, Resources welcomed the request explaining that the authority regularly reports on its revenue/capital budget monitoring, forecast and positions to Cabinet. Month 7 will be considered at the next Cabinet meeting. A verbal update on commercial investments was also offered.

The Finance Manager highlighted the significant financial impact on the authority due to the pandemic attributable to reduced income and additional expenditure. Members received regular updates via the budget monitoring reports at Months 2, 5 and 7. Month 9 will be reported in February.

Additional unbudgeted costs (totalling £5.8m at end of November 2020) are in relation to the redirection of resources to meet the core purpose of protecting life during the pandemic. These are mainly for Adult Social Care, Homelessness Services and provision of PPE and social distancing measures.

Many of the income generating services (Culture and Leisure Services) have had to close due to restrictions imposed by the Welsh Government resulting in £4.1m losses in the first two quarters. Income has also been lost from car parking, schools catering, rental and external transport provision. To date Welsh Government has met 100% of the additional costs and income loss directly attributable to the impact of Covid 19.

Additional costs and income losses are expected to continue at least until the end of the financial year with a forecast of £750,000 per month in additional costs and £730,000 in income losses. There is confidence that the Welsh Government will meet these additional costs and income losses until the end of March 2021. Whilst Welsh Government may fund some of the costs/income losses after this time, details are unknown. The Council will be prudent in drafting budget proposals for next year to take account of the risk of the funding being reduced or withdrawn.

Some other indirect consequences of the pandemic include the delay in implementing planned savings proposals. It is difficult to value the cost at this time.

The Chief Officer, Resources provided an update on investment performance. There is an annual report from the Investment Committee due in the next few months.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

Castle Gate is maintaining performance commensurate with the nature of the work of the tenants. Newport Leisure Park, consistent with the nature of the tenants on the site, has had more impact from the Covid restrictions. The authority has reviewed its commercial intentions due to uncertainty and risk. Regular Investment Committee meetings are held to assess performance of investment assets and the next meeting is 20th January 2021. It was confirmed that the net revenue target for Castlegate and Newport Leisure Park combined is £609,000 for the current financial year. A net rental income of £503,000 is predicted with a shortfall of £106,000 assuming key tenants' ability to pay negotiated arrears and predicated on Welsh Government funding the further shortfall. It was acknowledged that the situation could deteriorate and there is ongoing dialogue with tenants.

Committee Members were invited to ask questions or make comments, as follows:

It was confirmed that it was not possible in the public meeting to discuss tenancy arrangements in more detail as this is confidential information.

A Member asked if the equivalent amount of furlough funding can be claimed if staff are redeployed to TTP. It was explained that members of staff unable to work because their service has been closed can either be furloughed and costs recovered from UK Government HMRC or redeployed with no additional funding.

2. Call in of Officers: Food Procurement Follow Up.

A Statement was provided prior to the meeting to outline the action taken by management in the Service Area to date and progress against the agreed action plan in respect of the 'Limited Assurance' audit opinion for Food Procurement –Audit Follow up report. The statement specifically included the risks described in the action plan as provided in the report and the feedback from various managers in addressing the risks highlighted in the action plan. The Head of Service (Strategic Projects), Catering Manager and Head of Procurement also attended.

Members were invited to comment and ask questions, as follows:

A Member, in view of the statement provided on the actions taken, requested an update in six months' time when the new structure will be more embedded.

A Member strongly supported the inclusion of the right of the Catering Manager to have access to all kitchens in the County. It was responded that the Catering Manager and her team currently provide advice and guidance to kitchens in the County but the new team will grant the right to access to ensure that the advice and guidance is acted upon.

The Member questioned why the required independent third party food hygiene audit couldn't be undertaken by the authority's Environmental Health Team and was informed that the third party audits in operation are because of collaborative arrangements within SE Wales under national procurement service contracts. The current arrangement ends in 2022 when a new contract will be arranged for the following four years.

It was agreed to receive a progress report in six months.

3. Call in of Officers: Caldicot Castle Follow Up

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

A statement was circulated prior to the meeting to inform the Members of the Council's Audit Committee of the action taken by management in the Service Area to date and progress against the agreed action plan in respect of the 'Limited Assurance' audit opinion for MonLife Caldicot Castle Follow up October 2019.

The Chief Operating Officer for MonLife, MonLife Engagement and Workforce Development Officer and Business and Commercial Manager - MonLife attended the meeting to provide reassurance to the Audit Committee on the work completed on the action plan highlighting the context of the current pandemic and flooding as services are closed, staff are furloughed or redeployed.

Members were invited to ask questions and make comments:

Members commented that it was unfortunate there had been no opportunity to test the actions implemented due to current circumstances and suggested revisiting the work in a year when Caldicot Castle will have reopened. The local ward Member thanked the team for the work carried out so far.

In response to a question, it was explained that a deposit (minimum 20% of overall cost depending of the size of the event) is taken when a booking is made. If the event is within 12 weeks of booking, then full payment is taken. A retainer is held to cover any damage incurred.

It was confirmed by the Chief Internal Auditor that follow up audits for both services will be planned for in 2021/22 or 2022/23; timings dependent on the current circumstances and at the discretion of the Internal Audit Team.

4. Loan Interest information

The Finance Manager confirmed that the average interest rate for the borrowing to fund the purchase of Newport Leisure Park is 2.34%.

4. Audit Wales: Monmouthshire Annual Audit Summary 2020

The Audit Wales Officer introduced the Audit Wales Annual Audit Summary. A change in format was noted in that this report now replaces the Annual Improvement Report combined with elements of the Annual Audit letters sent to Chief Executives.

The Performance Manager responded, thanking Audit Wales and reminding Members that the reports mentioned are presented to the Committee during the year with a Management Response that includes actions taken or planned to take account of the proposals for improvement. The authority uses a 'Proposals for Improvement Tracker' to assess progress.

A Member observed that the report states that there are no areas in Monmouthshire that fall into the lowest 10% deprivation and queried this statement as some areas in the county have levels of deprivation. It was clarified that the comment refers to the top 10% areas of deprivation in Wales, which do not include locations in Monmouthshire.

A Member asked about the review of the Public Service Board (PSB) and asked about the identified constraints to it working effectively. A response will be provided by Audit Wales after the meeting.

It was clarified that the PSB will work very closely with colleagues in the Corporate Joint Committees for the Cardiff Capital Region to address common issues.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

The Committee noted the report.

5. Audited Trust Fund Accounts (Welsh Church Fund/Monmouthshire Farm Educational Trust/Llanelly Hill)

Items 5 and 6 were considered together.

The Audit Wales Officer introduced the Audit of Accounts 2019/2020 reports for the Welsh Church Act Fund and the Monmouthshire Farm School Endowment Trust Fund.

Welsh Church Act Trust Fund: Overall, an unqualified audit certificate is proposed. Two pieces of audit evidence were outstanding. One, relating to expenditure has been received and approved. The Committee was informed that the remaining outstanding evidence is a confirmation letter from UBS which is awaited. The accounts have been approved but the letter will be required to obtain the final certification.

An emphasis of matter paragraph has been added to highlight the uncertainties of valuations and property fund investments.

Monmouthshire Farm School Endowment Trust Fund: an unqualified report is proposed. The examination certificate is provided in the report.

The Finance Manager welcomed the unqualified opinions and confirmed that corrections have been made as required. Audit Wales Officers were thanked for their flexibility and co-operation during the pandemic.

The Committee accepted the report recommendations noting:

- 1) That the Committee reviewed the audited accounts for The Welsh Church Act Fund 2019/20 in conjunction with the Audit Wales ISA260 Audit of Accounts report for The Welsh Church Act Fund.
- 2) That the Committee reviewed the audited financial statements for The Monmouthshire Farm School Endowment Trust Fund for 2019/20 in conjunction with the Independent Examination Report for The Monmouthshire Farm School Endowment Trust Fund.

6. ISA 260 or equivalent for Trust Funds

This item considered with Item 5 above.

7. Recovery Planning - Assurance and Risk Assessment Feedback Letter

The Audit Wales Officer introduced the letter sent to the Chief Executive in December to summarise the progress Audit Wales has made to date with its Recovery Planning – Assurance and Risk Assessment Project, and to provide some interim feedback to inform the Council's ongoing recovery work. This work will continue during 2021.

The Performance Manager provided the management response thanking Audit Wales for the timely feedback. The letter focuses on recovery planning but it should be noted that the Council remains mainly focused on the challenges of the pandemic. It was hoped that the areas of strength identified in the letter provided the Committee with reassurance whilst signposting areas for consideration to include in medium term recovery planning. Work with Audit Wales will continue and a final report will be reported to Audit Committee when available.

MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 7th January, 2021 at 2.00 pm

Noting that the letter identifies that some staff struggle with working at home, a Member asked if there was an all Wales overview of the effects of working at home and if a report would be written on this topic in the future. It was responded that the findings in Monmouthshire mirror experiences of working at home across Wales. Experiences and circumstances are different for each staff member. It was a positive step that a Book A Desk facility had been implemented to allow members of staff to book socially distanced working space in County Hall as an alternative to working at home in recognition of the challenges some experience. The Audit Wales Officer will check if there are plans to publish a summary of all Wales on the impact of working at home.

The Chief Officer, Resources emphasised the authority's efforts to engage and support staff throughout the pandemic. Staff members have been surveyed to assess wellbeing and to seek opinions on home working. A further survey will focus on wellbeing in order to adjust support mechanisms as necessary.

A Member noted that the letter highlights the low level of reserves as an area of concern that could make the impact of COVID more challenging. The Member asked if the reserve levels are adequate. The Chief Officer, Resources reminded the Committee that Monmouthshire County Council is the least well-resourced Council in Wales hence the low level of reserves. The authority works within its financial constraints. The Council Fund is maintained at 4-6% levels of Net Revenue Expenditure. £1.8m headroom was created in the Council Fund General Balance at the end of last financial year at the start of the pandemic. The authority was able to move some finances between capital and revenue to facilitate this. Earmarked reserves have declined and a review of adequacy of reserves will be undertaken with the final draft budget proposals. It was commented that comfort levels are very high due to the additional costs and income losses arising from the pandemic being covered by Welsh Government. It is hoped that there will be a further Hardship Fund put into place by Welsh Government to cover additional costs and income loss from 1st April 2021.

The Committee received the letter and noted the contents

8. Forward Work Plan

The Audit Committee Forward Work Plan was noted.

9. To confirm minutes of the previous meeting held on 26th November 2020

The minutes of the previous meeting were confirmed as an accurate record subject to the following amendment:

Item 5, para 2 (Self-evaluation): should read : There were eight items in the action plan - the deadlines have not yet been met.

10. To confirm the date of the next meeting as 25th March 2021 at 2.00pm

An additional meeting has been scheduled for the 25th February 2021 at 2.00pm.

Meeting ended at 3.55 pm