

# Public Document Pack



County Hall  
Rhadyr  
Usk  
NP15 1GA

Wednesday, 18 November 2020

## Notice of Meeting

### Audit Committee

Thursday, 26th November, 2020 at 2.00 pm,  
Remote Meeting

### AGENDA

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11.	To confirm the date of the next meeting as 7th January 2021	

**Paul Matthews**  
Chief Executive

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MONMOUTHSHIRE COUNTY COUNCIL  
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

County Councillors:

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

## Public Information

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# 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.



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# Agenda Item 4

**Audit Committee Actions  
15<sup>th</sup> October 2020**

**No Action points**

<b>Agenda Item:</b>	<b>Subject</b>	<b>Officer</b>	<b>Outcome</b>

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**Reference:** 2121A2020-21

**Date issued:** November 2020

## Audit of Monmouthshire County Council's assessment of 2019-20 performance

### Certificate

I certify that I have audited Monmouthshire County Council's (the Council) assessment of its performance in 2019-20 in accordance with section 17 of the Local Government (Wales) Measure 2009 (the Measure) and my Code of Audit Practice.

As a result of my audit, I believe that the Council has discharged its duties under sections 15(2), (3), (8) and (9) of the Measure and has acted in accordance with Welsh Government guidance sufficiently to discharge its duties.

### Respective responsibilities of the Council and the Auditor General

Under the Measure, the Council is required to annually publish an assessment which describes its performance:

- in discharging its duty to make arrangements to secure continuous improvement in the exercise of its functions;
- in meeting the improvement objectives it has set itself;
- by reference to performance indicators specified by Welsh Ministers, and self-imposed performance indicators; and
- in meeting any performance standards specified by Welsh Ministers, and self-imposed performance standards.

The Measure requires the Council to publish its assessment before 31 October in the financial year following that to which the information relates, or by any other such date as Welsh Ministers may specify by order.

The Measure requires that the Council has regard to guidance issued by Welsh Ministers in publishing its assessment.

As the Council's auditor, I am required under sections 17 and 19 of the Measure to carry out an audit to determine whether the Council has discharged its duty to publish an assessment of performance, to certify that I have done so, and to report whether I believe that the Council has discharged its duties in accordance with statutory requirements set out in section 15 and statutory guidance.

## Scope of the audit

For the purposes of my audit work I will accept that, provided an authority meets its statutory requirements, it will also have complied with Welsh Government statutory guidance sufficiently to discharge its duties.

For this audit I am not required to form a view on the completeness or accuracy of information. Other assessment work that I will undertake under section 18 of the Measure may examine these issues. My audit of the Council's assessment of performance, therefore, comprised a review of the Council's publication to ascertain whether it included elements prescribed in legislation. I also assessed whether the arrangements for publishing the assessment complied with the requirements of the legislation, and that the Council had regard to statutory guidance in preparing and publishing it.

The work I have carried out in order to report and make recommendations in accordance with sections 17 and 19 of the Measure cannot solely be relied upon to identify all weaknesses or opportunities for improvement.



**Adrian Crompton**

**Auditor General for Wales**

CC: Julie James MS – Minister for Housing and Local Government  
Non Jenkins, Audit Manager  
Charlotte Owen, Audit Lead



**SUBJECT: INTERNAL AUDIT SECTION  
PROGRESS REPORT ON UNFAVOURABLE  
AUDIT OPINONS**

**DIRECTORATE: Resources**  
**MEETING: Audit Committee**  
**DATE: 26<sup>th</sup> November 2020**  
**DIVISION/WARDS AFFECTED: All**

## 1. PURPOSE

To update Members on the progress of unfavourable (Limited Assurance) audit opinions issued since 2016/17 by the Internal Audit team, and identify in particular, where sufficient progress has not been made. The previous update was presented to Audit Committee in January 2020.

## 2. RECOMMENDATION(S)

- 2.1 That the Audit Committee note the improvements made by service areas following the original **Limited** assurance audit opinions issued.
- 2.2 As a result of a second consecutive **Limited** assurance opinion, Members consider calling in the respective Head of Service responsible for:
  - Food Procurement
  - Caldicot Castle Follow up
- 2.3 That if the Members of the Audit Committee are concerned about any of the audit opinions issued or lack of improvement made after the follow up audit review, consideration be given to calling in the operational manager and the Head of Service to provide justification for lack of progress and hold them to account for future improvements.

## 3. KEY ISSUES

- 3.1 The number of unfavourable audit opinions issues by Internal Audit is not that significant compared to the total number of audit opinions issued in any one year, but nonetheless, they are issued where significant weaknesses in internal control have been identified.
- 3.2 The majority of the systems / establishments issued with an unfavourable audit opinion originally and which have since been followed up, have improved to some extent prior to the audit team undertaking a follow up review. The majority of reviews were given a more favourable opinion, which recognises that issues identified originally were subsequently addressed by management.
- 3.3 The audit opinions reflect the level of assurance that could be gained from the review of internal controls in operation. The audit opinions in use from April 2016 are Substantial, Considerable, Reasonable and Limited Assurance; the definitions of which are shown at Appendix 1.

**4. REASONS**

- 4.1 The opinion gives an indication of the adequacy of the internal control environment of the system or establishment under review. During the audit planning process the reviews are risk assessed as High, Medium or Low.
- 4.2 The previous report was presented to Audit Committee January 2020; this information should be updated and presented to Audit Committee on a six monthly basis.
- 4.3 The following unfavourable audit opinions have been issued since 2016/17:

	Limited (Assurance)
2016/17	8
2017/18	8
2018/19	6
2019/20	9

- 4.4 Ideally, these audit reviews will be followed up by the audit team within 9 to 12 months of the final report being issued to ensure that action has been taken to address the weaknesses identified. All audit reports resulting in a consecutive Limited assurance opinion will be reported back to Audit Committee. Some delays may have arisen as a result of the operational manager deferring the follow up audit.

4.5 During 2016/17, 8 reports were issued with a **Limited** opinion. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2016/17</b>	School Meals (Final)	Medium	Limited	Reasonable	March 2018
	Ysgol Y Ffin Primary School	Low	Limited	Reasonable	March 2018
	Events (Final)	Medium	Limited	Limited  Further follow up 2019/20  No large scale events taken place – unable to follow up	March 2018
	HR Policy Review	Medium	Limited	Considerable	April 2019
	External Placements	Medium	Limited	Reasonable	June 2019
	Compliance with Bribery Act	Medium	Limited	Limited  Further follow up 2019/20  Reasonable (Draft)	March 2018  December 2019
	Mobile Phones	Medium	Limited	Reasonable	November 2019
	Volunteering	Medium	Limited	Reasonable	November 2019

4.6 The audit review of the Events provision resulted in a second consecutive **Limited** audit opinion. The Audit Committee Members agreed to call the senior managers responsible for this service into Audit Committee which they did at the Audit Committee meeting in December 2017. Senior Managers provided assurances that, should the Events programme be run on such a large scale again, significant improvements in the control environment would be made.

4.7 Members will note that a further follow up audit of Compliance with the Bribery Act has also resulted in a **Reasonable** assurance audit opinion.

4.8 During 2017/18, 8 reports were issued with a **Limited** opinion. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2017/18</b>	Borough Theatre Trust	High	Limited	Reasonable	December 2019
	Raglan Primary School	Medium	Limited	Reasonable	July 2018
	Youth Service (Draft)	Medium	Limited	Considerable	Draft December 2019
	Events Follow-Up	High	Limited	*	Final November 2019
	Fuel Cards	Medium	Limited	Limited	Final June 2019
	Food Procurement	High	Limited	Limited	Draft December 2019
	Health & Safety	Medium	Limited	Reasonable	Draft March 2020
	Compliance with Bribery Act Follow-Up	High	Limited	Reasonable	Draft December 2019

\* - previous report was based on large scale events held; to date no further large scale events held therefore unable to test majority of recommendations.

4.9 During 2018/19, 6 reports were issued with a **Limited** opinion. These were as follows:

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2018/19</b>	Caldicot Castle (Final sent June 2019)	Medium	Limited	Limited	Final March 2020
	Imprest Account – Children’s Services (Final sent June 2019)	Medium	Limited	2020/21	

	2019)				
	Agency Workers (Draft)	Medium	Limited	2021/22	
	Fuel Cards Follow-up (Final sent June 2019)	Medium	Limited	2020/21	
	Attendance Management (Final sent November 2019)	Medium	Limited	2020/21	
	Health & Safety of Authority's existing buildings (Final sent February 2020)	Medium	Limited	2020/21	

4.10 During 2019/20, 9 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Opinion	Revised Opinion/ Status	Date Issued
<b>2019/20</b>	Llandogo Primary School	Low	Limited	2020/21	
	Castle Park Primary School	Low	Limited	2020/21	
	Shire Hall	Medium	Limited	2021/22	
	Tintern Old Station	Medium	Limited	2021/22	
	Caldicot Castle follow up	Medium	Limited	2021/22	
	PTU Vehicle Maintenance	High	Limited	2020/21	
	Procurement (Food) follow up	High	Limited	2021/22	
	Direct Payments	Medium	Limited	2021/22	
	Business Continuity	High	Limited *	N/A	

4.11 An overview of why Llandogo Primary School and Castle Park Primary School were deemed to provide Limited assurance was presented to Audit Committee previously.

4.12 The main reasons why the other 2019/20 audit reviews resulted in unfavourable opinions were as follows:

### Shire Hall

- Concerns were noted around the security and location of the safe and cashing-up procedures.
- There were no procedure notes or guidance documents setting out what information was required when booking a wedding or event.
- Pricing was not consistent with brochure pricing.
- Lack of consistency in hire agreements. Terms and Conditions were not attached to all hire agreements. Hire Agreements were not signed by an MCC representative.
- Payment terms were not adhered to or communicated appropriately. Payment terms not appropriate. No system in place to monitor payment dates as they come due. Payment was not received in advance of event. Breaches of Financial Procedure Rules in extending credit to certain customers.

### Tintern Old Station

- The site was not covered appropriately with a first aid provision during all its hours of operation and training needs had not been identified.
- The system used for recording stock, did not reflect the current stock levels.
- The length of the Catering Concession contract was increased to a potential 5 year period (initial 3 years plus an optional additional 2 years) from the advertised 2 year contract during the tender award process.
- There was no signed contract in place for the Catering Concession. Expected standards could not be effectively imposed or enforced.
- A campsite was operated at the Old Station, but did not have the necessary licence or planning permission. No risk assessment had been carried out to identify the risks of running the campsite and current provision does not match the minimum expectations of the Authority's Environmental Health department. There was no evidence that individuals using the campsite had sight of, or had agreed to, the campsite terms and conditions. Record keeping was poor, appropriate information was not always recorded and income did not reconcile.



### Caldicot Castle Follow up

- There were no procedure notes or guidance documents setting out what information was required when booking a wedding or other event.
- Prices charged were not consistent with brochure pricing.
- Lack of consistency in booking processes and documentation. Hire agreements were not in place for wedding and party bookings.
- Documentation to support additional costs charged was not sufficient. No proof of debt was available to support additional charges. Some additional charges had not been invoiced.
- Weddings and parties were not being invoiced for in line with the payment terms. Invoices were late in being sent out, leading to significant delay in the collection of income. Payment Card Industry Data Security Standard (PCI DSS) compliance breaches were evident. Payment terms were not adhered to.

### PTU Maintenance

- Paperwork was not in place to support all servicing and repairs undertaken. The absence of such paperwork make it impossible to ascertain whether services have been undertaken within the required service schedule.
- MOTs were not always undertaken on a timely basis.
- Lack of evidence of daily safety inspections being undertaken, which means it's difficult to establish timeliness of defect reporting and resolution.
- There was no evidence of appropriate tender processes being undertaken for vehicle servicing and repair. In addition, the current agreements did not include any performance measures to aid with contract monitoring over the standard and timeliness of works.
- There was no current framework of approved contractors for vehicle hire. Suppliers were utilised and OJEU limits breached with no framework or contract in place.
- The maintenance budget was currently significantly overspent.

### Procurement (Food) Follow up

- Products purchased by the Authority were not categorised by risk. Inconsistent views of food procurement risk amongst staff.
- There was no overall responsible officer for food procurement, across the organization as a whole. Therefore, there was no officer responsible for the oversight and monitoring of food procurement
- Off framework spend was noted in some cases, including the continued use of imprest accounts for food purchases.
- No evidence that contracts were in place between the Authority and some of its food providers.
- There was a lack of evidence, in the case of “off framework” providers, to show that the Authority has complied with a key Pennington report recommendation.

### Direct Payments

- Direct Payment signed agreements were not in place consistently for the sample tested. Direct Payment Agreements were not used by Children’s Services. There was no overall summary of how many signed Direct Payment Agreements were outstanding. Direct Payment agreement was unclear in terms of GDPR, agency DBS checks and actions regarding use of unregistered agencies.
- For a sample of deceased service users, closing audits had not yet taken place.
- Monitoring review visits were not undertaken in a timely manner. The Direct Payments monitoring spreadsheet did not provide evidence of timeliness of all visits for all users.
- No evidence of the use of the direct payments was retained to support the work described on the monitoring review form. Service users were under no obligation to submit evidence of spend or compliance to the Authority.

### \* Business Continuity

- Further information was subsequently provided which moved the year end opinion to a **Reasonable** level of assurance.

- 4.13 It should be noted that due to the impact of the Covid pandemic, Shire Hall, Tintern Old Station and Caldicot Castle have been closed for much of 2020.
- 4.14 As part of all audit reviews, the issues identified at the previous audit are followed up to ensure that they have been adequately addressed, which should provide assurance on the effectiveness of the internal control environment for that particular service, system or establishment.

## **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. All Internal Audit opinions are also reported into the Senior Leadership Team (SLT) every six months. SLT's focus is, along with Chief Officers and DMTs, ensuring that satisfactory progress is being made to address control weaknesses highlighted in the audit reports, in particular Limited assurance reports.

## **6. RESOURCE IMPLICATIONS**

None.

## **7. CONSULTEES**

Chief Officer, Resources

## **8. BACKGROUND PAPERS**

Audit management Information 2016/17, 2017/18, 2018/19, 2019/20

## **9. AUTHOR AND CONTACT DETAILS**

Andrew Wathan, Chief Internal Auditor  
Telephone: x.4243  
Email: [andrewwathan@monmouthshire.gov.uk](mailto:andrewwathan@monmouthshire.gov.uk)



**Internal Audit Opinions**

<b>SUBSTANTIAL</b>	<p>Substantial level of assurance.</p> <p>Well controlled although some minor risks may have been identified which require addressing.</p>
<b>CONSIDERABLE</b>	<p>Considerable level of assurance.</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
<b>REASONABLE</b>	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
<b>LIMITED</b>	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required immediately.</p>

The table below summarises the ratings used during the reviews:

RATING	RISK DESCRIPTION	IMPACT
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risk 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>Risk identified which are not business critical but which require management 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>

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**SUBJECT: INTERNAL AUDIT SECTION  
AGENCY WORKERS – LIMITED  
ASSURANCE AUDIT OPINION**

**DIRECTORATE: Resources  
MEETING: Audit Committee  
DATE: 26<sup>th</sup> November 2020  
DIVISION/WARDS AFFECTED: All**

## 1. PURPOSE

To update Members on the significant issues identified during the Internal Audit review of the Council's administration of Agency Workers which led to a **Limited Assurance** audit opinion being issued; to reassure Members that senior management have taken on board the concerns raised; to provide assurance that audit recommendations have been accepted, in the main, and have been, or will be, implemented in order to improve the controls in place.

## 2. RECOMMENDATION(S)

- 2.1 That the Audit Committee note the significant concerns raised in the report, the action taken by management to address those concerns and acknowledge what still needs to be implemented by management to demonstrate improvements in the way this service is administered within the Council.
- 2.2 If the Members of the Audit Committee are concerned about lack of improvement or progress being made, consideration should be given to calling in the operational managers and the Head of Service to obtain further assurance that the agreed improvements will be made and that satisfactory progress is being made to address control weaknesses highlighted in the audit report.

## 3. KEY ISSUES

- 3.1 It was identified that between 2016/2017 and 2018/2019 the Authority spent a total of £11.205m on employment agencies. Of this, just under £6m was spent with the Authority's (then) preferred suppliers; New Directions (£1.6m for

schools agency workers) and Randstad (£4.3m). Monmouthshire's total employee costs (calculated as per CIPFA Accounting standings) for this period was £352.081m, therefore Agency costs equated to 3.2% of total employee costs.

- 3.2 The administration of Agency Workers was therefore a significant system within Monmouthshire to be reviewed by Internal Audit.
- 3.3 The audit report has become very long and detailed so an Executive Summary has been prepared to give Members an overview of the significant weaknesses identified during the course of the audit, progress to date by management (Peoples Services & Procurement), what needs to happen next along with ongoing concerns.
- 3.4 The Executive Summary is attached for information, Appendix 2.
- 3.5 Significant weaknesses were identified in the following areas of the Agency administration:
  - Policy & Guidance Framework
  - Procurement
  - Business Cases
  - Safeguarding & Pre-Employment checks
  - Re-employment of past employees
  - Selective Recruitment
  - Monitoring of Agency Assignments
  - Rebate
- 3.6 Since the report was issued in draft (December 2018), there have been ongoing discussions between Internal Audit and management (People's Services and Procurement) and it has been identified that significant progress in some areas has been made to improve how this system is operated and minimise the risks involved.
- 3.7 However, there are a number of actions still required to ensure that the Authority obtains best value for money from its use of agency staff, engages appropriate individuals when required and complies with relevant legislation.
- 3.8 Responses to the recommendations made in the Internal Audit report have generally been positive and as shown in the 'Progress to Date' section of the Executive Summary, many of the key actions identified have already been delivered. However there remain some ongoing concerns based on responses to the Action Plan.
- 3.9 This audit will be followed up in 2021/22 to ensure the agreed recommendations have been implemented such that significant improvements have been made within the system to minimise the weaknesses identified in the Internal Audit report. The subsequent audit opinion will then be reported back to Audit Committee.



#### **4. SERVICE MANAGEMENT RESPONSIBILITIES**

- 4.1 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.
- 4.2 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. All Internal Audit opinions are also reported into the Senior Leadership Team (SLT) every six months. SLT's focus is, along with Chief Officers and DMTs, ensuring that satisfactory progress is being made to address control weaknesses highlighted in the audit reports, in particular Limited assurance reports.

#### **5. RESOURCE IMPLICATIONS**

None.

#### **6. CONSULTEES**

Chief Officer, Resources  
Head of People Services & Information Governance  
Head of Human Resources  
Corporate HR Lead  
Head of Enterprise & Community Animation  
Strategic Procurement Manager

#### **7. BACKGROUND PAPERS**

Internal Audit management information; Internal Audit report on Agency Workers

#### **8. AUTHOR AND CONTACT DETAILS**

Andrew Wathan, Chief Internal Auditor  
Telephone: x.4243  
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**Internal Audit Opinions**

<b>SUBSTANTIAL</b>	Substantial level of assurance. Well controlled although some minor risks may have been identified which require addressing.
<b>CONSIDERABLE</b>	Considerable level of assurance. Generally well controlled, although some risks identified which should be addressed.
<b>REASONABLE</b>	Reasonable level of assurance. Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.
<b>LIMITED</b>	Limited level of assurance. Poorly controlled, with unacceptable levels of risk. Fundamental improvements required immediately.

The table below summarises the ratings used during the reviews:

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



**PRIVATE & CONFIDENTIAL**

INTERNAL AUDIT REPORT  
- EXECUTIVE SUMMARY

USE OF AGENCY WORKERS

Date of Fieldwork	<i>May 2018 - November 2019</i>
Date of Report Issue	<i>November 2020</i>
Report Status	<i>Executive Summary</i>
Report Author	<i>Mark Stenner, Principal Auditor David Walton, Audit Manager, Andrew Wathan, Chief Internal Auditor</i>
Issued on Behalf of	<i>Andrew Wathan, Chief Internal Auditor</i>
Issued to	<i>Senior Leadership Team Audit Committee Tracey Harry, Head of People Sally Thomas, Human Resources Lead Scott James, Strategic Procurement Manager Cath Fallon, Head of Enterprise &amp; Community Animation</i>

## **Introduction**

The Internal Audit Section have completed an audit of the Authority's arrangements for the use of Agency workers.

Through a review of the Business World financial system, we identified that from 2016/2017 to 2018/2019 the Authority spent a total of £11.205m on employment agencies. Of this, just under £6m was spent with the Authority's (then) preferred suppliers; New Directions (£1.6m for schools agency workers) and Randstad (£4.3m). Monmouthshire's total employee costs (calculated as per CIPFA Accounting standings) for this period was £352.081m, therefore Agency costs equate to 3.2% of total employee costs.

Our full report contains detailed audit findings, recommendations and management responses. A total of 26 recommendations were included in the full report (11 significant risk and 15 moderate risk). All of the recommendations, bar one, were accepted by management. The one not accepted was for the setting of directorate and corporate performance targets to monitor the usage of agency workers over time.

This Executive Summary has been prepared to highlight the key messages arising from the audit, the progress made to date and what we believe needs to happen next.

The audit report was consulted on widely, mostly with People Services and Procurement, but specific cases and issues were also explored with individual service managers and Headteachers, leading to a delay in concluding the audit. The report was also updated to include more recent results prior to issue. Whilst the final audit report was issued in March 2020, this Executive Summary has itself been delayed by the involvement of the Internal Audit Section in the business support grants provided in response to the coronavirus pandemic.

## **Audit Opinion**

Overall, the Authority's arrangements for the use of agency workers have been assessed as providing a '**Limited**' level of assurance, which reflects that the financial and administrative systems reviewed were found to be poorly controlled, with unacceptable levels of risk.

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

The key findings behind this audit opinion are summarised in the section below.

**Whilst the full report has been issued to People Services and Strategic Procurement, it is the hiring managers and Headteachers right across the Authority who engage and manage these agency workers and as such also have key roles to play in ensuring the consistent implementation of the audit recommendations to achieve the improvements required.**

### **Key Findings**

#### ***Policy & Guidance Framework***

Although guidance around agency workers existed in the form of an Agency and Self Employed Workers Policy, there were some key omissions in the original policy and our testing found that there was a widespread lack of awareness of the Policy requirements amongst hiring managers. Areas missing from the original Policy included guidance around lengths of assignments and assignment review processes, the position with regard to the re-employment of past employees and a leaver process for the ending of agency worker assignments.

Since the audit fieldwork, People Services have revised this Policy, taking on board the recommendations made in the audit report. It is important that managers now adhere to the updated Policy in their use of agency and self-employed workers. The Policy may also now require a further update in light of the new agency arrangements for schools and the impending new framework for corporate agency staff.

## **Procurement**

Our testing found that a wide range of different agency staff providers were used, by both schools and corporate teams.

There were consistent breaches of Financial Procedure Rules and Contract Procedure Rules, where agencies other than the preferred suppliers (of Randstad and (at the time) New Directions) had been used. Contracts had not been established for these ad hoc off-framework arrangements.

In some cases, notably at secondary schools, there was evidence that EU procurement limits had been breached. The table below highlights this:

<b>School</b>	<b>Most used Agency</b>	<b>Spend with most used Agency (£'000s) from April 2016- March 2019</b>
Caldicot	Teaching Personnel	337
Monmouth Comprehensive	Back Office Support	371
Chepstow	Supply Desk	311

All three schools used agencies other than the Authority's sole preferred supplier at that time. In addition these levels of expenditure (over 3 years) were significantly in excess of the EU threshold for services contracts (£181,302 as at January 2018). It should also be noted that none of the three agencies above were included in the new Schools agency workers framework arrangements for Monmouthshire effective from September 2019, so the schools concerned will need to either switch to using the framework agencies or ensure that appropriate alternative contracting arrangements are in place that comply with EU legislation.

The Procurement Section did not review off-contract spend for agency costs, citing that they did not have sufficient resources to do so.

Other procurement concerns were:

- Hiring managers were not always checking the hourly rates of staff to the framework;
- Off-contract procurement of agency staff was often done without evidence of a formal agreement in place.

## **Business Cases**

There was no clear evidence that the business need for each new agency member of staff had been considered. There was no additional approval required for the use of agency workers outside of the hiring manager. In many cases, there were other more cost effective options that could have been undertaken instead of recruiting an agency employee. Managers should consider carefully the suitability of using agency workers, particularly if the placement is expected to be on a long-term basis. It may be more appropriate to appoint a fixed term employee through the normal recruitment process.

Examples included:

- *Cases in Grounds Maintenance where agency workers were used because there was a fear that a major external contract could be lost, however this decision was unlikely to occur for another six months at least. In addition, in Waste there was due to be a service reconfiguration. In both cases, fixed term contracts could have been offered, potentially at lower cost, as an alternative to using agency staff.*
- *Within Adult Services, an unsuccessful candidate for a Senior Social Worker post was instead offered the vacant role of a Social Worker. As there was a salary difference between the role originally applied for and the one offered, the individual was employed through an agency, where she could achieve a higher rate of pay that was acceptable to her, but which led to the Authority incurring significant agency fees. As an alternative a market forces supplement could have been considered.*
- *Property Services had 2 individuals who were employed through agencies as it was understood that the job evaluated salaries on offer would not be attractive, although this assumption had not been tested via advertisement of the roles for some time. Their rates of pay through the agencies were considerably higher than MCC salary levels and again market forces supplements could have been considered as an effective alternative, if the roles could not be filled after advertisement.*

### **Safeguarding & Pre-Employment checks**

Reliance was placed almost exclusively on the agency for performing safe recruitment checks. Whilst reputable agencies should be completing such checks, it is still incumbent on the hiring managers to seek assurance and to evidence these checks.

Our testing highlighted the following concerns:

- 8/20 roles sample tested required a DBS check. However, evidence was only available to show 2/8 had actually been checked before commencing with MCC.
- The hiring managers confirmed that eligibility to work in the UK had only been checked for 2 of the 20 agency workers.
- For 12/20 roles specific qualifications were required, however only 3/12 had been checked and evidenced by the hiring manager.
- Copies of references had only been obtained from the Agencies for 2/20 workers appointed.

Failure to exercise due diligence in conducting pre-employment checks could result in the appointment of inappropriate agency workers possibly putting staff, service users and residents at risk as well as impacting on standards of services delivered. The Authority could also be subject to legal action (under, for example, the Immigration Act 2016).

### ***Re-employment of past employees***

At the time of the review the Authority employed 6 previous employees through Randstad. 3 of these were re-employed by MCC within two weeks of them being made redundant by the Council, all within Highways.

4/6 individuals had been made redundant by MCC at a total cost of £122,901.93 in redundancy payments. One of these had returned to perform a role that had previously been written out of the establishment and another was recorded by Randstad as working in the same role they had been directly employed in previously by MCC.

Generally, the hourly rate for agency staff is markedly higher than in-house rates. For example, in two cases we had paid Randstad £71.66 and £34.43 per hour respectively, against their previous hourly rates as direct employees (including on costs) of £38.32 and £21.88 respectively.

The revised Agency and Self Employed Workers Policy now includes a requirement for Chief Officer approval where former MCC workers are recruited as agency workers.

### ***Selective Recruitment***

It was also found that at least 5 of the sample of 20 agency staff recruited were named individuals specifically requested from Randstad. Where possible, hiring managers should evaluate a range of people offered by the agency to seek to recruit the most suitable candidate. Where, exceptionally, a manager already knows of a suitable available candidate for a role prior to going out to an agency, then with People Services' support the manager should consider the option of offering a short fixed term contract to that individual rather than recruit through an agency at additional cost.

### ***Monitoring of Agency Assignments***

In the original policy there was no guidance on setting the length of agency engagements and review processes. This has resulted in the reliance in some areas on agency members of staff on a long-term basis. The Randstad management information report for the end of April 2018, highlighted that of their 47 agency workers, placed at MCC at that time 70% had worked for MCC for more than 6 months, including 40% with more than a year's service. Note that this is Randstad workers only, equivalent data was unavailable for New Directions and the non-framework agencies used:



<b>Length Assignment</b>	<b>Of</b>	<b>No.</b>
Less Than 1 Month		3
1 - 3 Months		6
4 - 6 Months		5
7 - 9 Months		8
10 - 12 Months		6
More Than 12 Months		19
Total		47

One of the sample, a Mechanical Design Engineer hired by Property Services had been employed via agency for this role since November 2004. In 2017/18, we paid the Agency £67k for his services, whereas the vacant establishment post was costed at £48k, a difference of £19k (40% more expensive). Given that this individual had been employed on an agency basis at that point for 14 years, this placement has clearly cost the Authority significantly more than was necessary had the post been filled by a direct employee.

There was no wider monitoring of the use of agency members of staff nor was there regular monitoring or reporting of their usage. Other authorities had introduced performance monitoring data, including:

- Spend over time on agency workers to identify trend;
- Numbers of agency workers compared to council employees (FTE equivalents);
- Monthly use of agency workers;
- Use of agency workers by department; and
- Average length of engagements.

### ***Rebate***

As part of the Randstad contract the Authority was in receipt of a rebate, based on agency spend. The Authority holds no documentation to support the rebate paid and payments received were not monitored. The auditors calculated rebate earned over a 10 week sample period at £13,323 (4.77% of the relevant spend with Randstad for that period). All rebates were received into the Strategic Procurement Unit's cost centre. The rebate was originally understood to have been set at 5% of eligible expenditure. Internal Audit calculated that the Authority would have missed out on over £3,500 in rebate in just one year if the rebate had been consistently paid at 4.77% instead of 5%.

## **Progress to Date by Management (Peoples Services & Procurement)**

Since the start of the audit, significant progress has been made in some areas. In particular:

- The Agency & Self Employed Workers Policy had been revised, taking on board many of the audit recommendations (e.g. approval method for each new agency worker engagement, approval for any ex-MCC employees appointed, and a suitable exit process for leavers).
- The Recruitment & Selection Policy has also been revised and includes guidance for managers on the circumstances in which the engagement of temporary agency workers may be appropriate, together with the alternatives that should also be considered (e.g. fixed term contracts, selective use of market forces supplements, etc.).
- For schools, a new National Procurement Service (NPS) Agency Worker framework agreement came into effect from 1<sup>st</sup> September 2019. This includes 17 pre-approved agencies to provide a wide choice of available staff at confirmed rates. As independent bodies, schools can still choose to seek agency staff from outside of this framework, at their own risk, and guidance has been provided by People Services explaining this and some of the pitfalls to avoid if doing so.
- The Strategic Procurement Team working with People Services have awarded a new framework for corporate (i.e. non-school) Agency staff framework, which is due to go live in the coming months.

## **What Needs to Happen Next**

Going forward, there are a number of actions required to ensure that the Authority obtains best value for money from its use of agency staff, engages appropriate individuals when required and complies with relevant legislation:

- Hiring managers should ensure that agency workers are only employed where necessary, after consideration has been given to other options and in line with approved policies;
- Engagements should be authorised by senior management in advance and for a defined maximum period. Any extensions required should be subject of further approval;
- Hiring managers should use approved framework providers; they should only go outside of these arrangements where preferred suppliers are unable to provide an appropriate staffing resource and this needs to be documented and approved by Senior Management;
- Hiring managers should ensure that an agreed hourly rate is in place prior to the start of the engagement, consistent with the framework or other agreement in place;

- Before commencing employment, hiring managers should confirm and seek evidence of the agency having checked for:
  - Workers right to work in the UK
  - Proof of identity
  - Any DBS or other safeguarding requirements needed
  - Relevant qualifications, driving licence etc. necessary for the specific role
- The new corporate agency workers' framework should be finalised, approved and implemented as soon as possible, with details and appropriate guidance provided to all managers;
- Effective contract monitoring should be introduced to ensure that charges are applied consistently, any rebates are received in accordance with contracts and the calibre of agency staff used is appropriate. Off contract agency spend should also be reviewed and justified; and
- Secondary schools should ensure that they adhere to procurement legislation and do not use individual agencies outside of framework agreements in excess of EU thresholds.

### **Ongoing Concerns**

Responses to the recommendations made in the report have generally been positive and as shown in the 'Progress to Date' section above, many of the key actions identified have already been delivered. However there remain some ongoing concerns based on responses to the Action Plan, notably:

- Resources for contract monitoring have not been identified - both People Services and Strategic Procurement have stated that they do not have sufficient resources to fulfil this role. The same applies to off contract agency spend. Whilst expenditure at cost centre level may be examined through the monthly budget monitoring reports, this would not be sufficient to review corporate spend or to evaluate the quality of agency worker provision.
- Whilst updated policies have been produced and are available to managers/headteachers on The Hub, there are concerns that managers may not pay due regard to the policies in place. Other recent audits have highlighted repeated breaches of corporate policies including Contract Procedure Rules, Attendance Management Policy and Volunteering Policy for example.
- No performance indicators or target setting for the use of agency staff were in place. Our recommendation had been rejected by management, although other authorities had reported success in reducing their expenditure and reliance on agency workers.

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**SUBJECT: MID-YEAR TREASURY REPORT 2020/21**

**MEETING: Audit Committee**

**DATE: 26th November 2020**

**DIVISION/WARDS AFFECTED: Whole Authority**

## **1 PURPOSE**

- 1.1 To provide an interim mid-year update on treasury management activity for the first 6 months of 2020/21 in accordance with best practice and the requirements of the Authority's Treasury Management Strategy Statement for 2020/21.

## **2 RECOMMENDATIONS**

- 2.1 That Members review the treasury management activities in the first half of 2020/21 using this report and discuss with officers any changes to the process that should be considered for incorporation into the 2021/22 Treasury Management Strategy Statement which will be considered at the January Audit Committee.

## **3 KEY ISSUES**

- 3.1 In March 2005 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports to allow scrutiny of the treasury management process. The CIPFA Code requires the Authority to have regard to the security & liquidity of its investments before seeking additional returns.
- 3.2 The Authority's treasury management strategy for 2020/21 was approved at Council on the 5th March 2020. The Authority has since borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 3.3 The Treasury Management Code which was revised in 2017/18 now covers non-treasury investments as well as treasury investments requiring Authorities to show how they provide due diligence on these investments in the same way as it does for treasury investments (see Section 8). Given the current economic circumstances the Authority has not increased its holding of non-treasury investments in the first half of 2020/21.
- 3.4 The first six months of 2020/21 has seen significant economic uncertainty both with the spread of the coronavirus pandemic and its impact on global economies, and in respect of Brexit with agreements between the UK and EU on a trade deal looking difficult.
- 3.5 Despite gilt yields remaining extremely low, the continued large margin on Public Works Loan Board (PWLB) borrowing has resulted in long term borrowing remaining less attractive.
- 3.6 With short-term interest rates remaining much lower than long-term rates and temporary investments

earning Bank Rate or even lower, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead.

- 3.7 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 is very difficult to currently justify locking into longer term borrowing to provide additional certainty to long term treasury costs and budgets. The continued margin on PWLB borrowing in particular is a significant barrier to this in an environment where the cost of carry is so substantial.
- 3.8 At the 31<sup>st</sup> March 2020 the Authority had a borrowing CFR (Capital Financing Requirement) of £187.0m and gross external borrowing of £186.9m. As detailed in table 2, gross borrowing reduced considerably by £22.2m to £164.7m in the six months to the 30<sup>th</sup> September 2020 but net borrowing only fell by £8.2m due to an overall reduction in investments. This can be explained by the extraordinary circumstances at the end of March 2020 where the Authority was responding to the initial outbreak of the Coronavirus pandemic and held large balances of both temporary borrowing and the front loading of grant funding from Welsh Government. As the year has progressed both of these balances have naturally reduced as the financial response has developed and stabilised.
- 3.9 The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive).
- 3.10 £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. As at 30<sup>th</sup> September these funds generated an average total return of -2.72% (-5.31% at 31<sup>st</sup> March), comprising a 4.03% (4.29% at 31<sup>st</sup> March) income return which is used to support services in year, and -6.75% (-9.48% at 31<sup>st</sup> March) of unrealised capital loss.
- 3.11 As shown in section 9, the Authority is forecasting a saving against budget of £22,000 for 2020/21 in the areas of interest payable and interest receivable against a total net budget of £3.8m.
- 3.12 As reported in section 10, the Authority complied with the Cipfa code of practice on treasury management and the 2019/20 Treasury management strategy, during the year.
- 3.13 The ongoing coronavirus pandemic will continue to have a significant financial impact on the Authority and consequently its treasury management activity for the remainder of the 2020/21 financial year. At the time of writing it is felt that the existing Treasury Strategy approved for the 2020/21 financial year provides the required flexibility both in terms of investment and borrowing approach to respond the challenges faced.

## 4 EXTERNAL CONTEXT

- 4.1 **Economic background:** The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.
- 4.2 The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes

that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

- 4.3 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.
- 4.4 GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.
- 4.5 The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.
- 4.6 In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months when the furlough scheme eventually ends. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.
- 4.7 The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.
- 4.8 The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.
- 4.9 **Financial markets:** Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.
- 4.10 Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.
- 4.11 At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.
- 4.12 **Credit review:** Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

- 4.13 After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.
- 4.14 There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31<sup>st</sup> December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

## 5 LOCAL CONTEXT

- 5.1 On 31<sup>st</sup> March 2020, the Authority had net investments of £27.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary (Start of year)**

	<b>31.3.20 Actual £m</b>
General Fund capital financing requirement	189.5
Less: *Other debt liabilities	(2.4)
<b>Borrowing capital financing requirement</b>	<b>187.0</b>
External borrowing	(186.9)
Internal borrowing	0.1
Less: Usable reserves	(18.5)
Less: Working capital	(9.3)
<b>Investments at 31<sup>st</sup> March 2020</b>	<b>(27.6)</b>

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

- 5.2 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.
- 5.3 The treasury management position on 30<sup>th</sup> September 2020 and the change over the six months is shown in Table 2 below.



**Table 2: Treasury Management Summary**

	<b>31.3.20</b>	<b>31.3.20</b>		<b>30.09.20</b>	<b>30.09.20</b>
	<b>Balance</b>	<b>Rate</b>	<b>Net</b>	<b>Balance</b>	<b>Rate</b>
	<b>£m</b>	<b>%</b>	<b>Movement</b>	<b>£m</b>	<b>%</b>
			<b>£m</b>		
Long-term borrowing	93.2	3.5	(0.5)	92.7	3.5
Short-term borrowing	93.7	1.0	(21.7)	72.0	0.3
<b>Total borrowing</b>	<b>186.9</b>	<b>2.2</b>	<b>(22.2)</b>	<b>164.7</b>	<b>2.1</b>
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(3.0)	0.52	0.0	(3.0)	0.03
Pooled Funds	(2.7)	4.29	(0.1)	(2.8)	4.03
Cash and cash equivalents	(21.9)	Included in ST above	14.2	(7.8)	Included in ST above
<b>Total investments</b>	<b>(27.6)</b>	<b>0.9</b>	<b>14.0</b>	<b>(13.6)</b>	<b>0.4</b>
<b>Net Borrowing</b>	<b>159.3</b>		<b>(8.2)</b>	<b>151.1</b>	

5.4 At the 31<sup>st</sup> March 2020 the Authority had a borrowing CFR (Capital Financing Requirement) of £187.0m and gross external borrowing of £186.9m. As detailed above, gross borrowing reduced considerably by £22.2m to £164.7m in the six months to the 30<sup>th</sup> September 2020 but net borrowing only fell by £8.2m due to an overall reduction in investments. This can be explained by the extraordinary circumstances at the end of March 2020 where the Authority was responding to the initial outbreak of the Coronavirus pandemic and held large balances of both temporary borrowing and the front loading of grant funding from Welsh Government. As the year has progressed both of these balances have naturally reduced as the financial response has developed and stabilised.

## **6 BORROWING UPDATE**

6.1 On 9<sup>th</sup> October 2019 the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders and lead times and volumes of borrowing required can prove to be significant barriers.

6.2 The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields. £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% has been made available to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

6.3 The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

6.4 The consultation closed on 31<sup>st</sup> July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year.

6.5 Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework

agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor.

6.6 If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

### 6.7 **Borrowing Strategy during the period**

6.8 At 30<sup>th</sup> September 2020 the Authority held £164.7m of loans, (a decrease of £22.2m from 31<sup>st</sup> March 2020), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30<sup>th</sup> September are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.3.20</b>	<b>Net Movement</b>	<b>30.09.20</b>	<b>30.09.20</b>	<b>30.09.20</b>
	<b>Balance</b>		<b>Balance</b>	<b>Weighted Average</b>	<b>Weighted Average</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>Rate %</b>	<b>Maturity (years)</b>
Public Works Loan Board	89.1	(14.2)	74.9	3.6	17.8
Banks (LOBO)	13.6	0.0	13.6	4.8	21.3
Welsh Government Interest Free	5.2	0.0	5.2	0.0	3.8
Local authorities/Other	78.9	(8.0)	70.9	0.2	0.3
<b>Total borrowing</b>	<b>186.9</b>	<b>(22.2)</b>	<b>164.7</b>	<b>2.1</b>	<b>10.1</b>

6.9 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

6.10 In keeping with these objectives, no new long term borrowing was undertaken, while existing loans maturing were replaced with rolling temporary / short terms loans, or internal resources. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Authority considers it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans. When the results of the PWLB consultation are known this approach will be reassessed.

6.11 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%. The Authority will continue to evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

6.12 LOBO loans: The Authority continues to hold £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the quarter.

## 7 **INVESTMENT UPDATE**

7.1 From the start of April 2020 onwards, the Authority has received Welsh Government funding to support small and medium businesses during the coronavirus pandemic through grant schemes.

£26.0m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. £24.3m was disbursed by the end of September.

7.2 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £10.0m and £27.6m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

**Table 4: Treasury Investments**

	<b>31.3.20 Balance £m</b>	<b>Net Movement £m</b>	<b>30.09.20 Balance £m</b>	<b>31.03.20 Capital Return %</b>	<b>30.09.20 Income Return %</b>
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	N/A	0.03%
Government (incl. local authorities)	(10.9)	7.9	(3.0)		
Money Market Funds	(12.0)	6.2	(5.9)		
Multi asset pooled funds	(2.2)	(0.2)	(2.4)	-6.99%	3.45%
Property pooled funds	(0.4)	0.0	(0.4)	-6.72%	4.14%
<b>Total investments</b>	<b>(27.6)</b>	<b>14.0</b>	<b>(13.6)</b>		

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

7.4 Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

7.5 On 25<sup>th</sup> September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities.

7.6 The return on Money Market Funds net of fees also fell over the six months and for many funds net returns range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.

7.7 In the light of the pandemic crisis and the likelihood of unexpected calls on cash flow, the Authority kept more cash available at very short notice than is normal. Liquid cash was diversified over several counterparties and/or Money Market Funds to manage both credit and liquidity risks.

7.8 The progression of risk and return metrics are shown in the quarterly investment benchmarking in Table 5 below.

**Table 5: Investment benchmarking**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
31.03.2020	AA-	4.01	64%	2	0.74

30.09.2020	AA-	4.29	72%	10	0.86
<b>Similar LAs</b>	AA-	4.05	44%	177	0.40
<b>All LAs</b>	AA-	4.16	64%	18	0.90

- 7.9 **Externally Managed Pooled Funds:** £3m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. As at 30<sup>th</sup> September these funds generated an average total return of -2.72% (-5.31% at 31<sup>st</sup> March), comprising a 4.03% (4.29% at 31<sup>st</sup> March) income return which is used to support services in year, and -6.75% (-9.48% at 31<sup>st</sup> March) of unrealised capital loss.
- 7.10 In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.
- 7.11 The Authority is invested in multi-asset and property funds. The falls in the capital values of the underlying assets, in particular bonds and equities were reflected in the 31<sup>st</sup> March 2020 fund valuations with funds registering negative capital returns over a 12-month period. Since March there has been improvement in market sentiment which is reflected in a modest increase in capital values of the funds in the Authority's portfolio. Market values at 31<sup>st</sup> March and 30<sup>th</sup> September 2020 are as shown in Table 4, above.
- 7.12 Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.
- 7.13 Because the Authority's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.
- 7.14 In 2020/21 the Authority expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

## 8 NON-TREASURY INVESTMENTS

- 8.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by Ministry of

Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

8.2 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

8.3 The Authority held a book value of £31.0m of such non-financial asset investments at the 31<sup>st</sup> March 2020 (£34.0m as at 31<sup>st</sup> March 2019) with the reduction in value of these assets very much reflecting the ongoing uncertain economic environment. These are:

- Oak Grove Solar Farm £4.6m Net book value (£6.7m as at 31<sup>st</sup> March 2019)
- Castlegate Business Park & service loan £7.5m Net book value (£7.65m as at 31<sup>st</sup> March 2019)
- Newport Leisure Park & service loan £18.9m Net book value (£21.0m as at 31<sup>st</sup> March 2019)

8.4 The rest of the Authority's Investment Properties have been held for over a decade and are retained purely for income or capital gain, and are valued as at 31<sup>st</sup> March 2020 as:

- Agricultural Properties £29.6m Net book value
- Industrial Properties and Retail Units £2.8m Net book value

8.5 These investments are budgeted to generate approximately £1.22m of investment income for the Authority after taking account of direct costs and contributes to supporting the Authority's ongoing revenue budget. COVID-19 has impacted the Council as it will have every Council with both additional costs and significant income losses. We have entered into rental deferral agreements with a number of tenants to give them the best chances of surviving the downturn and to protect jobs that would otherwise be lost. Beyond amounts recovered from Welsh Government COVID-19 Hardship Funds, we remain hopeful that we will recover in full the majority of any remaining shortfall in the next financial year as tenants return to trading.

## 9 TREASURY PERFORMANCE

9.1 The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

**Table 6: Performance**

	<b>Forecast 2020/21 £'000</b>	<b>Budget 2020/21 £'000</b>	<b>Over/(under) Spend</b>
PWLB	2,710	2,849	(139)
Market loans	653	653	(0)
Short term loans	542	544	(2)
<b>Total interest payable on borrowing</b>	<b>3,905</b>	<b>4,046</b>	<b>(141)</b>
Invested cash	4	(56)	60
Pooled Funds	(74)	(134)	60
Finance lease income	(62)	(62)	0
<b>Total interest from Investments</b>	<b>(133)</b>	<b>(252)</b>	<b>119</b>
<b>Net Over/(Under)spend</b>	<b>3,772</b>	<b>3,794</b>	<b>(22)</b>

9.2 **Estimates for income for 2020/21 and beyond:**

9.3 The corporate world is still adjusting to the economic shock, with probably more to come, and it is still too early to tell which companies will withstand the economic damage in the short- to medium-term or which will choose to conserve cash in very difficult economic conditions simply to survive.

9.4 Investment income in the Authority's 2020/21 was set against a very different economic backdrop. Bank Rate, which was 0.75% in January/February 2020, now stands at 0.1%. Interest earned from short-dated money market investments will be significantly lower. In relation to income from the Authority's externally managed strategic funds, dividends and income distributions will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.

9.5 Further to this the Authority will be reviewing its expectations for investment income in 2021/22 as part of ongoing budget process.

**10 COMPLIANCE**

10.1 The Section 151 officer reports that all treasury management activities undertaken during the first six months of the year have complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated below.

10.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

**Table 7: Debt limits**

	<b>2020/21 Maximum during year £m</b>	<b>30.09.20 Actual £m</b>	<b>2020/21 Operational Boundary £m</b>	<b>2020/21 Authorised Limit £m</b>	<b>Complied? Yes/No</b>
Borrowing	195.8	164.7	210.8	230.0	Yes
PFI, Finance Leases & Other LT liabilities	2.4	2.4	3.9	5.4	Yes
<b>Total debt</b>	<b>198.2</b>	<b>167.1</b>	<b>214.7</b>	<b>235.4</b>	

10.3 Compliance with agreed Investment limits is shown below:

**Table 8: Investment limits**

	<b>2020/21 Maximum</b>	<b>2020/21 Limit</b>	<b>Complied? Yes</b>
Local Authorities per counterparty	£2m	£2m or 10%	Yes
Banks per counterparty, rating A- or above	£2m	£2m	Yes
Any group of pooled funds under the same management	£1m	£2m	Yes
Limit per non-UK country	£0m	£4m	Yes
Money Market Funds	£2m	£2m or 10%	Yes
Investments over 1 year	£0m	£6m	Yes

10.4 **Treasury Management Indicators**

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

10.6 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and 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.

**Table 9: Security**

	<b>30.09.20 Actual</b>	<b>2020/21 Target</b>	<b>Complied?</b>
Portfolio average credit	AA-/4.01	A-/5.0	Yes

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

**Table 10: Maturity structure of borrowing**

	<b>30.09.20 Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Complied?</b>
Under 12 months	46%	0%	60%	Yes
12 months and within 24 months	2%	0%	20%	Yes
24 months and within 5 years	7%	0%	30%	Yes
5 years and within 10 years	9%	0%	30%	Yes
10 years and above	36%	0%	100%	Yes

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

**Table 11: Invested beyond 1 Year**

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Actual principal invested for 365 days & beyond year end	£0	£0	£0
Limit on principal invested for 365 days & beyond year end	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

10.9 **Other issues**

10.10 **IFRS 16:** CIPFA/LASAAC has proposed deferring the implementation of the new IFRS 16 Leases accounting standard for a further year to 2021/22. Some preparatory work required to meet the requirements of the standard was initially carried out in December 2019 but was paused when notification of the deferral was made. Given the current pressures on the finance section and particularly those sections holding the majority of the Authorities leases (Transport, Schools & Estates) there is likely to be significant risk around completing the work necessary to meet the requirements of the new standard in time for 2020/21 accounts closure. The Authority will look to

engage with both CIPFA/LASAAC representatives and if necessary external auditors to explore any possible mitigations to this.

#### 10.11 Arlingclose's Outlook for the remainder of 2020/21

	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
<b>Official Bank Rate</b>													
<b>Upside risk</b>	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
<b>Arlingclose Central Case</b>	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
<b>Downside risk</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

10.12 The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. 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.

10.13 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. This has supported a sizeable economic recovery in Q3.

10.14 However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

10.15 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 have priced in a chance of negative Bank Rate.

10.16 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, or if the UK leaves the EU without a deal.

10.17 Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

10.18 Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

10.19 Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

## 11 REASONS

11.1 The Treasury Management Strategy for the Authority is underpinned by its adherence to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement that members are informed of Treasury Management



activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

## **12 OPTIONS APPRAISAL**

12.1 Not applicable.

## **13 EVALUATION CRITERIA**

13.1 Not applicable.

## **14 RESOURCE IMPLICATIONS**

14.1 There are no resource implications arising directly from this report.

## **15 WELLBEING OF FUTURE GENERATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING AND CORPORATE PARENTING).**

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

## **16 CONSULTEES**

16.1 Chief Officer, Resources (Acting Section 151 officer)  
Arlingclose – Treasury Management Advisors to Monmouthshire CC

## **17 BACKGROUND PAPERS**

17.1 None

## **18 AUTHOR**

Jonathan S Davies – Finance Manager

## **19 CONTACT DETAILS**

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# AUDIT COMMITTEE FORWARD WORK PLANNER 2020-21

Date of Meeting	Title	Description/Purpose	Lead Officer	Report Type
<b>26th Nov 2020</b>				
26.11.20	Quarter 2 update and Progress		Andrew Wathan	
26.11.20	Self Evaluation		Andrew Wathan	
26.11.20	Update on unfavourable Internal Audit Opinions		Andrew Wathan	
26.11.20	Audit Wales Certificate of Compliance for the Audit of Monmouthshire County Councils Assessment of performance for 2019/20		Performance Manager/Audit Wales	
26.11.20	Mid Year Treasury Report	A mid year update to Members on the Authority's Treasury Management activities in the first 6 months of the year. The report will compare key measures in the first half of 19/20 to levels budgeted or forecast in the 2019/20 Treasury Strategy. As the Prudential code now covers non- treasury investments, the half year report will do also at a high level. Any recommendations due to variances or observations will be included.	Jon Davies	
<b>7th Jan 2021</b>				

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# AUDIT COMMITTEE FORWARD WORK PLANNER 2020-21

07.01.21	Anti bribery Audit Training	To raise awareness and impact of the Bribery Act 2010: to provide Members and Officers sufficient information to avoid being accused of bribery and corruption in undertaking their duties for MCC.	Andrew Wathan/John McConnachie	
07.01.21	WAO Annual Improvement Report		Audit Wales/Emma Davies	
07.01.21	Overview of Performance Management arrangements	To present an update on the current effectiveness of the Authority's performance management arrangements	Performance Manager	Performance Review
07.01.21	Audited Trust fund Accounts (Welsh Church Fund/Mon Farms/Llanelli Hill)	Annual Report and Financial Statements for the year ended the 31 March 2019	Dave Jarrett/Nikki Wellington	
07.01.21	ISA 260 or equivalent for Trust Funds		Audit Wales	
07.01.21	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	

# AUDIT COMMITTEE FORWARD WORK PLANNER 2020-21

07.01.21	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	
07.01.21	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.	Jon Davies/Lesley Russell	
07.01.21	Whole Authority annual complaints report		Annette Evans	
<b>25th Mar 2021</b>				
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	Richard Jones	

# AUDIT COMMITTEE FORWARD WORK PLANNER 2020-21

		Authority Strategic Risk Assessment.		
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	
Page 48				
Apr-21	Information Breaches (twice yearly)		Matt Gatehouse	

# Public Document Pack Agenda Item 10

## MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held  
at Remote Meeting on Thursday, 15th October, 2020 at 2.00 pm

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

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

### **OFFICERS IN ATTENDANCE:**

Andrew Wathan	Chief Internal Auditor
Peter Davies	Chief Officer, Resources
Wendy Barnard	Democratic Services Officer
Gareth Lucey	Wales Audit Officer
Anthony Veale	Wales Audit Officer
Jonathan Davies	Central Accountancy Finance Manager
Sian Hayward	Digital and Technology Manager

### **APOLOGIES:**

County Councillors

#### **1. Election of Chair**

Mr. P. White was elected Chair.

#### **2. Appointment of Vice Chair**

County Councillor J. Higginson was appointed as Vice Chair.

#### **3. Declarations of Interest**

County Councillors P. Murphy and A. Easson declared personal , non prejudicial interests as trustees of Monmouthshire Farm Endowment Trust for Items 8 and 9: Audited Statement of Accounts/ ISA260 Response to Accounts

#### **4. Public Open Forum**

No members of the public were present.

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

The action list from the last meeting was noted and the following updates were provided:

- Performance Management: Moved to Forward Work Plan – 26<sup>th</sup> November 2020
- Unfavourable Audit Opinions - Agency Work: Moved to Forward Work Plan – 26<sup>th</sup> November 2020
- Annual Review Investment Committee: Moved to Forward Work Plan – 25<sup>th</sup> March 2021
- Audit Committee Self Assessment: Moved to Forward Work Plan – 26<sup>th</sup> November 2020

# MONMOUTHSHIRE COUNTY COUNCIL

## Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 15th October, 2020 at 2.00 pm

- Audit Committee Annual Report: Presented to County Council on 10<sup>th</sup> September 2020.

### **6. Information Breaches**

The Head of Digital Services presented the report on GDPR, Data breaches, Freedom of Information and Subject Access Requests in a new report format. Feedback on the format to improve future reports was welcomed. Following presentation of the report, questions were asked:

A Member queried the higher level of GDPR breaches in schools, why schools are in this position and how soon schools will be in compliance. It was explained that schools are their own data controller and consequently don't have to report corporately, reporting to the Information Commissioner instead. It was responded that a Schools GDPR Officer has been appointed who has visited all schools to offer training and raise awareness of data governance issues.

It was also questioned how complaints (procedures and timescales) are reported. Complaints are reported to Audit Committee annually by the Customer Relations Manager. Subject Access Requests are dealt with by the Customer Relations Section. The complexity of Subject Access requests has greatly increased and are very time consuming. Efforts are being made to digitise data so that it is easier to access it and analyse it to respond to requests.

The Chair asked what training staff receive to prevent information breaches. Digital training is provided that covers a variety of topics to encourage good information governance. The training has a quiz at the end to ensure that the recipient has acquired a good level of understanding. Training is targeted at the areas of highest risk of loss of confidential data, such as social care.

A Member asked about the time and cost of Freedom of Information requests. It was agreed that this aspect could be better publicised to the public to help limit more routine or of the cuff requests. There is a 18.5 hour limit on the amount of officer time to prepare a response and if this time is likely to be breached we can ask the requestor to reconsider the request or we can refuse it.

The Audit Committee undertook the report recommendation to scrutinise the report and took the opportunity to request any further clarification of the information within it. Committee Members were invited to discuss how the layout of the data could be improved and if there was any level of detail that might make the information more useful and meaningful in future reports.

### **7. Adequacy of Reserves Report**

The Finance Manager presented the Adequacy of Reserves report. Following consideration of the report, Members asked questions as follows:

Noting that there are twelve schools in a deficit budget position, a Member commented that one comprehensive school is showing a surplus position because of a £250,000 loan. It was queried how repayment will be made and secondly, if it is correct to record a surplus position when there is a debt of £250,000. It was agreed that the loan makes the budget appear as a surplus and that, for clarity, some narrative will be added to the report and/or the table.

A Member referred to the Monmouthshire reserve of 4.76% due mainly to the £1.8m received from VAT recovery. It was noted that across Wales, Councils hold an average of 17% of expenditure in reserves. Twelve Councils appear as above average with the highest holding reserves of 34% of expenditure. It is clear that Monmouthshire County Council is poorly funded



## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 15th October, 2020 at 2.00 pm

and that the Barnett Formula needs to be reviewed. It was questioned, if the authority had the average Welsh funding how much would be needed to place its finances in better order. It was estimated that, every 1% equivalent financing would bring an increase in £900,000. It was added that it is difficult to draw comparisons on an all Wales basis because of differing service investment levels.

A Member commented that a simplified clear message would help to make residents understand the financial problems in the County. The Member offered to work with officers. It was agreed that the public consultation from January on the Budget would be a good opportunity to highlight such information. The Finance Officer will look into the suggestion and report back at a future meeting.

As per the report recommendations, the Audit Committee noted the forecast usage of reserves for 2020/21 as contained within Table 1 of the report and for future years as shown in Appendix 1.

The Audit Committee noted the decline in earmarked reserve balances and that the reserves protocol in 2015 slowed and stabilised balances, albeit at levels which have limited opportunities for significant investment to meet the one off costs to invest and transform services.

The Audit Committee noted that the Council Fund balance remains at the lower end of the 4% to 6% indicator of acceptable and prudent levels even when taking account of the one off specific replenishment of Council Fund as part of the 2019/20 revenue outturn and specifically relating to the financial response to the COVID-19 pandemic and MTFP.

#### **8. Audited Statement of Accounts**

The Finance Manager presented the Audited Statement of Accounts to the Audit Committee. Following the report, and taking items 8 and 9 together, questions were asked as follows:

A Member asked the Audit Wales Auditor for an opinion about the Council's accounting for the school budget loan of £250,000. It was responded that the £250,000 mentioned in the report was not relating to school budgets, but to the accounting treatment of interest free loans. It was noted that the treatment followed was not strictly in line with the requirements of the CIPFA Code of Practice for local government accounts hence its inclusion in the report. It was further clarified that the amount referred to capital loans received from Welsh Government.

A Member queried a reference to a £3m special vehicle. It was explained that it was a special purpose vehicle (an accounting term not an automotive vehicle!). It referred, in this instance, to a financial arrangement that the Council has in relation to holding funds for CSC Foundry.

As stated in the recommendations, the final audited Monmouthshire County Council Statement of Accounts for 2019/20 (Appendix 1), were reviewed in conjunction with the Audit Wales ISA260 Audit of Accounts report, and were endorsed to full Council.

The Audit Wales Officer thanked the officers for preparing the accounts and assisting with the audit in difficult circumstances. There is a good working relationship between the authority and Audit Wales. The Chair also conveyed the gratitude of the Audit Committee to all concerned acknowledging that it is a significant and complex piece of work.

#### **9. ISA260 Response to Accounts**

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 15th October, 2020 at 2.00 pm

Audit Wales Officers responsible for the audit of Monmouthshire County Council's accounts, presented the IAS 260 Response to Accounts. The staff involved in the audit, in both the Council and Audit Wales, were thanked for their work, especially in view of the challenges arising from the pandemic. An unqualified opinion was recorded.

#### **10. Anti-Bribery Risk Assessment**

The Chief Officer, Resources provided a PowerPoint presentation on the Anti-Bribery Risk Assessment. The Chief Internal Auditor reported on the low level of fraud and the administration of the Welsh Government Business Support Grants in response to COVID 19. Following the presentation, questions were asked:

A Member asked for more information about the fraudulent payments made as a result of COVID 19. Additionally, in respect of cyber fraud, more information was requested on the number of payments and how they are uncovered. It was explained that sizeable amounts of funding, from a variety of grants had been administered by the authority to assist businesses with the effects of COVID 19. Lessons have been learnt from administering the Business Support Grants due mainly to the speed required by Welsh Government to distribute funds. Consequently, more robust arrangements have been put in place. It is likely that similar grants will be administered as the pandemic progresses.

The Chief Internal Auditor provided assurance that, from 1800+ applications, six cases of possible fraud were identified and reported to the Police and our bankers. As more applications were received a further four cases were identified; a total of ten fraudulent applications. £120,000 was stopped before leaving the organisation and of the £90,000 released, the bank and Police were involved and £45,000 was recovered. The Internal Audit Team conducts live checking against the National Fraud Database for individuals and limited companies and received notification of potential concerns. A retrospective check was also carried out and all 1800+ applications were run through counter fraud checks. The ten mentioned were the only ones identified. It was added that there was a limited amount of funding allocated for start-up grants of £2500 which were distributed on a 'first come first served' basis. If any applications were thought to be fraudulent, no funding was released. Documentary proof will be requested to support applications suspected of fraud.

Referring to the announcement of new grants, it was confirmed that there will be a risk element of fraud for any grant funding released. It was confirmed that any losses that occur are borne by Welsh Government not the authority.

As per the presentation objectives, the understanding of the Audit Committee around its responsibilities was refreshed and a brief background to the following elements was provided:

- The current Anti fraud, Bribery and Corruption policy
- Internal audit reviews and follow ups undertaken
- To provide further update to confirm action taken to address outstanding recommendations
- To provide the annual risk assessment of the arrangements in place around anti fraud, bribery and corruption
- To outline proposed next steps.

#### **11. Internal Audit Outturn Report 2019/20**

The Chief Internal Auditor presented the annual Internal Audit Outturn Report 2019/20, prepared to provide assurance to the Audit Committee of the adequacy of the internal control environment, governance arrangements and risk management based on the internal audit work undertaken during the year, at the audit planning stage. The report provides an overview of

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Audit Committee held at Remote Meeting on Thursday, 15th October, 2020 at 2.00 pm

assurance levels and team performance. Following presentation of the report, Committee Members were given the opportunity to ask questions.

A Member queried the medium risk assessment in respect of Tourism. It was responded that the medium risk was assessed at the beginning of the year. Audit work is undertaken to identify the strengths and weaknesses, the outcome of which defines the audit opinion. Within the area identified, there were more weaknesses than strengths leading to a limited opinion.

The Chair commented that the report identified a creditable performance by the team in the unprecedented circumstances of the year.

As recommended, the Audit Committee endorsed the Internal Audit Outturn Report 2019/20.

#### **12. Internal Audit Plan 2020/21**

The Chief Internal Auditor presented the Internal Audit Plan for 2020/21. The plan was presented later than usual due to the impact of COVID 19. At the start of the year, it was not possible to undertake the plan as front line services were fully engaged in delivery of priority services to residents making it impossible to accommodate audit visits. Additionally, schools were closed and other services paused. The team was involved in extensive anti-fraud work associated with the Welsh Government Business Grants to protect public money. The priority-based plan became operational in a revised version from 1<sup>st</sup> October 2020. Questions from Committee Members were invited:

The Chair commented that the Internal Audit Team have made a significant contribution to other important work during the pandemic which has impacted on the usual level of audit work carried out over a year.

As recommended, the Audit Committee reviewed and approved the Internal Audit Plan for 2020/21.

#### **13. Forward Work Planner**

The Forward Work Planner was noted.

#### **14. To confirm minutes of the previous meeting held on 30th July 2020**

The minutes of the last meeting were confirmed as a true record.

#### **15. To confirm the date of the next meeting as Thursday 26th November 2020**

**Meeting ended at 4.00 pm**

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