

# Public Document Pack



Neuadd y Sir  
Y Rhadyr  
Brynbuga  
NP15 1GA

Dydd Gwener, 18 Chwefror 2022

## Hysbysiad a Gyfarfod

### Pwyllgor Llywodraethu ac Awdit

Dydd Llun, 28ain Chwefror, 2022 at 2.00 pm,  
Neuadd Y Sir, Y Rhadyr, Brynbuga, NP15 1GA

### AGENDA

Item No	Item	Pages
1.	Ymddiheuriadau am absenoldeb	
2.	Datganiadau o Fuddiant	
3.	Fforwm Agored i'r Cyhoedd	
4.	Nodi'r rhestr o Gamau Gweithredu o'r cyfarfod blaenorol.	1 - 2
5.	Trosolwg o Drefniadau rheoli perfformiad	3 - 16
6.	Crynodeb Archwilio Blynyddol gan Archwilio Cymru	17 - 24
7.	Cynigion Gwella gan Archwilio Cymru – Adroddiad Cynnydd	25 - 38
8.	Strategaeth Gyfalaf 2022/23 a Strategaeth y Trysorlys 2022/23	39 - 96
9.	Asesiad o gadernid proses y gyllideb a digonolrwydd y cronfeydd wrth gefn.	97 - 98
10.	Adroddiad Blynyddol ar Gwynion yr Awdurdod Cyfan	99 - 118
11.	Adolygiad y Pwyllgor Llywodraethu ac Archwilio	119 - 126
12.	Adroddiad Cynnydd y Gwasanaeth Archwilio Mewnol - Chwarter 3	127 - 136
13.	Blaengynllun y Pwyllgor Llywodraethu ac Archwilio	137 - 138
14.	Cadarnhau cofnodion y cyfarfod blaenorol	139 - 142
15.	Cadarnhau dyddiad y cyfarfod nesaf, sef 31 Mawrth 2022 am 2.00pm	

---

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

MONMOUTHSHIRE COUNTY COUNCIL  
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

Philip White (Co-opted Member)

County Councillor Tony Easson  
County Councillor Mat Feakins  
County Councillor Jim Higginson  
County Councillor Bryan Jones

County Councillor Paul Jordan  
County Councillor Malcolm Lane  
County Councillor Phil Murphy  
County Councillor Val Smith  
County Councillor Brian Strong  
County Councillor Jo Watkins

<i>Dewstow;</i>	<i>Welsh Labour/Llafur Cymru</i>
<i>Drybridge;</i>	<i>Welsh Conservative Party</i>
<i>Severn;</i>	<i>Welsh Labour/Llafur Cymru</i>
<i>Goetre</i>	<i>Welsh Conservative Party</i>
<i>Fawr;</i>	
<i>Cantref;</i>	<i>Welsh Conservative Party</i>
<i>Mardy;</i>	<i>Welsh Conservative Party</i>
<i>Caerwent;</i>	<i>Welsh Conservative Party</i>
<i>Llanbadoc;</i>	<i>Independent Group</i>
<i>Usk;</i>	<i>Welsh Conservative Party</i>
<i>Caldicot</i>	<i>Liberal Democrats</i>
<i>Castle;</i>	

## Public Information

### Access to paper copies of agendas and reports

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

### Watch this meeting online

This meeting can be viewed online either live or following the meeting by visiting [www.monmouthshire.gov.uk](http://www.monmouthshire.gov.uk) or by visiting our Youtube page by searching MonmouthshireCC.

### Welsh Language

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

# Aims and Values of Monmouthshire County Council

## Our purpose

Building Sustainable and Resilient Communities

### Objectives we are working towards

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

## Our Values

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

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

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

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

**Kindness:** We will show kindness to all those we work with putting the importance of relationships and the connections we have with one another at the heart of all interactions.



This page is intentionally left blank

# Agenda Item 4

## Audit Committee Action List 13th January 2022

<b>Agenda Item:</b>	<b>Subject</b>	<b>Officer</b>	<b>Outcome</b>
7	Anti-Bribery Risk assessment	P. Davies	Reschedule on Forward Plan
8	Governance and Audit Committee Review	P. Davies	Reschedule on Forward Plan

This page is intentionally left blank

**SUBJECT: Overview of Performance Management Arrangements**

**MEETING: Governance and Audit Committee**

**DATE: 28<sup>th</sup> February 2022**

**DIVISION/WARDS AFFECTED: All**

## **1 PURPOSE:**

- 1.1 To ensure that members understand the council's performance framework.
- 1.2 To present an update on the current effectiveness of the authority's performance management arrangements.
- 1.3 To provide the Committee with an overview of the Council's planned self-assessment process to meet the requirements of the Local Government and Elections (Wales) Act 2021

## **2 RECOMMENDATIONS:**

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

## **3. KEY ISSUES:**

- 3.1 Performance management is about establishing a shared understanding of what needs to be achieved and making sure that it happens. The council currently has an established performance framework; this is the way in which we translate our purpose into action and ensure that everyone is pulling in the same direction to deliver real and tangible outcomes. This is shown in appendix 4.
- 3.2 Our performance framework:
  - Translates our purpose into the council's own well-being objectives and form the backbone of our five priority goals in the Corporate Plan.
  - Places an expectation on teams to translate these goals into specific, measurable actions in their service business plans
  - Contains a broad range of data to monitor impact and measure the performance of services
  - Provides employees with the opportunity to receive regular appraisals to demonstrate how they are contributing to the objectives

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

- 3.3 There have been considerable adjustments to the Council's performance framework in the last two years due to the need to adapt arrangements to support the Council's response to the coronavirus pandemic and to meet requirement of the Local Government and Elections (Wales) Act 2021.
- 3.4 The pandemic caused unprecedented disruption to service delivery, and many planned activities and embedded processes were adjusted, reduced or stopped altogether to make capacity available to safeguard lives and livelihoods. To provide clarity and ensure accountability throughout the pandemic, Cabinet established a series (five in total) of revised purposes and strategic aims, known as the plan on a page, that reflected and adapted to the latest evidence and circumstances. The council's performance management arrangements were adjusted throughout to facilitate service planning, performance management and risk management that focused on what needed to happen and ensure progress could be monitored in a robust and transparent way.
- 3.5 The Local Government and Elections (Wales) Act 2021 provides for a new and reformed legislative framework for local government elections, democracy, governance and performance. The Act replaces the previous improvement duty for councils set out in the Local Government (Wales)

Measure 2009. The Act requires each council in Wales to keep under review the extent to which it is meeting the 'performance requirements', that is the extent to which; it is exercising its functions effectively; it is using its resources economically, efficiently and effectively; its governance is effective for securing these.

- 3.6 Appendix 1 provides an appraisal of the arrangements that make up the current performance framework to ensure that Governance and Audit Committee are able to take an overview of their effectiveness. Each arrangement has been scored based on the council's self-evaluation framework: Level 6 Excellent; Level 5 Very Good; Level 4 Good; Level 3 Adequate, Level 2 Weak; and Level 1 Unsatisfactory. The committee last received an update providing an overview on performance management arrangements in November 2019.
- 3.7 Cabinet agreed, as part of the Corporate Plan commitment, an annual report to be received by Governance and Audit Committee, on the continued effectiveness of the council's strategic planning framework, ensuring the necessary checks and balances are in place around monitoring, evaluation, decision-making and policymaking. The report in appendix 1 forms the basis of this evaluation for performance monitoring and evaluation; further information assessing the effectiveness of decision-making is in appendix 2.
- 3.8 The council also places reliance on regulatory assessments as a vital part of our framework. These are Audit Wales, who examine the authority's corporate arrangements; Estyn, in relation to education provision; and the Care Inspectorate Wales, in relation to social services. Where applicable, the most recent findings of regulatory work have been factored into the appraisal of arrangements.
- 3.9 Governance and Audit Committee receive relevant Audit Wales performance audit reports throughout the year as they are published, which include any further areas of the council's arrangements where it is considered the authority needs to take action. The conclusion of these reports is consolidated within the regular Audit Wales Work Programme: Council Progress Update report provided to the committee. The latest update is on the Committee's agenda.
- 3.10 Under the Local Government and Elections (Wales) Act 2021, the mechanism for a council to keep its performance under review is self-assessment, with a duty to publish a report setting out the conclusions of the self-assessment once in respect of every financial year. Appendix 3 provides the Committee with an overview of the council's proposed process to undertake its first self-assessment under the Act, assessing performance in the 2021/22 financial year. Most of the evidence for the self-assessment can be informed by using intelligence already held corporately in an insightful way; this includes, for example, the Annual Governance Statement, audit and inspection reports, and service level business plans. Some of which already form part of the Performance Management framework, and some that will need to be further developed. Areas to be developed further in order to provide an additional evidence base includes directorate workshops.
- 3.11 Self-assessment is a way of evaluating, critically and honestly, the current position in order to make decisions on how to secure improvement for the future. It needs to be embedded across the organisation as effective self-assessment helps the council to continually learn and achieve sustainable improvement and better outcomes for citizens, service users and its own workforce. The Council needs to have an evaluative culture and mindset embedded in all it does, rather than see the self-assessment as standalone process to be completed once a year. Further developing this culture and embedding an evaluative mindset will be a key development point through the self-assessment process.
- 3.12 Governance and Audit Committee have an important role in contributing the report. A draft of the self-assessment report must be made available to the committee to review and make any recommendations for changes to the conclusions or action the council intends to take. The report is scheduled to be presented to the committee in June/July 2022 and this overview provides the committee with an update of how the process will be undertaken.

**4. RESOURCE IMPLICATIONS**

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

**5. AUTHOR:**

Richard Jones, Performance Manager  
Emma Davies, Performance Officer

**6. CONTACT DETAILS:**

E-mail: [richardjones@monmouthshire.gov.uk](mailto:richardjones@monmouthshire.gov.uk)  
Telephone: 01633 740733

E-mail: [emmadavies@monmouthshire.gov.uk](mailto:emmadavies@monmouthshire.gov.uk)  
Telephone: 07989 692782

## Appendix 1 - Appraisal of performance management arrangements

Well-being Objectives, Improvement Objectives & Strategic Aims 'Plan on a Page'	
<b>Purpose:</b>	<p>The Council has a responsibility under the Well-being of Future Generations (Wales) Act 2015 to set well-being objectives. To achieve this, we must:</p> <ul style="list-style-type: none"> <li>• Set and publish well-being objectives</li> <li>• Take all reasonable steps to meet those objectives</li> <li>• Publish a statement about well-being objectives</li> <li>• Detail arrangements to publish an annual report of progress</li> </ul> <p>The requirement under the Local Government (Wales) Measure 2009 to set annual Improvement Objectives, produce an Improvement Plan and report annually on progress has been removed from April 2021, when the Local Government and Elections Act was introduced.</p> <p>When the Coronavirus pandemic began, swift action was needed to address the significant and unprecedented challenges being presented to our way of life and to the way we provided services. We have continued to rise to the challenge by establishing new ways of delivering services to support residents and businesses, assist community activity and maintain staff well-being. To provide clarity and ensure accountability throughout, a revised purpose and set of strategic aims have been established for the Council. To date, five iterations of the strategic aims have been developed in accordance with the changing situation, and emerging priorities.</p>
<b>Evaluation Score:</b>	Level 4 - Good
<b>Position February 2022</b>	<p>The council's Corporate Plan 2017-2022, approved in February 2018 and refreshed in March 2020, sets out five strategic goals, which also incorporate our well-being objectives. These are supported by 22 commitments to action we will take, and the ways in which they will be measured. The purpose and priorities set for Monmouthshire in the Corporate Plan also reflect our contribution to well-being objectives set for the county by the PSB well-being plan. The goals contained in the Corporate Plan 2017-22 were also adopted as the Council's Improvement Objectives in order to comply with the requirements of the Local Government (Wales) Measure 2009, which has been superseded this year by the Local Government and Elections Act.</p> <p>A mid-term review of the commitments in the Corporate Plan was undertaken and approved by Council in March 2020. This refresh ensured that the aspirations and activity in the plan remain relevant and reflect the latest thinking on issues of importance to our communities, such as the declaration of a climate emergency and improvements to transport links in the county. The Corporate Plan annual reports for 2019/20 and 2020/21 were presented to Council in October 2020 and September 2021 respectively, and outlined the progress made in achieving the strategic goals identified in the plan.</p> <p>As a result of the pandemic, some performance monitoring mechanisms were temporarily reduced and replaced with the ongoing monitoring provided by the strategic aims. Our usual practice of assessing progress against each goal in the Corporate Plan annual report on a scale of 1 to 6, unsatisfactory to excellent, and evaluating the progress of each of the 22 commitments to action, with a progress rating of either progressing well, taking steps, attention needed or no activity was suspended for the 2019/20 report due to the impact of the pandemic. This practice was reintroduced in the 2020/21 report, and all goals were assessed as 'adequate', although these ratings related to activity and progress against the commitments themselves and did not illustrate the significant activities undertaken during 2020/21 to support the pandemic response.</p> <p>Audit Wales issued a certificate of compliance for the audit of Monmouthshire County Council's assessment of both 2019/20 and 2020/21 performance, stating the council discharged its duties to prepare and publish an Improvement Plan in accordance with statutory requirements of the Local Government Measure 2009.</p>

<b>Key future actions</b>	<p>Since March 2020, we have had to establish new ways of delivering services to support residents and businesses, assist community activity and maintain staff well-being through the pandemic. To provide clarity and ensure accountability, a revised purpose and set of strategic aims were approved by Cabinet in May 2020, and these have been periodically updated in accordance with the changing pandemic situation, and emerging priorities. To date, five iterations have been developed, the most recent designed to take the council through to the summer of 2022.</p> <p>At the start of the pandemic, the pace of change was unrelenting, with hundreds of staff re-deployed, new services created almost overnight, and tens of millions of pounds re-directed to support those who needed help and to ensure local businesses remained viable. The impact this had on the workings of the council was considerable, and we had to reconsider our entire approach to service delivery. As such, the initial plan on a page focused on protecting life and supporting communities to be sustainable and resilient. As the circumstances of the pandemic have changed, the plans have altered in focus. The final iteration aligns more closely with the Corporate Plan, with wider considerations such as our environmental priorities, and sets a direction up to the local election in summer 2022. It also has a broader view, setting the focus and identifying longer term priorities and challenges.</p> <p>To support the implementation of the strategic aims, structures and mechanisms were put in place to track and evaluate progress. A business plan was established to monitor activity, and Cabinet received reports to provide updates on council activity on each iteration of the plan on a page. In September 2021, Strong Communities select committee received a summary report encompassing activity undertaken in the preceding 18 months to allow scrutiny of the progress of the strategic aims. The aims were also summarised in the Corporate Plan Annual Report, which was presented to Council in September 2021. In a letter provided to the council in December 2020, Audit Wales specifically identified the development and implementation of the various iterations of the strategic aims as a key strength in creating our response and recovery structures.</p>
<b>Key future actions</b>	Complete an assessment of 2021/22 performance against the Corporate Plan goals and the strategic aims.

<b>Service Business Plans</b>	
<b>Purpose:</b>	Each service sets a Service Business Plan for a three-year period. Service business planning and regular evaluation of our performance is fundamental to how we operate. It allows services to plan for the future, assess what went well, learn from what didn't and measure the impact the service has made on people and places of Monmouthshire. Service Plans ensure clear alignment between the council's priorities and objectives, and detail the actions the service will be undertaking, performance measures to assess progress and risks facing the service and mitigating actions.
<b>Evaluation Score:</b>	Level 3 - Adequate
<b>Position February 2022</b>	<p>A thorough appraisal of business plans was undertaken by the Performance Team during 2019/20 and feedback provided to business plan holders. The start of the pandemic in early 2020 meant many processes were adjusted, reduced or suspended entirely as resources were redirected to the pandemic response. This impacted in the completion of quarter 4 business planning updates, which were due in April 2020 and on the preparation of updated plans for the new planning year. For those service areas who were able to continue with the preparation and updates to their plans, support was available from the Performance Team, although the appraisal process was not completed as resources were focused on performance arrangements related to the pandemic response</p> <p>To ensure accountability during this time, the strategic aims 'plan on a page' were published and a framework to monitor progress was established. A Strategic Aims business plan was created to specifically identify actions to address the strategic aims, and this was maintained throughout 2020/21. It was stored on the council's intranet site, 'the Hub', which made it available to all officers and members to provide clarity and direction, and to act as a mechanism for performance monitoring.</p>

In April 2021, a new business planning process was developed, based on the new 'Plan on a Page' approach that was adopted at the start of the pandemic. This concise, easily accessible Plan on a Page model proved effective with staff, based on feedback provided, so presented a clear opportunity to reintroduce the business planning process at the start of the new planning year 2021/22. The new process focuses on providing clarity, via a streamlined approach to planning that is easy to update and follow, in order to provide accountability and identify areas requiring further consideration. This aligns with the new Local Government and Elections Act, which requires councils to produce a self-assessment, which highlights the positive outcomes for service users, and identifies areas that need to be improved.

The new process provides a three-year 'plan on a page', which sets the direction for the service area and covers all aspects of service delivery from customer satisfaction to workforce planning and financial management. This is supported by a quarterly performance monitoring tool, an annual self-assessment of progress, performance measures and a risk assessment. It also guides business plan holders to reflect on the Well-being of Future Generations Act, and how their plan adopts the sustainable development principles and the five ways of working. A user guide has been provided, alongside a simple 'How To' document, to assist plan holders with the transition to the new format, and the Performance team attended DMTs and corresponded with business plan holders to offer further advice and guidance.

As part of the new Act, and the need for greater emphasis on self-assessment and identifying areas for improvement, the new template requires service areas to consider what they want to achieve over a three-year period, and to reflect on the impact their actions are having on service users, how this can be evidenced, and what comes next to improve the impact of the service. The new plans are in their infancy, so a period of transition is to be expected, however completion has been varied. Most service areas have developed a plan on a page for the forthcoming three years with some consideration of service impact and medium-term direction-setting, however the quality of plans does need to be developed. Transitioning from more process-based planning to outcome-focused planning needs to be further evolved. The Performance Team are attending DMTs to provide further guidance on both the planning process and the self-assessment report due later this year.

The plans are available on the council's intranet, The Hub, and are accessible to officers and members to provide increased transparency and to facilitate challenge. Quarterly updates are not always completed within the set timescales, which lessens their ability to be utilised in a timely manner for accountability.

There has been reduced capacity within the Policy and Performance Team and the normal quality assurance process has been limited during 2021/22. The team's focus has adjusted to ensure the strategic aims, their associated business plan and effective performance reporting, have been maintained to provide clarity and accountability during the pandemic. In addition to this, reviews of the strategic risk assessment have increased due to the rapidly changing nature of the pandemic response, and associated reporting requirements. Despite this, business plans have been monitored throughout the year and assistance has been offered where particular issues have arisen, or where plan holders have requested additional support.

**Key future actions**

Support services to develop their approach to service business planning to fully embrace the self-assessment approach introduced in 2021/22

Improve capacity within the Performance Team to ensure a full appraisal of service business plans is carried out

## Performance Data and Information

<b>Purpose:</b>	<p>Data and information are essential to our performance framework. This comprises of nationally set performance indicators and locally set indicators that services have developed to measure the impact of their service. As well as maximising the use of data we hold to inform how we plan, manage, and deliver services.</p> <p>All staff and members need to regularly access and use performance data and analysis of performance to evaluate the progress and impact of services.</p>
<b>Evaluation Score:</b>	Level 4 – Good
<b>Position February 2022</b>	<p>The pandemic has caused some disruption to the collation of performance indicators due to changes in frameworks, disruption to services and capacity to facilitate collation. Although, performance indicators and metrics have continued to be used to inform how performance has been assessed in the Corporate plan annual report, Coronavirus strategic aims and plans on a page.</p> <p>The Council’s Corporate Plan goals set out a range of measures that are used to evaluate progress and these have been used to evaluate performance in the 2020/21 Corporate Plan. Performance metrics have also been developed and used to evaluate progress against the Council’s coronavirus strategic aims. This has ensured evaluations of progress have been informed by a range of evidence for accountability. Summaries and infographics have also been developed to help communicate performance data and information to residents.</p> <p>Service business plans show there remains is variability in the use, overall quality and completeness of performance indicators within services to assess performance. This can limit the ability of services to robustly assess their performance. Feedback and assistance is being provided to services, where required, to strengthen their planning.</p> <p>The internal audit of data quality of performance indicators has not been completed due to the impact of the pandemic. Ensuring data quality remains essential. This will be a continued focus as part of developing the Council’s data maturity.</p> <p>The “data hub”, the council’s performance measurement area hosted on the Council’s intranet site continues to be updated. This has been streamlined to ensure the information is up to date and focussed on the most pertinent performance data, tracking progress on measures set in the Corporate Plan. Further development of the data hub is planned. The technology is also being piloted to enable the creation of data dashboards, which will make use of feeds from internal and external data sources. The development of pilot dashboards has begun and the learning from these pilots will be used to inform the future direction.</p> <p>There here has been an increased focus on the council’s use of data in its response to the Coronavirus pandemic, which has included the production of Monmouthshire-specific COVID-19 case maps, and regular Coronavirus data analysis using a range of data sources relevant to Monmouthshire.</p> <p>Cabinet have agreed investment into a new data capacity and capability roadmap to strengthen how the council uses data to guide its activity. This is being utilised in two main parts, Firstly, growing our data capability across the organisation through training and development opportunities for existing staff in all teams. Developing the Council’s data maturity is a critical element of this. Secondly a focus on generating better insight from existing datasets. This includes combining data sets for a deeper understanding of our population and using data analytics to target preventative services.</p>
<b>Key future actions</b>	<p>Continue to strengthen the Council’s data quality</p> <p>Support services to make better use of data to inform service planning and transformation including: data visualisation, data analysis and data insights.</p>

<b>Staff Appraisal (Check-In, Check-Out)</b>	
<b>Purpose:</b>	Appraisals help staff to understand what is expected of them, to agree how values and behaviours are linked to how we perform at work and to ensure that all of our work links to the wider purpose of the organisation. Managers at every level are expected to set the right standards, coach, motivate, feedback on poor performance and recognise those people who deliver good performance.
<b>Evaluation Score:</b>	Level 3 – Adequate
<b>Position February 2022</b>	<p>The employee performance framework, 'Check-In, Check-Out' (CICO) has been in place for a number of years and was designed to provide a values-based performance assessment between staff and line managers. Based on feedback, the CICO process was reviewed and rolled out with more robust guidance and supportive training, and a more effective recording module that allowed managers to record the completed CICO directly into the HR system.</p> <p>Despite the adjustments to the process, it is clear that it does not lend itself to all teams and workforce structures. The focus has therefore moved away from ensuring all staff adhere to one single process, to supporting professional discussions between managers and their staff in a range of formats. The focus is on adopting an approach that ensures professional development, wellbeing and information flow for those that want or need it. Following the Culture and Ethics audit report, Strategic Leadership Team, SLT, have decided to move beyond the quantitative approach to tracking this and into a more qualitative approach, with the introduction of various platforms for staff to express their views and identify problems, if necessary. The Peoples Q&amp;A has been being rolled out across the organisation to allow staff to engage directly with leadership, without the intervention of management, and provides a key 'listen' function, and check and balance to a more qualitative approach, to ensure that issues and blockers are raised and identified directly to SLT and DMTs.</p> <p>The staff 'Digital Cwtch' was introduced at the start of lockdown and has proven successful so continues on a two-weekly basis. This is a livestreamed session, attended by the Chief Executive or a representative of SLT, and takes place without an agenda to allow staff to raise issues, anonymously if required, directly with a senior leader. A Leaders Q&amp;A is also held on a weekly basis with a member of HR, to allow managers to discuss any topic they wish with HR and with their peers.</p> <p>The aim is to establish a process whereby an appraisal is the right of any employee who wants one, with a framework in place to allow them to raise an issue if they are unable to have one. Managers will have the ability to record any completed appraisals in their Service Business Plan, and this information can be cross referenced with the outcomes of the various discussion forums open to staff to ensure correlation. Work is also underway to establish a new training management system to record the developmental pathways of staff, and an e-recruitment system to improve the way in which we recruit staff.</p> <p>Following the production of the new Corporate Plan later this year, all associated strategies will be updated, including the People strategy. This will provide a clear framework for staff appraisal, incorporating the various strands identified above.</p>
<b>Key future actions</b>	Develop an approach to staff appraisals to ensure anyone who wants or needs a professional discussion with their manager, is able to have one.

<b>Strategic Risk Assessment</b>	
<b>Purpose:</b>	<p>The strategic risk assessment captures the high and medium level risks that face the council in line with the council's risk management policy. This ensures that:</p> <ul style="list-style-type: none"> <li>• Strategic risks are identified and monitored by the authority</li> <li>• Risk controls are appropriate and proportionate</li> <li>• Senior managers and elected members systematically review the strategic risks facing the authority</li> </ul>
<b>Evaluation Score:</b>	Level 4 – Good
<b>Position February 2022</b>	<p>The strategic risk assessment is a live document, available to all and designed for ongoing update whenever necessary. It is located on the council's Hub, which ensures select committees are able to view the information at any point in the year to prioritise their work plan, as appropriate. The assessment is prepared and updated, in line with the council's strategic risk management policy, by drawing on a wide range of evidence including service plans, performance measures, regulatory reports and progress on the previous risk assessment.</p> <p>The risk assessment undergoes a formal review six monthly, which is scrutinised by Governance and Audit Committee and signed off by Cabinet annually. At the start of the pandemic, due to the rapidly changing nature of our response according to infection rates and legislation, the strategic risk assessment was reviewed frequently. This was to ensure existing strategic risks were monitored and their mitigations assessed for effectiveness, and to ensure any new emerging risks were identified and included, along with mitigating actions and responsible officers. An Emergency Response Team, ERT, was stood up at the start of the pandemic and established an independent risk register to monitor specific COVID-19 related risks. When the ERT was stood down, any relevant ongoing medium or high-level risks were incorporated into the strategic risk assessment for continued monitoring, whilst lower-level risks were transferred to service business plans for localised monitoring. A letter issued by Audit Wales in December 2020 recognised the robust arrangements implemented during the early period of the pandemic to mitigate risks, and the process for integrating the COVID-specific risk register with the strategic assessment, and the associated reporting mechanisms introduced.</p> <p>The latest version of the strategic risk assessment was reviewed by Governance and Audit Committee in November 2021. The current register identifies 16 risks.</p> <p>Risk assessment is a key principle of service business planning as this allows services areas to identify operational risks pertinent to their specific area, and also provides a platform to identify potentially higher-level strategic risks for inclusion on the strategic register, as per the risk management policy and guidance document. Monitoring of service business plans shows that risk assessments in plans remains an area for improvement to strengthen the capture and management of risks facing services.</p> <p>In line with the Well-being of Future Generations Act, identification and mitigation of longer-term risks that will impact on future generations at a community level but will have a lesser impact on the medium-term delivery of council services, is an area for continued development. Through working with the Public Service Board, we are developing our understanding of future risks and opportunities and how we respond to them in Monmouthshire.</p>
<b>Key Future Actions:</b>	<p>Support services to strengthen the quality of their business planning approach, in particular, monitoring risks.</p> <p>Develop risk management arrangements to identify and mitigate longer-term risks that will impact on future generations at a community level, in line with the Well-being of Future Generations Act.</p>

## Self-Evaluation

<b>Purpose:</b>	Self-evaluation allows us to appraise what we have done, assess what went well, learn from what didn't and plan future activity informed by what we did and the impact made.
<b>Evaluation Score:</b>	Level 3 – Adequate
<b>Position February 2022</b>	<p>Over the last few years there has been a focus on improving self-evaluation arrangements by continuing to embed this within the council's existing arrangements and implementing specific programmes of work and aligning these more closely with the budget setting process.</p> <p>The last annual report on progress and performance in 2020/21 on the Corporate Plan was presented to Council in September 2021 and outlined the progress made to achieve the goals identified in the plan. This report meets the requirements of the Local Government (Wales) Measure to publish an assessment of performance by 31 October each year, whilst also meeting the Well-being of Future Generations Act requirement of reporting performance before 31 March. The requirements of the Measure were superseded in 2021 by the introduction of the Local Government and Elections Act and self-evaluation arrangements are being developed in line with these new requirements, as set out in Appendix 3. Audit Wales have issued a certificate of compliance for the audit of Monmouthshire County Council's assessment of 2020/21 performance.</p> <p>The annual report published in October 2021 also provides a summary of activity and an assessment of progress against the strategic aims in the 'Plan on a Page', which were introduced at the start of the pandemic to provide direction and assure accountability through the rapidly changing environment of the pandemic response. Progress against the strategic aims was continuously monitored during 2020/21 via the strategic aims business plan, whereby actions were identified to contribute to the achievement of the aims and allocated to specific service areas. A report was provided to Cabinet on progress of each iteration of the plan on a page to ensure performance was being assessed and monitored, and to provide opportunity for feedback.</p> <p>The introduction of the Local Government and Elections Act prompted a review of the Service Business Plans to provide a better platform for self-assessment of performance, quarterly and on an annual basis. The revised plans include a covering 'Plan on a Page', which provides opportunity for service areas to identify their medium-term aspirations for their service users and for themselves, as a team. It includes measures to monitor the quantitative aspect of their performance, and a risk register to identify and allow them to put actions in place to mitigate risks.</p> <p>The new planning process requires plan holders to continue to update on progress quarterly and has introduced a new 'self-assessment' element, which is required annually. This allows plan holders to review the aspirations from their 'plan on a page' and identify how well they have achieved them, where there are areas of slippage or where more development is required, and what their plan is going forward to meet the aspirations the following year.</p> <p>Work is also underway to develop an organisational self-assessment, as required by the new legislation, which is due to be published later this year and reflects on activity during 2021/22. The proposed process includes new directorate workshops, which will provide the opportunity for heads of service to reflect on their service area and assess activity against the Corporate Plan priority goals. The output from the workshops will form the basis of the self-assessment, along with other elements of the performance framework, such as Chief Officer reports, scrutiny, external regulation and the Annual Governance Statement. As this is the first year, the process will be reviewed throughout and amended where necessary.</p>
<b>Key Future Actions</b>	<p>Continue to produce an annual report on the continued effectiveness of the council's strategic planning framework</p> <p>Support services to implement the new service business plans to strengthen the quality of planning.</p> <p>Undertake the first self-assessment and develop the process as it progresses</p>

## Appendix 2 - Assessing the effectiveness of decision-making

	<b>Decision Making</b>
<b>Purpose:</b>	Decision making and policy making is an important part of our governance arrangements and is about how we ensure we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Good governance is essential for the effective use of public money and the continued delivery of efficient and effective public services. The scrutiny process is an integral part of this and ensures openness, transparency and accountability in the council's decision-making.
<b>Evaluation Score:</b>	Level 4 - Good
<b>Position February 2022</b>	<p>The council's 2020/21 Annual Governance Statement (AGS), which was presented to Governance and Audit Committee in July 2021, demonstrates that Monmouthshire has appropriate governance arrangements in place. The AGS is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government. In the majority of areas, we have effective governance arrangements in place, which are continually improving.</p> <p>The Coronavirus pandemic initially caused significant organisational disruption as the law did not permit fully remote decision-making, In April 2020, the Local Authorities (Coronavirus) (Meetings) (Wales) regulations 2020 came into force enabling virtual meetings. Monmouthshire was the first in Wales to hold key meetings remotely, which were available to the public through live streaming. This allowed the continuation of democratic decision-making, and remote meetings are still being held today. The process has developed to accommodate hybrid meetings, allowing some attendees to meet in person, where restrictions allow, and technology has been updated to improve this functionality at County Hall. In their letter of December 2020, Audit Wales identified the council's transition to virtual decision-making and committee meetings as a strength and stated that it was "fast and well-managed, allowing it (the council) to return to the full democratic decision-making process earlier than many other councils in Wales."</p> <p>Initially, a very limited number of urgent decisions were made in accordance with the officer and Members' schemes of delegation as detailed in the Council's Constitution and urgent decision-making procedures. The Chief Officer People and Governance (Monitoring Officer) subsequently presented a report to Cabinet in May 2020 on the impact on decision making that COVID-19 has had within the Council and to identify next steps. As the use of technology came into operation, minimal Council meetings were cancelled and, as much as possible, the systems of internal control have continued to operate during the pandemic. In the Chief Internal Auditor's opinion, as stated in the Annual Governance Statement 2020, adequate assurance was obtained over the course of 2020/21 to result in an overall 'Reasonable' audit opinion to be issued for the Council's activities, although this was based on the limited work undertaken by the team. In conclusion, during 2020/21 the Coronavirus pandemic did not lead to significant internal control or governance issues which impacted on the overall review of effectiveness.</p> <p>The Councils Integrated Impact Assessment process ensures the decisions the Council makes are carefully considered to take equality and sustainable development into account, this includes legislation that Monmouthshire County Council is subject to: the Equality Act 2010, socio-economic duty, Well-being of Future Generations Act and Welsh Language (Wales) Measure 2011. As well as key responsibilities such as safeguarding and corporate parenting and policy considerations including social justice and the climate emergency. A range of these have been undertaken during 2020/21 and 2021/22 and have been published on the website accompanying decision making reports.</p>
<b>Key Future Actions</b>	<p>The Council will continue to monitor &amp; review its governance arrangements and identify any gaps.</p> <p>Implement the process for the evaluation of decisions made by Council and Cabinet</p> <p>Continue to produce an annual report on the continued effectiveness of the council's strategic planning framework</p> <p>Adopt all of the applicable changes introduced by the local Government and elections Act 2021</p>

## **Appendix 3 – Self-assessment process**

### **Legislation**

The Local Government and Elections (Wales) Act 2021 (“the Act”) provides for a new and reformed legislative framework for local government elections, democracy, governance and performance. The Act replaces the previous improvement duty for councils set out in the Local Government (Wales) Measure 2009. The Act requires each council in Wales to keep under review the extent to which it is meeting the ‘performance requirements’, that is the extent to which; it is exercising its functions effectively; it is using its resources economically, efficiently and effectively; its governance is effective for securing these.

The mechanism for a council to keep its performance under review is self-assessment, with a duty to publish a report setting out the conclusions of the self-assessment once in respect of every financial year. Self-assessment will be complemented by a panel performance assessment once in an electoral cycle, providing an opportunity to seek external insights (other than from auditors, regulators or inspectors) on how the council is meeting the performance requirements.

### **Why**

Self-assessment is a way of evaluating, critically and honestly, the current position in order to make decisions on how to secure improvement for the future. It is about the council being self-aware, understanding whether it is delivering the right outcomes, and challenging itself to continuously improve. It needs to be embedded as effective self-assessment helps the council to continually learn and achieve sustainable improvement and better outcomes for citizens, service users and its own workforce.

The performance and governance provisions in the Act are framed within the context of the well-being duty in the Well-being of Future Generations (Wales) Act 2015, which sets out a legally binding common purpose for public bodies to improve the social, economic, environmental and cultural well-being of Wales. The Well-being of Future Generations Act provides the context within which a council should be exercising its functions, using its resources and ensuring its governance is effective, with the aim of maximising its contribution to the well-being goals. It sets the framework within which a council must consider its performance, in terms of service delivery, corporate capability and capacity to meet the needs of current users, without compromising the needs of future generations.

The statutory guidance on the Well-being of Future Generations Act contains a core set of activities common to the corporate governance of public bodies. These are corporate planning, financial planning, workforce planning, procurement, asset, risk management and performance management. Considering the seven corporate areas as a framework for the self-assessment and applying the five ways of working to those areas, will support the council to ensure it is governing itself to maximise its contribution to the well-being goals and meet its well-being objectives.

The WLGA have identified draft principles for self-assessment for councils to ensure that they have arrangements in place that:

- demonstrate self-awareness derived from evidence-based analysis that focuses on outcomes;
- are owned and led at a strategic level and are not an exercise in compliance;
- further develop a culture of challenge to facilitate improvement as part of an ongoing process;
- are integrated as part of the council’s corporate planning, performance and governance processes; and
- enable an organisation-wide assessment rather than an assessment of individual services.

Further developing this culture and embedding an evaluative mindset will be a key development point through the first few iterations of the self- assessment report.

### **Process**

The Council has developed a proposed process to undertake its first self-assessment under the Act, assessing performance in the 2021/22 financial year. The process has been designed to maintain a focus on the purpose of the self-assessment.

The main component parts of the process and timeline are:

<b>Feb – April</b>	<b>May</b>	<b>May – June</b>	<b>June - July</b>	<b>By end July</b>
Desk-based evidence gathering	Directorate self-assessment Workshops	Council self-assessment report drafted	Draft of self-assessment to Scrutiny and Governance & Audit Committee	Self-assessment agreed in line with Council process.

The timeline proposed tries to balance the ability of self-assessment to inform and be informed by the policy direction of the council and how it uses its resources efficiently and effectively, particularly the budget setting process. The process and timescales will be reviewed throughout and amended, where necessary, based on learning.

An evaluative evidence base will be developed at a directorate level. The statutory guidance prescribes some evidence the council must consider, some of which will need to be further developed. Most of the evidence for the self-assessment can be informed by using intelligence already held corporately in an insightful way; this includes, for example, the Annual Governance Statement, audit and inspection reports, and service level business plans.

This evidence will be explored further, and challenged where necessary, at directorate-based self-assessment workshops to determine if the objectives (outcomes) of the council are being achieved. It is proposed the workshops will be facilitated through the following questions:

- How well do we understand our local context and place and has this informed our purpose and priorities? (Need)
- How well are we achieving our agreed outcomes? (From Corporate Plan)
- How do we know? (Evidence)
- How effectively are resources being used to deliver our priorities? (Enablers)
- How effectively does the council work with stakeholders and partners on agreed outcomes? (Partnership working)
- What could we do better? (Actions)

These will be kept under review and adjusted if required based on learning during the process.

Following the workshops, the evidence will be reviewed and aggregated into a corporate level evaluative self-assessment. This will be integrated with the existing Corporate Plan annual report, which meets the council's requirement to report on the progress it has made in meeting its well-being objectives for the preceding financial year under the Well-being of Future Generations Act. The proposed structure of the self-assessment report is detailed below:

- Outcomes (progress against corporate plan goals):
  - How well are we achieving our agreed outcomes?
  - How do we know?
- Corporate planning
- Financial Planning
- Workforce Planning
- Procurement
- Assets
- Performance and Risk Management
- Digital & Data
- What and how can we do better? (Actions)

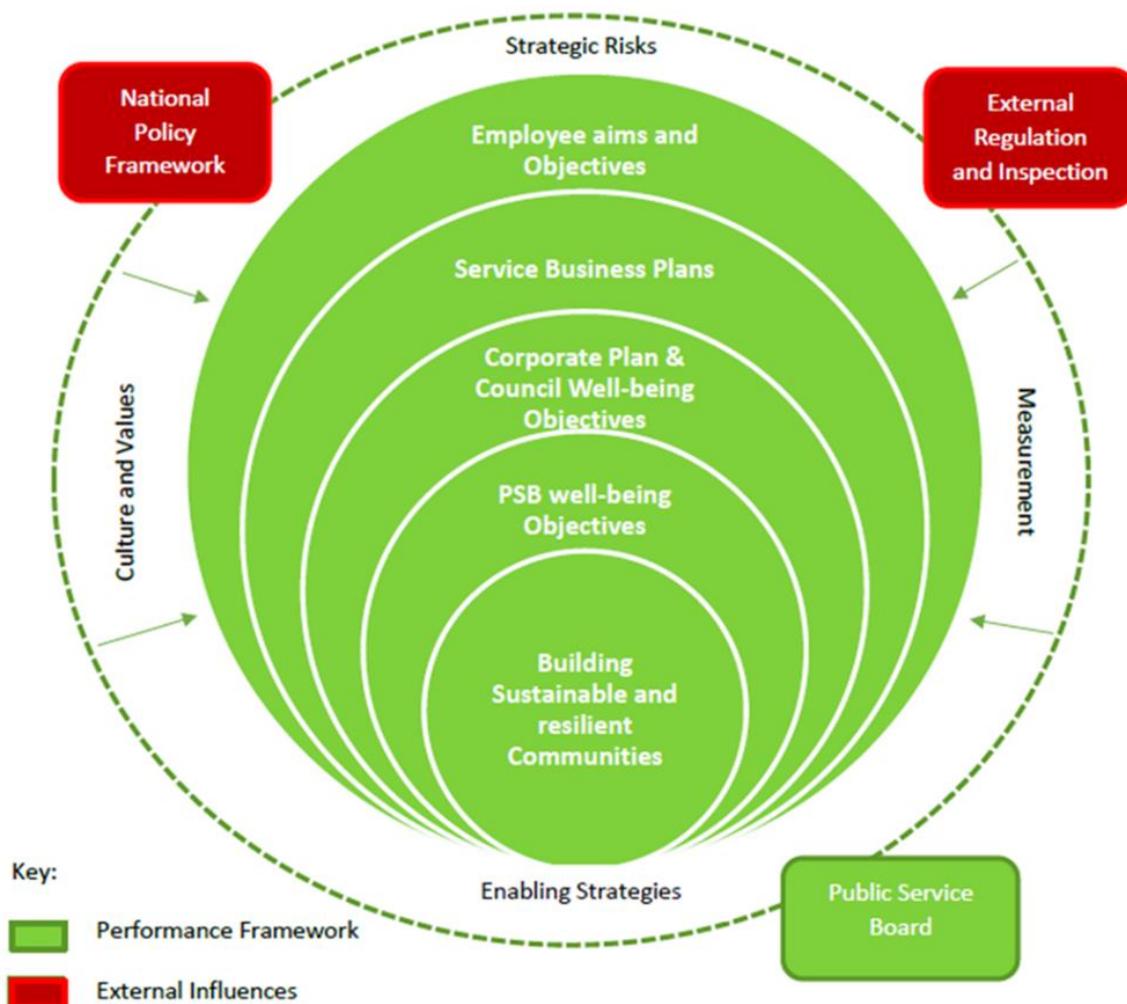
The final structure of the self-assessment report will be concluded as the report is developed. The self-assessment report will be taken through scrutiny and approved in accordance with the council's agreed processes. A draft of the self-assessment report must be made available to Governance and Audit committee, who must review the draft report and make recommendations for changes to the conclusions or action the council intends to take.

## Appendix 4

### Performance Management Framework

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

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





## Monmouthshire County Council Annual Audit Summary 2021

This is our audit summary for Monmouthshire County Council. It shows the work completed since the last Annual Audit Summary, which was issued in December 2020. Our audit summary forms part of the Auditor General for Wales' duties.



More information about these duties can be found on our [website](#).

## About the Council

### Some of the services the Council provides



#### Key facts

The Council is made up of 43 councillors who represent the following political parties:

- Conservative: 25
- Labour: 9
- Independent Group: 5
- Liberal Democrat: 3
- Independent (not part of Independent Group): 1

The Council spent £164.2 million on providing services<sup>1</sup> during 2020-21, the 6th lowest spending of the 22 unitary councils in Wales.

<sup>1</sup> We define spending on services as the cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest.

## Key facts

As at 31 March 2021, the Council had £23 million of useable financial reserves<sup>2</sup>. This is equivalent to 12.8% of the Council's annual spending on services, the 2<sup>nd</sup> lowest percentage of the 22 unitary councils in Wales<sup>3</sup>.

Monmouthshire County has none of the most deprived 10% of areas in Wales, this is the lowest of the 22 unitary councils in Wales<sup>4</sup>.

Monmouthshire's population is projected to increase by 6% between 2020 and 2040 from 94,768 to 100,492, including a 5.2% decrease in the number of children, a 3.9% decrease in the number of the working-age population and a 35.6% increase in the number of people aged 65 and over<sup>5</sup>.

## The Auditor General's duties

### We completed work during 2020-21 to meet the following duties

- **Continuous improvement**

The Council also had to put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General had to assess whether the Council met these requirements during 2020-21.

- **Audit of Accounts**

Each year the Auditor General audits the Council's financial statements to make sure that public money is being properly accounted for.

- **Value for money**

The Auditor General examines whether the Council has put in place arrangements to get value for money for the resources it uses, and he has to be satisfied that it has done this.

- **Sustainable development principle**

<sup>2</sup> We define useable financial reserves as reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves and schools balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

<sup>3</sup> Source: 2020-21 Statement of Accounts

<sup>4</sup> An area in this context is defined as a 'Lower Super Output Area'. Source: Welsh Index of Multiple Deprivation on Stats Wales

<sup>5</sup> Source: Stats Wales

Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.



We continue to recognise the huge strain on public services and to work in a way that seeks to reduce the impact on public bodies' response to COVID-19, while still meeting our statutory duties.



**To meet the Auditor General's duties we complete specific projects, but we also rely on other audit work, and the work of regulators such as Care Inspectorate Wales and Estyn (the education inspectorate). We take the findings of our audit work into account when assessing whether the Council has put in place arrangements to secure value for money. Our findings and conclusions are summarised below.**

## What we found

### Audit of Monmouth County Council's 2020-21 Accounts

Each year we audit the Council's financial statements.

#### For 2020-21:

- The Auditor General gave an unqualified true and fair opinion on the Council's financial statements on 5 November 2021.
- The Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. They were also consistent with the financial statements prepared by the Council and with our knowledge of the Council.
- The quality of the draft statements presented for audit on 21 July 2021 was generally good.
- A number of changes were made to the Council's financial statements arising from our audit work, which were reported to the Governance and Audit Committee in our Audit of Financial Statements Report in November 2021.
- In addition to the Auditor General's responsibilities for auditing the Council's financial statements, he also has responsibility for the certification of a number of grant claims and returns. Our work on grants certification for the 2020-21 financial year is ongoing.
- The Auditor General has issued his certificate confirming that the audit of accounts for 2020-21 has been completed.

## Our work in response to the COVID-19 pandemic

In response to the COVID-19 pandemic, we changed the approach and focus of our performance audit work in local government and other bodies. Below is a summary of some of the work we have undertaken in response to the pandemic across a number of sectors, much of which is of relevance to local government.

We undertook a project to support public sector efforts by sharing learning through the pandemic. The project aims to help prompt some thinking, and practise exchange. [Further information is available on our website.](#)

In March 2021, we published a [national report](#) setting out an overview of progress to date on Test, Trace, Protect in Wales. In December 2020, we also published some [observations](#) of the Auditor General on procurement and supply of PPE during the COVID-19 pandemic, followed by a [report](#) in April 2021. In June 2021, we also published our [report](#) on the rollout of the COVID-19 vaccination programme in Wales.

## Continuous improvement

The Auditor General certified that the Council had met its remaining Local Government (Wales) Measure 2009 duties for the financial year 2020-21, as saved by an order made under the Local Government and Elections (Wales) Act 2021.

As part of our examination of councils' performance assessments covering the 2020-21 financial year we noted a reduced reference to comparative performance information although we recognise that the pandemic led to the suspension of some national data collection. The ability to compare data and performance with other organisations will continue to be an important element of arrangements to secure value for money and will be a challenge for councils to consider particularly as they continue to implement the requirements relating to self-assessment set out in the Local Government and Elections Act (Wales) 2021.

## Financial sustainability

During 2020-21, we examined the financial sustainability of each council in Wales. In Monmouthshire County Council, we concluded the Council has a good understanding of its financial position, but that position is challenging with significant expenditure pressures, low reserve balances and savings becoming more difficult to achieve. The full report can be viewed [here](#).

We also published two national summary reports: the [first report](#) in October 2020 and the [second report](#) in September 2021.

## Recovery planning

During 2020-21, we reviewed the arrangements that each council in Wales was putting in place to support recovery planning. We undertook this work on an ongoing basis, providing real-time and ongoing feedback where appropriate. Our key findings included:

- the Council moved quickly to develop, agree and implement a revised set of strategic aims, which it continues to update.

- the Council demonstrated a clear and consistent understanding of the financial impact of COVID-19 on its 2020-21 budget and income streams and regularly reported those impacts to Cabinet.
- the Council established a number of initiatives to support staff wellbeing and regularly engaged with staff while the majority worked from home.
- the Council's transition to virtual decision-making and committee meetings was fast and well managed, allowing it to return to the full democratic decision-making process earlier than many other councils in Wales.

Our feedback letter can be viewed [here](#).

## Waste procurement

During 2020-21, we followed the Council's waste service as it procured a new contract to manage and operate the Council's three Household Waste Recycling Centres and two Waste Transfer Stations. The aim of the review was to seek assurance that the Council had included all relevant and reasonable considerations as part of its procurement arrangements for waste, to ensure a sustainable service. We found that the procurement process went well overall and the small team involved worked hard to successfully issue the contract on time. Following our feedback, the Council has agreed to review whether it would benefit from a local waste management strategy. Our feedback letter can be viewed [here](#).

## Other inspectorates

We also took into account the reports of Care Inspectorate Wales (CIW) and Estyn as well as any subsequent actions taken by the Council in response. CIW and Healthcare Inspectorate Wales published their joint National review of the use of Deprivation of Liberty Safeguards (DoLS) in Wales. They identified a number of key findings and recommendations. The full report can be found [here](#).

Estyn did not undertake an inspection of Local Government Education Services in Monmouthshire during 2020-21.

## Local government studies

As well as local work at each council, each year we also carry out studies across the local government sector to make recommendations for improving value for money. The findings of these studies are not necessarily specific to Monmouthshire County Council and each council should consider which findings and recommendations are relevant to them. Since the last annual improvement report, we have published the following reports:

## Discretionary services (April 2021)

Financial pressures have led to councils reducing spending and cutting services, but the pandemic has shown local government services are essential to keeping people safe and healthy. We focussed on how councils define services, the systems and processes they have used to review services and how robust these are. Demand for some essential services is continuing to increase and councils are not confident that they can continue to deliver these

services in the face of this rising and complex demand. Councils need to take the opportunity to refresh, reevaluate and reset what they do and to learn from the pandemic to build a better future. Our [report](#) was published in April 2021.

## Regenerating town centres in Wales (September 2021)

Between 1950 and 1980, local authorities prioritised regeneration of town centres creating new and greater retail space. However, past policy choices, changing consumer expectations and technological advances are now adversely affecting many Welsh town centres. And the pandemic has created challenges for local government and central government, with one in seven shops on Welsh high streets now empty, despite the Welsh Government investing and leveraging in £892.6 million in the last seven years. Local authorities do not have the capacity to respond to this situation and are not always using the powers they have to help regenerate towns. To deliver the best local outcomes, policies and joint working need to be aligned and integrated, and resources prioritised on town centres. Our [report](#) was published in September 2021.

## Planned work for 2021-22

We also looked at the key challenges and opportunities facing the Council. These could have an effect on the Council's ability to meet its legal obligations in relation to the sustainable development principle and the use of its resources.

The most significant risk and issue facing councils and the wider public sector during 2021-22 continues to be the COVID-19 pandemic. We have shaped our work to provide assurance and challenge in a way which helps to support the Council through this period. Our planned work for 2021-22 includes:

- Assurance and risk assessment including a focus on:
  - The Local Government and Elections Act (Wales) 2021
  - Recovery planning
  - Carbon reduction plans
  - Self-assessment arrangements
  - Financial position
- Springing Forward – as the world moves forward, learning from the pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.
- Improvement reporting audit

The Auditor General is independent of government, and is appointed by Her Majesty the Queen. The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General. The Wales Audit Office is held to account by the Senedd.

The Auditor General audits local government bodies in Wales, including unitary authorities, police, fire and rescue authorities, national parks, and community councils. He also conducts local government value for money studies, assesses compliance with the remaining requirements of the Local Government (Wales) Measure 2009 and may undertake special inspections under the Local Government and Elections (Wales) Act 2021.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Senedd Commission, and National Health Service bodies in Wales.

Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions, as described above. Audit Wales is not a legal entity.

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

This document is also available in Welsh.

This page is intentionally left blank

<b>SUBJECT</b>	<b>Audit Wales Work Programme: Council Progress Update</b>
<b>MEETING:</b>	<b>Governance and Audit Committee</b>
<b>DATE:</b>	<b>28<sup>th</sup> February 2022</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>All</b>

## 1. PURPOSE

- 1.1 To provide the committee with an update on the progress against the Audit Wales Work Programme up to February 2022 so that the committee can assure itself of the effectiveness of the council's response.

## 2. RECOMMENDATIONS

- 2.1 That members scrutinise the council's response to the Audit Wales work programme, seeking assurance that adequate progress is being made.
- 2.2 That members refer on any issues contained within Audit Wales national studies to other committees for consideration where they identify there are findings of particular relevance to the council.

## 3. KEY ISSUES

- 3.1 Each year, Audit Wales produces an Audit Plan, which sets out the work they intend to undertake to discharge their duties, and this is presented to Governance and Audit committee upon publication. Since the implementation of the Local Government and Elections (Wales) Act 2021, Audit Wales is responsible for:
- Auditing of accounts
  - Examining how public bodies manage and spend public money, including but not limited to their arrangements for securing value for money in the use of resources and making recommendations to improve the value for money of local government
  - Assessing the extent to which councils are acting in accordance with the sustainable development principle under the Well-being of Future Generations (Wales) Act 2015
  - Carrying out 'Special Inspections' as provided for in the Local Government and Elections (Wales) Act 2021
  - Making appropriate recommendations to councils and to the Welsh Ministers.
- 3.2 The council has received no statutory recommendations or proposals for improvement since the last iteration of this report. The only new local study published since the last update to the committee, looking at waste procurement, concluded that procurement process worked well, and the small team worked hard to successfully issue the contract on time.
- 3.3 This report provides an update on the progress being made by the council implementing the findings of Audit Wales reviews. This includes an update on progress against existing proposals for improvement, followed by the latest local audit work carried out since the last review, with an accompanying management response. Both of these are contained within appendix 1.
- 3.4 As well as local work at each council, Audit Wales also carries out national studies across the local government sector to make recommendations for improving value for money, and all of these reports are published on [www.audit.wales/publications](http://www.audit.wales/publications). Whilst the findings of these studies are not necessarily specific to Monmouthshire County Council, those of greatest relevance are shared with the most appropriate department to consider their findings and recommendations. Appendix 2 identifies the studies most applicable to the

council since the last iteration of this report, along with a management response outlining their intentions in response to the study. Governance and Audit Committee has a role in ensuring the council considers the findings of the reports and can refer them to another scrutiny committee if they feel the reports require further consideration. The committee may also refer issues to Democratic Services Committee who are able to perform a coordinating function.

- 3.5 This report builds on the most recent update provided in July 2021. In appendix 1, proposals for improvement that require further attention are marked as 'open'. Where a proposal is considered to be adequately addressed, it is 'closed' and removed from the report; an overview of these is provided in appendix 3. Some of the forward-looking actions committed to by the authority are likely to be reflected within other council strategic documents such as the council's Corporate Plan, enabling strategies, the Whole Authority Strategic Risk Assessment and the Medium-Term Financial Plan.
- 3.6 The Audit Wales Annual Audit Summary 2021, published in December 2021, shows the work completed by Audit Wales since the last summary report issued in December 2020. Areas covered within the report include the audit of accounts and examinations into whether the council has put in place arrangements to secure value for money. In addition to this, under the Local Government (Wales) Measure 2009, the Auditor General also has to assess whether the council has put in place arrangements to make continuous improvements. The report concluded:
- "The Auditor General certified that the Council had met its remaining Local Government (Wales) Measure 2009 duties for the financial year 2020-21, as saved by an order made under the Local Government and Elections (Wales) Act 2021."*
- 3.7 Some of the requirements of the Local Government (Wales) Measure 2009 will cease during 2021-22 due to changes in legislation arising from the Local Government and Elections (Wales) Act 2021. As such, this will be the final year that the Auditor General is required to audit the council's published assessment of its performance that covers the 2020-21 year. The Audit Wales Annual Audit Summary 2021 is on this Governance and Audit Committee agenda for presentation by Audit Wales.
- 3.8 The specific Audit Wales reports identified in this report, and accompanying management responses, are also presented to Governance and Audit Committee as they are produced. More recent reports produced will have limited progress to report at this stage. All of the recent reports issued by Audit Wales, as part of their performance audit work programme, including the council's initial management response, are available on the Performance Management section of the Hub (the council's intranet site) for members to view.
- 3.9 Audit Wales, as part of their ongoing annual audit work programme, may follow up progress in any of the open or recently closed proposal areas.

#### **4. REASONS**

To ensure the authority responds appropriately to Audit Wales proposals and recommendations to secure the improvements required.

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

Finance and any other resource implications of activity related to responses to the proposals will need to be considered by the relevant responsibility holders.

#### **6. CONSULTEES**

Individual Audit Report Responsible Officers

Deputy Chief Executive/Chief Officer, Resources

**7. BACKGROUND PAPERS**

Audit Wales Audit Plan 2021  
Audit Wales Annual Audit Summary 2021

**8. AUTHORS**

Emma Davies, Performance Officer  
E-mail: [emmadavies@monmouthshire.gov.uk](mailto:emmadavies@monmouthshire.gov.uk)  
Telephone: 07989 692782

Richard Jones, Performance Manager  
E-mail: [richardjones@monmouthshire.gov.uk](mailto:richardjones@monmouthshire.gov.uk)  
Telephone: 01633 740733

Appendix 1

Open Wales Audit Office Proposals for Improvement

Finance Proposals

Report	Financial Sustainability Assessment – June 2021		
Audit Wales Proposal	To ensure its Medium-Term Financial Plan predicts future funding requirements as accurately as possible, the Council should regularly review its future cost pressure estimates to ensure they are reasonable and reflect recent levels of cost pressures.	Status	Open
	To bridge its estimated future funding gap and contribute to strengthening its financial sustainability, the Council should develop and deliver a programme of sustainable planned savings over the medium-term.		
What progress have we made	<p>Despite the impact and consequences of the pandemic, the budget proposals for 2022/23 see a continuation of our preparedness to challenge all services to sustain themselves rather than to see the closure of services that matter to citizens. Despite the positive and above average provisional settlement from Welsh Government, and the further significant late in-year grant awards from Welsh Government, it is not sufficient to offset the full extent of the pressures accommodated into the budget proposals. The budget proposals also highlight a number of potentially significant financial risks and uncertainties not factored into the budget pressures and, if they materialise and are not mitigated through further budget savings, there will be a need for further one-off reserve funding to be considered.</p>		
	<p>The Council is grateful to Welsh Government for the significant level of funding it has provided through its COVID Hardship Fund but the fund is due to cease on 31st March 2022, despite significant impacts continuing to be felt into 2022/23. The pandemic aside, the challenges facing the authority now and into the future should not be underestimated. The latest 2021/22 in-year forecast exhibits significant pressures within and across services. Budget recovery efforts and late significant grant awards from Welsh Government have seen a £1.94m forecast non-COVID overspend at month 6 move to a forecast under spend of £1.18m at month 9, ensuring that one-off reserves can be bolstered further to meet as necessary the aforementioned risks, to the extent that they both materialise and are unable to be mitigated through resultant and further budget recovery action. For 2022/23, and in overall terms, there are some £10.41 million of new unavoidable service pressures that need to be accommodated as part of the 2022/23 draft budget. We have thoughtfully reviewed our income budgets and, although it is never popular to increase charges for services, the reality is that we need to do so, particularly where inflation is causing the cost of services to rise. Similarly, national funding is not keeping pace with demands on local authorities so local taxation is, by default, having to shoulder a greater proportion of our overall funding and the 2022/23 draft budget proposals assume a council tax rise of 3.95% for 2022/23 for modelling purposes.</p>		
	<p>The draft budget proposals are supported by a one-off contribution of £863k from the Council’s limited general reserve (Council Fund balance). This reserve headroom and cover being put in place in the last two financial years through late Welsh Government grant received in 2020/21 and a significant one-off recovery of VAT in 2019/20. Efforts are to continue to mitigate as much as possible the level of reserve contribution supporting the budget proposals for 2022/23 as the reserve headroom is needed to also support the Council finances being put back on a</p>		

sustainable footing over the medium term. The Council Fund balance provides limited cover for unforeseen future eventualities and where mitigating budgetary recovery action is unable to manage such pressures on the Council's budget.

The Council is also having to make a continued use of Welsh Government guidance that allows local authorities in Wales to fund one-off revenue costs associated with service reform from useable capital receipts held. This in turn will impact on useable capital receipts available to fund future capital programmes. However, and similar to the need to draw on one-off reserve balances, it is a necessary measure to allow the 2022/23 budget proposals to be funded and without recourse to reductions needing to be made to frontline services. The planning assumption is to work towards significantly reducing or removing reliance on this mechanism to support the revenue budget from 2023/24 onwards.

After several years of taking significant resource out of the budget, the means of achieving further savings becomes increasingly more challenging. This has been exacerbated by the pandemic and where officer time has had to be diverted to the emergency response and ensuring vital services are delivered, and more recently to respond to the resultant increased demand on services. The in-year over spend, whilst being managed via a recovery plan and ameliorated by late significant WG grants, again sees significant underlying and recurrent service pressures carried through into 2022/23 and with this already challenging backdrop, has made the budget challenge even more acute, though the extent of that challenge was aided by the positive above average settlement. The draft 2022/23 budget proposals in total bring forward savings of £1.55m. Work continues in parallel to develop ideas and proposals such that they can be brought into the budget once they are sufficiently progressed. All proposals have been considered and tested through an initial process of independent challenge by officers and Cabinet Members.

	Desired Result	Action	Responsible Officer	Timescale
Further action planned	A medium-term financial plan which reflects realistic and accurate funding requirements as to allow a structured and planned approach to service delivery in the medium term in line with corporate priorities.	Ensure the Medium-Term Financial Plan reflects realistic future cost pressures as accurately as possible based on known information and informed by up to date and accurate service-based data.	Chief Officer Resources	December 2022
	In parallel with the above, to develop and deliver a programme of sustainable planned savings over the medium-term to allow a balanced budget to be set that delivers on agreed Corporate priorities.	A robust and detailed review of planned savings brought forward that ensure that the impact on service delivery is mitigated where possible and that contributes to an overall sustainable budget position in the medium term.	Chief Officer Resources	December 2022

### Asset Management proposals

<b>Report</b>	Audit Wales review of Asset Management – November 2017			
Audit Wales Proposal	<p>The Council's asset management arrangements could be strengthened by:                  Developing and delivering a long-term sustainable strategy for its assets based on a thorough assessment of needs, costs and benefits supported by:</p> <ul style="list-style-type: none"> <li>○ short, medium and long-term performance indicators;</li> <li>○ embedded governance arrangements to support the strategic management of assets;</li> <li>○ IT asset management systems which integrate more effectively with other systems to facilitate better information capture and use; and</li> <li>○ Utilising information arising from stakeholder consultation and engagement including what the Council has learnt about its experience of its community asset transfers to better inform its decision-making.</li> </ul>		Status	Open
What progress have we made	<p>Work had begun on new replacement IT asset management software, with specific functionality to improve the effectiveness of communication between the council's property and asset management teams. This has been put on hold during the pandemic as resources have been diverted to assist in the pandemic response. It has however been prioritised as a project by the Digital Design &amp; Innovation Team so it is anticipated that work will recommence on this shortly.</p> <p>A five-year Asset Management Strategy has been developed, to run concurrently with the council's five-year Corporate Plan. This will undergo a review later this year when the new administration has been elected. The associated Asset Management Plan is reviewed annually, and supported by the service business plan, both of which contain relevant performance indicators. Both of these plans are updated on a quarterly basis, in line with the council's service business planning principles.</p>			
Further action planned	Desired Result	Action	Responsible Officer	Timescale
	Clarity over the Council's approach to the use of its assets to support robust decision making.	Replace the IT system with a system that incorporates the Financial Asset Register as well as providing a comprehensive solution for the effective management of property data	Head of Commercial and Integrated Landlord Services	March 2023

Report	<b>Waste Procurement Review – October 2021</b>
Outline of the review	The purpose of the review is to seek assurance that the council has a sustainable plan to improve its waste service; one that offers value for money, secures improved performance and is sustainable over the long term. As part of this, Audit Wales will consider whether the council is building in all relevant and reasonable considerations into its procurement arrangements to ensure that its waste and recycling contracts contribute to a sustainable service.
Audit Wales Summary	Audit Wales found that the procurement process went well overall, and the small team involved worked hard to successfully issue the contract on time. Audit Wales also felt the Council would benefit from a local waste management strategy setting out its long-term vision and priorities for waste and recycling services in Monmouthshire.
Management Response	<p>Waste management would like to thank Audit Wales for working with us over the last year on “live” projects. This is a new way for us working with Audit Wales and allowed us to review and hopefully improve outcomes as part of the process rather than in a purely reflective way at post-project stage.</p> <p>We also welcome the Audit Wales report and appreciate the observations and feedback within. We recognise that reflective reviews are equally important and will build on this feedback to make further improvements going forward.</p> <p>With regard to an overarching strategy, Wales has set itself ambitious and challenging targets and Welsh Government have set out how these targets can be achieved. These strategic aims are captured in Towards Zero Waste and supported by detailed service delivery methodology through The Collections Blueprint. As part of the Welsh Government funding for recycling services there is a commitment by all local authorities to work towards improving recycling and move towards zero waste. Our aims and objectives are mirrored in the Welsh Government Strategies, and we have always felt that this is sufficient in detail to provide MCC with an overarching strategic direction. When delivered in conjunction with Members and line with the Corporate Plan, Climate Change and Nature Emergency Plan and Service Plans it provides a localised solution, but we will review the need for a MCC Waste Strategy in light of Audit Wales findings.</p>

Appendix 2

Audit Wales national studies published since last update

Report	Regenerating Welsh Towns – September 2021		
Outline of the review	<p>This review will assess how public bodies are using their powers and resources to create thriving and sustainable towns, as well as reflecting on the value for money achieved when using resources to encourage town and community regeneration. This work will provide a commentary on the benefit of a new approach to regeneration as local authorities and their communities respond to COVID-19, and will help support the Welsh Government, local authorities and their partners to plan regeneration programmes to tackle these complex problems. Most importantly, this review will be an opportunity to provide a positive and inspirational view of the future of towns to help support recovery and normalisation following the pandemic and to give people, communities and local authorities a sense of a brighter future. The report can be found <a href="#">here</a>.</p>	Status	N/A
Audit Wales Summary	<p>Many of the challenges facing today’s high street are rooted in planning policy decisions of the Post World War II period. Between 1950 and 1980, local authorities prioritised regeneration of town centres creating new and greater retail space. However, since then, the growth in out-of-town retail, the progressive loss of ‘essential services’ from town centres – banks, post offices and public services – and the growth in online shopping have contributed to a steady decline in many town centres.</p> <p>The pandemic has added to these problems and overall, Welsh and local government have responded well to support town-centre businesses during COVID-19. The Welsh Government has also directly invested or levered in almost £900 million in the last seven years to help regenerate town centres. Despite this funding, town centres often struggle. Local authorities are the key public bodies to help regenerate town centres, but they often lack capacity and skills to deliver the sustainable regeneration needed. Powers that can help stimulate town-centre regeneration are not utilised effectively nor consistently.</p> <p>Town centre regeneration remains a national priority, but the Welsh Government’s ‘town-centre-first’ policy is not yet fully embedded. This raises some questions about the strategies that are needed today to help create sustainable town centres. Often the starting point for discussions has been for government – national and local – to define the policies and instruments they propose to use to address the problems facing town centres. This has been the approach taken in Wales, but it has mostly fallen short of addressing the many problems in our town centres.</p> <p>National and local government need to deliver integrated solutions and make brave decisions going forward, providing honest, strong and dynamic leadership. Local authorities are well-placed to prioritise and lead on place planning but need to be clear on the purpose of their town centres and involve public sector partners, the third sector, town and community councils, communities and businesses in decisions. Valuing</p>		

	and using information to fully understand problems and identify the best solutions have to be improved. Local authorities will also have to become increasingly more interventionist to address the challenges facing town centres.
Management Response	This is a considerable report and time is being taken to review the findings and explore how the recommendations can be implemented within the context of Monmouthshire County Council's frameworks and practices. Our town centres have seen significant changes since the start of the pandemic to allow them to function effectively and safely, and these have been guided and refined through engagement with councillors, businesses, residents, and other stakeholders. Discussions about the broader regeneration vision for some of our towns are ongoing, including the extent to which those temporary Covid-driven changes should be retained in the long term. These discussions will include the findings of this report going forward to establish the best mechanism for their integration.

Report	<b>Financial Sustainability of Local Government – COVID Impact, Recovery and Future Challenges – September 2021</b>		
Outline of the review	<p>Before the pandemic, councils were facing tight budgets and in the last decade, council spending has fallen by 8%. Public borrowing has increased overall due to the pandemic and Welsh Government has allocated £660 million additional funding as well as other additional funding for support, including funding for teachers to cover the cost of catch-up support from education and cleaning materials.</p> <p>Although councils have received this extra short-term funding from Welsh Government to cover loss in income and extra expenditure over 2020-21, and their financial positions have improved due to this funding, they still face longer-term challenges. Our review looks at local government financial sustainability during 2020-21 and explores some of the funding pressures councils face. The report can be found <a href="#">here</a>.</p>	Status	N/A
Audit Wales Summary	Funding from Welsh Government to help with the pandemic has meant that councils are financially stable for now but face some challenges in the future. In order to ensure they are able to continue to deliver important local services, they need to develop and implement strategies to strengthen their financial sustainability. The review recommends 4 key steps which councils can take to improve their financial sustainability. These 4 steps are centred around financial strategies, reserves, performance against budget and savings delivery.		
Management Response	The Council is getting to the end of its administrative term. As a consequence of a new administration and a new set of policy objectives, priorities and strategic aims to be confirmed in an updated Corporate Plan later in 2022, the Council's financial strategy and plan will undergo a full update. The 2022/23 budget has been developed on the basis of a thorough examination of the significant budget pressures and risks facing the Council in 2022/23. The positive WG settlement and further significant late grant awards from Welsh Government have avoided the need for significant savings to be made that would have had direct consequences on the sustainability of services that communities rely on. Furthermore, it has enabled the Council to steer a path through the pandemic where it has been able to undertake some modest replenishment of reserves that will be needed to meet the challenges that present over the medium term and beyond. A review and rationalisation of reserves		

will be undertaken as part of the fuller update of the financial strategy and plan. This will ensure that reserves are held for one-off purposes, are aligned with the Council's strategic risks, and to enable its priorities and strategic aims to be met, notwithstanding the need for reserves to be maintained and to support the Council in putting itself on a sustainable financial footing. The Council is grateful to UK Government, and in turn Welsh Government, for providing indicative settlement increases for 2023/24 and 2024/25 that, whilst subject to change, better allows the Council to develop a more robust medium term financial plan.

**Well-being of Future Generations examination of reducing child poverty and social isolation and improving economic inclusion**

Report	Wellbeing of Future Generations: An examination of Reducing child poverty and social isolation and improve economic inclusion – November 2019		
Outline of the review	Examination of the extent to which the Council is acting in accordance with the sustainable development principle in reducing child poverty and social isolation and improving economic inclusion. This work looked at the well-being of future generations act through the lens of our approach to this topic and was not a full-scale review of the council’s approach to dealing with child poverty and social isolation.	Status	Closed
Audit Wales Summary	<p>The Council is starting to apply the sustainable development principle in relation to its social justice agenda, but does not yet have a long-term plan</p> <p>The Council has a good understanding of the issues and challenges but does not yet have a long-term plan to deliver this step</p> <p>The Council has designed this step with a clear focus on prevention but does not have a means of measuring preventative outcomes over the long term</p> <p>The Council has designed this step to contribute to the seven national well-being goals and delivery is well-integrated in some partner plans</p> <p>Collaboration is a key means of delivering the Council’s social justice agenda and there are well established collaborative arrangements which the Council facilitates</p> <p>The Council has identified some groups and individuals it needs to reach to deliver this step and has involved key stakeholders, but is aware that more needs to be done</p>		
What progress have we made	As a result of the findings of this review, the Council developed the following actions:		
	Action	Progress	
	Review the current vision and ambition to ensure it looks beyond the medium term and make this explicit in the next update of the strategy.	An updated Social Justice Strategy was approved by Cabinet in March 2021, which takes a more targeted approach via the insertion of individual targeted action plans namely Tackling Poverty and Inequality Action Plan; Food Development Action Plan; and Homeless Transition Plan.	
	Ensure that authors embed reference to social justice in all strategies within the council’s policy framework.	The Integrated Impact Assessment that accompanies all policy decisions taken by Council, Cabinet and single member has been updated to incorporate social justice so all strategies will be evaluated against this when they are approved or updated.	
	Work with partners to ensure that the conditions and systems are in place to	A restructure of the Community and Partnership Development Team has been carried out. The nature of community involvement and complex challenges means this will always be ongoing,	

	involve the community in addressing challenges facing the county.	however the groundwork done through A County That Serves Programme and Be.Community has enhanced community involvement. Recent examples include the development of Together Works and the Community Climate Champions working on the transition to net zero.
	Increase capacity and capability in data-modelling and use of spatial data and apply this to issues.	Additional investment has been made in the council's digital and data capacity and recruitment is ongoing. The GIS (mapping) function now forms part of the Performance and Data Insight Team, and data modelling is being undertaken to understand these issues as the hyper-local level.

### Environmental Health

Report	Environmental Health follow-up review – December 2019		
Audit Wales Proposals	The Council should undertake a fresh analysis of statutory and non-statutory service obligations to support and inform any future service changes.	Status	Closed
	<p>In order to develop a prosperous and future-proof environmental health service the Council should consider the following:</p> <ul style="list-style-type: none"> <li>Balancing statutory duties with non-statutory services and discretionary income generation.</li> <li>Aligning its income generation activities with the Council's overall Commercial Strategy and considering how the service might benefit.</li> <li>Working in more formal partnerships with other authorities to deliver services.</li> <li>Exploring how transformation and technology could improve efficiency and effectiveness.</li> </ul>		
What progress have we made	We strive to balance our statutory duties with important non-statutory work streams that we consider provide valuable services to our residents. We will continue to analyse our statutory and non-statutory obligations as part of our service planning and provide clarity on statutory/non-statutory services in our annual report to members.		
	<p>Environmental Health continues to be innovative in income generation and has a commercial culture that aligns to the focus of the commercial strategy. The Environmental Health focus, since March 2020, has been on responding to the Covid-19 pandemic, and EHO's have provided the Track &amp; Trace service in Monmouthshire. As such, most income generation has paused over last 22 months, but pursuing discretionary income sources will return as soon as possible, noting sensitivities around business closures during national lockdowns.</p> <p>The Environmental Health team are already involved in numerous working groups with other organisations and work in partnership where required, for example responding to various consultations and participating in Professional Working Groups, food safety, communicable disease, etc. The pandemic has demonstrated the EH team's strength in working with a range of partners on a daily basis, including Public Health Wales, Aneurin Bevan University Health Board, schools, care homes and various others. Indeed, the Track and Trace Covid response is delivered by the five local authorities within Gwent, but each supports each other through an agreed 'mutual aid' support model. In this way, peaks and troughs of</p>		

dealing with Covid cases and clusters can be managed more effectively across the region, with the expertise provided where needed most. The feedback from partners and the general public, regarding our Covid response, has been exceptionally positive.

Public Protection, the division within which Environmental Health sits, procured a new software system in April 2021, which offers a range of benefits. Efficiency will be improved via the use of a mobile app facility, better on-line forms, etc., and will ultimately allow officers to spend more time on-site, for the benefit of the public, local business owners and visitors to Monmouthshire.

### Leisure Services

Report	Leisure Services follow-up review – December 2019		
Outline of the review	<p>Follow up of the 2015 national review <i>Delivering with Less – Leisure Services</i> recommendations:</p> <ul style="list-style-type: none"> <li>• Improve strategic planning in leisure services;</li> <li>• Undertake an options appraisal to identify the most appropriate delivery model based on the council’s agreed vision and priorities for leisure services;</li> <li>• Ensure effective management of the performance of leisure services by establishing a suite of measures to allow officers, members and citizens to judge inputs, outputs and impact;</li> <li>• Improve governance, accountability and corporate leadership on leisure services</li> </ul>	Status	Closed
Audit Wales Summary	<p>This review sought to answer the question: Can the council assure itself that the delivery of its leisure services offers value for money? Overall, Audit Wales found that the council is making progress in addressing the 2015 national recommendations and has considered whether the delivery of its leisure service offers value for money. The review confirmed that the council has a long-standing vision for its leisure services but is still developing a strategic plan to deliver its vision. The review also identified that the council considered alternative delivery models for its leisure service, however, this process did not always provide members with sufficient and timely financial information to aid decision-making. Finally, the review confirmed that the council proactively involved members in appraising different delivery options of its leisure service and is further strengthening its performance framework.</p>		
What progress have we made	<p>There were no proposals for improvement identified, although the need for a Leisure Sport and Physical Activity Strategy was noted. Considerable work has been undertaken to improve the performance monitoring framework, in particular, the strategic plan. A thorough Performance and Evaluation Framework has been developed, with an impact driven, outcome-based Service Business Plan and service specific delivery plans. This plan is being adapted as the services move forward with priorities and changing demands such as covid recovery, climate change, mental health and social isolation. To support this, a comprehensive KPI set has been established and work is underway to develop a suite of success stories and achievements to celebrate the outcomes and impact of work on the citizens of Monmouthshire. An external company has been appointed to develop a strategy, and stakeholder engagement will be completed shortly to inform the requirements and direction that the strategy will take.</p>		

This page is intentionally left blank



## REPORT

<b>SUBJECT:</b>	<b>2022/23 Capital Strategy and 2022/23 Treasury Management Strategy</b>
<b>DIRECTORATE:</b>	<b>Resources</b>
<b>MEETING:</b>	<b>Governance &amp; Audit Committee</b>
<b>DATE:</b>	<b>28<sup>th</sup> February 2022</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>Countywide</b>

### 1. PURPOSE

- 1.1. The purpose of this report is to collect the Committee's views and response to the Council's draft Capital and Treasury Management Strategies, including the Minimum Revenue Provision (MRP) policy.
- 1.2. The report summarises and highlights the key areas relating to the strategy, alongside those areas of key implications and risks resulting from it which are brought to the Committee's attention for their review and comment. As per prudential code requirements, following committee scrutiny the strategies will subsequently be reported to full Council for their own consideration and approval.

### 2. RECOMMENDATIONS

- 2.1. That Governance & Audit Committee considers and endorses for onward circulation and approval by full Council the draft Capital strategy for 2022/23 as found at **Appendix 1**.
- 2.2. That Governance & Audit Committee considers and endorses for onward circulation and approval by full Council the draft Treasury management strategy for 2022/23 as found at **Appendix 1**, including the:
  - 2022/23 Minimum Revenue Provision Policy Statement
  - 2022/23 Investment & Borrowing Strategies
- 2.3. That Governance & Audit Committee continues to review the Council's treasury activities on behalf of the Council by receiving the mid-year treasury management report and year-end report.

### 3. KEY ISSUES

- 3.1. **2022/23 Capital Strategy**

- 3.2. The Capital Strategy sets out the longer-term context in which capital investment decisions are made and demonstrates how/that the Authority takes capital investment decisions that are in line with its Corporate priorities, give consideration to both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.
- 3.3. The capital plans of the Authority are inherently linked with the treasury management activities it undertakes, and therefore this report is brought alongside the Treasury management strategy report.
- 3.4. The main considerations arising from the Capital strategy shown in **Appendix 1** are summarised in this report below.
- 3.5. **Overview**
- 3.6. The Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 3.7. It highlights that in the current climate of financial constraints and a continued Medium Term Financial Projection (MTFP) revenue budget gap, that expenditure on capital needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 3.8. Within the context of significant demands for capital resources and limited availability, there is the need to develop our use of the various strategic plans across the organisation which drive the need for capital investment and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework. This will include clearer and corporate visibility and assessment of demand for schools, highways and other operational assets.
- 3.9. **Capital Financing**
- 3.10. All capital expenditure incurred has to be physically financed. Once the finite available sources of internal financing (capital receipts, reserves/revenue) and external grant financing are extinguished the Authorities only recourse is to borrowing.

**Capital financing in £m**

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
External sources	14.1	3.6	2.4	2.4	2.4
Internal resources	6.0	3.6	1.9	1.8	1.7
Borrowing	9.9	22.4	8.0	5.5	5.5
<b>Total</b>	<b>30.0</b>	<b>29.6</b>	<b>12.3</b>	<b>9.8</b>	<b>9.7</b>

- 3.11. Approval of capital expenditure funded through borrowing locks the Council into committing revenue funding over a very long period (as long as 60 years). Minimum Revenue Provision (MRP) is required to be funded from revenue budgets to cover expected borrowing repayments and the level of MRP is increasing over the medium-term so the Authority needs to ensure its capital plans remain affordable and sustainable.

***Proportion of financing costs to net revenue stream***

<b>Proportion of Financing Costs to net revenue stream</b>	<b>2021/22 Budget</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Net Interest payable £m	3.6	3.9	4.1	4.1	4.5
MRP £m	6.4	6.7	7.3	7.6	7.7
<b>Total Financing costs £m</b>	<b>10.0</b>	<b>10.6</b>	<b>11.4</b>	<b>11.7</b>	<b>12.2</b>
Net Revenue Stream (£m)	155.1	168.9	179.3	187.6	196.3
<b>Proportion of net revenue stream %</b>	<b>6.45%</b>	<b>6.29%</b>	<b>6.38%</b>	<b>6.24%</b>	<b>6.21%</b>

- 3.12. The table above compares financing costs to the net revenue stream i.e. the amount of income from Council Tax, business rates and general government grants. The overall proportion of financing costs remains fairly static over the MTFP window which is reflective of the total revenue stream increasing in line with expected inflationary impacts whilst the financing costs increase moderately in line further capital investment made.

- 3.13. Total financing costs remain sustainable within the context of the Authorities overall revenue budget in so much that they are fully provided for within the medium term financial plan.

3.14. **Capital Receipts**

- 3.15. Any assets which are deemed to be surplus to service requirements will be identified for possible sale/income generation in consultation with the Estates department. The procedures governing disposals are captured in the Council's Surplus asset disposal policy.

***Forecast Capital receipts***

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance as at 1st April	9,581	13,503	11,108	10,311	8,714
Less: capital receipts used for financing	(3,582)	(2,311)	(1,294)	(1,194)	(1,094)
Less: capital receipts used to support capitalisation directive	(2,208)	(2,650)	(508)	(508)	(508)
	<b>3,791</b>	<b>8,542</b>	<b>9,306</b>	<b>8,609</b>	<b>7,112</b>
Capital receipts Received	2,596	0	0	0	0
Capital receipts Forecast	7,115	2,565	1,004	104	104
<b>Forecast Balance as at 31st March</b>	<b>13,503</b>	<b>11,108</b>	<b>10,311</b>	<b>8,714</b>	<b>7,217</b>

- 3.16. The value of Capital receipts forecast after 2022/23 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. This will have a substantial impact on the balance of receipts available to fund future capital investment demands. It is therefore important that reliance on capital receipts used to support capitalisation direction (to fund one-off revenue costs eligible to be met from capital resources) is seen as a short term measure only.
- 3.17. Traditionally receipts have been earmarked to finance the Authorities future schools investment. In a change from previous practice, whilst the Council has further future schools aspirations, it is not proposed to advocate a similar approach to members in respect of tranche B. Schools based assets commonly have a useful life of 50 years +, and as such traditional long term loan funding can be sourced at competitive rates with limited annual revenue volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, given the avoidance of proportionately more significant minimum revenue provision.
- 3.18. **Setting Capital Budgets**

***Capital Medium Term Financial Plan***

	<b>Indicative Budget 2022/23</b>	<b>Indicative Budget 2023/24</b>	<b>Indicative Budget 2024/25</b>	<b>Indicative Budget 2025/26</b>
Asset Management Schemes	1,929,276	1,929,276	1,929,276	1,929,276
School Development Schemes	13,681,287	50,000	50,000	50,000
Infrastructure & Transport Schemes	5,792,740	6,272,740	3,627,740	3,527,740
Regeneration Schemes	330,400	602,900	730,200	730,200
County Farms Schemes	300,773	300,773	300,773	300,773
Inclusion Schemes	1,150,000	1,150,000	1,150,000	1,150,000
ICT Schemes	682,000	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	2,649,500	507,500	507,500	507,500
Other Schemes	3,070,000	1,070,000	1,070,000	1,070,000
<b>Total Expenditure</b>	<b>31,085,977</b>	<b>13,796,190</b>	<b>11,278,490</b>	<b>11,178,490</b>

- 3.19. The capital MTFP and capital strategy seek to work towards a financially sustainable core capital programme, whilst balancing the need to deliver capital investment plans in line with policy commitment and need. When considering the relative merits of further capital investment, the Capital and Asset Management Working Group (CAMWG) will apply the priority matrix in the capital strategy, either endorsing or amending the proposal for onward consideration by SLT and Members through the agreed mechanisms in place.
- 3.20. The identified backlog capital budget pressures that currently sit outside of the above capital MTFP total £125m and indicates that there is a higher call for capital expenditure than the Authority considers it can affordably finance. This means that capital schemes will have to be prioritised or the capital available has to be spread more thinly than is ideal. All

stakeholders must recognise that funding capital expenditure by borrowing only defers the charge to revenue budgets to future years, but at the same time if capital maintenance works are deferred then the total life costs of supporting an asset are likely to increase. This effect is often veiled in medium term financial planning as asset lives are much longer than four years.

- 3.21. Annual investment included in the capital programme for property maintenance, highways maintenance, relevant specific capital grants and the future schools programme will assist in addressing the highest priority backlog issues, focussing on worst condition first and risk. However, estate rationalisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be utilised to offset the backlog funding required. This will not address the specific total backlog, but is a way of targeting the main issues in an affordable manner.

#### 4. 2022/23 Treasury Management Strategy

- 4.1. The treasury management strategy sets out the Council's longer term borrowing requirement and plans, which is driven mainly by the capital programme requirements and the resulting impact on the revenue budget.
- 4.2. It includes how it will manage and invest its surplus cash which also have various targets/limits set as part of prudential indicators and also includes additional guidance of the Welsh Government Investment Guidance and the Minimum Revenue Provision Policy.
- 4.3. The strategy is a requirement of CIPFA's Prudential Code which sets out the requirement to ensure, within the frameworks set, that capital expenditure plans are:
- **Affordable:** Capital spend and programmes are within sustainable limits. Councils are required to take into account of current and forecast funding available to them and the totality of their capital plans and their costs in assessing affordability.
  - **Prudent:** Councils need to set borrowing limits (called 'operational' and 'authorised limits' – as part of the suite of prudential indicators) which reflect the Councils plan for affordable capital plans and their financing costs. On investing activities, Councils need to consider the balance between security, liquidity and yield which reflects their own risk appetite but which prioritises security and liquidity over yield.
  - **Sustainable:** Council's capital plans and the revenue cost of financing the current and future forecast borrowing/debt taken out for that needs to be sustainable in terms of the Councils overall finances and its impact on that.
- 4.4. The Governance & Audit Committee in its role as the Council's delegated body must receive as a minimum a semi-annual report and an annual report after its close on treasury management activities.
- 4.5. Overall responsibility for treasury management remains with the full Council. In effect, that body delegates the execution and administration of treasury management decisions to the Section 151 officer or deputy who will act in accordance with the Treasury management

strategy, treasury management practices and CIPFA's Standard of Professional Practice on treasury management.

- 4.6. The detailed Treasury strategy for 2022/23 is included at **Appendix 1**. Key points of interest are summarised below.

### **Annual Minimum Revenue Provision (MRP) Policy Statement**

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

### **Borrowing Strategy**

- 4.9. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 4.10. The current economic environment is unprecedented and still very much represents the bottom of the treasury cost curve for an Authority like Monmouthshire who is a net borrower. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. A roughly equal balance of long and short term debt is, at the time of writing, taken as the right balance to maintain sufficient long term stability.
- 4.11. To that end, and at the start of December 2021, and with interest rate rises being implied in the market, the authority acted to lock in a further £20m of long term borrowing as outlined below:

Start Date	Duration (Years)	Amount	Rate	Weighted Rate
07/12/2021	45	5,000,000.00	1.43%	0.36%
07/12/2021	50	5,000,000.00	1.37%	0.34%
15/12/2021	46	2,500,000.00	1.31%	0.16%
15/12/2021	47	2,500,000.00	1.30%	0.16%
15/12/2021	48	2,500,000.00	1.29%	0.16%
15/12/2021	49	2,500,000.00	1.27%	0.16%
<b>Total</b>		<b>20,000,000.00</b>		<b>1.35%</b>

- 4.12. By doing so, the Authority was able to give some longer term certainty over borrowing costs and reduce overall treasury risk, despite some shorter term increases in overall interest cost. The benefits of internal / short-term borrowing will be monitored regularly against the potential

for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

### **Investment Strategy**

- 4.13. Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 4.14. Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will look to increase its diversification into higher yielding asset classes, such as pooled funds, during 2022/23. The Authority continues to hold £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) and therefore consideration will be given to investing this balance with a more medium to long term outlook. At the time of writing £4m is held in Pooled Fund investments, with applications in process to invest a further £2m by the end of the 31<sup>st</sup> March 2022.
- 4.15. The approved counterparty list and limits are shown in table 3 of the Treasury strategy. The investment limits proposed complement the Authorities objective of striking an appropriate balance between risk and return, whilst minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 4.16. It is important to note that the counterparty rating limits and investment maturities act as limits and not targets and are further informed by market information alongside bespoke periodic advice from our treasury advisers as to sustainability and financial robustness of specific counterparties.

### **Other Considerations influencing the strategy**

- 4.17. The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.
- 4.18. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.
- 4.19. The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

- 4.20. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

### **Prudential Indicators**

- 4.21. The prudential indicators as required under the Prudential Code are outlined in sections 3 and 4 of the Treasury strategy at **Appendix 1** and set out the limits and indicators that the treasury function will operate under for 2022/23.

## **5. REASONS**

- 5.1. The Authority is required to produce a Capital Strategy to satisfy the requirements of the Prudential Code of Capital Finance 2017. Many elements of the strategy are already in place and it is expected that in following an overall strategy that it will improve the process of managing the Authorities assets with the ultimate aim to ensure sustainability, and maximise the financial and social value of our assets for our communities. The ongoing challenging financial conditions mean we must have robust policies and programmes in place to ensure our estate is lean, efficient, meets the needs of service users and is fit for purpose.
- 5.2. The Authority is required to produce a Treasury Management Strategy including annual investment and borrowing strategies in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code").
- 5.3. The Authority is required to produce an MRP policy statement in order to comply with the Local Authorities (Capital Finance and Accounting) (Wales) Regulations, last amended in 2018.

## **6. RESOURCE IMPLICATIONS**

- 6.1. In summary, the Treasury strategy remains very similar to previous years, such that the Council remains a net borrower, and utilises internal resources to reduce net borrowing costs, known as internal borrowing.
- 6.2. In order to keep the Authority's borrowing costs lower, the external borrowing total is split fairly equally between long and short term recurrent borrowing. The short term borrowing achieves a reduction in cost but causes an increase in interest rate risk. Although interest rates could rise, it is not expected that short term rates over the MTFP window will exceed current long term rates. The Treasury team continues to optimise its loans and investments to reduce the net cost of borrowing while ensuring that security and liquidity levels are maintained at a suitable level and the various risks are properly managed.
- 6.3. The levels of Treasury debt and investments at the 31<sup>st</sup> December 2021 are provided in section 2 of the Treasury strategy.

- 6.4. The medium-term treasury budgets, contained within the 2022/23 revenue budget proposals were constructed in accordance with the strategy documents appended to this report. Consequently, there are no additional resource implications directly arising from this report.
- 6.5. The Council's indicative treasury budgets for the next 4 years are:

	Indicative Base Budget 2022/23	Indicative Base Budget 2023/24	Indicative Base Budget 2024/25	Indicative Base Budget 2025/26
Interest and Investment Income	(100,000)	(100,000)	(100,000)	(100,000)
Interest Payable on external debt	3,955,189	4,205,189	4,205,189	4,594,227
Charges required under Regulation	6,715,463	7,347,290	7,602,831	7,693,289
<b>Total Treasury Budgets</b>	<b>10,570,652</b>	<b>11,452,479</b>	<b>11,708,020</b>	<b>12,187,516</b>

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

- The capital medium term financial plan for 2022/26 has been shared with members as part of the capital budget setting process. Should future additions to the programme be required that are funded from borrowing, then Treasury figures and consequences on the capital financing requirement and external borrowing requirement would need to be updated.
- The risks associated with rising interest rates as indicated in the Treasury Strategy by the Interest rate risk indicator & limit. Base and short-term interest rates are expected to remain at lower levels in the medium term and the Treasury strategy allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates. However, the current and future economic environment is extremely uncertain in light of the UK Government response to the pandemic and the ongoing complexities around Brexit agreements and therefore the ongoing position will need to continue to be closely monitored.
- The Authority continues to make plans to assess the capital receipts which can be obtained from selling property assets. Without these receipts being available to fund capital expenditure, new capital programmes will need to be funded by additional borrowing.

## 7. **CONSULTEES:**

Chief Officer, Resources (Section 151 officer)

Arlingclose – Treasury Management Advisors to Monmouthshire CC

**8. BACKGROUND PAPERS:**

*Appendix 1* – 2022/23 Capital strategy and 2022/23 Treasury Management Strategy including the Minimum Revenue Provision policy statement and Investment & Borrowing Strategies

**9. AUTHORS:**

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

Email: [jonathandavies2@monmouthshire.gov.uk](mailto:jonathandavies2@monmouthshire.gov.uk)

# Capital Strategy & Treasury Management Strategy 2022/23

## Contents

### 1. [Introduction](#)

## [2022/23 Capital Strategy](#)

1. [Introduction](#)
2. [The Prudential Code](#)
3. [Property asset management](#)
4. [Infrastructure asset management](#)
5. [Investments for Service purposes](#)
6. [Commercial activities](#)
7. [Other assets](#)
8. [Capital financing & the Capital financing requirement](#)
9. [Capital disposals & receipts](#)
10. [Setting capital budgets](#)
11. [Revenue budget implications](#)
12. [Treasury management](#)
13. [Borrowing strategy](#)
14. [Investment strategy](#)
15. [Risk](#)
16. [Knowledge & skills](#)

## [2022/23 Treasury Management Strategy](#)

1. [Economic background and forecasts for interest rates](#)
2. [Existing treasury position](#)
3. [Borrowing](#)
4. [Treasury investments](#)
5. [Related matters](#)
6. [Additional requirements of Welsh Government Investment Guidance](#)
7. [Advisors Economic & Interest Rate Forecast](#)
8. [Glossary of treasury terms](#)

### Treasury & Capital Strategy

- 1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risks are therefore central to the Authority's prudent financial management.
- 1.2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.
- 1.3. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 1.4. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 1.5. This Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.6. Decisions made now on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.
- 1.7. The Council's borrowing driven by investment decisions based on its Capital strategy will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk, refinancing risk and budgetary risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

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

## 2. **Governance & reporting**

- 2.1. Council delegates responsibility for the monitoring and scrutiny of its treasury management policy, strategy and practices to the Governance & Audit Committee and for the execution and administration of treasury management decisions to the Section 151 officer or deputy, who will act in accordance with the policy and strategy and follow CIPFA's Standard of Professional Practice on Treasury Management.
- 2.2. The responsibility to approve the Capital strategy and the annual Treasury management strategy (including the investment strategy and MRP policy statement) remains with full Council.
- 2.3. Responsibility for treasury decisions ultimately remains with the Council, however the Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by its current advisors Arlingclose Limited includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.
- 2.4. Revised strategy: In accordance with the WG Guidance, full Council would be asked to approve a revised Treasury Management Strategy should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

## 1. Introduction

- 1.1. This Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2. Decisions made now on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.
- 1.3. It highlights that in the current climate of financial constraints and a continued Medium Term Financial Projection (MTFP) revenue budget gap, that expenditure on capital needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 1.4. The strategy highlights the key risks and considerations:
  - Capital expenditure plans for the Council need to be affordable, prudent and sustainable.
  - The Council's Medium Term Financial Plan includes the revenue costs for the financing of the current capital programme to 2025/26. This will exclude any borrowing for schemes which are self-financing over the life of the project.
  - If the level of capital expenditure funded by borrowing is required to be increased from that approved in the current programme it would need to be sanctioned by full Council.
  - Useable capital receipts provide a limited one-off resource to support financing of the capital programme. In recent years the Council has also made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has needed to make use of this flexibility in 2019/20, 2020/21 & 2021/22 and plans to do similarly in 2022/23 and over the remaining three years of the MTFP. Useable capital receipts are forecast to reduce to £7.2m by the end of 2025/26 based on the capital MTFP. The continued use of capital receipts for this purpose is recognized as a necessary but unsustainable approach and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.
  - As per the agreed framework (detailed in the report) the current programme needs to be maintained within the agreed limits, therefore not putting additional pressure on the capital financing budgets that have been included in the 2022/23 revenue budget.

- Within the context of significant demands for capital resources and limited availability, there is the need to develop our use of the various strategic plans across the organisation which drive the need for capital investment and develop alternative strategies to meet demand so the Councils own capital programme is prioritised within an affordable framework. This will include clearer and corporate visibility and assessment of demand for schools, highways and other operational assets.
- Approval of capital expenditure funded through borrowing locks the Council into committing revenue funding over a very long period (as long as 60 years). With Minimum Revenue Provision (MRP) budgets increasing over the medium-term, the Authority needs to ensure its capital plans remain affordable and sustainable.
- The prudential indicators, including borrowing limits, are in line with the final budget proposals presented to Cabinet and Council in March 2022.

1.5. The strategy will be reviewed and updated on an annual basis alongside the Treasury Management Strategy given both strategies are intrinsically linked.

## 2. The Prudential Code

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

- **AFFORDABLE** - Total capital investment of the authority remains within sustainable limits. A local authority is required to consider the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts in assessing affordability.
- **PRUDENT** – The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the authority’s plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices. Authorities should consider a balance between **security, liquidity and yield** which reflects their own risk appetite but which prioritises security and liquidity over yield.
- **SUSTAINABLE** – taking into account the arrangements for repayment of debt (including through MRP) and consideration of risk and the potential impact on the authority’s overall financial sustainability in the medium to longer term.

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

2.2. The Code requires the Capital strategy to set out the long term context for capital expenditure investment decisions.

## 3. Property asset management

3.1. The Corporate Landlord Division of the Resources Directorate is the custodian of the Council's Asset management strategy in place, to ensure that the assets forming the Council's Property Estate continue to meet the needs of the Authority in the long term. As asset lives could be 60 years or more, for practical purposes, expenditure requirements for a minimum of 10 years should be assessed to prevent any deferred repair work increasing the total life costs of the assets. The main elements of the Asset Management strategy which are key to the Capital strategy are:

- A complete and accurate asset register is held & will be maintained. This will include Land & Buildings, Community assets, Heritage assets, Investment Properties and operational structures such as Sewerage pumping works.
- The required functionality & operational life of assets will be identified as a benchmark for condition assessments (e.g. from Corporate Plan)
- An increasing use of Condition surveys information (5 year rolling programme on key assets) to improve liability and responsibility data and facilitate improved decision making
- Maintenance and major works are identified from the surveys with timings optimised in order to minimise total asset life costs including maintenance and running costs
- Health and Safety works are flagged as a priority
- The Capital and Revenue spend levels per year will be identified and fed into the budget setting processes with the aim of not deferring spend which would increase extent of emergency works and total life costs
- Where costs and/or timing cannot be predicted with a reasonably high level of certainty an average forecast cost / timing should be used for planning purposes. Where the likelihood of occurrence as well as cost is highly uncertain, accounting good practice advocates a contingency plan should be put in place e.g. a preliminary design & program of works prepared, the required budget spread over several years and an earmarked reserve built up from annual repair budget
- Where an asset is held to generate income in line with meeting core strategic policy aims and objectives, as part of the business case, the recurrent expenditure required on those assets to maximise net income, will be identified and proposed for addition to budgets.
- The cost profile generated from the above process will be fed into the 4 year Capital Budget decision making process.
- Surplus assets and part assets have & will continue to be identified and an option appraisal carried out to determine if the asset should be sold to generate a capital receipt, developed and sold for a higher receipt, used to generate revenue income or transferred to a 3<sup>rd</sup> party for the benefit of the community. Under any of these scenarios, end of life costs will need to be more transparently determined and budgeted.

## 4. Infrastructure asset management

4.1. Unlike property assets, Infrastructure assets are managed by the various divisions of Enterprise Directorate. They will still need to assess what expenditure is required over a minimum of 10 years to minimise the total life cost of their assets. To ensure that the Highways Network and other Infrastructure assets held by the Authority continue to meet the long term needs of the County and the Authority, the Authority will:

- Look to maintain a complete and accurate asset register for Highways Network Assets & any other assets maintained by the team including adjacent land, flood alleviation facilities and substations. The Council's infrastructure database hasn't historically had the same corporate importance as the property asset register, as it isn't used to substantiate data or support revaluations in the annual statement of accounts. An exercise will be necessary to confirm quality of data within the Highways system to support 10 year reporting of works.
- For the majority of these assets, the expectation is for necessary repairs and maintenance to keep the assets in working condition for the foreseeable future i.e. well beyond 10 years. If this is not the case, the required operational life should be recorded.
- The minimum acceptable level of condition must be defined for each asset or part asset. This is likely to be the level of condition below which lifecycle costs start to increase.
- Service officers have traditionally forecast a backlog of highways repair of circa £80m, but without explicit review. Condition surveys are carried out periodically, by a mixture of Scrim testing (skid resistance) or inspections at a predefined frequency dependent upon the type of road so deterioration of assets below the minimum standard is documented and can be forecast. This information will also be used to indicate if the number of assets falling below the minimum standard is increasing year on year indicating that budgets available need to be increased. The impact of varying budgets over the last 10 years should also be investigated to inform this process.
- Traffic & pedestrian surveys will be carried out at a periodically to better assess the future life of the assets. It is acknowledged that weather has a significant impact on the life of assets and that weather patterns are changing. This cannot be controlled but must be taken into account.
- Ensure that Health and Safety works are prioritised.
- One off major works expected to be required will also be identified with a latest completion date and estimated cost. This may include large one offs which are outside the normal workload of the Operations & Design teams.
- The maintenance and major works required on an annual basis to minimise total asset life costs are identified from the surveys and used to propose budgets required for budget setting for the next 10 years. The impact on total life costs, should sufficient budget not be allocated, should also be reported to members to inform decision making, as an improvement to simply identifying an unsubstantiated backlog of repairs.
- Where costs and/or timing cannot be predicted with a high level of certainty, (similar to property assets), an average forecast cost / frequency for groups of similar assets is advocated, and use of contributions to earmarked reserve encouraged to afford the volatility of as yet unquantified significant one off future works

## 5. Investments for Service purposes

- 5.1. The Council has historically incurred the majority of its capital expenditure on the assets required to provide its services such as schools, highways and corporate facilities.

- 5.2. However it may also invest in other entities for the wider economic and societal benefits of its communities or businesses. This may include making loans or (more recently) considering taking an equity interest in local bodies or the Council's subsidiaries & joint ventures which in turn contribute to services to Monmouthshire residents. It may also include providing guarantees to other bodies. In light of the public service objective, the Council traditionally is willing to take more risk on these investments than it would with more traditional treasury investments, which are more highly regulated, however any such arrangement should only be entered into if such investments are assessed to break even after all costs are taken into account or if the benefits of the scheme are considered to be worth the net cost.
- 5.3. Decisions on service related investments (e.g. vibrant homes loans afforded through WG repayable grant or economic development loans) can be made by the relevant service manager provided a 100% loss can be covered by the managers existing budgets. Should additional budget/funding be required in the event of a default, then before making the service expense/investment, the Section 151 officer is required to be consulted and where member approval is felt necessary that the details and risks involved presented to Cabinet for approval. The criteria and limits laid down in the strategy for treasury Investments can be used as a comparator to measure risks against. Most loans and shares are capital expenditure and unless undertaken through the Commercial Investment delegation to Investment Committee, such decision requires approval of full Council to be added to the capital programme.
- 5.4. A list of investments for service purposes including loans and guarantees will be maintained by the Treasury team and they will be assessed at least annually and reported as part of the annual accounts and include:
- £40,000 of seed share capital was provided to SRS Business Solutions Ltd in 2011/12 alongside an equal amount from Torfaen County Borough Council
  - Foster carer loans
  - Low cost home ownership equity interest.

## 6. Commercial Activities

- 6.1. Following a sustained period of financial austerity and with financial support for local public services declining, the Council has invested in commercial property and other commercial investments to support ongoing revenue budgets and promote wider economic regeneration and strategic policy aims within the County and its borders.
- 6.2. Early in 2017/18 the Authority completed the construction of a Solar Farm for £5m.
- 6.3. In 2018/19, as part of a wider approved commercial investment budget of £50m and following creation of an Investment Committee to oversee this, the Council purchased a large unit at Castlegate Business Park for £8m and completed the purchase of Newport Leisure Park for £21m.

- 6.4. In 2020/21 secured loan funding of £1.9 million for a 10-year term was made to a Special Purpose Vehicle (Monmouthshire Broadband Limited). The loan is secured against the network assets held and totals £1.15m to date which is to be used to build a mixed wireless and fibre-optic access network to improve broadband speeds across Monmouthshire.
- 6.5. Given the ongoing pressures, risks and challenges presenting as a result of the Covid-19 pandemic, further investment into new commercial investment opportunities has been paused for the short-term.
- 6.6. Under changes to the Public Works Loan Board (PWLB) lending arrangements in March 2020 the government ended access to the PWLB for Authorities that wished to buy commercial assets primarily for yield, as assessed by the statutory section 151 officer of the Authority. Authorities that wish to buy commercial assets primarily for yield would remain free to do so but would not be able to take out new loans from the PWLB in that financial year.
- 6.7. Following these changes the Council will look to maintain an investment strategy that continues to support the wider economic regeneration and strategic policy aims within the County of Monmouthshire and/or where market failure is evident, and will not look to make commercial investment primarily for yield.
- 6.8. Commercial investments will be revalued at least annually as part of the ongoing review of the Commercial investment portfolio, and the performance of these assets assessed regularly through the service budget monitoring of Corporate Landlord service, via reporting to the Investment Committee and annually to Governance & Audit Committee.
- 6.9. With the increased financial returns expected on investment available from commercial investment, the Council naturally accepts higher risk compared with traditional treasury investments. Risk exposures for property investments include a fall in capital value, vacancies, poor tenant performance, rent increases below inflation, lack of market appeal/obsolescence/cost to rectify and changes in legislation. For other non-treasury investments such as loans and equity, risks also include – fall in market value, poor repayment performance and insolvency/costs of debt recovery.
- 6.10. The Council has adopted a very prudent approach to the financial management of its commercial assets, in ensuring that business cases are predicated on affording the related borrowing before providing a net return to assist with revenue budget setting. It has also elected to treat such investments as capital expenditure and incur an explicit annual minimum revenue provision in affording the related borrowing, whereas draft Welsh Government guidance permits flexibility to defer financing considerations to when property is sold, providing that the selling price can reasonably be anticipated to be greater than purchase price.
- 6.11. To date, commercial investments have focused primarily on property acquisition so the risks are managed by corporate landlord service assisted by external professionals where

necessary. They will manage asset maintenance and the tenant/landlord interface including collecting income. They will review cashflows and assess/forecast the value, quality and diversity of the investments in order to propose any modifications required to the portfolio to increase return and/or reduce risk.

- 6.12. In order that commercial investments remain proportionate to the size of the authority and in keeping with principles of affordability, prudence and sustainability, the approved commercial investment budget was limited to £50m.
- 6.13. In the event that a property holding is deemed to be underperforming or fails to meet the related debt repayment costs, a regular review will be undertaken to see if it is possible to:
- Retain the asset and increase net returns
  - Dispose of the asset at a net profit compared to purchase price
  - Retain the asset for future capital gains
  - Maximise return on capital in another way
- 6.14. The Authority will continue to identify any of its historical investment properties which could provide a valuable capital receipt over and above the value to the Authority of holding the asset.
- 6.15. The responsibility and accountability to manage the risks associated with any non-property related commercial investments will rest with the service that has advocated the investment case, and they will retain the responsibility to update Investment Committee periodically with performance against the business case presented, and assist in the annual report preparation to Governance & Audit Committee.
- 6.16. Decisions on commercial investments are made by the Investment Committee in line with the criteria and limits within the Asset Management Strategy.
- 6.17. Further details of the selection process for commercial investments, the limits agreed with Council and details of the identification and management of the risks associated with commercial investments are in the Asset Management Strategy, Asset Investment Policy and other supporting documents.

## 7. Other Assets

- 7.1. In addition to the Council Property Estate and the Infrastructure Assets, the Authority also owns and rents Heritage Assets, Vehicles and Plant & Equipment
- 7.2. Currently no formal review is undertaken to confirm the benefit of retaining the Heritage assets portfolio. The introduction of the capital strategy applies a more regular assessment of need against liability. This is proposed to be an increasing element of the asset management plan, and as a minimum it is proposed to adopt a formal 5 year review period.

7.3. The Vehicles and Plant, both owned and leased, are reviewed regularly by the Head of Finance in conjunction with the Transport Manager to minimise total life costs.

## 8. Capital financing & the Capital financing requirement

8.1. All capital expenditure incurred has to be physically financed. The available sources of financing include:

- **Grants/External contributions** – these should be maximised but opportunities tend to be limited and specific to particular projects
- **Capital Support Grant** – this is fixed by the Welsh Government, is finite, but is un-hypothecated and therefore at the discretion of the Council how it is used.
- **Reserve/revenue funding** – the Authority currently forecasts Earmarked and total Council fund reserves to be £10.1m and £22.4m respectively at 31<sup>st</sup> March 2021. Of the Earmarked reserves, only £625k is currently held for capital investment and therefore represents a limited source of capital financing
- **Capital receipts** - £3.8m of receipts are forecast to be generated over the MTFP window on top of the £13.5m forecast to be held at 31<sup>st</sup> March 2022. Of these, £10.1m has been allocated to finance capital expenditure over the MTFP window leaving only £7.2m forecast to be available to fund new schemes over the same period.

8.2. The planned financing of the capital expenditure is indicated in the table below:

**Table 1: Capital financing in £m**

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
External sources	14.1	3.6	2.4	2.4	2.4
Internal resources	6.0	3.6	1.9	1.8	1.7
Borrowing	9.9	22.4	8.0	5.5	5.5
<b>TOTAL</b>	<b>30.0</b>	<b>29.6</b>	<b>12.3</b>	<b>9.8</b>	<b>9.7</b>

8.3. Borrowing is often the only source of funding available once the limited external and internal resources have been exhausted. All borrowing has to be repaid and this includes both the actual debt principal plus interest costs on the debt.

8.4. In the current economic environment, with interest rates remaining low, borrowing is a cheaper source of financing than 10 years ago, but it only delays the need to finance capital expenditure which is ultimately met from the revenue budget in the form of interest and Minimum Revenue Provision.

- 8.5. The Council's cumulative outstanding amount of borrowing finance is measured by the Capital Financing Requirement (CFR). This increases with new borrowing-financed capital expenditure and reduces with MRP and capital receipts used to replace the borrowing.
- 8.6. Based on current revenue and capital budgets noted above, the Authorities CFR is expected increase in 2022/23 reflecting the increased amount of capital expenditure financed from borrowing. The Council's estimated CFR and related MRP charges over the medium term are as follows:

**Table 2: CFR and related MRP charges**

	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement (Total in £m)	192.7	232.1	232.7	230.7	228.6
Minimum Revenue Provision (£m)	6.4	6.7	7.3	7.6	7.7

- 8.7. With the pending introduction of IFRS 16 Leases, the CFR and borrowing identified as relating to leases is likely to increase, due to the change in the way that finance leases for lessees are treated. However CIPFA LASAAC is currently consulting on further deferral of the implementation of IFRS 16 Leases until 2023/24 in response to the pressures on council finance teams as a result of the COVID-19 pandemic.
- 8.8. The Council's minimum revenue provision policy should remain prudent and not subject to annual change. This policy has been reviewed within last 5 years by Members, and is a feature of the annual Treasury management strategy report received at this same meeting.

## 9. Capital disposals & receipts

- 9.1. The Council's Asset Management plan sets out the Council's vision, priorities and key actions associated with managing our assets. The aim is to ensure sustainability, and maximise the financial and social value of our assets for our communities. The ongoing challenging financial conditions mean we must have robust policies and programmes in place to ensure our estate is lean, efficient, meets the needs of service users and is fit for purpose. The strategy also recognises the importance of maximising the income we can generate from our property assets and we have started to actively seek opportunities to increase revenue generation.
- 9.2. Any assets which are deemed to be surplus to service requirements will be identified for possible sale/income generation in consultation with the Estates department. The procedures governing disposals are captured in the Council's Surplus asset disposal policy.
- 9.3. The Council anticipates the following capital receipts in the forthcoming financial years is as follows:

**Table 3: Forecast Capital receipts**

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Balance as at 1st April	9,581	13,503	11,108	10,311	8,714
Less: capital receipts used for financing	(3,582)	(2,311)	(1,294)	(1,194)	(1,094)
Less: capital receipts used to support capitalisation directive	(2,208)	(2,650)	(508)	(508)	(508)
	3,791	8,542	9,306	8,609	7,112
Capital receipts Received	2,596	0	0	0	0
Capital receipts Forecast	7,115	2,565	1,004	104	104
<b>Forecast Balance as at 31st March</b>	<b>13,503</b>	<b>11,108</b>	<b>10,311</b>	<b>8,714</b>	<b>7,217</b>

- 9.4. Further specific details of planned asset disposals are included in the annual Capital MTFP deliberated by Members, with specific sales proposals being an exempt appendix from public reporting requirements due to potential to compromise of receipt maximisation.
- 9.5. The value of Capital receipts forecast after 2022/23 drops off quite considerably which is reflective of the replacement local development plan (RDLP) not proceeding as quickly as envisaged in the original delivery agreement. This will have a substantial impact on the balance of receipts available to fund future capital investment demands. It is therefore important that reliance on capital receipts used to support capitalisation direction (to fund one-off revenue costs eligible to be met from capital resources) is seen as a short term measure only.
- 9.6. Traditionally receipts have been earmarked to finance the Authorities future schools investment. In a change from previous practice, whilst the Council has further future schools aspirations, it is not proposed to advocate a similar approach to members in respect of tranche B. Schools based assets commonly have a useful life of 50 years +, and as such traditional long term loan funding can be sourced at competitive rates with limited annual revenue volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, given the avoidance of proportionately more significant minimum revenue provision.

## 10. Setting capital budgets

**Table 4: Capital Medium Term Financial Plan**

	Indicative Budget 2022/23	Indicative Budget 2023/24	Indicative Budget 2024/25	Indicative Budget 2025/26
Asset Management Schemes	1,929,276	1,929,276	1,929,276	1,929,276
School Development Schemes	13,681,287	50,000	50,000	50,000

Infrastructure & Transport Schemes	5,792,740	6,272,740	3,627,740	3,527,740
Regeneration Schemes	330,400	602,900	730,200	730,200
County Farms Schemes	300,773	300,773	300,773	300,773
Inclusion Schemes	1,150,000	1,150,000	1,150,000	1,150,000
ICT Schemes	682,000	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	2,649,500	507,500	507,500	507,500
Other Schemes	3,070,000	1,070,000	1,070,000	1,070,000
<b>TOTAL EXPENDITURE</b>	<b>31,085,977</b>	<b>13,796,190</b>	<b>11,278,490</b>	<b>11,178,490</b>

10.1. Member responsibility for assets rests with the Cabinet member for Whole Authority Resources. The main governance and approval process for capital investment is summarised as follows:

- Council approve the overall revenue and capital budgets following recommendations from Cabinet. They also approve the borrowing limits of which the capital programme will need to remain within (the Authorised limit). These limits are a key performance indicator for treasury management and ensure that capital expenditure is limited and borrowing remains within an affordable limit.
- Any variation of the Authorised borrowing limit can only be approved by Council.
- Council approve the Treasury Management, Investment & Borrowing strategies, which are intrinsically linked to capital expenditure and the capital strategy. Further details of these are provided in section 8.
- Items of capital investment are discussed and scrutinised at the Capital and Asset Management Working Group (CAMWG), which is made up of senior officers from all service areas. Discussion also includes asset disposals, where capital investment is required, prioritisation of that investment in line with the priority matrix and the overall asset management agenda.
- Recommendations on capital investment will be made by CAMWG to the Senior Leadership Team (SLT) following review of the project appraisal for onward inclusion in the capital budget and to be considered by Cabinet and Council.
- Monitoring of capital expenditure is reported to Cabinet, and includes update on capital receipts and impact on the revenue budget of the decisions made.
- The 2022/23 and forward capital budgets include investment in schemes which attract significant match funding from external bodies which services will be responsible for bidding for. The CAMWG will play a pivotal role in ensuring that this investment is properly aligned with the overall corporate plan priorities and is robustly assessed against the agreed priority matrix included below.

10.2. The identified backlog capital budget pressures that currently sit outside of the above capital MTFP total £125m and indicates that there is a higher call for capital expenditure than the Authority considers it can affordably finance. This means that capital schemes will have to be prioritised or the capital available has to be spread more thinly than is ideal. All

stakeholders must recognise that funding capital expenditure by borrowing only defers the charge to revenue budgets to future years, but at the same time if capital maintenance works are deferred then the total life costs of supporting an asset are likely to increase. This effect is often veiled in medium term financial planning as asset lives are much longer than four years.

- 10.3. Annual investment included in the capital programme for property maintenance, highways maintenance, relevant specific capital grants and the future schools programme will assist in addressing the highest priority backlog issues, focussing on worst condition first and risk. However, estate rationalisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be utilised to offset the backlog funding required. This will not address the specific total backlog, but is a way of targeting the main issues in an affordable manner.
- 10.4. The below priority ranking matrix approved as part of the inaugural capital strategy assists the CAMWG and SLT with their considerations of future capital investment.

<b>Ref</b>	<b>Aspect</b>	<b>Indicative Rank</b>
<b>H&amp;S</b>	Health & safety works (life & limb works)	1
<b>Legal</b>	Legal & regulatory obligations	1
<b>Rev</b>	Allow a balanced revenue budget to be set, or a net deficit in revenue spending to be positively addressed	2
<b>Corp</b>	Deliver corporate plan priorities	2
<b>Third</b>	Attract significant 3 <sup>rd</sup> party or private match funding to the County	3
<b>S2S</b>	Spend to save transformational works (including flexible use of capital receipts)	3
<b>INC</b>	Spend to earn net income – rents, interest and dividends	3
<b>Sust</b>	Create sustainable income streams – business rates and council tax	3
<b>AMP</b>	Asset management plan outcomes	4
<b>INF</b>	Addresses major infrastructure investment	4

## 11. Revenue budget implications

- 11.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. These net annual charges are known as financing costs. The table below compares these financing costs to the net revenue stream i.e. the amount of income from Council Tax, business rates and general government grants. The overall proportion of financing costs remains fairly static over the MTFP window which is reflective of the total revenue stream increasing in line with expected inflationary impacts whilst the financing costs increase moderately in line further capital investment made.

**Table 5: Proportion of financing costs to net revenue stream**

<b>Proportion of Financing Costs to net revenue stream</b>	<b>2021/22 Budget</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Net Interest payable £m	3.6	3.9	4.1	4.1	4.5
MRP £m	6.4	6.7	7.3	7.6	7.7
<b>Total Financing costs £m</b>	<b>10.0</b>	<b>10.6</b>	<b>11.4</b>	<b>11.7</b>	<b>12.2</b>
Net Revenue Stream (£m)	155.1	168.9	179.3	187.6	196.3
<b>Proportion of net revenue stream %</b>	<b>6.45%</b>	<b>6.29%</b>	<b>6.38%</b>	<b>6.24%</b>	<b>6.21%</b>

- 11.2. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years afterwards. The Section 151 officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because the financing costs have been spread over no more than, the lower of 50 years and the expected life of the resultant asset, so the assets will be paid for by the Council tax payers benefitting from them over the life of the assets. The financing costs for assets funded by borrowing are included in each annual revenue budget which is balanced before approval by Council.

## 12. Treasury management

- 12.1. The Treasury management strategy (TMS) is considered alongside the Capital strategy at Council and the figures within it the link directly to the impact of the borrowing resulting from the Capital strategy and the subsequent capital investment.
- 12.2. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council limits the need to take out actual borrowing by using positive cash flows, largely from reserves, to fund capital expenditure funded by borrowing, known as internal borrowing.
- 12.3. Based on historic capital expenditure and due to decisions taken in the past, as at 31<sup>st</sup> December 2021, the Council has £169.7m borrowing at a weighted average interest rate of 2.3% and £40.0m treasury investments at a weighted average rate of 0.38%.

## 13. Borrowing strategy

- 13.1. Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through utilising internal resources such as reserves (called 'internal borrowing') rather than undertaking new borrowing i.e. we defer taking out new long term borrowing and fund capital expenditure from day to day positive cash-flows for as long as we can.
- 13.2. By using this strategy, the Council can also minimise cash holding at a time when counterparty risk remains high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing and this remains a primary driver for our current 'internally borrowed' strategy.
- 13.3. Whilst this strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.
- 13.4. The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.3%) and long-term fixed rate loans where the future cost is known but higher (currently 2.13% to 2.64%).
- 13.5. Projected levels of the Council's total debt (which comprises borrowing, PFI liabilities & finance leases) are shown below, compared with the capital financing requirement.

**Table 6: Gross Debt and the Capital Financing Requirement in £m**

Gross Debt Forecast compared to CFR £m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt (Inc. PFI, leases, right of use assets)	165.5	182.5	183.3	185.8	189.1
Capital Financing Requirement (Total)	192.7	232.1	232.7	230.7	228.6

- 13.6. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in the table above, the Council expects to comply with this in the medium term.
- 13.7. **Affordable borrowing limit:** The Council is legally obliged to approve an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year.
- 13.8. The 'Operational borrowing limits' over the medium term, have been set in line with the expected borrowing required to finance the current capital programme to 2025/26 and these

act as a key management tool. If any increase to the authorised limit is required, including to borrow for investment/income generation schemes or regeneration investment (loans) this will need to be brought to Council for approval. The 'Authorised borrowing limits', provide a buffer for (i) the ability to manage day to day cash requirements and (ii) to undertake a level of borrowing early where appropriate / affordable.

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

<b>Authorised &amp; Operational Borrowing Limits</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Authorised limit - borrowing	246.5	268.2	269.1	268.1	267.1
Operational boundary - PFI, leases & right of use assets	4.4	4.4	4.4	4.4	4.4
<b>Authorised Limit - total external debt</b>	<b>250.9</b>	<b>272.6</b>	<b>273.5</b>	<b>272.5</b>	<b>271.5</b>
Operational Boundary - borrowing	216.3	238.0	238.9	237.9	236.9
Operational Boundary - PFI, leases & right of use assets	2.9	2.9	2.9	2.9	2.9
<b>Operational Boundary - total external debt</b>	<b>219.2</b>	<b>240.9</b>	<b>241.8</b>	<b>240.8</b>	<b>239.8</b>

## 14. Investment strategy

- 14.1. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 14.2. The Councils strategy is to follow the priorities of security, liquidity and yield, in that order. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice. This reduces the risk of default by diversification and the use of dedicated and experienced fund managers and also can increase return.
- 14.3. The Council's strategy seeks to keep invested cash balances low and in doing so reducing external borrowing, which is more cost effective than chasing investment returns. The main exception to this approach is that the Council is required to demonstrate a commitment to keeping a £10m minimum investment balance to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive).

**Table 8: Treasury management investments in £m**

	<b>31.3.2022 forecast</b>	<b>31.3.2023 forecast</b>	<b>31.3.2024 forecast</b>	<b>31.3.2025 forecast</b>	<b>31.3.2026 forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Near-term	8.6	4.0	4.0	4.0	4.0
Longer-term	6.0	6.0	6.0	6.0	6.0
<b>TOTAL</b>	<b>14.6</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

14.4. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the S151 Officer or Deputy and their staff, who must act in line with the treasury management strategy currently approved by Members. The 2022/23 Strategy will be considered by Governance & Audit Committee in February 2022 and is presented alongside this report for approval by full Council. In addition mid-year and treasury outturn reports on treasury management activity are presented to Audit Committee which is responsible for scrutinising treasury management decisions.

## 15. Risk

15.1. A significant aspect of the Capital strategy is involved with controlling & balancing various risks i.e.

- The credit risk of treasury investments – this is controlled using credit worthy institutions, diversification, limiting maturity, maximising the use of internal borrowing.
- The refinancing risk of treasury investments – controlling the profile of debt maturities.
- The interest rate risk of treasury activities. The Authority has opted to abide by an upper limit for the amount of net variable rate borrowing, but intends to adopt a simpler, more transparent indicator of variable rate borrowing as a proportion of total.
- The risks of providing loans and guarantees for service purposes need to be acknowledged and managed from the outset.
- The risks to the total net return on assets acquired for commercial income are expected to be higher than for assets acquired for service purposes and need to be fully assessed and managed from the outset.

15.2. In undertaking business loans to 3<sup>rd</sup> parties, commercial investment acquisition and proposing alternate business models there is an inherent risk that members and officers not having sufficient knowledge and skills of the sector concerned such that the risks and benefits may not be properly understood and managed. This is addressed by appropriate assessment, training and external advice.

## 16. Knowledge & skills

- 16.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, both the Section 151 officer and Head of Commercial and Integrated Landlord Services are professionally qualified with longstanding senior practical experience. For both accountants and valuers, the Council offers particular training roles and also from a staff development perspective encourages and support wider staff to undertake study towards relevant professional qualifications and continuing professional development.
- 16.2. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors, and Alder King as property investment advisors. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite. Arlingclose's assistance has been sourced through competitive tendering, and their fees paid independent of their advice.

## 1. Economic background and forecasts for interest rates

- 1.1. **Economic background:** The ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.
- 1.2. At its meeting ending on 2nd February 2022 the MPC voted by a majority of 5-4 to increase Bank Rate by 0.25 percentage points, to 0.5%. The MPC voted unanimously for the Bank of England to begin to reduce the stock of UK government bond purchases by ceasing to reinvest maturing assets. The Committee also voted unanimously for the Bank of England to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than the end of 2023.
- 1.3. The lower severity of Omicron means that the economic impact should be limited. The UK economy had a weak Q4 2021 due to the virus, but growth is likely to bounce back in Q1 2022. However, higher inflation will dampen demand. In the UK, households face a difficult outlook. Fiscal and monetary headwinds alongside a sharp reduction in real income growth will weigh on disposable income, ultimately leading to slower growth.
- 1.4. UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% y/y from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.
- 1.5. In October 2021, the headline 3-month average annual growth rate for wages were 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.
- 1.6. Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% q/q in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% q/q rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.
- 1.7. GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.9% year-on-year in November, the fifth successive month of inflation. Core CPI inflation was 2.6% y/y in November, the fourth month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central

Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

- 1.8. The US economy expanded at an annualised rate of 2.1% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its December 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme earlier than previously stated and signalled they are in favour of tightening interest rates at a faster pace in 2022, with three 0.25% movements now expected.
- 1.9. **Credit outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.
- 1.10. The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.
- 1.11. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.
- 1.12. **Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.
- 1.13. Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.
- 1.14. Bond yields have risen sharply to accommodate tighter monetary policy, including the run off of central bank bond portfolios. The interplay between slowing growth and falling inflation, and tightening policy, will likely keep yields relatively flat.

## 2. Existing Treasury position

2.1. Borrowing and investments as at 31 December 2021 and at the same date in the prior year are shown in the following table.

	31st Dec 2020 Actual Portfolio £m	Average Rate %	31st Dec 2021 Actual Portfolio £m	Average Rate %
<b>External borrowing:</b>				
Public Works Loan Board	74.5	3.53	89.4	3.03
LOBO loans from banks	13.6	4.80	13.6	4.8
Welsh Government Loans	5.3	0.00	4.8	0.0
Local authority & other ST loans	77.9	0.15	61.9	0.1
<b>Total external borrowing</b>	<b>171.3</b>	<b>1.98</b>	<b>169.7</b>	<b>2.30</b>
<b>Treasury investments:</b>				
Banks & building societies (unsecured)	4.0	0.00	2.0	0.01
Government (incl. local authorities)	10.2	0.00	6.5	0.00
Money Market Funds	5.5	0.01	28.0	0.01
Strategic pooled funds	3.0	4.00	3.5	4.28
<b>Total treasury investments</b>	<b>22.7</b>	<b>0.53</b>	<b>40.0</b>	<b>0.38</b>
<b>Net debt</b>	<b>148.6</b>		<b>132.10</b>	

2.2. Borrowing is predominantly made up of fixed interest rate loans payable on maturity. Investments fluctuate daily and are represented by fixed term deposits, notice deposit accounts and money market funds. These balances arise due to the timing of cash flows and working capital as well as the existence of reserves, provisions and balances required for future use.

## 3. Borrowing

### Borrowing requirement

3.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

Table 1: Balance sheet summary and forecast

	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
General Fund CFR	189.2	192.7	232.1	232.7	230.7	228.6
Less: Other debt liabilities *	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)	(2.4)
<b>Loans CFR</b>	<b>186.8</b>	<b>190.3</b>	<b>229.7</b>	<b>230.3</b>	<b>228.3</b>	<b>226.1</b>
Less: External borrowing **	(182.8)	(165.5)	(182.5)	(183.3)	(185.8)	(189.1)
<b>Internal borrowing</b>	<b>4.1</b>	<b>24.8</b>	<b>47.2</b>	<b>47.0</b>	<b>42.5</b>	<b>37.0</b>
Less: Usable reserves	(28.5)	(36.1)	(33.7)	(33.5)	(32.4)	(31.3)
[Less/Plus]: Working capital	(14.6)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
<b>(Investments) or External borrowing requirement</b>	<b>(39.0)</b>	<b>(21.3)</b>	<b>3.5</b>	<b>3.5</b>	<b>0.1</b>	<b>(4.3)</b>

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

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

3.2. The Authority has an increasing CFR in the short term due to capital programme investment, alongside a comparatively low level of investments and will therefore be required to maintain an appropriate level of borrowing over the forecast period.

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

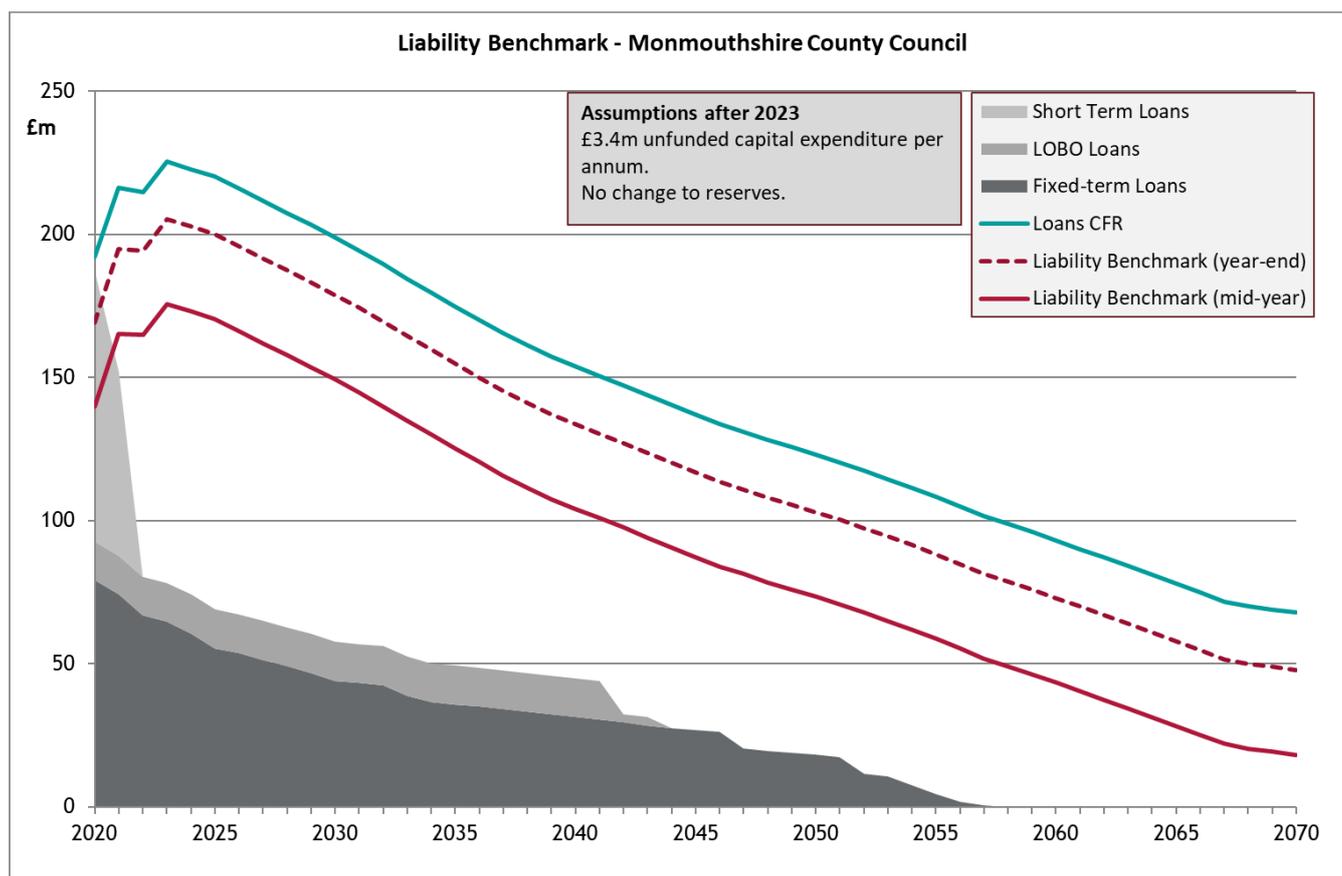
3.4. **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum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

Table 2: Liability benchmark

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m
Loans CFR	186.8	190.3	229.7	230.3	228.3	226.1
Less: Usable reserves	-28.5	-36.1	-33.7	-33.5	-32.4	-31.3
Less: Working capital	-14.6	-10.0	-10.0	-10.0	-10.0	-10.0
Plus: Preferred investments	0.0	0.0	0.0	0.0	0.0	0.0
<b>Liability benchmark</b>	<b>143.7</b>	<b>144.2</b>	<b>186.0</b>	<b>186.8</b>	<b>185.9</b>	<b>184.8</b>

3.5. Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark below assumes capital expenditure funded by borrowing is maintained as the 2022/23 capital MTFP and thereafter £3.4m per year; that minimum revenue provision on

new capital expenditure is based on asset life as in the MTFP or 25 years and; income, expenditure and reserves held are not increasing or decreasing beyond the MTFP window. This is shown in the chart below:



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

3.7. The Council does not intend to borrow in advance of need and will not do so just to gain financially from short term investment of that borrowing. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates as part of risk mitigation. This will be limited to no more than the expected increase in the Council’s Capital Financing Requirement over its medium term financial plan.

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

## Borrowing Strategy

- 3.9. Given the significant cuts to public expenditure over recent years and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. A roughly equal balance of long and short term debt is, at the time of writing, taken as the right balance to maintain sufficient long term stability.
- 3.10. The Bank of England Base Rate rose from 0.10% to 0.25% on 16<sup>th</sup> of December 2021, and to 0.5% on 2<sup>nd</sup> February 2022. Although this is still very low in an historical context another rise is expected in March 2022 and both short term local authority borrowing rates and PWLB rates have already risen.
- 3.11. At the start of December 2021, and with interest rate rises being implied in the market, the authority acted to lock in a further £20m of long term borrowing as outlined below:

Start Date	Duration (Years)	Amount	Rate	Weighted Rate
07/12/2021	45	5,000,000.00	1.43%	0.36%
07/12/2021	50	5,000,000.00	1.37%	0.34%
15/12/2021	46	2,500,000.00	1.31%	0.16%
15/12/2021	47	2,500,000.00	1.30%	0.16%
15/12/2021	48	2,500,000.00	1.29%	0.16%
15/12/2021	49	2,500,000.00	1.27%	0.16%
<b>Total</b>		20,000,000.00		<b>1.35%</b>

- 3.12. By doing so, the Authority was able to give some longer term certainty over borrowing costs and reduce overall treasury risk, despite some shorter term increases in overall interest cost. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 3.13. The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in

order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

- 3.14. Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 3.15. In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.
- 3.16. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - any institution approved for investments (see below)
  - any other bank or building society authorised to operate in the UK
  - any other UK public sector body
  - UK public and private sector pension funds (except the Greater Gwent Pension Fund)
  - capital market bond investors
  - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
  - CSC Foundry Ltd

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

- leasing
  - hire purchase
  - Private Finance Initiative
  - sale and leaseback
- 3.17. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.
- 3.18. **LOBOs:** The Authority holds £13.6m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOs have options during 2022/23, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

- 3.19. **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
- 3.20. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

### ***Borrowing prudential indicators***

#### **3.21. Gross debt compared to capital financing requirement**

<b>Gross Debt Forecast compared to CFR £m</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Debt (Inc. PFI, leases, right of use assets)	165.5	182.5	183.3	185.8	189.1
Capital Financing Requirement (Total)	192.7	232.1	232.7	230.7	228.6

- 3.22. Gross debt is forecast to remain below the capital financing requirement over the term as part of the Council's overall borrowing strategy of utilising internal balances to fund part of the capital financing requirement. The Council will constantly monitor this position during the period, especially in light of a rising interest rate environment.

#### **3.23. Authorised Limit**

- 3.24. The Council must set and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and at least the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined indicators when setting this limit and be content that the impact upon future Council Taxpayers and Council tenants is acceptable.
- 3.25. Based on the capital programme proposed, it is recommended that the Council approve the following authorised limits and operational boundaries. The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.
- 3.26. The operational boundary remains an internal management tool to monitor borrowing levels and exceeding the boundary would not represent a compliance failure.

<b><u>Authorised &amp; Operational Borrowing Limits</u></b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
Authorised limit - borrowing	246.5	268.2	269.1	268.1	267.1
Operational boundary - PFI, leases & right of use assets	4.4	4.4	4.4	4.4	4.4

<b>Authorised Limit - total external debt</b>	<b>250.9</b>	<b>272.6</b>	<b>273.5</b>	<b>272.5</b>	<b>271.5</b>
Operational Boundary - borrowing	216.3	238.0	238.9	237.9	236.9
Operational Boundary - PFI, leases & right of use assets	2.9	2.9	2.9	2.9	2.9
<b>Operational Boundary - total external debt</b>	<b>219.2</b>	<b>240.9</b>	<b>241.8</b>	<b>240.8</b>	<b>239.8</b>

### 3.27. Maturity structure of borrowing

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

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

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

### 3.30. Proportion of financing costs to net revenue stream

3.31. The table below compares the financing costs to the net revenue stream i.e. the amount of income from Council Tax, business rates and general government grants.

Proportion of Financing Costs to net revenue stream	2021/22 Budget	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Net Interest payable £m	3.6	3.9	4.1	4.1	4.5
MRP £m	6.4	6.7	7.3	7.6	7.7
<b>Total Financing costs £m</b>	<b>10.0</b>	<b>10.6</b>	<b>11.4</b>	<b>11.7</b>	<b>12.2</b>
Net Revenue Stream (£m)	155.1	168.9	179.3	187.6	196.3
<b>Proportion of net revenue stream %</b>	<b>6.45%</b>	<b>6.29%</b>	<b>6.38%</b>	<b>6.24%</b>	<b>6.21%</b>

### 3.32. MRP Policy Statement 2022/23

- 3.33. Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to Welsh Government's Guidance on Minimum Revenue Provision (the WG Guidance) most recently issued in 2018.
- 3.34. The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 3.35. The WG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.
- 3.36. MRP options recommended in the Guidance include:
- Option 1: Regulatory Method
  - Option 2: CFR Method
  - Option 3: Asset Life Method – based on equal instalments or using an annuity method
  - Option 4: Depreciation Method

*Note: This does not preclude other prudent methods.*

- 3.37. The following statement only incorporates options recommended in the Guidance.

**MRP in 2022/23:**

- 3.38. **MRP on Supported Borrowing funded Expenditure:** The Authority's policy is to apply Option 3, the Asset life method in respect of supported capital expenditure funded from borrowing. The charge will be based on 2% per annum, equivalent to equal instalments over a 50 year life.
- 3.39. **MRP on Unsupported Borrowing funded Expenditure:** The Authority's policy is to apply Option 3, the Asset life method in respect of unsupported capital expenditure funded from borrowing. The MRP is calculated on an annuity basis within the asset life method, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money. The first MRP charge will be in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. These lives may be reduced if it is prudent to do so because the resultant income stream or useful life to the Authority is shorter.

- 3.40. **MRP in respect of leases and PFI:** For assets acquired by leases or Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- 3.41. Where former operating leases are potentially brought onto the balance sheet on 1st April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- 3.42. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council may make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.
- 3.43. Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24. The 2022/23 budget proposals reflect these outlined positions.

## 4. Treasury investments

### Investment strategy

- 4.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £10.5m and £53.2m million, and similar levels are expected to be maintained in the forthcoming year.
- 4.2. Loans to organisations providing local public services and purchases of investment property are not considered to be treasury investments, and these are therefore covered separately in **Appendix 4**.
- 4.3. **Objectives:** Both the CIPFA Code and the WG Guidance require the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

- 4.4. **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 4.5. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority will look to increase its diversification into higher yielding asset classes, such as pooled funds, during 2022/23. The Authority continues to hold £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive) and therefore consideration will be given to investing this balance with a more medium to long term outlook. At the time of writing £4m was held in Pooled Funds investments with plans to invest a further £2m by the end of the 2021/22 financial year.
- 4.6. **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority’s “business model” for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 4.7. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

*Table 3: Treasury investment counterparties and limits*

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	Unlimited
Local authorities & other government entities	5 years	£4m	Unlimited
Secured investments *	5 years	£4m	75%
Banks (unsecured) *	13 months	£2m (£3m total for the Councils operational bank)	50%
Building societies (unsecured) *	13 months	£2m	50%
Registered providers (e.g. Housing Associations (unsecured) *)	5 years	£2m	50%
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other Investments	13 months	£2m	£5m

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

This table must be read in conjunction with the notes below

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

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

**Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty

credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

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

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

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

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

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

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

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

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

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and

- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 4.9. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 4.10. **Other information on the security of investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 4.11. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.
- 4.12. **Investment limits:** The Authority’s revenue reserves available to cover investment losses are forecast to be £20.0m on 31<sup>st</sup> March 2022. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 4.13. Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

*Table 4: Additional investment limits*

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

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

### Investment prudential indicators

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

4.16. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

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

## 5. Related matters

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

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

5.3. **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Section 151 officer or deputy believes this to be the most appropriate status.

5.4. **Government Guidance:** Further matters required by the WG Guidance are included in Appendix 4.

### **Financial Implications**

5.5. The budget for investment income in 2022/23 is £134k, based on an average investment portfolio of £10m. The majority of returns are expected to come from pooled fund investments with returns from Government or secured/unsecured investments expected to be negligible. The budget for debt interest paid in 2022/23 is £3.95m, based on an average debt portfolio of £169.7m at an average interest rate of 2.30%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

### **Other Options Considered**

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

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

## **6. Additional requirements of Welsh Government Investment Guidance**

- 6.1. The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Authority's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.
- 6.2. **Contribution:** The Authority's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:
- treasury management investments support effective treasury management activities,
  - loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Authority, and
  - investment property provides a net financial surplus that is reinvested into local public services and supports economic regeneration.
- 6.3. **Climate change:** The Authority's investment decisions consider long-term climate risks to support a low carbon economy in line with its declaration of a Climate Emergency in 2019. Transition towards Net Zero – We need to increase the pace with which we are decarbonising our own operations while developing guidance and support to help individuals and businesses reduce their own emissions. We updated our decarbonisation action plan in November 2021 and will be working on a more ambitious programme which will be published in 2022.
- 6.4. **Specified investments:** The WG Guidance defines specified investments as those:
- denominated in pound sterling,
  - due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
  - not defined as capital expenditure by legislation, and
  - invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".
- 6.5. The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.
- 6.6. **Loans:** The WG Guidance defines a loan as a written or oral agreement where the authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority.

- 6.7. A local authority may choose to make loans & other investments in local enterprises, local charities, wholly owned companies and joint ventures where relevant to Council functions and to promote local economic growth.
- 6.8. The Authority uses an allowed 'expected credit loss' model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Authority has appropriate credit control arrangements to recover overdue repayments in place.
- 6.9. **Non-specified investments:** Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies.
- 6.10. **Non-financial investments:** This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset's purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices. The Authority's current Investment Property portfolio is divided into long held Investment Properties such as County Farms and the three more recently acquired commercial Investment Properties which support economic regeneration.
- 6.11. The total of the Authorities usable reserves at 31<sup>st</sup> March 2021 was £32.8m. This represents 107% of the current value of the Authorities Commercial Investment Properties acquired to date. Due to the due diligence process undertaken before Commercial Investments are entered into and the forecast income over the lifetime of the assets, these investments are considered to be prudent by the Authority.
- 6.12. **Liquidity:** The Authority's liquidity management has been detailed in the main Treasury report with regard to treasury activities. Before supporting local entities or placing a commercial investment the impact on liquidity is fully addressed, most commonly by taking out loans of an appropriate maturity to ensure funds are available for the life of the activity. £40,000 of seed funding was placed with SRS Ltd in 2011/12 with the intention of it remaining there for the long term to support that entity.
- 6.13. Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will follow its Investment strategy for Commercial assets which ensures that any borrowed capital will be repaid with annual income earned from the investment or that an exit strategy identified during the due diligence will be followed.
- 6.14. **Yield (net profit):** The Authority utilises its profit generating investment activity to achieve a balanced revenue budget. Table 1 below details the proportion of treasury & property rental income to the net revenue budget and therefore its contribution to meeting the costs of

delivery of the Authorities primary functions. Any Authority wide shortfall, including shortfalls resulting from lower than budgeted returns from Investments, will be addressed as part of that process to bring the Authority's outturn position back to a balanced position.

Table 5: Proportionality of Investments

	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget
Net direct cost of services	171.9	185.8	195.7	203.8	212.2
Investment income	3.3	3.3	3.3	3.3	3.3
Proportion	1.9%	1.8%	1.7%	1.6%	1.6%

- 6.15. **Investment advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers with the current contract running until 31<sup>st</sup> March 2022, and has used Alder King as advisers for the last two Commercial investment Property Acquisitions. The quality of these services is controlled by the Finance and Estates teams and also the Investment Committee appointed to oversee the Commercial Investments.
- 6.16. **Borrowing in advance of need:** Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the provisions in this guidance has entered into its commercial investments utilising Local Authority investment powers, which allow for the prudent management of its financial affairs where carried out reasonably and in accordance with an authority's primary function to serve the public. Returns from commercial investments help to ensure there are sufficient funds to continue to provide public services and promote economic regeneration.
- 6.17. **Capacity and skills:** The Section 151 officer is responsible for ensuring that those elected members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to:
- take informed decisions as to whether to enter into a specific investment;
  - assess individual investments in the context of the strategic objectives and risk profile of the local authority; and
  - understand how the quantum of these decisions have changed the overall risk exposure of the local authority.
- 6.18. The Governance & Audit Committee has a delegated responsibility to scrutinise the treasury management activity of the Authority, which ensures that elected members have the necessary opportunity to assess whether officers are operating within the boundaries of both the prudential framework and the internal boundaries approved within the treasury strategy. The Governance & Audit Committee is provided with training by the Authority's Treasury Management advisers periodically and have been presented with a questionnaire to assess further training requirements

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

## 7. Advisors Economic & Interest Rate Forecast – December 2021

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.
- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.
- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.
- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.
- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.
- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

### Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.
- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.
- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.
- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Current	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>3-month money market rate</b>													
Upside risk	0.00	0.05	0.20	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.50	0.85	1.20	1.25	1.15	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.35	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5yr gilt yield</b>													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	1.22	1.20	1.20	1.20	1.20	1.20	1.20	1.15	1.15	1.15	1.15	1.15	1.15
Downside risk	0.00	-0.20	-0.25	-0.25	-0.30	-0.35	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>10yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.55	0.60	0.65	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Arlingclose Central Case	1.37	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35
Downside risk	0.00	-0.20	-0.30	-0.35	-0.40	-0.45	-0.50	-0.55	-0.55	-0.55	-0.60	-0.60	-0.60
<b>20yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Arlingclose Central Case	1.54	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55	1.55
Downside risk	0.00	-0.30	-0.35	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>50yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Arlingclose Central Case	1.22	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	0.00	-0.30	-0.35	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

## 8. Glossary of treasury terms

<b>Authorised Limit</b>	<p>The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.</p> <p>(see also <i>Operational Boundary</i>, below)</p>
-------------------------	--

<b>Balances and Reserves</b>	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
<b>Bail-in</b>	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
<b>Bank Rate</b>	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
<b>Bond</b>	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
<b>Capital Expenditure</b>	Expenditure on the acquisition, creation or enhancement of capital assets
<b>Capital Financing Requirement (CFR)</b>	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
<b>Capital growth</b>	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
<b>Capital receipts</b>	Money obtained on the sale of a capital asset.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy
<b>Constant Net Asset Value (CNAV)</b>	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
<b>Collective Investment Schemes</b>	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
<b>Corporate Bonds</b>	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

<b>Corporate Bond Funds</b>	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
<b>CPI</b> <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
<b>Credit Default Swap (CDS)</b>	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
<b>Credit Rating</b>	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
<b>Cost of carry</b>	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
<b>Credit default swaps</b>	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
<b>Diversification / diversified exposure</b>	The spreading of investments among different types of assets or between markets in order to reduce risk.
<b>Derivatives</b>	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
<b>ECB</b>	European Central Bank
<b>Federal Reserve</b>	The US central bank. (Often referred to as "the Fed")
<b>Floating Rate Notes</b>	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
<b>GDP</b>	Gross domestic product - also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
<b>General Fund</b>	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
<b>Gilts (UK Govt)</b>	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

<b>Housing Revenue Account (HRA)</b>	A ring-fenced account of all housing income and expenditure, required by statute
<b>IFRS</b>	International Financial Reporting Standards
<b>Income Distribution</b>	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'
<b>Investments</b> - <b>Secured</b> - <b>unsecured</b>	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default  Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
<b>Liability Benchmark</b>	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
<b>LOBOs</b>	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
<b>LVNAV (Low Volatility Net Asset Value)</b>	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
<b>Maturity</b>	The date when an investment or borrowing is repaid.
<b>Maturity profile</b>	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
<b>MiFID II</b>	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
<b>Money Market Funds (MMF)</b>	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
<b>Minimum Revenue Provision</b>	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets

<b>Non-Specified Investments</b>	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
<b>Net Asset Value (NAV)</b>	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
<b>Operational Boundary</b>	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
<b>Permitted Investments</b>	Term used by Scottish Authorities as those the Authority has formally approved for use.
<b>Pooled funds</b>	See Collective Investment Schemes (above)
<b>Premiums and Discounts</b>	<p>In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest.</p> <p>PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p>
<b>Private Finance Initiative (PFI)</b>	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
<b>Prudential Code</b>	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
<b>Prudential Indicators</b>	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.

<b>PWLB</b>	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
<b>Quantitative Easing</b>	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It “does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions - that could be insurance companies, pension funds, banks or non-financial firms - and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”. Source: Bank of England
<b>Registered Provider of Social Housing</b>	Formerly known as Housing Association
<b>Revenue Expenditure</b>	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
<b>RPI</b>	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
<b>SORP</b>	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
<b>Specified Investments</b>	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
<b>Supported Borrowing</b>	Borrowing for which the costs are supported by the government or third party.
<b>Supranational Bonds</b>	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
<b>Treasury Management Code</b>	CIPFA’s Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in autumn 2011.
<b>Temporary Borrowing</b>	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
<b>Term Deposits</b>	Deposits of cash with terms attached relating to maturity and rate of return (interest)

<b>Unsupported Borrowing</b>	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
<b>Usable Reserves</b>	Resources available to finance future revenue and capital expenditure
<b>Variable Net Asset Value (VNAV)</b>	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
<b>Working Capital</b>	Timing differences between income/expenditure and receipts/payments
<b>Yield</b>	The measure of the return on an investment instrument

## Budgeted useable reserve balances

Financial Year ending	2022	2023	2024	2025	2026
	£000	£000	£000	£000	£000
<b><u>Council Fund</u></b>					
Council Fund (Authority)	(8,907)	(8,907)	(8,907)	(8,907)	(8,907)
School Balances	(3,418)	(3,418)	(3,418)	(3,418)	(3,418)
<b>Sub Total Council Fund</b>	<b>(12,325)</b>	<b>(12,325)</b>	<b>(12,325)</b>	<b>(12,325)</b>	<b>(12,325)</b>
<b><u>Earmarked Reserves</u></b>					
Invest to Redesign Reserve	(1,343)	(1,443)	(1,443)	(1,443)	(1,443)
IT Transformation Reserve	(589)	(486)	(383)	(280)	(177)
Insurances & Risk Management Reserve	(935)	(935)	(935)	(935)	(935)
Capital Receipt Generation Reserve	(365)	(314)	(314)	(314)	(314)
Treasury Equalisation Reserve	(590)	(590)	(590)	(590)	(590)
Redundancy and Pensions Reserve	(769)	(681)	(593)	(505)	(417)
Capital Investment Reserve	(625)	(625)	(625)	(625)	(625)
Priority Investment Reserve	(1,700)	(1,500)	(1,500)	(1,500)	(1,500)
Service Specific Reserves	(3,194)	(2,627)	(2,690)	(2,753)	(2,816)
<b>Sub Total Earmarked Reserves</b>	<b>(10,110)</b>	<b>(9,201)</b>	<b>(9,073)</b>	<b>(8,945)</b>	<b>(8,817)</b>
<b>Total Useable Revenue Reserves</b>	<b>(22,435)</b>	<b>(21,526)</b>	<b>(21,398)</b>	<b>(21,270)</b>	<b>(21,142)</b>

This page is intentionally left blank

<b>SUBJECT:</b>	<b>WHOLE AUTHORITY CUSTOMER FEEDBACK</b>
<b>MEETING:</b>	<b>Audit Committee</b>
<b>DATE:</b>	<b>28<sup>th</sup> February 2022</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>All Wards</b>

## 1. PURPOSE:

To provide Governance and Audit committee with information on the number and types of complaints, comments and compliments received and dealt with from 1 April 2020 until 31 March 2021.

## 2. RECOMMENDATIONS:

That members use the report to seek assurance about the effectiveness of the authority's processes for dealing with complaints and compliments.

## 3. KEY ISSUES:

- 3.1 Our Whole Authority Complaints and Compliments policy and procedure follows the Model that the Public Services Ombudsman for Wales asked each local authority to adopt in 2011.
- 3.2 The whole authority procedure has two stages; the informal resolution stage and the formal investigation stage. The informal resolution stage aims to resolve the complaint locally wherever possible by means of discussion and problem solving. If it is not possible to resolve the concern, the matter is escalated to the formal investigation stage.
- 3.3 Where initial discussions have not achieved a resolution, complainants have the right to make a formal complaint. Investigations are undertaken and the complainant receives a full response detailing findings, conclusions and any recommendations made. This is the end of the internal process.
- 3.4 Complainants can contact the Public Services Ombudsman if they still remain dissatisfied. The Ombudsman provides an external independent service to consider complaints about all local authority services. The Ombudsman is concerned with maladministration causing injustice and will normally require complainants to have used their local council's procedures before accepting a complaint for investigation. Cabinet received the Ombudsman's annual report for 2020-21 in November which showed that the number of

complaints received about Monmouthshire was 0.21 per 1000 residents, below the average for Welsh local authorities of 0.25.

- 3.5 This report also covers comments. This is feedback from members of the public about service quality which does not require formal resolution and therefore isn't counted as a stage one complaint but still requires a significant commitment of staff time and generates useful learning. The number of comments increased to 379 in 2020-21, more than double the figure for the previous year.
- 3.6 The service areas receiving the largest number of complaints are waste and street services; development management and planning policy and highways. Further details are shown in the appendix to this report along with a representative selection of comments and complements.
- 3.7 Not only is it important to deal with complaints effectively, investigating and putting things right for the complainant where necessary, it is also vital to learn from them to minimise the changes of the same problem occurring twice. It remains of utmost importance that services use the findings from complaints investigations and customer feedback, alongside data and other evidence, to prioritise improvements.
- 3.8 Work is presently underway to improve processes in areas where officers have identified the highest volume of service requests relating to services, one example being reports of missed bins. It involves a cross section of staff who will then test potential improvements before rolling them out to the whole county. This work is not about improving the complaints process itself but does give an indication of some of things being done to improve customer satisfaction.
- 3.9 The authority's customer standards have recently been reviewed and will be re-launched. This will be accompanied by a new training programme which will initially be delivered to staff in customer-facing roles before being made available more widely within the authority.
- 3.10 This report does not cover social services complaints which are handled using a separate process which is reported to Children and Young People and Adults Select Committees.

#### **4. OPTIONS APPRAISAL:**

- 4.1 There are no alternative options associated with the recommendations in this report.

#### **5. EVALUATION CRITERIA:**

- 5.1 The effectiveness of a complaints process is not always easy to assess. A low number of complaints may mean that an organisation has made it too difficult to complain or that customers see little point in doing so. A very high number of complaints could be a sign of real problems. For this reason, it is important to look at trends over time rather than any one year in isolation. One of the key metrics which does give a good indication of

effectiveness is the number of complaints that cannot be resolved by the authority and which require determination by the Public Service Ombudsman for Wales.

- 5.2 The related issue of service quality sits alongside this and is inter-linked since, if we are learning from complaints, our systems and processes should improve and we should receive better feedback and see less issues being logged. Again, this needs to be balanced against improvements in technology which have made it easier to report issues via app and chatbot as well as the traditional method of phone and e-mail.

**6. REASONS:**

To ensure that Members are aware of the types of complaints, comments and compliments received and dealt with.

**7. RESOURCE IMPLICATIONS:**

There are no extra resource implications associated with the recommendations of the report. The management of the complaints process is done within existing budgets. Where officers from other departments are used to conduct investigations it will take them away from their regular roles but there is not a direct salary cost.

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

No specific implications have been identified in respect of this proposal.

**9. CONSULTEES:**

Strategic Leadership Team  
Heads of Service

**10. AUTHOR:**

Annette Evans, Customer Relations Manager

**11. CONTACT DETAILS**

Tel: 01633 644647

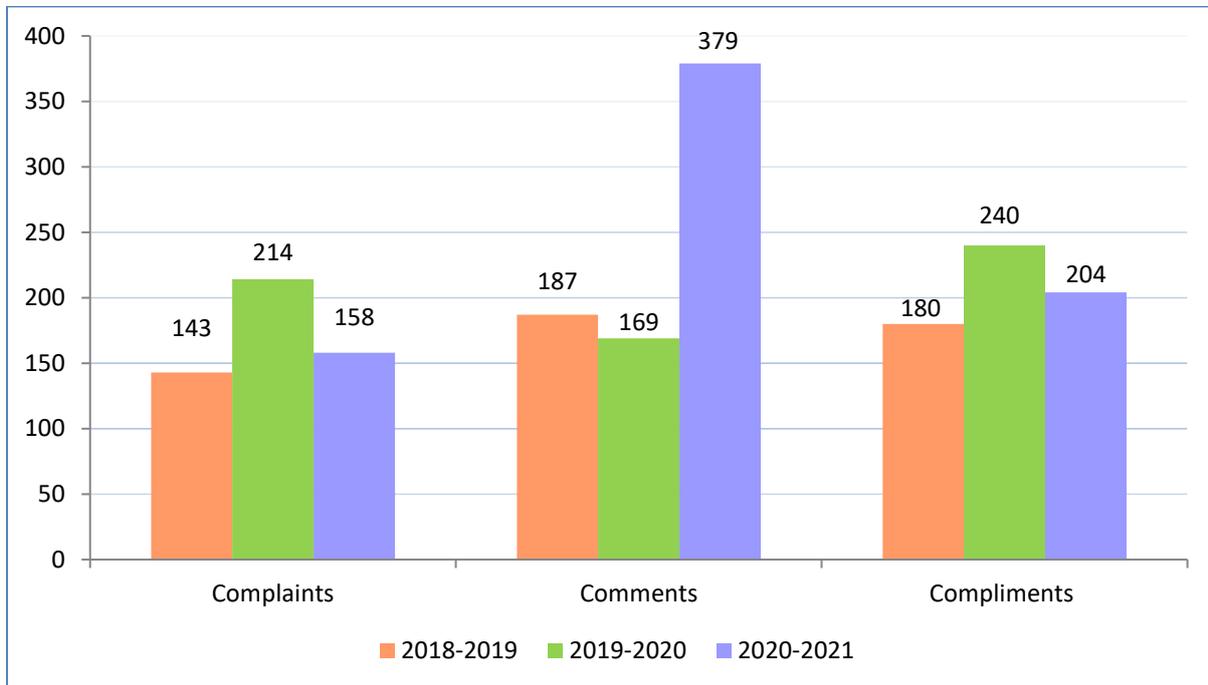
Email: [annetteevans@monmouthshire.gov.uk](mailto:annetteevans@monmouthshire.gov.uk)

This page is intentionally left blank



## Whole Authority Customer Feedback

April 2020 – March 2021



### Complaints

- 158 Complaints received

Q1	Q2	Q3	Q4	YTD
23	43	38	54	158

### Stage 1 - Informal Resolution

- 151 Complaints started

### Stage 2 – Formal Investigation

- 17 Formal complaints received
  - 10 escalated – 4 of which were dealt with at stage 1 in 2019 - 2020
  - 7 new ones.

### Public Services Ombudsman for Wales

Of the above informal complaints, 2 complainants contacted the PSOW, whose decision was not to investigate.

Of the above formal complaints received, 1 complainant went directly to the PSOW, who advised that they were not investigating.

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

1 complainant progressed their complaint to the PSOW after formal investigation and we agreed with an early resolution.

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

### **Waste & Street Services**

- Repeated missed bin and food waste collections; irregularity of collections, non-delivery of garden waste bags, non-collection of garden waste
- Staff conduct

### **Development Management & Planning Policy**

- Issues concerning planning applications and lack of consultation in relation to planning applications
- Issues regarding the planning process
- Length of time taken to resolve issues
- Issues regarding communication with the department
- Enforcement issues

### **Highways**

- Lack of responses to communications
- Lack of consultation or discussions with residents concerning reopening roads during Coronavirus pandemic
- Problem with road drainage
- Staff conduct
- Works started that have not been completed
- Condition of lanes / roads

### **Others**

- Homelessness issues
- Issues regarding access to education

**Stage 2 Formal Investigations concerned matters relating to:**

- The planning application process, handling and recommendation for approval of a planning application.

There were 17 elements to the complaint and none were upheld.

- Issues relating to planning applications contradicting the Local Development Plan.

There were 15 elements to the complaint and none were upheld.

- That the information presented to the Planning Committee did not comply fully with all the necessary requirements of the LDP, Planning Policy Wales, Town & Country Planning Act, Air Quality Standards Regulations etc.

There were 6 elements to the complaint and none were upheld.

- The complainant's opinion that the Planning Committee were not given full, fair and unbiased information to consider Refusal or Approval with suitable and sufficient Conditions attached to allow the development to be delayed until all Conditions were discharged prior to any development starting.

There were 15 elements to the complaint and none were upheld.

- Length of time taken to progress with all applications made regarding unauthorised building works.

There were 7 elements to the complaint and none were upheld.

- Lack of clarity and information in the 'minor amendments' planning application did not allow the case officer to make an informed decision. No enforcement taken to ensure that the building complies with the original planning approval.

There were 5 elements to the complaint and two of them were partially upheld.

- The process and procedures of planning and building control for a new residential dwelling. Residents concerned about potential damage to their property and safety issues.

There were 19 elements to the complaint and none were upheld.

- MCC had erred in naming the complainant's private driveway and failed in not rectifying the mistake.

There were 15 elements to the complaint, one was partially upheld and the rest were not upheld.

- In relation to a planning application and the development of land adjacent to the complainant's property and that they were not consulted on changes to the development.

There were 5 elements to the complaint and none were upheld.

- In relation to the LA's lack of support during her son's unauthorised school absences and issues with home tuition.

There were 3 elements to the complaint and none were upheld.

- In relation to the initial adoption of a site as part of Monmouthshire County Council's Local Development Plan. The complainants felt that there were flaws in the process followed.

There were 4 complainants who made a complaint about this issue. There were 3 elements to the complaint and none were upheld.

- **Note:** Social Services complaints are dealt with separately under the Social Services complaints procedure. **38** complaints were received, **94** comments and **167** compliments were made about the service.

**Distribution YTD**

	Informal received									Formal received				
	Total	Access to Service	Communication	Data Protection	Quality of Service	Quality of Works	Result of Process	Service not provided	Staff Conduct	Total	Access to Service	Quality of Service	Result of Process	Staff Conduct
<b>Overall Total</b>	<b>151</b>	<b>1</b>	<b>15</b>	<b>1</b>	<b>91</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>37</b>	<b>17</b>	<b>1</b>	<b>9</b>	<b>5</b>	<b>2</b>
People Services	1								1					
Digital Programme Office	1		1											
Revenues, Systems & Exchequer	1				1									
Resources not allocated										1				1
<b>Total Resources</b>	<b>3</b>		<b>1</b>		<b>1</b>				<b>1</b>	<b>1</b>				<b>1</b>
Development Management & Planning Policy	18		3		11		3			13		8	5	
Highways Operations and SWTRA	6		1		3				2					
Highways and Flood Management	15		8		4		1		2	1		1		
Housing and Homelessness	3				2	1								
Passenger Transport Unit	1		1											
Recycling and Waste (Inc Grounds)	89		1		66				22					
Enterprise not allocated	2				1		1							
<b>Total Enterprise</b>	<b>133</b>		<b>14</b>		<b>87</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>26</b>	<b>14</b>		<b>9</b>	<b>5</b>	
Chief Executive Not Allocated										1				1
<b>Total Chief Executive</b>										<b>1</b>				<b>1</b>
Registrars	1	1												
<b>Total Social Care &amp; Health</b>	<b>1</b>	<b>1</b>												
Additional Learning Needs Service	1								1					
Pupil Referral and Inclusion Service										1	1			
<b>Total Children &amp; Young People</b>	<b>1</b>								<b>1</b>	<b>1</b>	<b>1</b>			
General - whole MCC	1				1									

External	12			1	2				9				
<b>Total Other</b>	<b>13</b>			<b>1</b>	<b>3</b>				<b>9</b>				

## Comments

- 379 comments received

<b>Overall Total</b>	<b>379</b>
Landlord Services	1
Digital Programme Office	30
Revenues, Systems & Exchequer	6
Resources not allocated	1
<b>Total Resources</b>	<b>38</b>
Building Control	8
Business and Enterprise	1
Catering	1
Cleaning	2
Community and Partnership Development	3
Development Management & Planning Policy	8
Highways Operations and SWTRA	22
Highways and Flood Management	58
Housing and Homelessness	6
MonLife - Green Infrastructure and Countryside	3
Passenger Transport Unit	1
Recycling and Waste (Inc Grounds)	187
<b>Total Enterprise</b>	<b>300</b>
Community Hubs, Contact Centre & Community Learning	1
Legal Services	2
Chief Executive Not Allocated	1
<b>Total Chief Executive</b>	<b>4</b>
Licensing	1
Environmental Health - Public Health	6
<b>Total Social Care &amp; Health</b>	<b>7</b>
Additional Learning Needs Service	2
CYP not allocated	1
<b>Total Children &amp; Young People</b>	<b>3</b>
General - whole MCC	2
External	25
<b>Total Other</b>	<b>27</b>

Q1	Q2	Q3	Q4	YTD
64	121	86	108	379

## **A selection of comments received concerned:**

### **Waste and Street Services**

- Comments about reusing recyclable bags
- Street cleaning and litter picking
- Food bins being damaged due to being thrown down
- Use of wheely bins in narrow streets
- Some waste collected but not all other waste
- Offer different capacity bins in the future
- Glass boxes not returned to outside of property
- Comments concerning the HWRC booking system and visit to site
- Comments about the cessation of garden waste during the pandemic
- Comments concerning closure of parks during pandemic
- Refuse vehicle drivers, driving too fast
- Issues concerning grass / verge cuttings
- Comments regarding garden waste permits
- Comments regarding HWRC sites being closed during the pandemic
- Some items of recycling left behind on roads after collection
- Pathways overgrown
- Overflowing bins on high streets
- Children's park in Abergavenny heavily covered in moss - slippery and dangerous
- Issues with decision to close Usk Recycling centre
- Concerns with fly tipping.

### **Highways**

- Introduce better traffic calming measures
- Consider being more cycle friendly in towns
- Concerns registered regarding lack of consultation on proposed speed reduction works
- Many comments regarding temporary traffic lights in Usk and re-routing one way system
- Parking charges in town and use of machines
- Closure of parts of Chepstow to traffic and lack of consultation
- Lack of cutting of overhead branches
- Comments regarding new trial of Magor square
- Comments regarding road repairs
- Comments regarding changes to Monnow Street Monmouth, felt now belonging to cyclists
- Lorries knocking over salt bins, needs to be more secure
- Speed of vehicles in some areas, requesting speed ramps
- Potholes need repairing
- Speed bumps installed too high

- Disabled car parking spaces in Woodstock Way car park removed for installation of electric charging points
- Dangerous driving in Monmouth, provide more CCTV cameras
- Road closure in Goytre
- Concerns over health and safety - trees encroaching onto boundary of property
- Parking spaces in Usk, widen them for parents and children

## Other

- A number of issues with booking slots to the HWRC site online
- Recycling booking form too long and cumbersome
- Comments concerning service requests on My Mon site
- Concerns regarding anti social behaviour
- Issues with school meals
- Lack of communication to correspondence / emails.
- Comments regarding social housing policy
- Comments concerning fox hunting
- Issues with Council tax bills
- Comments regarding refusal of licensing application
- Unhappy about receiving correspondence in Welsh and English

## Compliments

- 204 Compliments

<b>Overall Total</b>	<b>204</b>
Emergency Planning	1
Resources not allocated	1
<b>Total Resources</b>	<b>2</b>
Building Control	60
Development Management & Planning Policy	4
Highways Operations and SWTRA	13
Housing and Homelessness	4
MonLife - Green Infrastructure and Countryside	12
MonLife - Leisure	4
MonLife - Tourism	3
MonLife - Youth Service	13
Recycling and Waste (Inc Grounds)	63
<b>Total Enterprise</b>	<b>176</b>
Community Hubs, Contact Centre & Community Learning	8
<b>Total Chief Executive</b>	<b>8</b>
Environmental Health - Public Health	2

Registrars	1
SCH not allocated	1
<b>Total Social Care &amp; Health</b>	<b>4</b>
Not allocated to any SIP	1
General - whole MCC	3
External	10
<b>Total Other</b>	<b>14</b>

Q1	Q2	Q3	Q4	YTD
51	62	51	40	204

### A selection of compliments received:

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

Some examples:

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

### Waste & Street Services

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

- Your teams in Mon CC are doing a brilliant job with all the fly tipping that's going on
- Thank you to the bin men for doing such a great job
- Thank you for managing to keep other collections going, which has not been the case throughout the rest of the UK.
- We wish to give an official compliment to the Grounds Staff who manage and maintain the Danes Park, Chepstow. We have lived in Normandy Way for over 30 years and see the return of the Song Thrush that thrive in the areas of long grass margin in the Park. We are also so pleased to see the wild flowers appearing especially in this period of lockdown. Thank you so much.
- I want to say a HUGE thank you to everyone who helped me to get my car keys back today! From the adviser at the council and the waste collectors who went trawling through nappy bags to find my car keys! I cannot thank you enough! These guys don't get enough praise or recognition, especially during these difficult times. Thank you so much!
- Thanks to all the lovely boys who have collected everything during this very troubling time. Always pleasant and helpful WELL DONE.

- I have been in contact with a new litter champion from Llanfair Discoed, who has asked me to pass on her thanks to the team for sorting out a fly tip in her lane last week. She was very impressed with the team's efficiency.
- We are all quick enough to criticise, this email is quite the opposite - very many thanks to the team for taking the time to make this extra effort - very much appreciated. Thank you and good wishes.
- I would just like to express my thanks I visited Monmouth Cemetery recently and what a great improvement the grass has all been picked up and it looks so much better.
- Broken bench, former skateboard park, Town Field, Monmouth - Just catching up again, that was amazingly quick and efficient on same day as reported. Brilliant service! Please pass on our thanks to the person who sorted, much appreciated.
- Bailey park...Just a big thank you for cutting the grass, it looks tremendous.
- Linda Vista mowing - a compliment for whoever's been mowing the arboretum in Linda Vista has simply mown a circuitous trail round and left the rest - thus making an interesting path to walk around (and also making it easier to mow). It's great! Please channel our appreciation through to the mower if you can.
- Staff are efficient and capable and always cheerful - well done all.

## Highways

- Just a note of thanks for arranging the road sweeper to pass along Llanwenarth Breast Lane today, great job done.
- On behalf of all the residents of Llanfaenor near Newcastle, Monmouth, I would like to thank you and your team for all their hard work in clearing our lanes of mud, gravel and grass, as well as filling in all the potholes to such a high standard. If you could pass our thanks onto your team, that would be great.
- Can I send my thanks to all involved in arranging, and repairing the side of the lane. I only raised this late last week, and considering all the pressures MCC have had at this time, I was so pleased that the workmen had attended, and repaired the problem area. I am grateful for the prompt action and high standard of repair.
- Thank you very much for fixing the street light at Burrium Gate Usk. It has made such a difference.
- Your repair team has completed an excellent job of clearing and upgrading both of the drainage chambers at the top of the driveway. Please thank the Assistant Engineer and the team for me. I am very grateful.
- I was delighted to see the pothole has been filled – thank you. The rains of the past few days have been a good test for the renewed culvert etc, and they are working perfectly. It's such a relief!
- May I express my delight that Elms Road was included in the recent resurfacing programme. Many thanks to all involved.

- Thanks to the road maintenance team of Sunday 27th December. We woke on Sunday to find that Storm Bella had felled one of the trees on the road between Devauden and St Arvans, completely blocking it. I would like to thank the team who came along late in the afternoon (it was past twilight when they were done) to clear up the remaining branches and move the trunk to somewhere other than the road. We really appreciate the work these teams do, and hope that you will be able to pass on our thanks to them.
- Your workmen completed the paving slabs outside of my house yesterday morning, and since then we have had a huge amount of rain. As the attached picture shows, there is NO lake outside of my house! I can't begin to express what a difference being able to just walk out of my house without getting wet feet and ruining shoes has made, it really is a life changer for me. It's a great job done by the 2 workers, who were professional and friendly in their approach also.

### **Community Hubs**

- For housing support last week, parent was so grateful and appreciative that he now has somewhere to live as she was very worried about him.
- Just a note to let you know that your staff in the Usk Hub, have really made a difference to this shielding isolation that we are enduring. They have gone way beyond what one would have any hope of expecting from a neighbour with their cheery help and support.
- I live in Monmouth and our own recycling depot is still closed. My neighbour told me about the Llanfoist Cars/ Abergavenny Site, but that you need to ring and book a slot for garden waste. I have just got off the phone from booking my slot on Thursday, and this was all arranged by an extremely helpful and efficient young lady.
- Thank you so much for your efficiency, care and interest. It is much appreciated.

### **Mon Life / Youth Service / Green Infrastructure and Countryside**

- My 2 girls really enjoyed today! (from the Key workers children) Thanks so much. In these difficult times care, compassion and fun for our little ones is essential and appreciated.
- Great to know my daughter was involved in this "happy daddy". (regarding children being involved in "outdoor fun" - activities to thank the NHS heroes from the key workers youngsters.
- Our thanks go to you for trying so hard to adapt change. The way you do your job and still be able to support the kids in the community, it certainly has been a crazy time for everyone.

- Both my husband and I are key workers for the NHS and throughout lockdown we have had to access both of the Hubs provided. Now we are in the summer hols we use Mon Games indeed as we have every summer since our nine year old started school. During these last months the staff have been amazing with my son. So patient, tolerable, and above all, incredibly kind.
- I just wanted to say thank you very much for taking my concern seriously and on being so prompted in sorting it out! I have been walking through the Warren path and I was proud to show my relative how you, the MCC, have been so efficient in sorting the matter out so quickly.
- For reinstalling the bench in memory of my husband. Sending this message of thanks whilst sat on bench. Many thanks for all you help.
- Monmouth Leisure Centre - I want to let the relevant people at headquarters know how marvellous the staff at Monmouth Leisure Centre are. Without exception, they are invariably courteous, helpful and friendly no matter the provocation and no matter how often the guidance on how to manage the current situation in the centre changes. I can't praise them highly enough.
- I'm aware of how much you are all doing operationally to make this work and keep the doors open. And the ongoing discussions surrounding improvement of services and availability. I'm not suggesting through this email that there aren't challenges or that decisions are easy at this time - timetabling of activities are complex and people notoriously hard to please, especially with small town mentality. On my part, any extension on gym time would be very welcome. As would be the chance to update wellbeing programme all be it incrementally. This is not to take away from the mountains you are all having to climb already - you really have been a lifeline for me. Many, many, many thanks.
- 'Gyms v Covid Tomorrow', the last day before the fire break, will be my 52nd visit to the Fitness Suite since you re-opened on August 10th. In these unprecedented times I was not sure what to expect on my first visit. I found the procedures in place well organised and have felt entirely safe during my visits. Well done to all concerned. Roll on November 9th!
- Keep up the good work you're doing a fantastic job.
- Many thanks again for your commitment and managing to keep these awards going under the current circumstances. We really appreciate it.
- Coastal path access.... Not sure who has been doing the very necessary work, on this popular part of the Path, but a great job.

## Response Timescales

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

Whole Authority Timescales	2019/20		2020/21	
	Stage 1	Stage2	Stage 1	Stage 2
Up to 10 working days	147	1*	109	0
11 – 30 working days	55	4	36	7
30+ working days	5	8	6	10
<b>Total</b>	<b>207</b>	<b>13</b>	<b>151</b>	<b>17</b>

\*No response to clarify complaint, therefore it was closed

## Requests for service

These are recorded and acted upon:

<b>Overall Total</b>	<b>20</b>
Revenues, Systems & Exchequer	3
Digital Programme Office	1
<b>Total Resources</b>	<b>4</b>
Highways and Flood Management	2
Highways Operations and SWTRA	3
Recycling & Waste	2
<b>Total Enterprise</b>	<b>7</b>
Animal Health & Trading Standards	1
Environmental Health - Public Health	7
Licensing	1
<b>Total Social Care &amp; Health</b>	<b>9</b>

## Analysis of Complaints / Comments

Year	Stage 1 complaints	Stage 2 complaints	Comments	Compliments
<b>2020-21</b>	<b>151</b>	<b>17</b>	<b>379</b>	<b>204</b>
<b>2019-20</b>	207	13	169	240
<b>2018-19</b>	132	14	187	180
<b>2017-18</b>	76	13	123	189
<b>2016-17</b>	79	11	153	168

## Service improvements

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

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

*Apologies given where appropriate.*

*Review of planning terminology internally and how we can be clearer and provide more clarity on this to the general public*

*All information relevant to an application is included on the planning portal eg photos*

*Review the system utilised for the portal to see if it can be more stable in the future.*

*FOI team/digital to check some of the formats used to send larger amounts of information*

*Review how letters are sent to statutory consultees – could the system be improved in any way?*

*Review how the Planning Team communicate with consultees, is it clear that consultees are objecting to an application and that is a separate planning process to the complaints process?*

*The LA work with young person to review and update his existing educational offer to ensure it meets his needs*

*The LA to meet with young person to discuss an appropriate future pathway for his post-16 education, employment or training to take into consideration his identified needs*

*For future applications by MCC Planning, there would be significant value in publishing Stage 1 and 2 Road Safety Audits, whilst these are advisory in the planning process they provide transparency to the process followed.*

*For future applications by MCC Planning, there would be significant value in publishing Section 278 agreement, as this is a legally binding document, to provide transparency to the application and process followed.*

## **Commentary**

The Coronavirus pandemic has presented the Local Authority with huge challenges and dealing with complaints has been no exception. We have continued to maintain receiving and responding to complaints as effectively as possible, relying on receiving responses from staff in those service areas that have been stretched so much, for example, recycling and waste, and highways. They have been remarkable in responding to us as well as dealing with their own day to day workloads.

Although the number of complaints recorded were slightly down on last year, the number of comments recorded rose considerably by 124%. Again, these were from those front facing services and much related to Coronavirus measures that were being considered / or put in place. It was good that despite the difficulties, the public

still took the time to complement services, with over 200 being received, thanking our staff for everything they were doing to keep communities safe through the pandemic.

As the Coronavirus pandemic improves slightly, we are seeing a similar trend so far this financial year ie 2021-22, at the same level as last year, to date (November 2021) we've received 113 complaints, 286 comments and 139 compliments.

The lessons learned from complaints are very important and we do our best to learn from what went wrong and improve services for the future. Managers receive action plans after formal complaints are investigated that outline the recommendations made and for them to respond and implement them as part of the resolution of the complaint.

**Annette Evans, Customer Relations Manager**

**December 2021**

**SUBJECT: GOVERNANCE AND AUDIT COMMITTEE REVIEW AND CHANGES**

**MEETING: Governance & Audit Committee**

**DATE: 28<sup>th</sup> February 2022**

**DIVISION/WARDS AFFECTED: All**

## **1. PURPOSE:**

- 1.1 To consider proposed and necessary changes to the Governance and Audit Committee as a consequence of the requirements of the Local Government and Elections (Wales) Act 2021 and the conclusions from a review of current arrangements by members of the committee and relevant officers.

## **2. RECOMMENDATIONS:**

- 2.1 For members of the committee to acknowledge the changes brought about by the Local Government and Elections (Wales) Act 2021 in so far as they impact on the Governance and Audit Committee and as outlined in the report.
- 2.2 That the committee endorses the further considerations proposed that look to further strengthen the effectiveness of the committee going forward, and that have resulted from the latest self-assessment by members of the committee and the subsequent overarching review undertaken.
- 2.3 That the constitution be amended to reflect these changes, to take effect at the next Annual General Meeting in May.

## **3. KEY ISSUES:**

### **Local Government and Elections (Wales) Act 2021**

- 3.1 The Local Government and Elections (Wales) Act 2021 was passed by the Senedd on 18 November 2020 and received Royal Assent on 20 January 2021. Sections 115-118 of the Act have a direct bearing on the name and function of the committee (section 115), its membership and the meaning of lay person (sections 116-117) and its chairing (s118). Other sections of the Act, notably around new self-assessment and performance reporting required, also impact on the responsibilities of the committee.
- 3.2 The current arrangements continue to serve the council well. Effective scrutiny and challenge by the Governance and Audit Committee ensures that Council financial control, risk, performance, and corporate governance arrangements are operating effectively.
- 3.3 The changes brought about by the Act come into effect at different times. S115 came into force on 1<sup>st</sup> April 2021 whereas the other changes referred to in 3.1 above come into force on 6<sup>th</sup> May 2022.
- 3.4 The committee has already been renamed with effect from 1<sup>st</sup> April 2021 and is now called the Governance and Audit Committee. S115 also looked to update and refine the function

of the committee and by way of update to S81 the Local Government (Wales) Measure 2011. This confirms the role of the Governance & Audit Committee to:

- Review and scrutinise the authority's financial affairs
- Review and assess the risk management, internal control, **performance assessment** and corporate governance arrangements of the authority
- **Review and assess the authority's ability to handle complaints effectively**
- Make reports / recommendations in relation to the effectiveness of the above
- Oversee the authority's internal and external audit arrangements; and
- Review financial statements prepared by authority

3.5 The new elements introduced are shown in **bold** above and have already been factored into the committee's work programme.

3.6 A local authority may however confer on its governance and audit committee such other functions as the authority considers "suitable" to be exercised by such a committee. However, it should clearly have regard to the authority's scrutiny arrangements and its standards committee and such as to avoid duplication and ensure maximum impact and effectiveness in holding the Council and its Executive to account.

3.7 The further changes brought about by the act across S116-118 comprise:

- a) Requirement for an independent lay chairperson – cannot be a local authority employee; or spouse/civil partner of a local authority employee
- b) Deputy chair cannot be member of the executive (Cabinet) – only 1 member of the executive can sit on the committee (but not a requirement) – this cannot be the Leader of the Council
- c) At least 1/3 of the committee needs to be lay members

3.8 In terms of the composition of the committee in its current form it comprises 11 members and 1 independent chair (12 in total). With a requirement for at least 1/3 of the committee to be lay members this requires 4 lay members to be appointed, all of whom have voting rights.

3.9 The existing independent chair is to step down at end of his current term and which coincides with the end of this civic year and when the above changes come into effect.

3.10 The Council has worked collaboratively and run a recruitment process via WLGA but also via the Council in order to source the best possible candidates. The recruitment process has concluded and 3 of the 4 lay member positions have been recruited into already. A further local and targeted recruitment will now be undertaken to secure the last necessary lay person appointment to the committee. These appointments will be ratified and approved by Council in May following the election.

3.11 Officers of the Council have worked closely in recent months with members of the committee and its Chair such as to take the opportunity to review the effectiveness of the committee and to identify enhancements and changes that would ultimately strengthen yet further the robust arrangements in place.

3.12 Alongside this changes proposed to the authority's scrutiny arrangements, and that are being considered by Council at its meeting on 3<sup>rd</sup> March, present a timely opportunity to

exacting role and scope of the committee such as to both avoid duplication and ensure maximum impact and effectiveness.

- 3.13 The Local Government Measure 2011 states that it is not a statutory requirement to ensure that political balance is achieved when the committee members are appointed. Guidance recommends however that the balance of members of the committee is at least as favourable to non-executive groups as would be achieved by political balance rules. Whilst it would help the authority if the committee had the appearance of independence from the leadership it is still currently intended for the Governance and Audit Committee membership to still be determined via the Annual Political Balance report presented to Council in May.
- 3.14 Other sections of the Local Government and Elections (Wales) Act 2011 notably around new self-assessment and performance reporting requirements also impact on the responsibilities of the committee. These can be summarised as follows:
- The draft annual self-assessment performance report needs to be considered by the Governance & Audit Committee ahead of it being considered by Council. The committee may as a result of its considerations make recommendation to Council for changes to conclusions.
  - The report of the (independent) panel performance assessment is also to be made available to the Governance & Audit Committee. A panel performance assessment is to take place at least once during the period between two consecutive ordinary elections of councillors to the Council.
  - If not meeting its performance requirements, the Auditor General can carry out special investigations. Such special investigation reports, including the draft response by the Council, must go to the Governance & Audit Committee.

### **Self-evaluation and Review of the Governance & Audit Committee**

- 3.15 Wider research has been undertaken on the qualities that are indicative of an effective audit committee. A group of Audit Committee Chairmen and Members, from FTSE 100 and FTSE250 businesses, identified these attributes as key during a roundtable event held by ICAEW:
- Intellectual curiosity and professional scepticism
  - Courageous in making tough decisions
  - Balanced, ethical approach to whistleblowing
  - Oversight of key risks (not just financial)
  - Excellent relationship builders
  - Ability to build and develop a strong team
  - Able to challenge the external auditors
  - Good listening skills
  - Own the agenda
- 3.16 Furthermore, private sector audit committees extend their interests into:
- Oversight of regulatory compliance, ethics, and whistleblowing – it is recognised that the Governance & Audit Committee already presides over whistleblowing and anti-fraud, bribery and corruption. And the Standards Committee already has separate regard for Members conduct.

- A growing focus on ESG reporting (Environmental, Social and Corporate Governance) – which again beyond corporate governance is already achieved via Select Committee scrutiny of policy commitments around environmental performance and social justice, corporate governance already being within the remit of the committee.

3.17 The committee already has a mechanism in place around self-assessment. The last assessment was undertaken in 2020. The self-assessment, completed by 7 of the 12 committee members at that time was generally positive. The self-assessment was based on a questionnaire that involved 46 questions based on CIPFA’s “*Audit Committees – Practical Guidance for local authorities and Police (2013)*”. The questionnaire covered 7 themes:

Roles and Responsibilities  
 Monitoring and Oversight  
 Internal Audit  
 External Audit  
 Membership  
 Meetings  
 Skills and Training of Members

3.18 The results of the self-assessment were collated and fed back into the committee and an action plan was agreed and that contained suggested areas for improvement (see appendix 1). The action plan centred principally around officers providing further information and training to enable the committee to be more effective. Progress was hindered as a consequence of the pandemic and it was subsequently concluded and agreed that the action plan would be incorporated into a wider and subsequent review of the committee and alongside the changes brought about by the Local Government and Elections (Wales) Act 2021 as mentioned above.

3.19 The wider and subsequent review of the committee involved workshop sessions with officers and members of the committee. The workshop sessions were productive and constructive and highlighted the following strengths:

- The Chairman runs meetings well – he is well prepared and thorough in his preparation – giving committee members the opportunity to contribute
- The Committee operates non-politically – which demonstrates good governance
- No major weaknesses identified via self-assessment – however, some have identified need for additional training but need to specify what training specifically

3.20 It also raised important issues that have been considered in forming these proposed considerations that look to improve the effectiveness of the committee going forward:

- It was recognised that it was important for members selected onto the committee to have an interest in being on the committee
- It was important for officers to be present to respond to questions raised by the committee
- Clarity was needed around which reports should go to the committee as distinct from select committees and to avoid duplication and to improve effectiveness
- The independent chair is often not aware of wider Council business
- Members sometimes lack the specialist knowledge and experience required of an audit committee member and to enable officers to be held to account – opportunity to address via lay member appointments and training

3.21 As a result of the feedback and further comments provided by both officers and members of the committee agreement was reached on the following proposals for improvement:

- Terms of reference and scope of the committee to be refined to make it clear on what gets considered by Governance & Audit Committee – the committee should focus on matters of governance, audit, performance and finance and risk arrangements in line with the Local Government Measure 2011 – particularly pertinent for reports from regulators
- The Governance & Audit Committee should adopt similar practices to select committees in so far as having a pre-meeting ahead of the meeting itself. Which is now more easily facilitated due to virtual meetings.
- The committee should receive and consider RFO's annual opinion on robustness of budget process and adequacy of reserves as part of budget process – considered separately on the agenda
- The member induction and training programme needs to be enhanced and targeted towards committee members needs
- Lay members with suitable expertise and experience to be recruited and where possible members with desire and relevant background or experience to be considered
- Consideration of strengthening compliance with CIPFA's Financial Management (FM) Code over which the committee needs to preside

3.22 On the whole the changes and beyond LG&E the changes are relatively minor and are more so a proposed strengthening of arrangements and in providing greater clarity to the role of Audit Committee, together with points carried forward from the previous self-assessment action plan (appendix 1). On the basis of these proposals being accepted by the committee an updated action plan will be produced and presented to the first meeting of the Governance and Audit following the election and when a new membership exists.

3.23 It is proposed going forward and beyond the suggested areas for improvement that the self-assessment should be undertaken periodically, and no longer than every 2 years, such as to ensure there is a continual evaluation and assessment of the effective of the committee.

#### **4. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):**

4.1 There are no such implications directly arising from this report.

#### **5. OPTIONS APPRAISAL**

5.1 The Local Government and Elections (Wales) Act 2021 affected changes with regards to the role of the Governance and Audit Committee. These are outlined above in the main body of the report. A local authority may confer on its Governance and Audit Committee such other functions as the authority considers "suitable" to be exercised by the committee.

5.2 The review that has been undertaken does not propose any significant changes in either scope or approach. Rather the proposals involve the existing role of the committee being strengthened and the extent and scope of its interests being clarified.

#### **6. EVALUATION CRITERIA**

- 6.1 Preparations for the changes brought about by the Local Government and Elections (Wales) Act 2021 are already well advanced, planned for or in place already and as outlined in the report above.
- 6.2 Aside from the responsibilities falling to Governance and Audit Committee to scrutinise self-assessment performance arrangements it is equally important for the committee to embrace the evaluative approach that underpins this.
- 6.3 There will be a process of continual review and evaluation of the effectiveness of the committee and as there has been previously. The self-assessment process will be undertaken with members of the committee periodically and reported back into the committee. An action plan will continue to be monitored and maintained with progress and an evaluation of outcomes reported back to the committee as required.

## **7. REASONS:**

- 7.1 New requirements have been placed on the Governance & Audit Committee as a result of the Local Government and Elections (Wales) Act 2021, both in terms of lay person membership and the scope and remit of the committee.
- 7.2 Furthermore, and in light of the timing of the proposed changes and the end of an administrative cycle the opportunity has been taken to purposefully engage with members of the committee and relevant officer to seek feedback on how the effectiveness of the committee could be strengthened yet further going forward and with a new administration.

## **8. RESOURCE IMPLICATIONS:**

- 8.1 There are no direct resource and budgetary implications arising from the recommendations in this report whether brought about by the Local Government and Elections (Wales) Act 2021 or from the review of the Governance and Audit Committee itself.
- 8.2 The additional lay persons appointed onto the committee will be entitled to be paid in line with agreed daily rates, together with reimbursement for reasonable costs of travel and meeting preparation. These additional costs have already been factored into the final budget proposals for 2022/23.
- 8.3 Induction of new members to the committee, together with ongoing training, will be met through additional officer time and from within existing capacity and budget. As will be the case for officers having to comply with the new self-assessment and self-evaluation requirements of the Act.

## **9. CONSULTEES:**

Strategic Leadership Team  
Governance and Audit Committee  
Scrutiny Manager

## **10. BACKGROUND PAPERS:**

Appendix 1 – Self-assessment Action Plan  
Appendix 2 – Governance & Audit Committee – Current Work Programme

## **11. AUTHOR:**

Peter Davies, Deputy Chief Executive / Chief Officer for Resources (S151 Officer)

**12. CONTACT DETAILS:**

Tel: 01633 644294 / 07398 954828

e-mail: [peterdavies@monmouthshire.gov.uk](mailto:peterdavies@monmouthshire.gov.uk)

This page is intentionally left blank



<b>SUBJECT:</b>	<b>INTERNAL AUDIT Progress Report for Q3, 9 Months into 2021/22</b>
<b>DIRECTORATE:</b>	<b>Resources</b>
<b>MEETING:</b>	<b>Governance and Audit Committee</b>
<b>DATE:</b>	<b>28 February 2022</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>All</b>

## 1. PURPOSE

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 31<sup>st</sup> December 2021.

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

## 2. RECOMMENDATION(S)

That the Committee note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2021/22 Operational Audit Plan and the Section's performance indicators at the 9 month stage of the financial year.

## 3. KEY ISSUES

3.1 As reported previously to the Governance & Audit Committee, the Internal Audit staff were redeployed to support the 'test trace protect' initiative, business support grants process and undertake counter fraud checks from March 2020 as a result of the national pandemic, Covid-19. Therefore there are no year on year comparison figures for the Team's performance.

3.2 One member of the team had been seconded out of the team to support the Covid-19 business grants administration. This member of staff has subsequently left the team. The team has gone through a recruitment exercise and the post was filled mid November.

3.3 By the time this report is presented to the Governance & Audit Committee the Audit Manager will have left the organisation. The Chief Internal Auditor will start a recruitment exercise to get a new Audit

Manager on board as soon as possible, but there will be an impact on the team's performance and workload in the interim.

- 3.4 Although audit work has started in line with the 2021/22 agreed audit plan, approved by the Governance & Audit Committee in July 2021, the majority of site visits were still on hold in Q1, Q2 & Q3 due to Covid-19 restrictions
- 3.5 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 9 months to 31<sup>st</sup> December 2021.
- 3.6 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate it is compliant with; these replaced the former Code of Practice for Internal Audit within Local Government.
- 3.7 A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Monmouthshire's peer review took place during 2017/18 with the outcome being that the team is generally compliant; no significant areas of non compliance. The next review will be due in 2023
- 3.8 The year end opinion for 2021/22 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems where necessary, along with any assurance gained from other parties where relevant.

#### **4. REASONS**

- 4.1 Since the start of the financial year, the Internal Audit Section has completed 34 audit jobs to draft stage from its 2021/22 Operational Audit Plan; 8 of these being opinion related and are shown in the table at Appendix 1. The team was involved with ongoing grant claim certification and some additional counter fraud work regarding Welsh Government Covid grants.
- 4.2 In relation to the normal audit opinion related reports issued in draft by the end of the 3<sup>rd</sup> Quarter:
  - 3 had a *Substantial Assurance opinion*,
  - 2 had a *Considerable Assurance opinion* and
  - 2 had a *Reasonable Assurance opinion*.
  - 1 had a *Limited Assurance opinions* issued.

Work was also undertaken on the National Fraud Initiative (NFI), verifying data matches, the preparation of the Annual Governance Statement and 3 grant claims.

- 4.3 Work has also been undertaken on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports to schools, Finance and Corporate functions, along with the provision of financial advice across directorates. Progress has been reported to the Governance & Audit Committee and the Strategic Leadership team (SLT).
- 4.4 The team have not been able to undertake audits at schools as they ordinarily involve site visits which have been restricted due to Covid-19, as have other site visits. Follow up audits of MonLife tourist sites have not been able to have been undertaken as many of these are seasonal and have not been open as a result of Covid-19. Other work has not been progressed as intended as some service managers are still dealing with the pressures of Covid-19.
- 4.5 At the time of writing this report, the call on Internal Audit resources to support TTP has stopped; the audit resource can therefore be used to work through the audit programme which will concentrate on opinion related audit jobs and getting draft reports out by the year end.
- 4.6 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.7 Finalisation work from 2020/21 continued; of the 6 reviews at draft report stage at 31 March 2021, all 6 have subsequently been finalised.
- 4.8 There has been minimal work undertaken on special investigations and unplanned work during 2021/22 so far by the team. Extensive work was undertaken previously on counter fraud relating to the issue of the Welsh Government business grants. Where the team was involved in frauds resulting from this work these were not identified as separate special investigations.
- 4.9 Appendix 3 of the report gives details of the Section's performance indicators as at 31<sup>st</sup> December 2021.
  - 40% of the 2021/22 Audit Plan has been completed as at 31<sup>st</sup> December 2021
  - Draft reports are being issued within 6 days, against a target of 15 days
  - Final report are being issued within 4 days, against a target of 10 days.
- 4.10 The main reason the team has completed less of the plan than expected was that the Auditor was seconded out of the team to manage the Covid business grants process and then subsequently left for an internal promotion. 9 audit jobs were planned for the Auditor up

to the end of Q3 which, if completed, would have taken the performance up to 51% and just ahead of the target. A new member of the team joined us in November 2021 with limited experience of Internal Audit but is on an internal training programme in order to develop her skills up to the level required.

- 4.11 Prior to the Audit Manager leaving the team the Chief Internal Audit estimated that 65% of the agreed audit plan would have been completed by the year end; actual performance is likely to be lower than estimated given the fact the team will be without an Audit Manager going into year end.
- 4.12 The Chief Internal Auditor has started the planning process for the 2022/23 IA Audit Plan which, as always, will be risk assessed. Any work not covered in this year's plan will be rolled forward into the planning process and included within the risk assessment.
- 4.13 The team co-ordinates the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council. Investigation of the matches from the main 2020/21 exercise has been concluded and our report issued. Additionally the Team has overseen the collection and upload of Council Tax and Electoral Registration data for the 2021/22 exercise and data matches have now been returned for review by the Shared Revenues and Benefits Service in line with the service level agreement in place.

## **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 Chief Officers and Heads of Service for information and appropriate action where necessary.

## **6. FOLLOW UP AUDIT REVIEWS**

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

**7. RESOURCE IMPLICATIONS**

None.

**8. CONSULTEES**

Deputy Chief Executive / Chief Officer Resources

**Results of Consultation:**

N/A

**9. BACKGROUND PAPERS**

Operational Audit Plan 2021/22

**10. AUTHORS AND CONTACT DETAILS**

Andrew Wathan, Chief Internal Auditor

Telephone: x.4243

Email: [andrewwathan@monmouthshire.gov.uk](mailto:andrewwathan@monmouthshire.gov.uk)

## GOVERNANCE & AUDIT COMMITTEE FEBRUARY 2022

### INTERNAL AUDIT SECTION PROGRESS REPORT 2021/22 – Q3 9 MONTHS

#### APPENDIX 1

Internal Audit reviews from the 2021/22 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/21 are listed in the table below.

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

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

#### Internal Audit Services - Management Information for 2021/22 – Quarter 3 December 2021

Opinion Summary	
Substantial	3
Considerable	2
Reasonable	2
Limited	1
Total	8

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Draft or Final	Opinion given
P2122/36	Enterprise	Placemaking, Housing, Highways & Flood	Local Development Plan	Medium	Final	Substantial
P2122/57	Resources	Finance	Benefits	High	Final	Substantial
P2122/59	Resources	Finance	Control, Suspense & Holding Accounts	Medium	Draft	Substantial
P2122/25	Corporate	Cross Cutting	National Fraud Initiative	High	Final	Considerable
P2122/35	Enterprise	Placemaking, Housing, Highways & Flood	Civil Enforcement	Medium	Final	Considerable

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Draft or Final	Opinion given
P2122/80	Resources	Commercial, Property, Facilities & Fleet	Investments	High	Draft	Reasonable
P2122/81	Enterprise	Enterprise & Community Animation	Disabled Facilities Grants	Medium	Final	Reasonable
P2122/50	Resources	Commercial, Property, Facilities & Fleet	Fleet - Health & Safety and Driver Management	Medium	Final	Limited

P2122/06	Children & Young People	Achievement & Extended Services	Pupil Development Grant	Low	Final	Unqualified
P2122/07	Children & Young People	Achievement & Extended Services	School Improvement Grant	Low	Final	Unqualified
P2122/28	Enterprise	Enterprise & Community Animation	Housing Support Grant	Medium	Final	Unqualified

## Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2122/01	Chief Executive's	Policy, Performance & Scrutiny	Audit Advice
P2122/05	Children & Young People	Achievement & Extended Services	Monitoring Implementation of Audit Recommendations
P2122/08	Children & Young People	CYP Resources	Audit Advice
P2122/11	Children & Young People	Schools	Audit Advice
P2122/18	Children & Young People	Schools	Monitoring Implementation of Audit Recommendations
P2122/27	Enterprise	Enterprise & Community Animation	Audit Advice
P2122/31	Enterprise	Neighbourhood Services	Audit Advice
P2122/32	Enterprise	Neighbourhood Services	Monitoring Implementation of Audit Recommendations
P2122/34	Enterprise	Placemaking, Housing, Highways & Flood	Audit Advice
P2122/38	Enterprise	Strategic Projects	Audit Advice
P2122/41	Mon Life	Mon Life	Audit Advice
P2122/47	People & Governance	People	Audit Advice
P2122/49	Resources	Commercial, Property, Facilities & Fleet	Audit Advice
P2122/56	Resources	Finance	Audit Advice
P2122/61	Resources	Finance	Monitoring Implementation of Audit Recommendations
P2122/63	Resources	Payroll	Audit Advice
P2122/64	Resources	Payroll	Monitoring Implementation of Audit Recommendations
P2122/65	Social Care & Health	Children's Services	Audit Advice
P2122/66	Social Care & Health	Children's Services	Monitoring Implementation of Audit Recommendations
P2122/67	Social Care & Health	Integrated Services	Audit Advice

**Internal Audit Opinions**

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

<b>SUBSTANTIAL</b>	Substantial level of assurance. Very well controlled, with numerous strengths identified and any risks being less significant in nature.
<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 urgently.

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

RATING	RISK DESCRIPTION	IMPACT
1	Significant	(Significant) – Major / unacceptable risk identified. Risks exist which could impact on the key business objectives. Immediate action required to address risks.
2	Moderate	(Important) – Risk identified that requires attention. Risks identified which are not business critical but which require management attention 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.

**For grant claim audits:**

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

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

**GOVERNANCE & AUDIT COMMITTEE FEBRUARY 2022**

**INTERNAL AUDIT SECTION PROGRESS REPORT  
2021/22 – Q3 9 MONTHS**

**APPENDIX 3**

**Performance Indicators**

N /A – not available

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

	<b>2021/22</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	11%	28%	40%		50% in Q3 80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	9 days	5 days	6 days		15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	3 days	4 days	4 days		10 days
4	Percentage of recommendations made that were accepted by the clients	97%	97%	98%		95%
5	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%		95%
6	Percentage of directly chargeable time (actual v planned)	77%	90%	72%		60%
7	Number of special investigations	1	1	1		

<b>GOVERNANCE AND AUDIT COMMITTEE FORWARD WORK PLANNER 2021/22</b>			
<b>Date of Meeting</b>	<b>Title</b>	<b>Description/Purpose</b>	<b>Lead Officer</b>
<b>28th Feb 2022</b>			
28.02.22	Overview of Performance Management arrangements	To present an update on the current effectiveness of the Authority's performance management arrangements	Performance Manager
28.02.22	Audit Wales Proposals for Improvement Progress report		Richard Jones
28.02.22	Anti bribery risk assessment		Peter Davies
28.02.22	Governance & Audit Committee Review		Peter Davies
28.02.22	Treasury Policy and Strategy report 2022-3	This suite of documents includes the Treasury Policy, The Treasury Management Strategy, the Minimum Revenue Provision Policy & the Investment and Borrowing strategies for 2023/4. 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
28.02.22	WAO Annual Audit Summary		Audit Wales/Emma Davies
28.02.22	Whole Authority annual complaints report		Annette Evans
28.02.22	Assessment of the Robustness of the budget process and adequacy of reserves		Peter Davies

28.02.22	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
<b>31ST MAR 2022</b>			
31.03.22	Annual Performance Review of Investment Committee		Deb Hill-Howells
31.03.22	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
31.03.22	Annual Audit 22-23		Audit Wales
<b>May-22</b>			
	Annual Grants report		Audit Wales
	annual governance statement review 2020-1		Andrew Wathan
	Annual Performance Review of Investment Committee		Deb Hill-Howells
<b>June - 22</b>			
	Whole Authority Strategic Risk Assessment	To provide Audit Committee with an overview of the current strategic risks facing the authority in the Whole Authority Strategic Risk Assessment.	Richard Jones

# Public Document Pack Agenda Item 14

## MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Governance and Audit Committee held  
at County Hall, Usk - Remote Attendance on Thursday, 13th January, 2022 at 2.00 pm

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

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

### **OFFICERS IN ATTENDANCE:**

Andrew Wathan	Chief Internal Auditor
Wendy Barnard	Democratic Services Officer
Gareth Lucey	Audit Wales Officer
Jonathan Davies	Acting Assistant Head of Finance

### **APOLOGIES:**

County Councillors M.Feakins, P. Jordan and J.Watkins

#### **1. County Councillor P. Clarke**

The Committee observed a minute's silence in remembrance of County Councillor Peter Clarke, Member of the Governance and Audit Committee, who had recently sadly passed away.

#### **2. Declarations of Interest**

Items 5 and 6: County Councillors P. Murphy and A Easson declared personal , non-prejudicial interests as trustees of the Monmouthshire Farm School Endowment Trust Fund.

#### **3. Public Open Forum**

No members of the public were in attendance.

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

There were no actions from the last meeting.

In answer to a members question, it was confirmed that food procurement is part of the collaboration with Cardiff City Council.

#### **5. Audited Trust fund Accounts (Welsh Church Fund/Mon Farms)**

The Senior Accountant, Finance, and Audit Wales Officer presented the audited Trust Fund accounts (Welsh Church Fund and Monmouthshire Farm School Endowment Trust Fund) and the following item, the ISA 260 or equivalent for Trust Funds. The items were considered together. The Committee was reminded that there is a full audit for the Welsh Church Fund, and a lighter touch independent examination of the Monmouthshire Farm School Endowment Trust. It is proposed that unqualified opinions are issued for both funds.

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Governance and Audit Committee held at County Hall, Usk - Remote Attendance on Thursday, 13th January, 2022 at 2.00 pm

The Acting Assistant Head of Finance offered thanks to the Senior Accountant, Finance, and CYP Finance and Support Services Manager for their work on the funds during a difficult year. He also expressed gratitude to the Audit Wales Officers.

County Councillors Easson and Murphy declared a personal, non-prejudicial interest as trustees of Monmouthshire Farm School Endowment Trust Fund.

Following presentation of the reports, Committee Members were given the opportunity to comment and ask questions.

A Member echoed the thanks given but also commented on the large swings in the Welsh Church Fund balance sheet noting that net current assets have reduced from £85,000 to £8,900. He accepted the explanation in the report but wanted to highlight this point to Committee Members.

The Officer explained that there had been a lot past grants from previous years paid out for Caerphilly County Borough Council. This resulted in larger than normal amounts of cash expenditure reducing the cash balance and the net current assets.

The report recommendations were adopted as the Committee had:

- 1) reviewed the audited accounts for The Welsh Church Act Fund 2020/21 (**Appendix 1**) in conjunction with the Audit Wales ISA260 Audit of Accounts report for The Welsh Church Act Fund.
- 2) Reviewed the audited financial statements for The Monmouthshire Farm School Endowment Trust Fund for 2020/21 (**Appendix 2**) in conjunction with the Independent Examination Report for The Monmouthshire Farm School Endowment Trust Fund.

#### **6. ISA 260 or equivalent for Trust Funds**

This item was considered at the same time as the previous item.

#### **7. Anti bribery risk assessment**

This item was deferred.

#### **8. Governance & Audit Committee Review**

This item was deferred.

#### **9. Forward Plan**

It was agreed that the deferred items above should be rescheduled in the Forward Plan.

#### **10. To confirm minutes of the previous meeting held on 25th November 2021**

The minutes of the previous meeting were confirmed as an accurate record subject to minor amendment.

#### **11. To note the date of the next meeting as 17th February 2022 at 2.00pm**

Meeting ended at 2.15 pm

**MONMOUTHSHIRE COUNTY COUNCIL**

**Minutes of the meeting of Governance and Audit Committee held  
at County Hall, Usk - Remote Attendance on Thursday, 13th January, 2022 at 2.00 pm**

This page is intentionally left blank