

# Public Document Pack



County Hall  
Rhadyr  
Usk  
NP15 1GA

Wednesday, 16 November 2022

## Notice of Meeting

### Governance and Audit Committee

Thursday, 24th November, 2022 at 2.00 pm,  
County Hall, The Rhadyr, Usk, NP15 1GA and Remote Attendance

***(A 30 min pre-meeting will be held at 1.30pm for Committee Members and Auditors)***

## AGENDA

Item No	Item	Pages
1.	<b>Apologies for Absence</b>	
2.	<b>Declarations of Interest</b>	
3.	<b>Public Open Forum</b>  <b>Governance and Audit Committee Public Open Forum Guidance</b>  Our Governance and Audit Committee meetings are live streamed and a link to the live stream will be available on the meeting page of the Monmouthshire County Council <a href="#">website</a> If you would like to share your thoughts on any proposals being discussed by Select Committees, you can submit your representation <a href="#">via this form</a>  Please share your views by uploading a video or audio file (maximum of 4 minutes) or; Please submit a written representation (via Microsoft Word, maximum of 500 words)  You will need to register for a <a href="#">My Monmouthshire account</a> in order to submit the representation or use your log in, if you have registered previously.  The deadline for submitting representations to the Council is 5pm three clear working days in advance of the meeting.	

If representations received exceed 30 minutes, a selection of these based on theme will be shared at the Governance and Audit Committee meeting. All representations received will be made available to councillors prior to the meeting.

The amount of time afforded to each member of the public to speak is at the chair's discretion, but to enable us to accommodate multiple speakers, we ask that contributions be no longer than 3 minutes.

If you would like to attend one of our meetings to speak under the Public Open Forum at the meeting, you will need to give three working days' notice by contacting [wendybarnard3@monmouthshire.gov.uk](mailto:wendybarnard3@monmouthshire.gov.uk)

If you would like to suggest future topics for scrutiny by Governance and Audit Committee, please do so by emailing [wendybarnard3@monmouthshire.gov.uk](mailto:wendybarnard3@monmouthshire.gov.uk)

<b>4.</b>	<b>To note the Action List from the previous meeting</b>	<b>1 - 4</b>
<b>5.</b>	<b>2022/23 Mid-Year Treasury Management Update</b>	<b>5 - 22</b>
<b>6.</b>	<b>Q2 Progress Report for 6 months 2022/23</b>	<b>23 - 32</b>
<b>7.</b>	<b>Update on Unfavourable Internal Audit opinions</b>	<b>33 - 40</b>
<b>8.</b>	<b>The Ombudsman's Annual Letter (2021/22)</b>	<b>41 - 54</b>
<b>9.</b>	<b>Annual Review of the Investment Committee</b>	<b>55 - 68</b>
<b>10.</b>	<b>Audit Wales Work Programme and Timetable Q2</b>	<b>69 - 86</b>
<b>11.</b>	<b>Governance and Audit Committee Forward Work Plan</b>	<b>87 - 90</b>
<b>12.</b>	<b>To approve the minutes of the previous meeting</b>	<b>91 - 102</b>
<b>13.</b>	<b>To note the date of the next meeting as 26th January 2023 at 2.00pm</b>	

**Paul Matthews**  
**Chief Executive**

MONMOUTHSHIRE COUNTY COUNCIL  
CYNGOR SIR FYNWY

THE CONSTITUTION OF THE COMMITTEE IS AS FOLLOWS:

Andrew Blackmore		
Colin Prosser		
Martin Veale		
County Councillor Ian Chandler	<i>Llantilio</i>	<i>Green Party</i>
	<i>Crossenny;</i>	
County Councillor John Crook	<i>Magor East with</i>	<i>Welsh Labour/Llafur Cymru</i>
	<i>Undy;</i>	
County Councillor Tony Easson	<i>Dewstow;</i>	<i>Welsh Labour/Llafur Cymru</i>
County Councillor Malcolm Lane	<i>Mardy;</i>	<i>Welsh Conservative Party</i>
County Councillor Phil Murphy	<i>Caerwent;</i>	<i>Welsh Conservative Party</i>
County Councillor Peter Strong	<i>Rogiet;</i>	<i>Welsh Labour/Llafur Cymru</i>
County Councillor Laura Wright	<i>Grofield;</i>	<i>Welsh Labour/Llafur Cymru</i>
County Councillor Tony Kear	<i>Llanbadoc &amp; Usk;</i>	<i>Welsh Conservative Party</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.



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**Governance and Audit Committee Action List  
13<sup>th</sup> October 2022**

<b>Agenda Item:</b>	<b>Subject/ Meeting</b>	<b>Officer</b>	<b>Outcome</b>	<b>By</b>	<b>Action Status</b>	<b>Recommended to close Action Yes/No</b>
1	Action List 14 <sup>th</sup> July 2022	Richard Jones/ Peter Davies	Provide GAC Members with a list of key collaborations and who audits	24 <sup>th</sup> November 2022	OPEN	Yes
2	Forward Work Plan  14 <sup>th</sup> July 2022	Andrew Wathan/Chair	Cross referencing reports with the Terms of Reference	March 2023	OPEN	No
Page 1	Internal Audit Outturn Report  14 <sup>th</sup> July 2022	Andrew Wathan/Peter Davies	<ol style="list-style-type: none"> <li>1. Invite service managers to next meeting re Limited Opinions: <ul style="list-style-type: none"> <li>• Concessionary Travel</li> <li>• Fleet (Health and Safety and Driver Management)</li> </ul> </li> <li>2. Provision of Fraud figures (not percentages)</li> </ol>	2. 24 <sup>th</sup> November 2022	<ol style="list-style-type: none"> <li>1. CLOSED</li> <li>2. OPEN</li> </ol>	2. Yes
	4	Statement of Accounts 8 <sup>th</sup> September 2022	Jonathan Davies/ Peter Davies	<ol style="list-style-type: none"> <li>1. Amend the final version of the Statement of Accounts to reference significant occurrences nationally and globally and to explain abbreviations.</li> <li>2. 20mph speed limit scheme and funds availability for scheme reversal, the Deputy Chief Executive will discuss with Welsh Government if unspent funds are rolled forward or returned</li> </ol>	24 <sup>th</sup> November 2022	<ol style="list-style-type: none"> <li>1. OPEN</li> <li>2. OPEN</li> </ol>

5	Audit Wales: Springing Forward Report 8 <sup>th</sup> September 2022	1 & 2 Chair/Officers  3 Richard Jones	<ol style="list-style-type: none"> <li>1. Discuss Scrutiny arrangements for the people strategy and asset strategy</li> <li>2. The Chair will discuss interim key milestones and progress against them with officers and provide update at next meeting.</li> <li>3. Update on a completion date of the Corporate and Community Plan.</li> </ol>	24 <sup>th</sup> November 2022	OPEN	Yes
Page 2	Whole Authority Strategic Risk Assessment	Richard Jones	<ol style="list-style-type: none"> <li>1. Chair's preferred format for Risk Register <ul style="list-style-type: none"> <li>• key risks facing the organisation;</li> <li>• what actions are being taken;</li> <li>• what actions have been taken over the preceding period;</li> <li>• who is accountable;</li> <li>• actions completed and not completed (and why); and</li> <li>• key performance indicators.</li> </ul> </li> <li>2. Report on Authority's approach to Horizon-scanning</li> <li>3. Risk 13 (Housing) – reduction to medium by 2025 optimistic – convey comment to risk owner</li> </ol>	24 <sup>th</sup> November 2022	<ol style="list-style-type: none"> <li>1. OPEN</li> <li>2. OPEN</li> <li>3. OPEN</li> </ol>	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. Yes</li> <li>3. Yes</li> </ol>
	Anti Bribery , Fraud and Corruption 13 <sup>th</sup> October 2022	Sian Hayward	Management of Cyber Security - previous report to be circulated to committee members	24 <sup>th</sup> November 2022	OPEN	Yes
8	Anti Bribery , Fraud and Corruption 13 <sup>th</sup> October 2022	Peter Davies	Vetting of key staff – contact C. Prosser outside meeting	24 <sup>th</sup> November 2022	Open	Yes
9	Anti Bribery , Fraud and Corruption	Andrew Wathan/ Peter Davies	All Members to be made aware of the route of referral for bribery, fraud and corruption concerns/	24 <sup>th</sup> November 2022	OPEN	Yes



	13 <sup>th</sup> October 2022					
10	Audit Wales Assurance and risk assessment review 13 <sup>th</sup> October 2022	Peter Davies	Circulate strategy for medium term sustainably	24 <sup>th</sup> November 2022	OPEN	Yes
11	Audit Wales Work Programme 13 <sup>th</sup> October 2022	Chair  Peter Davies	<p>Chair to raise with officers:</p> <ul style="list-style-type: none"> <li>• Committee's lack of sufficient visibility over MTFP process nor understanding of key financial operational assumptions underpinning it.</li> <li>• Committee must understand where cost savings will be made to gain assurance that they do not materially impact levels of internal control, governance or other matters that appear on our work programme.</li> </ul> <p>Deputy Chief Executive to provide:</p> <ul style="list-style-type: none"> <li>• Cabinet report with context and outline of the budget process plus draft version of the MTFP strategy for Council in December/January can be made available to the committee.</li> </ul>	24 <sup>th</sup> November 2022	OPEN	Yes

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**SUBJECT: MID-YEAR TREASURY REPORT 2022/23**

**MEETING: Governance & Audit Committee**

**DATE: 24<sup>th</sup> November 2022**

**DIVISION/WARDS AFFECTED: Whole Authority**

## **1 PURPOSE**

- 1.1 To provide a periodical update on treasury management activity for the first six months of the financial year 2022/23 in accordance with best practice and the requirements of the Authority's Treasury Management Strategy Statement for 2022/23.

## **2 RECOMMENDATIONS**

- 2.1 That Governance & Audit Committee review and comment on the treasury management activities for the first six months of 2022/23, and note that all treasury and prudential indicators set as part of the Treasury strategy approved by full Council have been adhered to during the period.

## **3 KEY ISSUES**

- 3.1 During the first six months of 2022/23, the Authority's treasury management activity was underpinned by the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports to allow scrutiny of the treasury management process. The Cipfa Code requires the Authority to have regard to the security & liquidity of its investments before seeking additional investment returns.
- 3.2 The Authority's treasury management strategy for 2022/23 was approved at Council on the 3rd March 2022. The Authority has since borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 3.3 CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish, which the Authority has elected to do.

### **External influences**

- 3.4 The first six months of the 2022/23 financial year has seen a hugely turbulent period of economic uncertainty, driven initially by the ongoing conflict in Ukraine that has continued to put pressure on global inflation and with the economic outlook for UK and world growth remaining weak. The UK

political situation towards the end of the period following the ‘fiscal event’ increased uncertainty further.

3.5 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers’ cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China’s zero-Covid policy.

3.6 On 23rd September the UK government, announced a raft of measures in a ‘mini budget’, loosening fiscal policy with a view to boosting the UK’s trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts.

3.7 The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

### 3.8 Monmouthshire activity during the period

	31.3.22 Balance £m	31.3.22 Rate %	Weighted Average Durations	Net Movement £m	30.09.22 Balance £m	30.09.22 Rate %	Weighted Average Durations
<b>Borrowing</b>	175.5	2.0	14 Years	(11.0)	164.5	2.8	18.4 Years
<b>Investments</b>	48.0	0.4	4 Days	(19.9)	28.1	2.7	16 days

3.9 At the 31st March 2022 the Authority had a borrowing Capital Financing Requirement (CFR) of £187.0m and total external borrowing of £175.5m. Total borrowing reduced considerably by £11.0m to £164.5m during the period, however our weighted average interest rate payable has increased from 2.0% to 2.8%, reflective of a rising interest rate environment.

3.10 Short-term borrowing interest rates have increased significantly over the period increasing borrowing costs for the authority. As an example, the rate for six-month borrowing has increased from 0.90% at the end of March to 3.90% at the end of September. Some of these increased costs have been mitigated through locking in lower rates through forward starting loans.

3.11 In an environment of increasing interest rates and further turbulence in financial markets following September’s mini budget statement, the authority has also locked into some longer-term borrowing to give greater certainty on future borrowing costs. In the first six months of the year a total of £30.8m of borrowing has been taken with durations between 5 and 40 years. These can be seen in table 3b.

3.12 This has had the effect of increasing the weighted average duration of our borrowing considerably from 14 years to 18.4 years, and has resulted in a sizeable shift in our maturity structure of borrowing as noted in table 10 to this report.

3.13 Total Investments have reduced by £19.9m during the period to stand at £28.1m at the end of September 2022. The weighted average rate of income return on these investments has increased considerably from 0.4% to 2.7%.

3.14 The reduction in total investments for the period can be explained by the continuation of the internal borrowing strategy (which uses internal cash balances in lieu of borrowing), and the comparatively high investment balance that the Authority was carrying at the start of the year driven by receipt of

significant grant funding during March and April 2022, which is gradually being expended.

- 3.15 The Authority continues to hold a minimum of £10m of investments to meet the requirements of a professional client under the Mifid II regulations (Markets in financial instruments directive).
- 3.16 £4m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. As at 30<sup>th</sup> September 2022 it is pleasing to note that these funds continue to generate an average annualised income return of 4.44% which is used to support the revenue budget in year. However it should be noted that at the end of the period there were unrealised capital losses of £476,000 on these investments, reflective of the wider turbulence in financial markets. It is important to note that under current regulations these capital losses are not recognised in the Authority's income & expenditure account until such time that the investments are actually sold. The investments were initially made with a view to the longer term to provide consistent income returns and allow for fluctuations in capital value.

#### **Compliance with Prudential Indicators approved by Council**

- 3.17 As reported in section 10, during the period the Authority complied with the Cipfa code of practice on treasury management and with all treasury and prudential indicators as set in the 2022/23 Treasury strategy approved by full Council.

## **4 EXTERNAL CONTEXT**

- 4.1 **Economic background (as at 30<sup>th</sup> September 2022):** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.
- 4.2 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.
- 4.3 Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.
- 4.4 UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.
- 4.5 The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.
- 4.6 With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of -44 in August, down -41 in the previous month. Quarterly GDP fell -0.1% in the April-

June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

- 4.7 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.
- 4.8 On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.
- 4.9 Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.
- 4.10 After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.
- 4.11 Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from -0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.
- 4.12 **Financial Markets:** Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.
- 4.13 Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.
- 4.14 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.
- 4.15 **Credit review:** In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

- 4.16 Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.
- 4.17 Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.
- 4.18 Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.
- 4.19 **Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 7th November 2022 interest rate forecast)**

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>Official Bank Rate</b>													
<b>Upside risk</b>	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
<b>Arlingclose Central Case</b>	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
<b>Downside risk</b>	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00

- 4.20 Arlingclose expects Bank Rate to rise further during 2022/23 to reach 4% by the end of the year.
- 4.21 Following the exceptional 75bp rise in November, we believe the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.
- 4.22 The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- 4.23 Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

## 5 LOCAL CONTEXT

- 5.1 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, or to offset external borrowing requirements. On 31st March 2022, the Authority had a capital financing requirement of £187.0m alongside external borrowing of £175.5m and total investments of £48m.

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

	31.3.22 Actual £m	31.9.22 Actual £m
General Fund capital financing requirement	(189.4)	(189.4)
Less: *Other debt liabilities	2.4	2.4

<b>Borrowing capital financing requirement</b>	<b>(187.0)</b>	<b>(187.0)</b>
External borrowing	(175.5)	(164.5)
<b>Internal borrowing</b>	<b>11.5</b>	<b>22.5</b>
Less: Usable reserves	(42.7)	(42.7)
Less: Working capital	(16.8)	(7.9)
<b>Total Investments at 31<sup>st</sup> March 2022</b>	<b>(48.0)</b>	<b>(28.1)</b>

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

- 5.2 The above table demonstrates that at the start of the year, that of the £57.5m of internal resources that the authority had available (usable reserves plus working capital), £11.5m of this was being used to offset the overall borrowing requirement of £187.0m, with the remaining £48m at that time invested.
- 5.3 This position has changed over the period with external borrowing reducing to £164.5m, and internal borrowing increasing to £22.5m. This movement is to be expected and is in line with the Authority's policy of maintaining the use of internal borrowing up to a maximum level which could ultimately result in investment balances reducing to a baseline of £10m.
- 5.4 The overall treasury management position on 30<sup>th</sup> September 2022 and the change over the six months is shown in Table 2 below.

**Table 2: Treasury Management Summary**

	<b>31.3.22</b>	<b>31.3.22</b>	<b>Net</b>	<b>30.09.22</b>	<b>30.09.22</b>
	<b>Balance</b>	<b>Rate</b>	<b>Movement</b>	<b>Balance</b>	<b>Rate</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Long-term borrowing	104.3	3.1	26.8	131.1	3.2
Short-term borrowing	71.2	0.2	(37.8)	33.4	1.5
<b>Total borrowing</b>	<b>175.5</b>	<b>2.0</b>	<b>(11.0)</b>	<b>164.5</b>	<b>2.8</b>
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(14.0)	0.12	0.0	(14.0)	2.34
Strategic Pooled Funds	(4.0)	3.40	0.0	(4.0)	**4.44
Cash and cash equivalents	(30.0)	0.1	20.0	(10.1)	1.99
<b>Total investments</b>	<b>(48.0)</b>	<b>0.4</b>	<b>19.9</b>	<b>(28.1)</b>	<b>2.7</b>
<b>Net Borrowing</b>	<b>127.5</b>		<b>8.9</b>	<b>136.4</b>	

\*\* Annualised return

## 6 BORROWING UPDATE

### 6.1 Borrowing Strategy during the period

- 6.2 As outlined in the Authority's approved treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

- 6.3 Whilst the Authority has significant long-term borrowing requirements, the current strategy of funding capital expenditure remains to maximise 'internal borrowing', where the Authority seeks to use its



existing cash & reserve balances to afford its capital expenditure prior to taking out external borrowing i.e. deferring taking out new long term borrowing and funding capital expenditure from the Authority's own cash resources for as long as is possible, which it has because of its 'cash-backed' reserves and, to a lesser extent, day to day positive cash-flows.

- 6.4 By using an internal borrowing strategy, the Authority can also minimise cash holding at a time when counterparty risk remains relatively high, especially within the current economic climate. The interest rates achievable on the Authority's investments are also significantly lower than the current rates payable on long-term borrowing so this remains a sensible consideration in operating an 'internal borrowing' arrangement – i.e. it would cost more to borrow than it would to utilise existing investment balances and forego interest receivable. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current longer term borrowing rates may rise into the future.
- 6.5 Over the period short term PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget', including unfunded tax cuts and additional borrowing to fund consumer energy price subsidies. Exceptional volatility threatened financial stability, requiring Bank of England intervention in the gilt market. Over a twenty-four-hour period some PWLB rates increased to 6%, before the intervention had the desired effect, bringing rates back down by over 1% for certain maturities. A truly wild and unprecedented period in fixed income markets, with a direct impact on PWLB rates.
- 6.6 Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%
- 6.7 The Authority chose to lock into some longer-term borrowing during the period to give greater certainty to future borrowing costs. In the first six months of the year a total of £30.8m of longer term borrowing has been taken with durations between 5 and 40 years. These can be seen in table 3b.
- 6.8 At 30<sup>th</sup> September 2022 the Authority held £164.5m of loans, (a decrease of £11.0m from 31<sup>st</sup> March 2022), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30<sup>th</sup> September are summarised in Table 3 below. New long-term borrowing undertaken in year can be seen in Table 3b below.

**Table 3: Borrowing Position**

	31.3.22 Balance £m	31.3.22 Weighted Average Rate %	31.3.22 Weighted Average Maturity (years)	Net Movement £m	30.09.22 Balance £m	30.09.22 Weighted Average Rate %	30.09.22 Weighted Average Maturity (years)
Public Works Loan Board	86.8	3.1	24.8	30.2	117.0	3.3	23.3
Banks (LOBO)	13.6	4.8	19.8	0.0	13.6	4.8	19.3
Welsh Gov Interest Free	6.0	0.0	3.3	(0.1)	5.9	0.0	3.2
Local authorities/Other	69.0	0.1	0.3	(41.1)	28.0	0.5	0.4
<b>Total borrowing</b>	<b>175.5</b>	<b>2.0</b>	<b>14.0</b>	<b>(11.0)</b>	<b>164.5</b>	<b>2.8</b>	<b>18.4</b>

**Table 3b: Long-dated Loans Borrowed**

	<b>Amount</b>	<b>Rate</b>	<b>Period</b>
	<b>£m</b>	<b>%</b>	<b>(Years)</b>
PWLB EIP Loan 1	1.8	2.31	8
PWLB Maturity Loan 1	2.0	2.80	26
PWLB Maturity Loan 2	2.0	2.82	27
PWLB Maturity Loan 3	5.0	3.24	38
PWLB Maturity Loan 4	5.0	3.22	40
PWLB Maturity Loan 5	2.0	4.78	5
PWLB Maturity Loan 6	2.0	4.80	6
PWLB Maturity Loan 7	2.0	4.80	7
PWLB Maturity Loan 8	2.0	4.81	8
PWLB Maturity Loan 9	3.5	4.82	9
PWLB Maturity Loan 10	3.5	4.84	10
<b>Total borrowing</b>	<b>30.8</b>		

6.9 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

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

## 7 INVESTMENT UPDATE

7.1 The CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

7.2 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £17.0m and £73.1m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

**Table 4: Treasury Investments**

	<b>31.3.22 Balance £m</b>	<b>Net Movement £m</b>	<b>30.09.22 Balance £m</b>	<b>30.09.22 Capital Return %</b>	<b>30.09.22 Income Return %</b>
Banks & building societies (unsecured)	(2.0)	0.5	(1.5)	n/a	0.00%
Government (incl. local authorities)	(14.0)	0.0	(14.0)	n/a	1.46%
Money Market Funds	(28.0)	19.5	(8.5)	n/a	1.16%
Strategic Pooled funds	(4.0)	0.0	(4.0)	-11.05%	4.44%
<b>Total investments</b>	<b>(48.0)</b>	<b>19.9</b>	<b>(28.1)</b>		

\*\* Annualised return

7.3 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently,

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

- 7.4 Bank Rate increased over the period, and with the prospect of more increases to come. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.
- 7.5 By end September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Authority's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.5% - 0.64% p.a. in early April and between 1.96% and 2.13% at the end of September.
- 7.6 The reduction in total investments for the period can be explained by the continuation of the internal borrowing strategy (which uses internal cash balances in lieu of borrowing), and the comparatively high investment balance that the Authority was carrying at the start of the year driven by receipt of significant grant funding during March and April 2022, which is gradually being expended.
- 7.7 It is anticipated that investments will continue to reduce during 2022/23 as an alternative to borrowing and towards the minimum balance of £10m, which will remain invested for compliance with MiFID II regulations.
- 7.8 Given the continuing risk and low returns from short-term unsecured bank investments, aside from deposits with its operational bank, the Authority has continued to look to diversify into more secure and/or higher yielding asset classes as shown in table 4 above.
- 7.9 The progression of risk and return metrics are shown in the investment benchmarking in Table 5 below.

**Table 5: Investment benchmarking - Treasury investments managed in-house**

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2022	AA-	3.81	59%	4	0.64
30.09.2022	AA-	4.38	76%	16	0.99
<b>Similar LAs</b>	AA-	4.18	40%	62	0.96
<b>All LAs</b>	AA-	4.46	64%	16	0.92

- 7.10 **Externally Managed Pooled Funds:** £4m of the Authority's investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. As at 30<sup>th</sup> September 2022 these funds had generated an average annualised income return of 4.44% which is used to support services in year, and -11.05% of unrealised capital losses, which total £476,000.
- 7.11 The increase in policy rates in the UK, US and Eurozone and the prospect of low to no growth and a recessionary period ahead was also a challenging period for equities, the FTSE All Share index falling from 4187 on 31st March to 3763 on 30th September, whilst the MSCI World Index fell from 3053 to 2378 over the same period. The fall in equity valuations is reflected in the equity and multi-asset income funds.
- 7.12 Significant financial market volatility and uncertainty remain due to stagflation fears, little sight of the

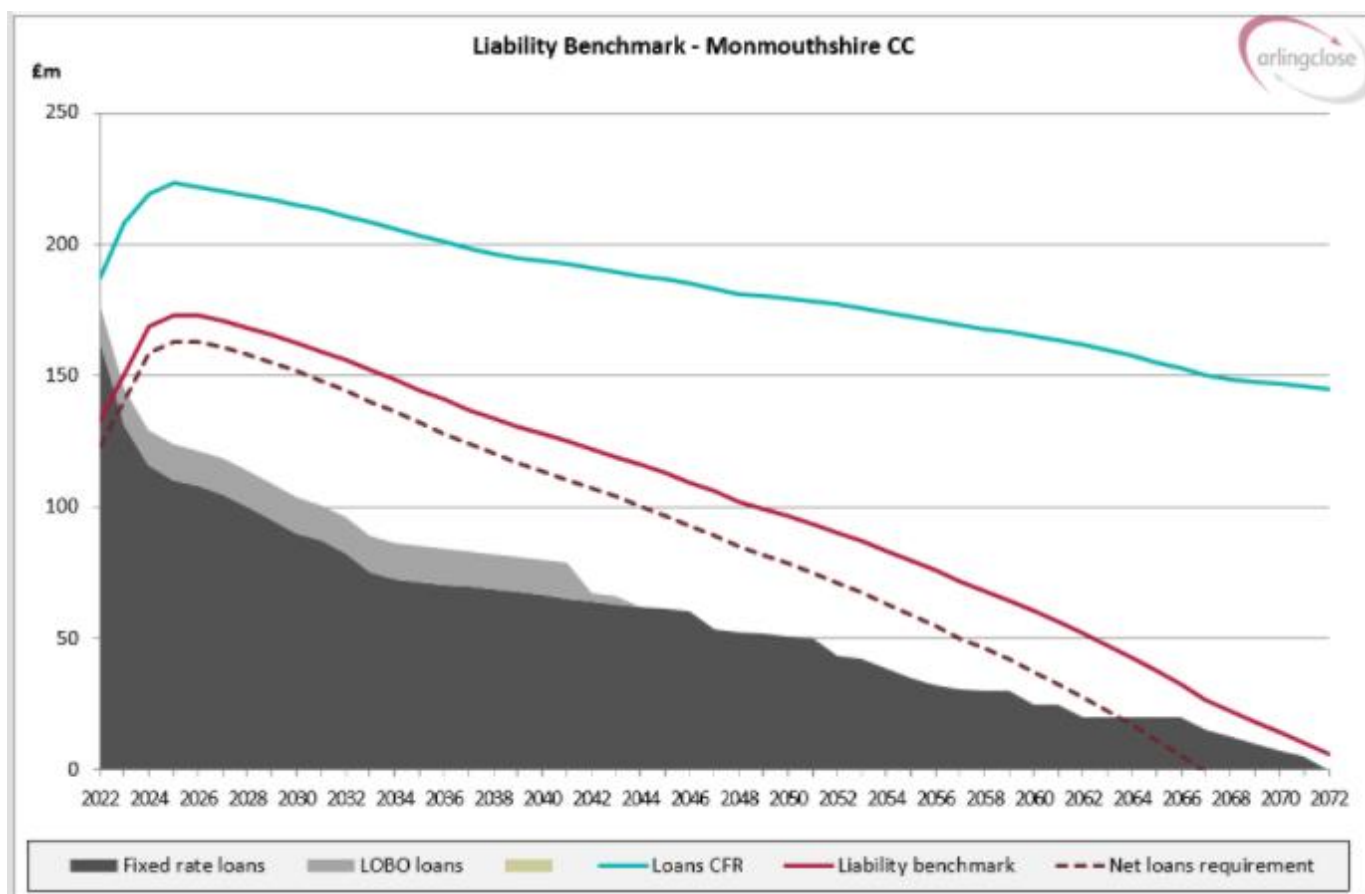
war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 30 months, yet to be fully resolved.

7.13 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 medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

### Liability Benchmark Indicator

7.14 CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e. all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the authority is exposed to interest rate, liquidity and refinancing risks. Conversely, where external loans exceed the Liability Benchmark then this will highlight an over borrowed position which will result in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry. The treasury strategy should explain how the treasury risks identified by the Liability Benchmark are to be managed over the coming years.

7.15 A recent change in guidance recommended publishing a benchmark liability periodically as part of treasury performance updates. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow. Monmouthshire’s latest liability benchmark is demonstrated below:



7.16 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 below 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 a risk assessed balance between short term and long term borrowing which will fill this gap over time.

## 8 NON-TREASURY INVESTMENTS

8.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds that generate a financial return. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

8.2 The Authority held a net book value of £66.7m of such non-financial asset investments at the 31<sup>st</sup> March 2022 made up of:

- Oak Grove Solar Farm - £5.4m
- Castlegate Business Park & service loan - £6.1m
- Newport Leisure Park & service loan - £18.9m
- Agricultural Properties - £32.9m
- Industrial Properties and Retail Units - £3.4m

These investments are budgeted to generate approximately £1.0m of income for the Authority in 2022/23 after accounting for direct costs, and continue to represent an important income stream to support the revenue budget.

## 9 COMPLIANCE

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

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

**Table 7: Debt limits**

	<b>2022/23 Maximum during year £m</b>	<b>30.09.22 Actual £m</b>	<b>2022/23 Operational Boundary £m</b>	<b>2022/23 Authorised Limit £m</b>	<b>Complied? Yes/No</b>
Borrowing	179.2	164.3	238.0	268.2	Yes
PFI, Finance Leases & Other LT liabilities	2.4	2.4	2.9	4.4	Yes
<b>Total debt</b>	<b>181.6</b>	<b>166.7</b>	<b>240.9</b>	<b>272.6</b>	

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

9.4 Compliance with agreed Investment limits is shown below:

**Table 8: Investment limits**

	<b>2022/23 Maximum</b>	<b>2022/23 Limit</b>	<b>Complied? Yes</b>
The UK Government	£38.2m	Unlimited	Yes
Local authorities & other government entities	£0	£4m	Yes
Secured investments	£0	£4m	Yes
Banks (unsecured)	£3m	£2m (£3m total for the Authority's operational bank)	Yes
Building societies (unsecured)	£0	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured)	£0	£2m	Yes
Money market funds (individually)	£4m	£4m	Yes
Strategic pooled funds	£3m	£5m	Yes
Real estate investment trusts	£0	£5m	Yes
Other Investments	£0	£2m	Yes

**9.5 Treasury Management Indicators**

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

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

**Table 9: Security**

	<b>30.09.22 Actual</b>	<b>2021/22 Target</b>	<b>Complied?</b>
Portfolio average credit	A+/4.38	A-/5.0	Yes

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

**Table 10: Maturity structure of borrowing**

	<b>30.03.22 Actual</b>	<b>30.09.22 Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Complied?</b>
Under 12 months	41%	20%	0%	60%	Yes
12 months and within 24 months	2%	2%	0%	30%	Yes
24 months and within 5 years	6%	5%	0%	30%	Yes
5 years and within 10 years	6%	17%	0%	30%	Yes
10 years and within 20 years	12%	13%	0%	30%	Yes

20 years and within 30 years	15%	19%	0%	30%	Yes
30 years and within 40 years	7%	13%	0%	30%	Yes
40 years and within 50 years	11%	12%	0%	30%	Yes
50 years and above	0%	0%	0%	30%	Yes

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

**Table 11: Invested beyond 1 Year**

	2022/23	2023/24	2024/25
Actual principal invested for 365 days & beyond year end	£0	£0	£0
Limit on principal invested for 365 days & beyond year end	£6m	£6m	£6m
Complied?	Yes	Yes	Yes

## 10 REASONS

10.1 The Treasury Management Strategy for the Authority is underpinned by its adherence to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, which includes the requirement that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

## 11 CONSULTEES

Deputy Chief Executive, Chief Officer - Resources (Section 151 officer)  
Arlingclose – Treasury Management Advisors to Monmouthshire CC

## 12 BACKGROUND PAPERS

Glossary of treasury terms

## 13 AUTHORS

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## Background paper: 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 Authority'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> - Secured - unsecured	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



<b>SUBJECT:</b>	<b>INTERNAL AUDIT Progress Report for 6 Months into 2022/23</b>
<b>DIRECTORATE:</b>	<b>Resources</b>
<b>MEETING:</b>	<b>Governance &amp; Audit Committee</b>
<b>DATE:</b>	<b>24<sup>th</sup> November 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 30<sup>th</sup> September 2022.

To consider the performance of the Internal Audit Section over the first 6 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 2022/23 Operational Audit Plan and the Section's performance indicators at the 6 month stage of the financial year.

## 3. KEY ISSUES

3.1 This report gives brief details of the work undertaken so far in the year along with the Section's performance indicators for the 6 months to 30<sup>th</sup> September 2022.

3.2 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.

3.3 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 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.

3.4 The Internal Plan 2022/23 was approved by Governance and Audit Committee in June 2022.

3.5 The year end opinion for 2022/23 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems along with any assurance gained from other parties where relevant.

#### 4. REASONS

4.1 Since the start of the financial year, the Internal Audit Section has completed 16 audit jobs to draft stage from its 2022/23 Operational Audit Plan; 9 of these being opinion related and are shown in the table below and at Appendix 1; 2 grant claims were audited. No Limited audit opinions have been issued so far this year. The team have been operating without an Audit Manager and a Senior Auditor for Q1 & Q2.

Opinion Summary		
Substantial	4	<ul style="list-style-type: none"> <li>• PTU Maintenance follow up</li> <li>• Dewstow</li> <li>• Llanvihangel Crucorney</li> <li>• King Henry V111</li> </ul>
Considerable	4	<ul style="list-style-type: none"> <li>• Freedom of Information</li> <li>• H&amp;S Buildings follow up</li> <li>• Food Procurement Follow Up</li> <li>• Caldicot Castle</li> </ul>
Reasonable	1	<ul style="list-style-type: none"> <li>• Carers Service</li> </ul>
Limited	0	
Total	9	

4.2 In relation to the normal audit opinion related reports, 7 had been issued in draft by the end of the 2<sup>nd</sup> Quarter, 2 had been finalised.

4.3 Work has been ongoing with the Digital Team on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports. Progress will be reported to the Governance and Audit Committee and the Strategic Leadership team (SLT) later in the year for consideration and action, if appropriate.

4.4 Other audit work in line with the plan has started and site visits have recommenced; 44% of planned work has commenced. Follow up audits are progressing.

- 4.5 The definitions of the four internal audit opinions and the finding ratings used by the Section are provided at Appendix 2 for Members' information.
- 4.6 Finalisation work from 2021/22 continued; of the 8 reviews at draft report stage at 31<sup>st</sup> March 2022, 8 have subsequently been finalised.
- 4.7 There has been minimal work undertaken on special investigations during 2022/23 so far by the team; no specific investigations are underway.
- 4.8 Appendix 3 of the report gives details of the Section's performance indicators as at 30<sup>th</sup> September 2022.
- 4.9 28% of the 2022/23 Audit Plan has been completed as at 30<sup>th</sup> September 2022 which is just below the target of 30%.
- 4.10 Getting audit reports out in a timely manner is important; on average draft reports are being issued within 5 days against a target of 10 days and final reports are being issued within 17 days which is outside the target of 10 days.
- 4.11 Although Audit Evaluation Questionnaires have been sent out to service managers on the finalisation of the audit report, audit records show that none have yet been returned. This will be followed up by the team. Service managers have the opportunity to feedback to the team on how satisfied they were with the audits through this process.
- 4.12 The team has not started the year with a full complement of staff in the team due to unfilled vacancies. The Senior Auditor and Audit Manager posts have been advertised but we were not in a position to shortlist applicants so these will be readvertised.
- 4.13 The team co-ordinates the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council. Data collection for the 2022 exercise is underway with the majority of data sets already uploaded.

## **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, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These will be reported separately to the Governance and 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 2022/23

## **10. AUTHORS AND CONTACT DETAILS**

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## AUDIT COMMITTEE SEPTEMBER 2022

### INTERNAL AUDIT SECTION PROGRESS REPORT 2022/23 – 6 MONTHS

#### APPENDIX 1

Internal Audit reviews from the 2022/23 Operational Audit Plan where fieldwork has been completed and/or final reports issued since 1/4/22 are listed in the table below.

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

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

### Status of reports as at 30<sup>th</sup> September 2022

#### Internal Audit Services - Management Information for 2022/23 – Quarter 2

Opinion Summary	
Substantial	4
Considerable	4
Reasonable	1
Limited	0
Total	9

Job number	Directorate	Service	Job Name	Risk Rating	Final / Draft	Opinion given
P2223-08	Resources	Commercial, Property, Fleet, Facilities	PTU Maintenance follow up	High	Draft	Substantial
P2223-21	Children & Young People	Primary Schools	Dewstow	Low	Draft	Substantial
P2223-22	Children & Young People	Primary Schools	Llanvihangel Crucorney	Low	Draft	Substantial
P2223-26	Children & Young People	Secondary Schools	King Henry V111	Medium	Draft	Substantial
P2223-06	Resources	Digital	Freedom of Information	Medium	Final	Considerable
P2223-09	Resources	Commercial, Property, Fleet, Facilities	H&S Buildings follow up	High	Final	Considerable

<b>Job number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>	<b>Risk Rating</b>	<b>Final / Draft</b>	<b>Opinion given</b>
P2223-42	Enterprise	Enterprise and Community Animation	Food Procurement Follow Up	High	Draft	Considerable
P2223-52	Mon Life	Heritage	Caldicot Castle	Medium	Draft	Considerable
P2223-30	Social Care & Health	Adult Services	Carers Service	Medium	Draft	Reasonable
P2223-18	Children & Young People	CYP Finance & Support Services	School Improvement Grant	Low		Unqualified
P2223-19	Children & Young People	CYP Finance & Support Services	Pupil Development Grant	Low		Unqualified

## Non – opinion / Added Value Audit Work

Job number	Directorate	Service	Job Name
P2223-10	Resources	Resources General	Audit Advice
P2223-27	Children & Young People	CYP General	Audit Advice
P2223-37	Social Care & Health	SCH&Safeguarding General	Audit Advice
P2223-48	Enterprise	Enterprise General	Audit advice
P2223-58	Corporate	Corporate	Annual Governance Statement (AGS)

**Internal Audit Opinions**

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

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

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

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

**For grant claim audits:**

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

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

## AUDIT COMMITTEE SEPTEMBER 2022

### INTERNAL AUDIT SECTION PROGRESS REPORT 2022/23 – 6 MONTHS

#### APPENDIX 3

#### Performance Indicators

N / A – not available

	2021/22	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	11%	28%	40%	64%	80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	9 days	5 days	6 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	5 days	10 days
4	Percentage of recommendations made that were accepted by the clients	97%	97%	98%	99%	95%
5	Percentage of clients at least 'satisfied' by audit process	100%	100%	100%	100%	95%
6	Percentage of directly chargeable time (actual v planned)	77%	90%	72%	74%	60%
7	Number of special investigations	1	1	1	1	

	2022/23	Q1	Q2	Q3	Q4	Target
1	Percentage of planned audits completed	11%	28%			30% in Q2 80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	14 days	5 days			10 days
3	Average no. of days from receipt of response to draft report to issue of the final report	30 days	17 days			10 days
4	Percentage of recommendations made that were accepted by the clients	90%	68%			95%
5	Percentage of clients at least 'satisfied' by audit process	N/A	N/A			95%
6	Percentage of directly chargeable time (actual v planned)	68%	67%			100%
7	Number of special investigations	0	0			

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

**DIRECTORATE: Resources**  
**MEETING: Governance & Audit Committee**  
**DATE: 24<sup>th</sup> November 2022**  
**DIVISION/WARDS AFFECTED: All**

## 1. PURPOSE

To update Members on the progress of unfavourable (**Limited Assurance**) audit opinions issued since 2017/18 by the Internal Audit team, and identify in particular, where sufficient progress has not been made. This report is for the period ending 30 September 2022. The previous update was presented to the Governance & Audit Committee in June 2022 and related to the period ending 30 September 2021.

## 2. RECOMMENDATION(S)

- 2.1 That the Governance & Audit Committee note the improvements made by service areas following the original **Limited** assurance audit opinions issued.
- 2.2 That if the Members of the Governance & Audit Committee are concerned about any of the audit opinions issued or lack of improvement made after the follow up audit review, consideration be given to calling in the operational manager and the Head of Service to provide justification for lack of progress and hold them to account for future improvements.
- 2.3 Given that Members have already called in the Head of Service and service managers for Concessionary Travel and Fleet – Health & Safety & Driver Management having **Limited** assurance opinions in 2021/22, the Chief Internal Auditor is not recommending any further call-ins at this stage.

### 3. KEY ISSUES

- 3.1 The number of unfavourable audit opinions issued by Internal Audit is not always that significant compared to the total number of audit opinions issued in any one year, but nonetheless, they are issued where significant weaknesses in internal control have been identified.

Audit Opinion	2019/20	%	2020/21	%	2021/22	%
Substantial	2	6	2	22	5	25
Considerable	11	38	6	67	6	30
Reasonable	8	28	1	11	7	35
Limited	8	28	0	0	2	10
	29	100	9	100	20	100

- 3.2 The majority of the systems / establishments issued with an unfavourable audit opinion originally and which have since been followed up, have improved to some extent prior to the audit team undertaking a follow up review. The majority of reviews were given a more favourable opinion, which recognises that issues identified originally were subsequently addressed by management.
- 3.3 The audit opinions reflect the level of assurance that could be gained from the review of internal controls in operation. The audit opinions in use from April 2016 are Substantial, Considerable, Reasonable and Limited Assurance; the definitions of which are shown at Appendix 1.

### 4. REASONS

- 4.1 The opinion gives an indication of the adequacy of the internal control environment of the system or establishment under review. During the audit planning process the reviews are risk assessed as High, Medium or Low.
- 4.2 The previous report was presented to Governance and Audit Committee in June 2022; this information should be updated and presented to the Governance and Audit Committee on a six monthly basis.
- 4.3 The following unfavourable audit opinions have been issued since 2017/18:



	Limited (Assurance) audit opinions
2017/18	8
2018/19	6
2019/20	8
2020/21	0
2021/22	2
2022/23 (to 30 <sup>th</sup> September 2022)	0

- 4.4 Ideally, these audit reviews will be followed up by the audit team within 9 to 12 months of the final report being issued to ensure that action has been taken to address the weaknesses identified; subject to appropriate audit resources being available. Follow up audits may need to take priority over planned audit work in future to ensure resources are made available and assurance is fed back to Governance and Audit Committee in a more timely manner.
- 4.5 All audit reports resulting in a consecutive **Limited** assurance opinion will be reported back to Governance and Audit Committee. Some delays may have arisen as a result of the operational manager deferring the follow up audit.
- 4.6 During 2017/18, 8 reports were issued with a **Limited** opinion. 7 out of 8 reports have been followed up and have been given an improved opinion. 1 review related to the Events audit \*. Food Procurement was followed up and received a more favourable audit opinion of Considerable Assurance. Relevant managers previously attended the former Audit Committee and gave assurances that improvements would be made.

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2017/18</b>					
	Food Procurement	High	Limited  Follow Up November 2020 - Limited	Considerable	Draft issued June 2022

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

4.7 During 2018/19, 6 reports were issued with a **Limited** opinion. All have now been followed up and received more favourable opinions (3 were previously reported into Governance and Audit Committee).

	Audit	Risk H/M/L	Opinion	Revised Opinion / Status	Date Issued
<b>2018/19</b>	Caldicot Castle	Medium	Limited  Follow up March 2020 - Limited	Considerable	Draft issued September 2022
	Agency Workers	Medium	Limited	Reasonable	Final issued September 2022
	Health & Safety of Authority's existing buildings	Medium	Limited	Considerable	Final issued September 2022

4.8 During 2019/20, 8 reports were issued with a **Limited** opinion. These were as follows:

	Assignment	Risk H/M/L	Opinion	Revised Opinion/ Status	Date Issued
<b>2019/20</b>	Llandogo Primary School	Low	Limited	Q4 2022/23	
	Castle Park Primary School	Low	Limited	Q4 2022/23	
	Shire Hall	Medium	Limited	Considerable	Final issued March 2022
	Tintern Old Station	Medium	Limited	2023/24	o/s
	Caldicot Castle follow up	Medium	Limited	Considerable  (Covered in table at 4.6 above)	
	PTU Vehicle Maintenance	High	Limited	Substantial	Draft issued June 2022

	Procurement (Food) follow up	High	Limited	Considerable (Covered in table at 4.5 above)	
	Direct Payments	Medium	Limited	Reasonable	Final issued June 2022

4.9 It should be noted that due to the impact of the Covid pandemic, Shire Hall, Tintern Old Station and Caldicot Castle had been closed for much of 2020 and 2021; due to limited audit resources only 2 of these have been followed up.

4.10 Of the 9 opinions issued in 2020/21, no **Limited** opinions were issued.

4.11 Of the 20 opinions issued in 2021/22, 2 **Limited** opinions were issued.

	Assignment	Risk H/M/L	Opinion	Revised Opinion/ Status	Date Issued
<b>2021/22</b>	Concessionary Travel	M	Limited	Q4 2022/23	Final issued May 2022
	Fleet – Health & Safety & Driver Management	M	Limited	Q4 2022/23	Final issued December 2021

4.12 Following the presentation of the IA Annual Report 2021/22 to Governance and Audit Committee in July 2022, members called in the Head of Service and service managers for both of the above reports in order for them to provide assurances that improvements will be made in the control environment of the services provided.

4.13 Of the 9 opinions issued in 2022/23 to 30<sup>th</sup> September, no **Limited** opinions were issued.

4.14 As part of all audit reviews, the issues identified at the previous audit are followed up to ensure that they have been adequately addressed, which should provide assurance on the effectiveness of the internal control environment for that particular service, system or establishment.

## **5. SERVICE MANAGEMENT RESPONSIBILITIES**

- 5.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans they are accepting responsibility for addressing the issues identified within the agreed timescales.
- 5.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary. All Internal Audit opinions are also reported into the Senior Leadership Team (SLT) every six months. SLT's focus is, along with Chief Officers and DMTs, ensuring that satisfactory progress is being made to address control weaknesses highlighted in the audit reports, in particular Limited assurance reports.

## **6. RESOURCE IMPLICATIONS**

None.

## **7. CONSULTEES**

Deputy Chief Executive and Chief Officer, Resources

## **8. BACKGROUND PAPERS**

Audit management Information 2018/19, 2019/20, 2020/21, 2021/22, 2022/23.

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

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

**Internal Audit Opinions**

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

The table below summarises the ratings used during the reviews:

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

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<b>SUBJECT:</b>	<b>PUBLIC SERVICES OMBUDSMAN FOR WALES ANNUAL LETTER 2021/22</b>
<b>MEETING:</b>	<b>GOVERNANCE AND AUDIT COMMITTEE</b>
<b>DATE:</b>	<b>24 NOVEMBER 2022</b>
<b>DIVISION/WARDS AFFECTED:</b>	<b>ALL</b>

## 1. **PURPOSE:**

The purpose is to fulfil the expectation of the Public Services Ombudsman for Wales that their report is brought to the attention of Cabinet and the Governance and Audit Committee.

The report was presented to Cabinet on 19 October 2022. They noted the contents of the Public Sector Ombudsman for Wales (PSOW) annual letter (Appendix 1) and agreed that the authority continues to engage with the PSOW complaints standards work, access training for staff and provide the PSOW with complaints data. We have also fully implemented the PSOW's model complaints policy. The PSOW's annual letter has also been presented to the Standards Committee held on 10 October 2022.

## 2. **RECOMMENDATIONS:**

- 2.1 Governance and Audit Committee note the content of the Public Sector Ombudsman for Wales (PSOW) annual letter (Appendix 1) and inform the PSOW of their considerations and any proposed actions. The PSOW has been informed that due to the scheduling of meetings there would be a delay in responding to them by their respective date. They accepted this.
- 2.2 That the authority continues to engage with the PSOW complaints standards work, access training for staff and provide the PSOW with complaints data. We have also fully implemented the PSOW's model complaints policy.

## 3. **KEY ISSUES:**

- 3.1 The Public Sector Ombudsman for Wales sends every Council an annual letter which provides a summary of the complaints received and investigated. This compares the number of complaints against the local authority which were received and investigated by the PSOW during 2021/22, with the local authority average during the same period.
- 3.2 The PSOW annual letter provides:

- a breakdown of the number of complaints about the local authority broken down into subject categories.
- shows the complaint outcomes for the local authority and the volume and proportion that each outcome represents for the local authority.
- the numbers and percentages of cases received in which an intervention has occurred.
- a breakdown of all Code of Conduct complaint outcomes against councillors.
- a breakdown of all Code of Conduct complaint outcomes against town or community councils.

3.3 The PSOW received 20 complaints about Monmouthshire County Council. This is the same number they received in the previous year. One complaint was investigated by them which is the same as the previous year. Comparisons are shown below, noting that the categories used by the commissioner differ between years.

<b>Complaints received by subject: (PSOW definition)</b>	<b>Complaints Received</b>	
	<b>21/22</b>	<b>20/21</b>
Adult Social Services	1	0
Children Social Services	6	3
Complaints handling	3	3
Environment and Environmental health	2	1
Finance and Taxation	1	0
Housing	1	0
Planning and Building Control	6	6
Roads and transport	0	3
Community Facilities, Recreation & Leisure	0	1
Covid 19	0	1
Other	0	2

#### **PSOW Comparison of complaint outcomes**

<b>Local Authority</b>	<b>Out of Jurisdiction</b>	<b>Premature</b>	<b>Other cases closed after initial consideration</b>	<b>Early resolution/voluntary settlement</b>	<b>Discontinued</b>	<b>Other report – not upheld</b>	<b>Other report – upheld in whole or in part</b>	<b>Public interest reports</b>
Monmouthshire	5	10	4	2	0	0	0	0

There was one complaint where the PSOW intervened.

#### **Code of Conduct complaints**



There were two complaints that were closed with no evidence of breach.

### **Town/Community Council Code of Conduct complaints**

There were no complaints.

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

This report provides feedback information from the Public Services Ombudsman for Wales. The report does not seek to divert from the Council's corporate priorities and the continued delivery of the wide range of services provided through the Council to the public. As the report deals solely with feedback information, a Future Generations and Equality Impact Assessment is not considered appropriate in this instance.

## **5 OPTIONS APPRAISAL**

This section is not relevant as the work of the Public Services Ombudsman for Wales is outside of our control.

## **6 EVALUATION CRITERIA**

We will continue to work with the Public Services Ombudsman for Wales office to resolve as many issues as possible at an early stage and monitor the number of complaints the Public Services Ombudsman for Wales receives and deals with.

## **7 REASONS:**

- 7.1 The Public Services Ombudsman for Wales (PSOW) role is to consider complaints about public services providers in Wales and to consider complaints that members of local authorities have broken the Code of Conduct. The PSOW has requested that Cabinet considers the complaints that the PSOW has received.

## **8 RESOURCE IMPLICATIONS:**

There are currently no extra resource costs identified.

## **9 CONSULTEES:**

Strategic Leadership Team  
Cabinet

## **10 BACKGROUND PAPERS:**

**Appendix 1: The Public Services Ombudsman for Wales Annual letter 2021/22**

**11 AUTHOR:**


Annette Evans, Customer Relations Manager

**12 CONTACT DETAILS:**


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Ask for: Communications

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Date: August 2022

 communications@ombudsman.wales

Cllr. Mary Ann Brocklesby  
Monmouthshire County Council  
By Email only: maryannbrocklesby@monmouthshire.gov.uk

## **Annual Letter 2021/22**

Dear Councillor Brocklesby

I am pleased to provide you with the Annual letter (2021/22) for Monmouthshire County Council which deals with complaints relating to maladministration and service failure, complaints relating to alleged breaches of the Code of Conduct for Councillors and the actions being taken to improve public services

This is my first annual letter since taking up the role of Public Services Ombudsman in April 2022, and I appreciate that the effects of the pandemic are still being felt by all public bodies in Wales. Our office has not been immune from this, with records numbers of cases being referred to us over the last two years. The strong working relationships between my Office and local authorities continues to deliver improvements in how we are dealing with complaints and ensuring that, when things go wrong, we are learning from that and building stronger public services.

### **Complaints relating to Maladministration & Service Failure**

Last year the number of complaints referred to us regarding Local Authorities increased by 47% (compared to 20/21 figures) and are now well above pre-pandemic levels. It is likely that complaints to my office, and public services in general, were suppressed during the pandemic, and we are now starting to see the expected 'rebound' effect.

During this period, we intervened in (upheld, settled or resolved at an early stage) a similar proportion of complaints about public bodies, 18%, when compared with recent years. Intervention rates (where we have investigated complaints) for Local Authorities also remained at a similar level – 14% compared to 13% in recent years.

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## Complaints relating to the Code of Conduct for Councillors

We also received a high number of Code of Conduct complaints last year, relating to both Principal Councils and Town and Community Councils. A record number (20) were referred to either the Adjudication Panel for Wales or local standards committees, due to evidence of a breach of the Code.

## Supporting improvement of public services

In addition to managing record levels of complaints, we also continued our work using our proactive powers in the Public Services Ombudsman (Wales) Act 2019. Specifically undertaking our first Own Initiative Investigation and continuing our work on the Complaints Standards Authority.

October 2021 saw the publication of the first own initiative investigation in Wales: [Homelessness Reviewed](#). The investigation featured three Local Authorities and sought to scrutinise the way Homelessness assessments were conducted. The report made specific recommendations to the investigated authorities, as well as suggestions to all other Local Authorities in Wales and Welsh Government. Some of these recommendations will bring about immediate change – updating factsheets and letter and assessment templates to ensure that key equality and human rights considerations are routinely embedded into processes for example – all the recommendations were designed to bring about tangible change to people using homelessness services in Wales.

The Complaints Standards Authority (CSA) continued its work with public bodies in Wales last year. The model complaints policy has already been adopted by local authorities and health boards in Wales, we have now extended this to an initial tranche of Housing Associations and Natural Resources Wales. The aim being to implement this work across the Welsh public sector.

In addition to this, the CSA published information on complaints handled by local authorities for the [first time](#) – a key achievement for this work. The data for 21/22 showed:

- Over 15,000 complaints were recorded by Local Authorities
- 4.88 for every 1000 residents.
- Nearly half (46%) of those complaints were upheld.
- About 75% were investigated within 20 working days.
- About 8% of all complaints closed ended up being referred to PSOW.

The CSA has now implemented a model complaints policy with nearly 50 public bodies, and delivered 140 training sessions, completely free of charge, during the last financial year. The feedback has been excellent, and the training has been very popular - so I would encourage Monmouthshire County Council to engage as fully as possible.

## **Complaints made to the Ombudsman**

A summary of the complaints of maladministration/service failure received relating to your Council is attached, along with a summary of the Code of Conduct complaints relating to members of the Council and the Town & Community Councils in your area.

In light of the new duties on political leaders and standards committees to promote and maintain high standards of conduct of their members, we look forward to working with you, your Monitoring Officer and standards committees to share any learning from the complaints we receive and to support your authority's work.

I would also welcome feedback on your Governance & Audit Committee's review of your authority's ability to handle complaints effectively so that we can take this into account in our work and support its work on the handling of complaints.

Finally, can I thank you and your officials for the positive way that local authorities have engaged with my Office to enable us to deliver these achievements during what has been a challenging year for everyone. I very much look forward to continuing this work and collaboration to ensure we further improve public services across Wales.

Further to this letter can I ask that your Council takes the following actions:

- Present my Annual Letter to the Cabinet and to the Governance & Audit Committee to assist members in their scrutiny of the Council's performance and share any feedback from the Cabinet and the Governance & Audit Committee with my office.
- Continue to engage with our Complaints Standards work, accessing training for your staff, fully implementing the model policy, and providing complaints data.
- Inform me of the outcome of the Council's considerations and proposed actions on the above matters by 30 September.

This correspondence is copied to the Chief Executive of your Council and to your Contact Officer. Finally, a copy of all Annual Letters will be published on my website.

Yours sincerely,



**Michelle Morris**

**Public Services Ombudsman**

cc. Paul Matthews, Chief Executive, Monmouthshire County Council.

By Email only: paulmatthews@monmouthshire.gov.uk

## Factsheet

### Appendix A - Complaints Received

Local Authority	Complaints Received	Received per 1000 residents
Blaenau Gwent County Borough Council	14	0.20
Bridgend County Borough Council	55	0.37
Caerphilly County Borough Council	60	0.33
Cardiff Council*	182	0.50
Carmarthenshire County Council	54	0.29
Ceredigion County Council	52	0.72
Conwy County Borough Council	27	0.23
Denbighshire County Council	34	0.36
Flintshire County Council	99	0.63
Gwynedd Council	39	0.31
Isle of Anglesey County Council	29	0.41
Merthyr Tydfil County Borough Council	27	0.45
Monmouthshire County Council	20	0.21
Neath Port Talbot Council	45	0.31
Newport City Council	40	0.26
Pembrokeshire County Council	39	0.31
Powys County Council	55	0.42
Rhondda Cynon Taf County Borough Council	51	0.21
Swansea Council	71	0.29
Torfaen County Borough Council	18	0.19
Vale of Glamorgan Council	61	0.46
Wrexham County Borough Council	71	0.52
<b>Total</b>	<b>1143</b>	<b>0.36</b>

\* inc 17 Rent Smart Wales

Appendix B - Received by Subject

<b>Monmouthshire County Council</b>	<b>Complaints Received</b>	<b>% Share</b>
Adult Social Services	1	5%
Benefits Administration	0	0%
Children's Social Services	6	30%
Community Facilities, Recreation and Leisure	0	0%
Complaints Handling	3	15%
Covid19	0	0%
Education	0	0%
Environment and Environmental Health	2	10%
Finance and Taxation	1	5%
Housing	1	5%
Licensing	0	0%
Planning and Building Control	6	30%
Roads and Transport	0	0%
Various Other	0	0%
<b>Total</b>	<b>20</b>	

## Appendix C - Complaint Outcomes (\* denotes intervention)

County/County Borough Councils	Out of Jurisdiction	Premature	Other cases closed after initial consideration	Early Resolution/ voluntary settlement*	Discontinued	Other Reports- Not Upheld	Other Reports Upheld*	Public Interest Report*	Total
Monmouthshire County Council	5	10	4	2	0	0	0	0	21
% Share	24%	48%	19%	10%	0%	0%	0%	0%	



## Appendix D - Cases with PSOW Intervention

	No. of interventions	No. of closures	% of interventions
Blaenau Gwent County Borough Council	0	13	0%
Bridgend County Borough Council	7	54	13%
Caerphilly County Borough Council	7	58	12%
Cardiff Council	45	159	28%
Cardiff Council - Rent Smart Wales	1	16	6%
Carmarthenshire County Council	7	49	14%
Ceredigion County Council	13	46	28%
Conwy County Borough Council	2	24	8%
Denbighshire County Council	4	33	12%
Flintshire County Council	15	94	16%
Gwynedd Council	6	41	15%
Isle of Anglesey County Council	3	28	11%
Merthyr Tydfil County Borough Council	2	26	8%
Monmouthshire County Council	2	21	10%
Neath Port Talbot Council	5	45	11%
Newport City Council	4	36	11%
Pembrokeshire County Council	2	40	5%
Powys County Council	7	55	13%
Rhondda Cynon Taf County Borough Council	3	45	7%
Swansea Council	10	76	13%
Torfaen County Borough Council	2	20	10%
Vale of Glamorgan Council	9	62	15%
Wrexham County Borough Council	4	67	6%
<b>Total</b>	<b>160</b>	<b>1108</b>	<b>14%</b>

## Appendix E - Code of Conduct Complaints

County/County Borough Councils	Discontinued	No evidence of breach	No action necessary	Refer to Adjudication Panel	Refer to Standards Committee	Withdrawn	Total
Monmouthshire County Council	0	2	0	0	0	0	2

## Appendix F - Town/Community Council Code of Complaints

Town/Community Council	Discontinued	No evidence of breach	No action necessary	Refer to Adjudication Panel	Refer to Standards Committee	Withdrawn	Total
Caerwent Community Council	-	-	-	-	-	-	0

## Information Sheet

Appendix A shows the number of complaints received by PSOW for all Local Authorities in 2021/2022. These complaints are contextualised by the number of people each health board reportedly serves.

Appendix B shows the categorisation of each complaint received, and what proportion of received complaints represents for the Local Authority.

Appendix C shows outcomes of the complaints which PSOW closed for the Local Authority in 2021/2022. This table shows both the volume, and the proportion that each outcome represents for the Local Authority.

Appendix D shows Intervention Rates for all Local Authorities in 2021/2022. An intervention is categorised by either an upheld complaint (either public interest or non-public interest), an early resolution, or a voluntary settlement.

Appendix E shows the outcomes of Code Of Conduct complaints closed by PSOW related to Local Authority in 2021/2022. This table shows both the volume, and the proportion that each outcome represents for the Local Authority.

Appendix F shows the outcomes of Code of Conduct complaints closed by PSOW related to Town and Community Councils in the Local Authority's area. This table shows both the volume, and the proportion that each outcome represents for each Town or Community Council.

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## REPORT

**SUBJECT: Investment Committee Performance Review**

**MEETING: Governance and Audit Committee**

**DATE: 24<sup>th</sup> November 2022**

**DIVISION/WARDS AFFECTED: All**

### 1. PURPOSE:

- 1.1 To provide members of Governance and Audit Committee with a performance review of the Investment Committee, with consideration of the recommendations of the Internal Audit Report Investment Property Acquisitions 21/22.

### 2. RECOMMENDATIONS:

- 2.1 For the Governance & Audit Committee to consider and scrutinize the performance review of the Investment Committee.
- 2.2 To review progress against the improvement proposals that were previously agreed by Governance & Audit Committee and resulting from recommendations arising from a previous internal audit report into investment property acquisitions.
- 2.3 To receive a verbal update at the meeting following consideration of the performance review by Investment Committee at its meeting on 7<sup>th</sup> November 2022.
- 2.4 For Governance & Audit Committee to consider proposed changes to the governance arrangements for the Council's commercial investment portfolio and any future investment considerations and to determine any further recommendations for improvement.

### 3. KEY ISSUES:

#### **Project Background**

- 3.1 In May 2018, Council approved a revised Asset Management Strategy, which included an Asset Investment Policy designed to optimize returns

from the Councils investment portfolio, including the acquisition or development of new assets or other commercial opportunities.

- 3.2 The purpose of the policy was to help sustain Council services and enhance the asset base by providing a framework to enable the acquisition of commercial assets to increase net rental income streams and identify capital appreciation opportunities.
- 3.3 The Asset Investment Policy outlines the criteria for evaluation of properties, measured against income generation to satisfy the Council's Corporate Plan and ambition to be 'future focused'.
- 3.4 The policy sets out the need to seek out investment opportunities within Monmouthshire, the City Deal region and neighbouring areas of economic influence, which support our economic and regeneration priorities. The policy enables MCC to identify investment opportunities beyond our county boundary that meet our criteria as well as identifying different types of investment that enables us to minimise risks by both sector and location.
- 3.5 Acquisitions are funded through approved prudential borrowing with a £50,000,000 fund established to acquire or investment over a three-year period. The cost of borrowing is serviced by the resulting rental streams, with a requirement that it should provide a net surplus over and above borrowing costs.
- 3.6 An Investment Committee was established to manage the investment portfolio, which has delegated authority to make investment utilised the approved prudential borrowing. The Investment Committee is made up of the Council Leader, Deputy Leader, Cabinet Member for Resources and Leaders of the two largest opposition parties. The Committee is advised by the Chief Officer for Resources and officers from Finance, Landlord Services and Legal Services. When considering acquisitions or investments, specialist advisors are used to supplement internal capacity and expertise as appropriate.
- 3.7 In July 2018, a Commercial Strategy was approved by Cabinet which reinforced the commercialisation of assets, and in February 2019, Council approved a wider definition of commercial investment. This gave authority to seek investments beyond land and buildings to include commercial loan facilities and equity or debenture interest.

### **The Asset Investment Policy**

- 3.8 As discussed, the Asset Investment Policy sets out the framework and governance criteria for the management of the investment portfolio. The

target returns for individual investments is that the returns must exceed borrowing costs by a minimum of 2%. The Asset Investment Policy enables individual investments to provide a lower return (i.e. below 2%) if investments can demonstrate economic development opportunities for Monmouthshire.

- 3.9 All business cases considered by Investment Committee consider the known risks at the time of the investment, together with the proposed mitigating action and potential exit strategies.
- 3.10 The Investment Committee is responsible for making the decisions on possible investments based on the business cases presented, ensuring that they meet the criteria as set out in the Asset Investment Policy. In addition, the Committee is responsible for ensuring that the assets are effectively managed, performance is monitored, and performance reviewed via an annual report in Governance and Audit Committee.

### Internal Audit Report and Recommendations 2021

- 3.11 The 2021 internal audit performance review of the Investment Property Acquisitions recommended a number of areas for improvement. The following tables outlines the recommendations of the 2021 performance review and progress made against each of those recommendations:

Asset	Issue identified	Progress	Status
All	Monitoring reports to Investment Committee excluded reference to the 7% annual return target included in the Asset Investment Policy.	Investment Committee will be asked to review the target annual return, in accordance with prevailing market conditions as required by Policy. No adjustment has been made as a short-term reaction to the pandemic however this target is subject to review.	Ongoing
	The Commercial Strategy has not been updated since 2018	A review and update of the Council's enabling strategies will be undertaken	Strategy to be reviewed by July 2023

		alongside and subsequent to the Council finalising its Community and Corporate Plan and which aims to be approved by Council in March 2023.	
Castlegate & Newport Leisure Park	Rental agreements with tenants and evidence of the review of these could not all be obtained.	A full reconciliation of leases held in respect of Castlegate BP and Newport Leisure Park has been undertaken	Completed
Broadway	A contract for the due diligence consultancy work was awarded without a tender or alternative quotations. No exemption from Contract Procedure Rules was sought.	Consultancy work will be appointed and undertaken in accordance with the Authority's Contract Procedure Rules, and where required/appropriate CPR exemptions applied.	Completed. External tender subsequently undertaken via Sell to Wales.
	A contract was awarded to a supplier, who based their tender on significantly less working days than indicated in the project brief.	Future tender exercises will be undertaken on a fair and equitable basis. All tenderers will be afforded transparency in answer to any questions or clarifications sought during the tendering stage.	Completed as above. And ongoing for future tender exercises.
	Purchase Orders for the work completed by a contractor had been raised retrospectively.	A call-off order will be raised for future works. The contractor will deliver in accordance with the	Completed



		agreed scope of works, as limited by the tender and contract award.	
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3.12 Overall, the audit report considered the process for investment property acquisitions has been assessed as providing ‘reasonable assurance’ which reflects that the financial and administrative systems reviewed were found to be adequately controlled, although risks identified (above) could compromise the overall control environment.

### Investment Performance Update

3.13 The challenges of the pandemic, albeit unprecedented, have highlighted risks that naturally arise when undertaking commercial investments. The investment and property markets remain uncertain and, as a consequence of covid’s impact on the financial viability, no new investment activity has been undertaken in the 21/22 year.

3.14 Following the reinstatement of the Investment Committee post-election, the Investment Committee met November 2022 to discuss the performance of the investment assets. A summary below sets out the performance of Castlegate Business Park, Newport Leisure Park and Broadway investments.

	Castlegate Business Park	Newport Leisure Park
ROI at time of acquisition	3.76%	2.11%
ROI Aug 2022	-2.26%	1.62%
Occupancy at the time of acquisition	95%	100%
Occupancy August 2022	75.7%	97%

### Castlegate Business Park

3.15 Castlegate Business Park was acquired in June 2018 for £7million together with a service charge loan of £900k and associated acquisition costs. The asset consists of mixed office and production/warehouse space amount to circa 217,000 sqft situated in 18 acres of land adjoining the Caldicot settlement.

3.16 As of March 2022, the anchor tenant was Mitel who had operated from the premises since its construction in 1984. At the time of the last performance update in February 2022, Mitel had served notice to surrender occupation of their office/warehouse space, reducing occupancy levels to 36.9%. The

majority of the warehouse space has since been relet to an existing tenant, Wunda Group, reducing the vacant space from 138,000 sqft to 45,601 sq ft. This is the largest letting of industrial space in Wales this year.

- 3.17 The remaining space vacated by Mitel continues to be advertised and a marketing strategy has been implemented. Since the commencement of marketing, a number of viewings have occurred for smaller lettings (between 2,000 and 10,000 sqft) and there remains a reasonable prospect of securing new tenants.
- 3.18 Given that the asset currently performs below the 2% above borrowing criteria as set out in the asset investment strategy, Investment Committee is obliged to review the retention of the asset and consider its disposal. On balance, it is the recommendation of officers that Investment Committee continue to hold this asset to retain a strategic employment asset, on the understanding of having secured a letting to Wunda Group/DAQS and increased the rent roll and reduced MCC service charge liability. Whilst there still remains a forecast budget pressure for 22/23, the prospects for the site have significantly improved to increase the likelihood of returning the ROI to the required 2% above borrowing threshold.

### **Newport Leisure Park**

- 3.19 Newport Leisure Park was acquired in March 2019 at a cost of £22.5million. It is situated on the Newport/Monmouthshire border and comprises of a mix of six restaurants, two retail units and three leisure units within an 11-acre site. At the time of acquisition, all of the units were let on the basis of long leaseholds with no rental or service charge arrears.
- 3.20 The investment has been disproportionately impacted by the pandemic due to the leisure and hospitality uses that occupy the site. This has resulted in tenants being unable to trade for substantial periods and seeking rental concessions. Two tenants, Pizza Hut and Frankie and Benny's, entered CVA's and have subsequently vacated.
- 3.21 Following relaxation of Covid restrictions, tenants have generally recovered well and have settled arrears. There are no arrears on Unit 3 (Wright Leisure), Unit 4 (Home Bargains), Unit 7 (McDonalds - service charge only), Unit 8 (Harvester), Unit 9a (Sally Sallon) and Unit 10 (Union Burger).
- 3.22 Covid hardship funding for the 21/22 financial year has been granted by Welsh Government to satisfy any rental shortfalls, allowing Newport Leisure Park to meet its £400,000 income target. Since the ending of the Covid hardship fund, two tenants have fallen into rental arrears and as a consequence a reduction in ROI below that of the 2% above borrowing

criteria. A recent letting of Unit 5 to the Magic Bean Company (Starbucks) and planning approval for the creation of a drive through should positively impact the attractiveness of the estate and interest in this location. We are considering offers received in relation to Unit 4.

- 3.23 Unit 1 (Cineworld) have continued to satisfy their lease and rental obligations throughout pandemic. Cineworld continue to make monthly rental payments and are not in arrears, despite recently filing for bankruptcy in the United States. Recent publications and market information indicates that Cineworld have been granted funding to meet its daily obligations, and publicly they remain committed to meeting their ongoing obligations to their suppliers, vendors and staff. It is anticipated that Cineworld will emerge from bankruptcy in Q1 2023. MCC's investment management agent and Estates team continue to work to establish the short and medium term consequence to NLP, however it is evident this presents a risk both in capital value and annual return.
- 3.24 In common with the leisure sector and leisure parks generally, Newport Leisure Park has suffered with a reduction in rent-roll, ROI and therefore capital value. It is recognised that the ROI has fallen below that prescribed in the asset investment policy, and an options review is to be presented to the Investment Committee to review the structural impact of the pandemic and strategy with regarding to retention or exit strategy for the asset.

## **Broadway**

- 3.25 In March 2020, on the basis of the completed due diligence and legal negotiations, to provide loan funding to:
- Create a Special Purpose Vehicle, 'Monmouthshire Broadband Limited' for funding of £1.9 million for a 10-year term, secured against the network assets held and created by the investment made by the SPV
- Broadway Partners, for an unsecured revolving loan facility of £300,000 to assist the company in overcoming cash flow delays resulting from delays in UK Government gigabit voucher scheme payments.
- 3.26 The investment was to be used to build a mixed wireless and fibre-optic access network across Monmouthshire (covering 12,000 premises) that is capable of delivering broadband speeds between 50 Mbps and 1 Gbps. The planning assumption for the build out phase was 18 months in total. Despite disruption caused by the pandemic, by July 2021, Monmouthshire Broadband Limited had completed 34 of the planned 57 radio base station

sites, covering circa 8,000 'white' premises, and had circa 600 fixed-wireless and fibre customers.

- 3.27 In October 2021, Broadway Partners sought MCC's consent to grant security to new investors – Downing LLP – who sought to invest £145 million in the company to enable it to deliver full-fibre broadband to 250,000 premises in rural communities. The MCC Investment Committee consented and MCC legal department agreed an intercreditor deed between MCC and the new funders.
- 3.28 To date, Monmouthshire Broadway Limited has drawn down two of the four tranche payments, total amount £1.15 million, of the £1.9 million total secured loan. Since the initial payment holiday of 12 months elapsed, MBL has repaid the loan plus SONIA-linked interest on a monthly basis, in accordance with the provisions of the Facility Agreement. In November 2021, Broadway Partners repaid in full and with the necessary interest the balance of the revolving loan facility and gave the requisite notice that they wished to close the facility. As such, this took place on 30 December 2021.
- 3.29 Significant contextual changes, along with the large inward investment secured by Broadway Partners since the MCC investment was made, have changed the focus of broadband infrastructure rollouts towards gigabit-capable fibre networks. As such, the original plan agreed with MBL appears anachronistic and so inappropriate to deliver. Officers continue to work with the contracted monitoring/project management consultancy to scope out the different ways forward and will present options to the Investment Committee in due course.

## **Risk Management**

- 3.30 Whilst each investment will have its own unique characteristics and associated risks, as is the case with any investment, the key risks associated with commercial and property investment activity are:
- That all decisions to incur expenditure are backed by effective legal powers and a resultant risk arises if decisions are subsequently invalidated by changes in statutory provisions or developments in case law, albeit that the retrospective application is unlikely.
  - The authority's returns are at risk, while, once incurred borrowing costs are unavoidable. A reduction in returns could put pressure on the authority's revenue account.
  - Capital gains are at risk and in relation to fair value of the property on the balance sheet, for example, where the commercial property fair value is less than the value of the debt liability.

- A risk of proportionality in terms of the extent that the authority's revenue budget is reliant on income from commercial investments.
  - A lack of expertise with council staff and those undertaking review and making decisions leading to poor acquisition decisions.
  - A downturn in the property market or the market within which the investment is made.
  - The long-term structural impact of covid on property sectors and consumers/ workforce behaviours and their resulting capital and revenue values
- 3.31 Separate Legal counsel advice has been received and that confirmed that the Council can operate within existing legal powers and guidance and in making the commercial investments as intended. Legal advice is sought separately for each commercial investment being considered.
- 3.32 Business cases that are developed and considered by Investment Committee undertake a full and proper assessment of risk and associated risk management and mitigation strategies. Business cases are supported by detailed commercial, financial and legal due diligence, with external advisors appointed as required to supplement the experienced staff within Legal, Finance and Estates.
- 3.33 Proposals presented to Investment Committee seek to describe the opportunity being considered from the perspective of the cash flows anticipated, and net returns quantified, any qualitative benefits evaluated, reasonableness of assumptions made, any risks/volatility anticipated against those assumptions, and provides the risk mitigation action proposed should those risks crystallise. There is a skewed emphasis towards the risk mitigation aspect of any proposal, not because highly speculative opportunities are being presented to Investment Committee, but instead recognising that any investment has a degree of speculation and despite commercial investment being an increasingly common aspect for local authorities to address declining central government resourcing, the stewardship of public funds and security of investment remains a key consideration to any local authority decision-making.
- 3.34 Prudential indicators monitor and contain local authority borrowing levels and commercial investment activity is separately shown and further supported by the additional reporting requirements necessitated by Welsh Government Investment guidance.

### **The Wider Local and National Context**

- 3.35 Local authorities have a range of powers to acquire commercial property and make investments. In some instances, authorities also have powers to

finance these investments through borrowing. Local authority borrowing and investment takes place within the prudential framework, made up of powers and duties and a set of statutory codes and guidance to which authorities must have regard.

- 3.36 Following moves by UK Treasury and the Debt Management Office (DMO), and a strengthening of the Prudential Code, if a local authority is planning to acquire investment assets bought primarily for yield in any of the following three financial years, the authority will be unable to borrow from the PWLB to finance any expenditure in its capital plan.
- 3.37 Investment assets bought primarily for yield are assets that serve no direct policy purpose but are held primarily to generate an income. An 'investment asset' could be a capital or property asset, or interest or right that generates a balance sheet asset (such as, but not limited to a loan, sale and leaseback agreement).
- 3.38 If such an asset had been bought 'primarily for yield', the investment asset would serve no direct policy purpose linked to the authority's core functions, but would have been acquired primarily because it would generate an income stream for the authority, which would most often (but not exclusively) be used to support wider service spending.
- 3.39 These investment assets bought primarily for yield would usually have one or more of the following characteristics:
- buying land or existing buildings to let out at market rate
  - buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification
  - buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly
  - buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose
- 3.40 Local authorities cannot use the receipts from selling existing primarily for yield assets to acquire new primarily for yield assets. Local authorities can use the receipts from selling existing primarily for yield assets to finance other capital expenditure in service delivery, regeneration, housing and preventative action.

- 3.41 It is important to note that the Council paused any further active consideration of commercial investments activity as a consequence of the pandemic and the resultant uncertainty in property and investment markets. No investments have been made subsequent to the strengthening of the Prudential code and confirmation has been provided on an annual basis to the DMO that no PWLB borrowing is intended for the purpose of acquiring investment assets primarily for the purposes of yield.

### **Proposed Changes to Governance Arrangements**

- 3.42 An Investment Committee was established in 2018 to manage the investment portfolio, and which had delegated authority to acquire or invest over a three-year period against a £50,000,000 fund established through approved prudential borrowing.
- 3.43 All three investments made by the Investment Committee to date have been made within the three-year period, the last of these in March 2020.
- 3.44 The three-year period approved by Council in May 2018 has now lapsed. Furthermore, there remains a pause on further commercial investment activity and that has continued due to the ongoing market instability since the start of the pandemic.
- 3.45 The ability for the Council to entertain any future commercial investment primarily for yield through PWLB borrowing is now restricted. Any future investment would need to be seen to be delivering against a direct policy objective of the Council and arguably where market failure requires the Council to act.
- 3.46 If any future investment considerations are intended to deliver against direct policy objectives of the Council then it naturally prompts for the current governance arrangements to be reviewed. It is therefore proposed that recommendation is made to Council:
- a) To Dissolve the Investment Committee;
  - b) To pass responsibility to the Performance and Overview Scrutiny Committee for scrutinising the performance of the investment portfolio;
  - c) That the Governance and Audit Committee continues to assure itself that the controls in place to maintain and monitor the investment portfolio remain robust and appropriate.
  - d) That any future investment activity is subject to the appropriate decision making body as laid out in the Constitution.

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

- 4.1 The report is not a decision-making report. The report represents a performance review of the Investment Committee and update on the recommended actions from the 21/22 Audit Report. Therefore, no option appraisal is required.

#### **5. REASONS:**

- 5.1 The Asset Investment Policy requires an annual performance review of the Investment Committee to be undertaken and in order to ensure that the governance arrangements, policy documentation and legislation are being reviewed and adhered to.
- 5.2 To allow for a timely review of the governance arrangements in place and in overseeing commercial investment activity and the investment portfolio that is managed and maintained.

#### **6. RESOURCE IMPLICATIONS:**

- 6.1 The three investments to date are Castlegate Business Park, Newport Leisure Park and Broadway.
- 6.2 £30.7m of the £50,000,000 prudential borrowing fund has been spent to date on the three investment acquisitions. Any costs of due diligence and advice incurred exploring other commercial investment opportunities have been met from existing revenue budgets.
- 6.3 As a result of the acquisitions, budget savings have been introduced. The budgeted level of savings for Castlegate Business Park and Newport Leisure Park are £209,000 and £400,000 respectively. As a consequence of the surrender of Mitel at Castlegate Business Park and ending of the Welsh Government Covid hardship fund, the ROI's for both investments have dropped to -2.26% and 1.62%. This is considered a temporary decline due to the successful lettings to Wunda Group and the Magic Bean Company. The performance of the wider investment portfolio and investment reserve will support the income targets.
- 6.4 The capital values of both assets have decreased in the last year reflecting the impact of the pandemic and reduction in rent rolls/occupancy levels. It is anticipated NLP will continue to see a reduction in its capital value until the final unit has been let.
- 6.5 There are no significant arrears at Castlegate Business Park. Two occupiers of Newport Leisure Park are in arrears and discussions are ongoing with the



tenants to establish recovery plans. Cineworld continues to be monitored regularly.

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

There are no equality or Future Generations implications arising from the purpose of this report. This report is seeking to provide a review of performance of the Investment Committee, and any implications arising from it.

**8. CONSULTEES:**

Stacey Jones – Finance and Resources Manager  
Joanne Chase – Head of Commercial Law

**9. BACKGROUND PAPERS:**

Appendix A – Asset Investment Policy December 2020  
Appendix B – Capital Strategy and Treasury Management Strategy 2022/23  
Appendix C – Investment Committee Terms of Reference

**10. AUTHOR(S):**

Peter Davies – Deputy Chief Executive (S151 Officer)  
Nicholas Keyse – Estates Development Manager

**11. CONTACT DETAILS:**

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## Audit Wales Work Programme and Timetable – Monmouthshire County Council

**Quarterly Update: 30 September 2022**

### Annual Audit Summary

Description	Timetable	Status
A report summarising completed audit work since the last Annual Audit Summary, which was issued in January 2022.	December 2022	Not yet started.

### Financial Audit work

Description	Scope	Timetable	Status
<b>Audit of the Council's 2021-22 statement of accounts</b>	Statutory audit of the Council's annual statement of accounts.	Draft accounts provided August 2022.	Audit work ongoing. Aim to report at November Committee.
<b>Audit of the Monmouthshire County Council Welsh Church Act Fund's 2021-22 accounts</b>	External audit of the Fund's annual accounts.	Audit work to follow the main statement of accounts in the autumn.	Not yet started.

Description	Scope	Timetable	Status
<b>Independent examination of the Monmouthshire Farm School Endowment Trust Fund's 2021-22 accounts</b>	External independent examination of the Fund's annual accounts.	Audit work to follow the main statement of accounts in the autumn.	Not yet started.
<b>Certification of 2021-22 Grant Claims and Returns</b>	Certify each claim according to Certifying Instructions agreed with the awarding body.	Audit work to follow the main statement of accounts in the autumn.	Not yet started.

## Performance Audit work

2021-22 Performance audit work	Scope	Timetable	Status
<b>Assurance and Risk Assessment</b>	<p>Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources.</p> <p>The project is likely to focus on:</p> <ul style="list-style-type: none"> <li>• Financial position</li> <li>• Implications of the Local Government and Elections (Wales) Act</li> <li>• Carbon reduction plans</li> </ul>	<p>Fieldwork: June 2021 – July 2022</p> <p>Feedback workshop: March 2022</p> <p>Summary Report: September 2022</p>	Completed
<b>Springing Forward – Examining the building blocks for a sustainable future</b>	<p>As the world moves forward, learning from the global 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.</p>	November 2021 – July 2022	Completed

2021-22 Performance audit work	Scope	Timetable	Status
<b>Local risk-based projects</b>	Options for local risk-based work were presented to the Council's SLT in early 2021. The 2021-22 Audit Plan included this work as to be confirmed and we agreed with officers that we would conclude our local risk-based projects still in progress from previous years before agreeing the scope of any new projects.	To be confirmed	To be confirmed

2022-23 Performance audit work	Scope	Timetable	Status
<b>Assurance and Risk Assessment</b>	<p>Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources and acting in accordance with the sustainable development principle. The project is likely to focus in particular on:</p> <ul style="list-style-type: none"> <li>• Financial position</li> <li>• Capital programme management</li> <li>• Use of performance information – with a focus on service user feedback and outcomes</li> <li>• Setting of well-being objectives</li> </ul>	<p>Fieldwork: September 2022 – May 2023</p> <p>Feedback workshop on proper arrangements work: January 2023</p> <p>Summary Report: June 2023</p>	<p>Audit assurance on proper arrangements: work underway.</p> <p>Setting of well-being objectives: project brief issued.</p> <p>Other areas of focus: scoping.</p>

2022-23 Performance audit work	Scope	Timetable	Status
<b>Thematic Review – Unscheduled Care</b>	A cross-sector review focusing on the flow of patients out of hospital. This review will consider how the Council is working with its partners to address the risks associated with the provision of social care to support hospital discharge, as well as prevent hospital admission. The work will also consider what steps are being taken to provide medium to longer-term solutions.	October 2022 – February 2023	Fieldwork
<b>Thematic review – Digital</b>	This project is being scoped with further details of the specific focus of the review to be confirmed.	To be confirmed.	Scoping
<b>Local risk-based projects</b>	To be confirmed.	To be confirmed.	To be confirmed.



## Local government national studies planned/in progress

Study	Scope	Timetable	Status	Fieldwork planned at Monmouthshire County Council
<b>Poverty</b>	Understanding how local authorities ensure they deliver their services to minimise or reduce poverty.	Autumn 2021 – Autumn 2022	Clearance – publication October 2022	Yes – interview with nominated officer at the Council.
<b>Social Enterprises</b>	Review of how local authorities are supporting and utilising social enterprises to deliver services	Autumn 2021 – Autumn 2022	Clearance – publication November 2022	Yes – interview with nominated officer at the Council.
<b>Building Social Resilience and Self reliance</b>	Review of how local authorities can build greater resilience in communities	Autumn 2021 – Autumn 2022	Report drafting	Yes – interview with nominated officer at the Council.
<b>Building safety</b>	Review of how well local authorities are delivering their responsibilities for Building Safety	September 2022 – August 2023	Project initiation	Yes – interview with nominated officer at the Council and survey.

Study	Scope	Timetable	Status	Fieldwork planned at Monmouthshire County Council
<p><b>Planning for sustainable development – Brownfield regeneration</b></p>	<p>Review of how local authorities are promoting and enabling better use of vacant non-domestic dwellings and brownfield sites</p>	<p>October 2022 – September 2023</p>	<p>Project development</p>	<p>Yes – interview with nominated officer at the Council and survey.</p>
<p><b>Corporate Joint Committees</b></p>	<p>Assessing CJsCs' progress in developing their arrangements to meet their statutory obligations and the Welsh Government's aim of strengthening regional collaboration.</p>	<p>September 2022 – January 2023</p>	<p>Setting up fieldwork</p>	<p>Yes – We are exploring the Council's perspective via our routine liaison meetings. Fieldwork includes interviews with the chief executive, director of finance and chair of each of the four CJsCs.</p>

## Estyn

Estyn planned work 2022-23	Scope	Timetable	Status
<b>Local Government Education Services Inspections</b>	<p>Estyn inspected Anglesey and Swansea local government education services during the summer term. The reports were published in August and early September. Estyn carried out a post inspection improvement conference in Torfaen in September and will be monitoring Pembrokeshire local authority in early October. Estyn has updated the inspection guidance to reflect a greater emphasis on socio-economic disadvantage and inequity and to make minor tweaks in response to feedback from inspections in 2021-22.</p>	<p>Inspection guidance review – July. Published on website September 1.</p>	<p>N/A</p>
<b>Curriculum Reform thematic review</b>	<p>The Welsh Government have also asked Estyn to review the school improvement services in south-west Wales.</p>	<p>Evidence collecting in June/July – findings presented to the Welsh Government in September.</p>	<p>N/A</p>

## Care Inspectorate Wales (CIW)

CIW planned work 2022-23	Scope	Timetable	Status
<b>Programme 2022-23</b>	We continue to test and evaluate our review approach – including assurance checks, improvement checks and PEIs. This will result in a revised operating framework for inspection and a revised code of practice.	April 2022– March 2023	In progress
<b>Joint work</b>	We continue to work with partners, sharing information and intelligence including completing joint reviews.  We currently are working in collaboration with HIW for a national review of the stroke pathway and CMHT inspections.	Current	In progress
<b>Deprivation of Liberty Safeguards Annual Monitoring Report for Health and Social Care 2021-22</b>	Following the publication of the 2020-21 report planning is underway for the next report publication date to be confirmed.	Publication to be confirmed	Drafting/Data collecting
<b>Annual meeting with Statutory Directors of Social Services</b>	CIW will meet with all Directors of Social Services	December 2022 and January 2023	Planning

CIW planned work 2022-23	Scope	Timetable	Status
<p><b>National review of Care Planning for children and young people subject to the Public Law Outline pre-proceedings</b></p>	<p>Purpose of the review</p> <p>To provide external scrutiny, assurance and to promote improvement regarding the quality of practice in relation to the care planning for children and young people subject to the public law outline pre-proceedings</p> <p>To consider the extent to which practice has progressed since the publication of both the CIW 'National Review of care planning for children and young people subject to public law outline pre proceedings' and the publication of the PLO working group report 2021 including best practice guidance.</p>	<p>September 2022</p>	<p>Planning/surveying</p>
<p><b>Joint Inspection Child Protection Arrangements</b></p>	<p>Cross-inspectorate approach. Areas to be determined. We will complete a further four multi-agency joint inspections.</p> <p>We will publish a national report in late 2023.</p>	<p>Autumn 2022-Spring 2023</p>	<p>Planning</p>

CIW planned work 2022-23	Scope	Timetable	Status
<b>Cafcass Assurance Check</b>	<p>CIW will continue to develop its approach to inspection and review of Cafcass Cymru. We have published its first Assurance check letter.</p> <p>We will evaluate our approach and will consult on our revised approach late 2022. This will result in a revised operating framework for inspection and code of practice.</p>	September – December 2022	Planning

## Audit Wales national reports and other outputs published since January 2022

Report title	Publication date and link to report
Equality Impact Assessments: More than a Tick Box Exercise?	<a href="#">September 2022</a>
Welsh Government – setting of well-being objectives	<a href="#">September 2022</a>
Welsh Government workforce planning and management	<a href="#">September 2022</a>
NHS Wales Finances Data Tool – up to March 2022	<a href="#">August 2022</a>
Public Sector Readiness for Net Zero Carbon by 2030: Evidence Report	<a href="#">August 2022</a>

Report title	Publication date and link to report
Public Sector Readiness for Net Zero Carbon by 2030	<a href="#">July 2022</a>
Sustainable Tourism in Wales' National Parks	<a href="#">July 2022</a>
Third Sector COVID-19 Response Fund – Memorandum for the Public Accounts and Public Administration Committee	<a href="#">July 2022</a>
The Welsh Community Care Information System - update	<a href="#">July 2022</a>
Tackling the Planned Care Backlog in Wales – and waiting times data tool	<a href="#">May 2022</a>
The new Curriculum for Wales	<a href="#">May 2022</a>
Unscheduled care – data tool and commentary	<a href="#">April 2022</a>
Direct Payments for Adult Social Care	<a href="#">April 2022</a>
Local Government Financial Sustainability data tool	<a href="#">February 2022</a>
Joint Working Between Emergency Services (including data tool)	<a href="#">January 2022</a>

## Audit Wales national reports and other outputs (work in progress/planned)<sup>1</sup>

Title	Anticipated publication date
Welsh Government accounts commentary 2020-21 <sup>2</sup>	September/October 2022
Collaborative arrangements for managing local public health resources	October 2022
National Fraud Initiative (summary report)	October 2022
Cyber resilience follow-up (learning from cyber-attacks)	October 2022
Flood risk management	November 2022
Orthopaedic services	November 2022
Quality governance in the NHS	November 2022

<sup>1</sup> We will continue to keep our plans under constant review, taking account of the evolving external environment, our audit priorities, the context of our own resourcing and the capacity of audited bodies to engage with us. This includes maintaining some flexibility so that we can respond to developments in Welsh Government policy and areas of possible interest for the Public Accounts and Public Administration Committee. On 22 September we published an article to our website providing an [update on the development of the Auditor General's work programme](#) following our consultation in spring 2022. We will be bringing some additional new work into our programme during the rest of 2022-23.

<sup>2</sup> To include commentary on issues raised in the Auditor General's report on the accounts concerning a payment made to the former Permanent Secretary and COVID-19 business support.



Title	Anticipated publication date
Digital inclusion	November/December 2022
Affordable housing	To be confirmed

## Good Practice Exchange events and resources

Title	Link to resource
<p>Tackling poverty in Wales: responding to the challenge – this shared learning event will bring people together from across public services to share ideas, learning and knowledge on how organisations can respond to the challenges caused by poverty. We will share examples of approaches being taken by organisations within Wales and across the UK.</p>	<p><a href="#">Tackling Poverty: Cardiff event</a></p> <p><a href="#">Tackling Poverty: Conwy event</a></p>
<p>Direct Payments Provision – a webinar discussing our report on Direct Payments Provision and how they can be a key part in implementing the principles of the Social Service and Well-Being (Wales) Act 2014.</p>	<p><a href="#">Direct Payments Provision webinar recording</a></p>
<p>Responding to the Climate Emergency in Wales – a webinar discussing emerging findings from our baseline review of public bodies’ arrangements to respond to the Welsh Government’s carbon reduction targets for 2030.</p>	

Title	Link to resource
Covid Perspectives – a series of recorded conversations learning how organisations have adapted to the extended period of uncertainty following the initial covid emergency.	<a href="#">Good Practice   Audit Wales</a>

## Recent Audit Wales Blogs

Title	Publication date
<a href="#">Cost of living and putting away the bayonet</a>	21 September 2022
<a href="#">Heat is on to tackle Climate Change</a>	18 August 2022
<a href="#">Direct Payments in Wales</a>	15 June 2022
<a href="#">Unscheduled Care in Wales – a system under real pressure</a>	21 April 2022
<a href="#">Skills Competition Wales</a>	18 February 2022
<a href="#">Cyber resilience – one year on</a>	9 February 2022
<a href="#">Helping to tell the story through numbers</a> (Local government financial sustainability data tool)	3 February 2022
<a href="#">Call for clearer information on climate change spending</a>	2 February 2022

Title	Publication date
<u>Actions speak louder than words</u> (Building social resilience and self-reliance in citizens and communities)	14 January 2022

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## GOVERNANCE AND AUDIT COMMITTEE FORWARD PLANNER 2022-3

REPORT	LEAD OFFICER
<b>20TH JUNE 2022</b>	
Audit Wales Work Programme	Audit Wales
Annual governance statement review 2021-2	Andrew Wathan
Annual Audit Plan 2022-23	Audit Wales
Freedom of Information (FOI) & Data Protection Act (DPA) Breaches & Data Subject Access Request (DSARs) report - (twice yearly)	Sian Hayward
6 month update - Progress report on Unfavourable Audit Options	Andrew Wathan
Internal Audit Draft Operational Plan 2022/3	Andrew Wathan
Self Assessment Process	Richard Jones
<b>14TH JULY 2022</b>	
2021/22 MCC Statement of Accounts - verbal update	Jon Davies
Audit Plan - Welsh Church Accounts	Audit Wales
Internal Audit Outturn report 2021/2	Andrew Wathan
Governance & Audit Committee Annual Report	Philip White

Draft Statement of Accounts 2021/22 - Charitable Trust Funds	Jon Davies/Dave Jarrett/Nikki Wellington
Draft self assessment report 2021/22	Richard Jones
2022/23 Treasury Outturn Report	Jon Davies
<b>8TH SEPTEMBER 2022</b>	
2021/22 MCC Statement of Accounts	Jon Davies
Quarterly update and timetable	Audit Wales
Internal Audit Progress report - quarter 1	Andrew Wathan
Audit Wales Springing forward & Councils Management Response	Richard Jones
Whole Authority Strategic Risk Assessment	Richard Jones
<b>13TH OCTOBER 2022</b>	
Anti bribery Risk Assessment	Peter Davies
Assurance and Risk assessment review	Audit Wales
Annual Grants report	Audit Wales
Invitation of officers & S151 officer regarding Limited Opinions	Andrew Wathan
Audit Wales Work Programme: Council Progress Update	Richard Jones
<b>24TH NOVEMBER 2022</b>	
2022/23 Mid-year Treasury management update	Jon Davies
Q2 Progress report for 6 months 21/22	Andrew Wathan
Update on unfavourable Internal Audit Opinions	Andrew Wathan
The Ombudsman's Annual Letter (2021/22)	Annette Evans

Annual Performance Review of Investment Committee	Nick Keyse
Audit Wales Work Programme and Timetable Quarter 2	Audit Wales
<b>26TH JANUARY 2023</b>	
2021/22 MCC Statement of Accounts - final	Jonathan Davies
ISA260 Response to Accounts	Audit Wales/Peter Davies
2021/22 WCF/Mon Farm Statement of Accounts - Final	Dave Jarrett/Nikki Wellington
ISA 260 or equivalent for Trust Funds	Audit Wales
Freedom of Information (FOI) & Data Protection Act (DPA) Breaches & Data Subject Access Request (DSARs) report - (twice yearly) PLUS Cyber security report (Pink Papers)	Sian Hayward
Audit Wales Annual Audit Summary	Audit Wales/Richard Jones
Review of the Committees Terms of Reference aligned to the Plan	Andrew Wathan
Implementation of Internal Audit agreed recommendations	Andrew Wathan
<b>16TH FEBRUARY 2023</b>	
Overview of Performance Management arrangements	Performance Manager
2023/24 Capital Strategy and Treasury Strategy	Jon Davies
Whole Authority annual complaints report	Annette Evans
Assessment of the Robustness of the budget process and adequacy of reserves	Peter Davies
Review of the Strategic Risk Register-6 monthly	Richard Jones

**30TH MARCH 2023**

Annual Performance Review of Investment Committee	Nick Keyse
Audit Wales Annual Audit 23-24	Audit Wales
Internal Audit Progress report - quarter 3	Andrew Wathan
Audit Wales Work Programme: Council Progress Update	Richard Jones



# Public Document Pack Agenda Item 12

## MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Governance and Audit Committee held  
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 13th October, 2022 at 2.00 pm

**PRESENT:** Andrew Blackmore, Lay Member (Chairman)  
County Councillor Peter Strong (Vice Chairman)

County Councillor: Ian Chandler, John Crook, Tony Easson,  
Malcolm Lane, Phil Murphy and Laura Wright

Martin Veale, Lay Member  
Colin Prosser, Lay Member

### **OFFICERS IN ATTENDANCE:**

Andrew Wathan	Chief Internal Auditor
Paul Matthews	Chief Executive
Peter Davies	Deputy Chief Executive and Chief Officer, Resources
Wendy Barnard	Democratic Services Officer
Charlotte Owen	Audit Wales Officer
Richard Jones	Performance Manager
Jonathan Davies	Acting Assistant Head of Finance
Rachel Freitag	Audit Wales Officer
Richard Cope	Passenger Transport Unit Manager
Deb Hill-Howells	Head of Decarbonisation, Transport and Support Services
Matthew Gatehouse	Head of Policy and Governance

### **APOLOGIES:**

None.

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

No declarations of interest were made.

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

No members of the public were present.

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

The action list from the last meeting was noted.

- 1. Key collaborations:** The Performance and Data Insight Manager provided an update to the Committee that a draft list of key collaborations was complete ready to share with Internal Audit and the Strategic Leadership Team prior to adding to the Forward Work Plan.

Action Status: Open (Recommend to Close - 24<sup>th</sup> November 2022)

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Governance and Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 13th October, 2022 at 2.00 pm

2. **Cross-referencing Reports with the Committee's Terms of Reference:** The Chief Internal Auditor will review Governance and Audit Committee reports against the Committee's terms of reference. Going forward, he will ensure that reports on the Forward Work Plan have a cross reference.

Action: Open (Ongoing until March 2023)

3. **Internal Audit Outturn Report:**

- i) Invite service managers to next meeting re: Limited Opinions (Concessionary Travel) and Fleet (Health and Safety and Driver Management): This item is on the agenda for today's meeting.

Action Status: Closed

- ii) Provision of Fraud figures (not percentages): The Chief Internal Auditor advised that the information has been collated and commentary added to circulate to Committee Members.

Action status: Open (Recommendation to Close – 24<sup>th</sup> November 2022)

4. **Action List:** The action list has been reformatted

Action status: Closed

5. **Statement of Accounts:**

- i) The Acting Assistant Head of Finance stated the amendments have been made and the document will be finalised by this Committee at the next meeting.

Action status: Open (Recommendation to Close – 24<sup>th</sup> November 2022)

- ii) 20mph speed limit scheme and funds availability for scheme reversal: A response will be circulated by the end of the week.

Action: Open (Recommendation to Close – 24<sup>th</sup> November 2022)

6. **Audit Wales Quarterly Update and Timetable:** The Audit Wales Assurance and Risk Assessment report is on the agenda for the meeting today.

Action status: Closed

7. **Audit Wales Springing Forward Report:**

- i) The Chief Internal Auditor and Deputy Chief Executive are meeting with the Chair; scrutiny arrangements for the people and asset strategies will be discussed.

Action status: Open

- ii) The Chair will discuss progress against interim key milestones at the above meeting.

Action status: Open

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Governance and Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 13th October, 2022 at 2.00 pm

- iii) Update and Completion of Corporate and Community Plan: The Performance and Data Insight Manager explained that the Plan is on the agenda for Cabinet next week and will be considered by Council on 27<sup>th</sup> October 2022. The Plan sets an initial direction to be further developed. The full Plan is scheduled for publication in early 2023 alongside the budget.

Action status: Open

#### 8. Whole Authority Strategic Risk Assessment

The Chair offered support on the actions listed at the last meeting to close them by the end of the calendar year. The Performance and Data Insight Manager explained that the Risk Register's revised format will take account of the comments made and a draft version will be shared with the Chair.

The Housing risk has been re-assessed as "High". The risk register has been amended accordingly.

Action status: Open (Recommendation to Close – 24<sup>th</sup> November 2022)

#### 9. **Scheduling meetings closer to quarter ends:** Removed from the action list.

Action status: Closed

#### 4. **Anti bribery Risk Assessment**

The Deputy Chief Executive provided a presentation on the arrangements in place for anti-fraud, bribery and corruption. The Chief Internal Auditor confirmed that Internal Audit considered the CIPFA tracker report and data analysis to identify key frauds nationally, their relevance to Monmouthshire and to ensure appropriate mitigation is in place. Following the presentation, questions and feedback were invited:

- A Member asked about cyber risk, specifically:
  - if staff training and refresher courses are available;
  - if it is mandatory for relevant staff;
  - how the profile of anti-fraud, bribery and corruption is raised with staff; and
  - if there is a whistleblowing policy.

The Deputy Chief Executive confirmed the existence of a whistleblowing policy; communicated to staff upon induction. It was accepted that the training is a work in progress, also the degree to which it is mandatory. Work is in hand to introduce a new learning management system to assess individual training needs, including mandatory training for each role.

The Chief Internal Auditor informed the Committee that the draft training for anti-fraud, bribery and corruption had been presented to the previous Committee and was rolled out to Internal Audit and Procurement staff. There is further refinement required before further roll out to all relevant staff. The Anti-fraud, Bribery and Corruption Policy is available on the Intranet and will be on the Internal Audit page on The Hub. The Whistleblowing Policy is available on The Hub should a member of staff wish to report concerns. Induction training will include online anti-fraud, bribery and corruption training.

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Governance and Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 13th October, 2022 at 2.00 pm

Regarding cyber risk, the Deputy Chief Executive noted that this is contained in the Strategic Risk Register. An annual report on the Management of Cyber Security is on the Forward Work Plan and the previous report will be made securely available to committee members.

- A Member asked if there is enhanced vetting for key staff. The Deputy Chief Executive explained that safeguarding checks are made via DBS (Disclosure and Barring Service). There are no financial checks or checks for criminal activity. The Deputy Chief Executive will contact the Member outside the meeting to discuss further.
- A Member enquired about any benefits or impact on procurement due to the collaboration with Cardiff City Council. The Deputy Chief Executive explained that it is proving to be a good collaboration that has enhanced capability and expertise. Other councils in the region are now considering the same arrangement. It was explained that the procurement strategy is scrutinised by the Performance and Overview Scrutiny Committee. The Chief Internal Auditor explained that audits include checks on compliance with council policies and procedures including the Contract Procedure Rules and Financial Procedure Rules.
- A Member queried if there is a user-friendly guide for raising concerns (including a process to determine the level of concern). The process for members of the public to raise concerns was questioned. The Deputy Chief Executive informed the Committee that the policy will be updated this financial year to include simple guidance. The Chief internal Auditor explained that there are several ways an allegation is reported. Often concerns will be made directly to him. An assessment in terms of substance will be made. If appropriate a direct referral will be made to the Police. Members were informed that they may make concerns relating to bribery, fraud, or corruption to the Chief Internal Auditor. All new Members are to be made aware of this route of referral.

The Committee considered the Council's approach to anti-bribery, fraud, and corruption. Overall, it was considered that the arrangements are effective. There is a relatively low incidence of fraud but no room for complacency especially in respect of cyber security.

#### **5. Audit Wales: Assurance and Risk assessment review and Management Response**

The Audit Wales Officer introduced the Audit Wales Assurance and Risk Assessment Review of Monmouthshire County Council. The Council's Management Response was provided by the Performance and Data Insight Manager. Following presentation of the report and the Council's Management response, questions were invited:

- A Member queried the recommendations of the net zero strategy especially the elements included in the new Community and Corporate Plan with a proposed completion date of July 2023. It was questioned how much had been incorporated into the interim plan and what is to be developed for the longer plan, and medium-term financial strategy. The Head of Policy, Performance and Scrutiny responded that the new Community and Corporate Plan will be considered by Cabinet next week, then by Council. The Plan is relatively light touch adjusting the direction of the budget set by the previous council. There are many ideas and contributions yet to be considered and possibly added to the final version which will be aligned with the new budget. Poverty and inequality, and decarbonisation and climate change are the two overriding priorities and will be aligned with any resetting of the climate and nature emergency strategy to embed in further actions.

## MONMOUTHSHIRE COUNTY COUNCIL

### Minutes of the meeting of Governance and Audit Committee held at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 13th October, 2022 at 2.00 pm

- In response to a question, the Deputy Chief Executive explained that there is not an explicit management response to the points raised by Audit Wales on the Medium Term Financial Strategy as the Council has separately provided a management response to the recommendations contained in an Audit Wales financial sustainability review confirming our strategy for medium term sustainably; this can be circulated separately. The Audit Wales Officer confirmed that there are no recommendations on medium term financial planning in this report because there are two outstanding proposals for improvement in the previous financial sustainability report. These relate to more sustainable savings planning. Officers assured that once the new council was in place there would be a new medium-term financial plan containing a longer-term approach to savings planning. Progress will be reviewed at the end of this financial year.
- A Member asked where the boundary of carbon footprint is drawn referring to the energy consumed working from home, as that element needs to be accounted for. The Head of Decarbonisation, Transport and Support Services said that there is a standard carbon baseline assessment for all public sector that includes commuting. The matrix does not yet include working from home but there has been a discussion with WG on factoring this in. The Member suggested this was an aspect Welsh Government and Audit Wales should consider. It was confirmed that an update on last year's carbon baseline assessment will be presented to Council in December 2022.

The Chair commented that after due consideration, the Council's Management response is adequate. He noted the significant financial challenges facing the Council which may impact the timetable for completing some of these actions.

#### **6. Annual Grants report**

The Audit Wales Officer presented the Annual Grants Report that summarises the key findings of Audit Wales's work on claims and returns for 2020/21. The report is delayed this year because of Housing Benefit work, and due to the pandemic. Following presentation of the report, questions and comments were invited:

- A Member asked if Audit Wales is generally satisfied with the standard of reports, and if there were any common or repeated issues that management should be addressing. It was confirmed there are no recurring themes year on year. Housing benefit claims are complex to audit and frequently, different issues appear. There is a good relationship with the Benefits Team and no specific concerns.
- A Member asked and was informed that the Benefits Team is alerted to underpaid benefits to ensure the correct payments reach claimants.
- A Member referred to the NNDR (National Non-Domestic Rates Return) and problems identifying empty properties for payments. The authority is required to verify empty properties ready for claims but, due to the pandemic, were unable to go out to confirm properties were empty for the entire period being claimed. This was the same for all authorities. There were other sources of evidence that provided some assurance.
- Noting four of five claims were qualified, a Member asked about the outcomes. Audit Wales submits findings to the grant paying bodies and it is their decision to act. The Deputy Chief Executive confirmed that the amounts are trivial, so comeback was unlikely. Overall, there is a good control environment. The Audit Wales Officer will feed a message back to suggest that grant awarding bodies have a minimum threshold.

Summing up, the Chair drew comfort from the report's conclusion in that there were sound arrangements in place and noted that the qualified opinions were solely due to the identification of a few minor, technical breaches.

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### 7. Invitation of officers & Heads of Service regarding Limited Opinions

The Chief Internal Auditor introduced the report on limited opinions explaining that the Governance and Audit Committee had invited Service Managers and Heads of Service to provide an update on progress. The Committee had the option to accept the assurances provided which will be verified with a follow up report as included in the Audit Plan or if explanations from the Managers are not accepted, then the Committee can raise concerns with the Chief Officer and SLT to escalate their concerns.

#### 1. Concessionary Travel:

- i) **Hardship payments totalling over £46k had been claimed from Welsh Government which had not been invoiced for by the operators or paid over to them:** The Passenger Transport Unit Manager explained that the report is focused on a Local Government Concessionary Travel Scheme funded by the Welsh Government. During the pandemic Welsh Government agreed that operators were to be paid at pre-pandemic levels to provide sustainability of bus services. At time of the audit these payments were being paid to the operators. The limited opinion regarding payments of £46,000 being claimed from Bus Emergency Scheme 2 (BES2) but not paid out links into other grant funding schemes. The money to be repaid was from English corporate operators who were going to sign up to the BES2 scheme, but they had funding from the Department for Transport instead. This was added to the claim as it was close to the end of the financial year (unknown if they would apply) and the money was repaid to the Welsh Government in full. The issue won't recur as, from 1<sup>st</sup> August 2022, Welsh Government has returned to actual claims not historic. The money had been accrued before for this financial year and now it has been paid back to Welsh Government at Quarter 4.
- ii) **Quarterly Claims:** The Passenger Transport Unit manager explained that there has been an issue with signing off forms to send to Welsh Government at the end of the quarter with a deadline of the 20<sup>th</sup> of the following month. This allows little time to receive details from the operators and return the form. Addressing the comment that they were submitted without the signature of the s151 Officer, this was confirmed as correct as these were draft reports. The audit process is that the finance team checks to make sure the ledger agrees with the return. The return can then be signed by the s151 Officer. Previously, it was only the final return that was returned to Welsh Government with signature by the s151 Officer. The quarterly returns were signed by the Head of Service. An e mail from Welsh Government explained that the 20<sup>th</sup> day of the following month for the submission of concessionary fare claim forms was chosen as half of the authorities submitted either a final or a draft version of the claim form within that timescale but Welsh Government understood that when the operators return the information affects when an authority can submit a final signed form. There is an issue obtaining invoices from corporate operators. Ticket machines information is provided so claim forms can be submitted but the invoices can come from a central office causing delays.
- iii) **The Grant terms and conditions letter:** The Passenger Transport Unit Manager explained that the grant letter has been received late from Welsh Government due to its internal sign off processes. The example was quoted of the 2022/23 concessionary fares and Bus Services Support Grant (BSSG) award letters dated 30<sup>th</sup> August have only just been released.
- iv) **Internal guidance documents and procedures to ensure the scheme was administered within Welsh Government expectations:** The Passenger Transport Unit Manager explained that such guidance would be in place within a month.
- v) **Operators claims not supported by Smartcard data:** It was explained that there was a problem with two operators that didn't have the ticket machine data due to being in

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the process of transferring to different systems. That has now been rectified and the ticket machines return 98% swipe rate. English operators run into Wales and none of the ticket machines are compatible with Welsh Smartcard data. Welsh Government is aware and has agreed to accept a spreadsheet from those companies instead of the Smartcard data

- vi) **Dates for submission of claims from operators have not been set, resulting in these being regularly received late:** It was explained that dates have been set. It is up to the operators to submit the claims. The claims often come from a centralised office or volunteer staff and can be delayed
- vii) **Monthly reports are available to help identify potential fraudulent behaviour:** The Passenger Transport Unit Manager explained that there was a problem when Welsh Government's supplier changed from ACT to Fujitsu and since then, the reports have arrived in zipped format and can't be opened. This has been investigated with SRS and Fujitsu to try and open the reports. The reports show how many people have used their cards over ten times or use them very frequently over a short period of time to enable checks and monitoring of vehicles. It is hoped to resolve this before the end of November. The Chair was surprised that zipped files could not be opened. It was responded that other authorities have the same issue.
- viii) **The Authority does not have a programme in place for inspectors to board vehicles which are used to carry concessionary passenger for spot checks on processes and the number of passengers carried:** It was explained that work is underway on resuming checks but resources are limited.
- ix) **Minor errors were identified in two of the historic figures used within the 2021/22 Quarter 1 BES2 calculations:** This has been rectified.
- x) **Overall claim balances relating to the first two quarters of 2020/21 had not been settled or recorded in the financial ledger system:** Payments were changed by Welsh Government. During Covid, authorities were given interim payments to replace quarterly payments in arrears to make sure there was cash flow. These were reconciled at year end. When quarter 1 and quarter 2 were checked, they wouldn't have been reconciled at that point but would be reconciled at year end.

The Chair thanked the Passenger Transport Unit Manager for the explanations and noted the dependency on third parties in some cases which has affected the ability to act on audit recommendations. Questions from Committee Members were invited:

- A Member asked about the potential for operators to defraud the system and if it would be worthwhile appointing someone to monitor this. It was confirmed that the information collected is useful e.g. it was detected that an operator had swiped the card multiple times. This was reported to Welsh Government.
- A Member queried why the grants letters are sent to the Chief Executive and it was clarified that Welsh Government had been asked to send the letters to officers as well in future. The Officer was asked if there were barriers to progress. It was reiterated that meeting the deadline of the 20<sup>th</sup> of the month is very difficult and this is acknowledged by Welsh Government. A draft, unsigned form is submitted and it shouldn't be expected that the S151 officer signs an unchecked form.

The Chief Internal Auditor raised the formal acceptance of grants not being returned to WG within the 21-day deadline. Assurance was provided that the deadline will be met going forward. The form will be sent to officers to ensure that it gets signed off within the 21-day deadline.

- A Member said there the lack of clarity over whether the recommendations are accepted or not and understanding where third parties are involved. It was enquired if other

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authorities have the same concerns. The Chief Internal Auditor said it was difficult to confirm the position of other authorities, but they work to the same terms and conditions. The audit process identified the expected controls that should be in place for concessionary travel. The scope is agreed with the Service Manager who is expected to provide the appropriate information to enable an audit against the procedures and policies. Some strengths and weaknesses were identified, and the weaknesses far outweighed the strengths hence the unfavourable opinion. By way of comparison, the Passenger Transport Unit Manager stated that half of the other authorities get their claims in on time so there is a difference there.

- A Member suggested a review of the processes that aren't in place mid-next financial year so they can be changed or improved. The Chief Internal Auditor explained that in normal circumstances, a limited opinion would be followed up. There was a delay in finalising this report so a follow up review is not included in the 2022/23 Audit Plan but it will be added to Quarter 1 for 2023/24 to ensure the recommendations have been acted upon and there are improvements in the system to report back to committee.

The Chair thanked the officer for attending to provide explanations. Some continuing control weaknesses are evident, but the wider situation is understood. The Committee will look forward to receiving further updates in due course

2. **Fleet Health and Safety and Driver Management:** The Head of Decarbonisation, Transport and Support Services welcomed the opportunity to offer some explanation and context in relation to the limited audit opinion, noting that some of the recommendations were not agreed at the time of the report. It was explained that, at the time of the report, all budgets relating to Fleet, Health and Safety and Management were devolved to individual service areas and it was contended that there were no levers available to make adjustments to address the report's recommendations.
- There was no central management of the Health and Safety of Fleet and Driver Management within the Authority:** It was explained that the fleet team budgets have now been centralised, the recommendation is agreed and is in progress. New information is available from starter and termination forms to identify to the transport team those new staff who are required to drive and those who have left their role. A new Accident Investigation and Training Officer undertakes driver induction and assesses ability to undertake a role. A Utilisation Officer post is to be recruited. Work is in progress on documentation and overall, good progress has been made.
  - Lack of Policies and Procedures:** These are in development. Some policies and procedures lie within the remit of Fleet. The Drug and Alcohol testing procedure is being worked on by the Training Manager who is working on the policy. A draft drivers' handbook is subject to consultation. It is planned to present a Vehicle Tracker Policy to Joint Advisory Group (JAG) in November to progress its adoption.
  - Training documentation was incomplete:** At the time of the audit individual service areas training records were not kept. All the training undertaken is now recorded on a spreadsheet to be uploaded to the new training portal when introduced. Individual records are not recorded for more job specific training e.g. chainsaw training. Managers will be expected to upload that data to the new training system when operational.
  - There was no Accident Policy or formal guideline in place.** At the time of the report, accident reporting was managed by the insurance team and there was a procedure in place. Accidents must now be notified to the Accident Investigation and Training Officer to investigate and if necessary, arrange or instigate disciplinary action.
  - The reason for vehicle trackers and information usage was not clearly defined and documented:** A Vehicle Tracker Policy will be presented to JAG in November prior to



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its adoption and implementation. A tracker system is installed on every vehicle to provide data on vehicle utilisation to begin to reduce the fleet. This is an important part of the decarbonisation agenda. Routes can be identified to explore opportunities to share vehicles and investigate the most suitable vehicles for purpose. Trackers can assist where there are queries from the public e.g. alleging drivers travel at excess speed.

- vi. **Quartix (vehicle tracker) user list was not regularly reviewed:** This has now been resolved. New starters and terminations are notified. The system is monitored on a quarterly basis to make sure that those who need access to Quartix have access. Those who don't need it will be removed from the list.
  - vii. **Policy on speeding:** This is contained within the Vehicle Tracker Policy and in the new handbooks to be distributed shortly. Details of how the information will be used and expectations of drivers (and their managers in ensuring compliance) with not just speeding but all highway code regulations and legislation will be included.
- A Member asked about the policy on drugs and alcohol, and the criteria on speeding. It was explained that this data would be retrospective based on information from a tracker. The Drug and Alcohol Policy was not developed by the transport team. It is a corporate policy yet to be finalised. It is possible testing would be done at the base if there was cause for concern. The authority has an obligation to report any speeding incidences to the traffic commissioner. Service Managers are expected to advise all colleagues regarding speeding. If there are repeat incidences, tracker data can support the disciplinary. Process.
  - The Member asked if retrospective speeding records are admissible to other authorities, how speed can be tracked and how that could apply to the driver's employment. The trackers provide live data, but someone would need to review the data; there are no alerts. A new officer will undertake checks against the tracker systems and then advise individual managers if drivers exceed the speed limit. It is planned to use the tracking data to inform us of utilisation of the vehicles rather than driver behaviour but confirmed that the data can be used to support investigations into poor driver behaviour/persistent speeding. The data can also be used to safeguard drivers to verify or refute complaints from members of the public.
  - A Member asked if there were any barriers preventing progress. It was explained that the centralisation of the budget has enabled progress on the audit recommendations. Weaknesses are transferring to strengths. It is hoped that there are no delays in ensuring the new policies and procedures are approved. When approved, data will be utilised more effectively to facilitate transition to net zero vehicles.
  - A Member asked if the Fleet Team had been reviewed. The team has grown by two officers (Accident Investigation and Training Officer and Utilisations Officer) with both roles anticipated to enhance the service provided.

The Chief Internal Auditor welcomed the comprehensive feedback and assurance provided. The follow-up review is included in the Audit Plan for 2022/23 (Quarter 2/4).

The Committee was content with the feedback provided.

#### **8. Audit Wales Work Programme: Council Progress Update**

The Performance and Data Insight Manager introduced a report to provide a quarterly update on the Council's progress against the Audit Wales Work Programme and its management response to relevant recommendations for local and national reports. Following presentation of the report, questions from Committee Members were invited:

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- The Chair referred to the current economic position and emphasised the importance of officers further strengthening key elements of the Medium-Term Financial Plan (MFTP). Continuing, the Chair suggested that the MFTP needed to be based on a range of plausible scenarios and subject to stress testing. It was the Chair's opinion that the Committee doesn't have sufficient visibility over the end to end MFTP process nor an understanding of the key financial operational assumptions underpinning the plan.

Regarding proposed savings to deliver a balanced budget, the Chair advised that it is essential that the Committee understands where these cost savings will be made and to gain assurance from officers that this does not materially impact levels of internal control, governance or other matters that appear on our work programme.

The Chair will raise these points with officers.

The Deputy Chief Executive stated that there is a level of assurance provided to the Governance and Audit Committee around the budget process. Last year the S151 officer opinion statement was presented to the committee ahead of the budget being approved so the committee could reassure itself of the robustness of the budget process and the adequacy of reserves. If the Committee wants to strengthen assurance, a Cabinet report can be made available that provides context and an outline of the budget process. Additionally, the MFTP strategy will be presented to Council in December/January and a draft version can be presented to the committee.

- A Member commented that considering measures to close budget gaps or anticipate what will happen over the next four years is difficult for this committee and suggested that scrutiny committees would be better placed to consider this on an ongoing basis.

The Chair, Chief Internal Auditor and Deputy Chief Executive will meet on Monday to consider more fully the Committee's role in reviewing the MFTP and budget recovery plan with a specific emphasis on ensuring its work complemented that of the Performance and Overview Committee). It was considered that the Governance and Audit Committee should focus on control and process when discussing the budget to assure itself of the means by which savings are identified, how risk and consequences are assessed as a result of that and financial sustainability over the medium term. Some discrete elements fall to this committee, others to the Performance and Overview Scrutiny Committee.

- A Member, referring to national studies, asked where the response to net zero fitted in the scrutiny process. It was confirmed that the response to climate emergency strategy action plan falls to the Performance and Overview Scrutiny Committee.

The Chair, in summary said the Committee carefully reviewed the progress made in addressing the points made by Audit Wales and is generally satisfied with the current position noting the comments made by Members.

#### **9. Governance and Audit Committee Forward Work Plan**

The Governance and Audit Forward Work Plan was noted

- The Deputy Chief Executive highlighted the potential risk to the closure of the audit process on the accounts from being finalised that may affect presentation to Committee in November. CIPFA was consulting its members and local authorities in terms of infrastructure assets and FRAB (Financial Reporting Advisory Board) has drawn some conclusion that is not helpful. Audit Wales and Welsh Government need to work through

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some matters and that might impact on the audit process. An update from Audit Wales was requested.

- The Q3 Internal Audit Progress report was moved from March to February 2023.

#### **10. To confirm minutes of the previous meeting held on 8th September 2022**

The minutes of the previous meeting held on the 8<sup>th</sup> September 2022 were confirmed as an accurate record.

The agenda item will be amended to “approve” instead of “confirm” the minutes in future.

#### **11. To note the date of the next meeting as 24th November 2022 at 2.00pm**

**Meeting ended at 4.06 pm**

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