



County Hall  
Cardiff  
CF10 4UW  
Tel: (029) 2087 2000

Neuadd y Sir  
Caerdydd  
CF10 4UW  
Ffôn: (029) 2087 2000

## AGENDA

<b>Committee</b>	AUDIT COMMITTEE
<b>Date and Time of Meeting</b>	MONDAY, 1 FEBRUARY 2016, 2.00 PM
<b>Venue</b>	COMMITTEE ROOM 4 – COUNTY HALL
<b>Membership</b>	Independent Members: Ian Arundale (Chair), Professor Maurice Pendlebury, Hugh Thomas  Councillors Hugh Thomas, Howells, McGarry, Mitchell, Murphy, Weaver, Dianne Rees and Kelloway

*Time approx.*

**1 Apologies for absence**

To receive apologies for absence.

**2 Declarations of Interest**

To be made at the start of the agenda item in question, in accordance with the Members' Code of Conduct.

**3 Minutes (Pages 1 – 8)**

To approve as a correct record the minutes of the meeting held on 30 November 2015.

**4 Finance (Pages 9 - 12)**

2.10 pm

4.1 Financial Update 2015/16

**5 Annual Governance Statement Action Plan (Pages 13 - 64)**

2.20 pm

5.1 Annual Governance Statement Action Plan

5.2 Audit Committee Annual Self-Assessment Review 2014-15

5.3 Audit Committee Annual Report - Discussion

5.4 Local Government Bill Consultation – Implications for Audit Committee

**6 Corporate Assessment Update**

2.50 pm

- 6.1 Corporate Assessment Update
- 6.2 WAO Report Progress Update and Value for Money Studies
- 7 Performance Report (Pages 65 - 106) 3.30 pm**
  - 7.1 Performance Report
  - 7.2 Treasury Management Strategy 2016/17
- 8 Internal Audit Progress Update (Pages 107 - 150) 4.00 pm**
  - 8.1 Internal Audit Progress Update
  - 8.2 Value for Money Studies
  - 8.3 Internal Audit Management
- 9 Outstanding Actions 4.30 pm**
- 10 Work Programme Update (Pages 151 - 154)**
- 11 Urgent Business**
- 12 Date of next meeting- 22 March 2016**

**Marie Rosenthal**

**Director Governance & Legal Services**

Date: Tuesday, 26<sup>th</sup> January 2016

Contact: Graham Porter, 029 2087 3401 [g.porter@cardiff.gov.uk](mailto:g.porter@cardiff.gov.uk),  
029 2087 3401, [g.porter@cardiff.gov.uk](mailto:g.porter@cardiff.gov.uk)

AUDIT COMMITTEE

30 NOVEMBER 2015

Present: Independent Members: Ian Arundale (Chair),  
Professor Maurice Pendlebury

Councillors Howells, Kelloway, McGarry, Mitchell, Murphy,  
Dianne Rees and Weaver

24 : APOLOGIES FOR ABSENCE

Apologies were received from Hugh Thomas (Independent Member); and Janet McNicholas and Non Jenkins, Wales Audit Office.

25 : ANNOUNCEMENTS

- (a) Welcome: The Chair welcomed Councillor Bill Kelloway to the meeting following his appointment to the Committee at Council on 22 October 2015.
- (b) Thanks: The Chair on behalf of the Committee thanked Paul Burke from Democratic Services whose secondment had ended for his administrative support to the Committee.

26 : DECLARATIONS OF INTEREST

Members were reminded of their responsibility under Part III of the Members' Code of Conduct to declare any interest in general terms and to complete personal interest forms at the start of the meeting and then, prior to the commencement of the discussion of the item in question, specify whether it is a personal or prejudicial interest. If the interest is prejudicial Members would be asked to leave the meeting and if the interest is personal, Members would be invited to stay, speak and vote. No declarations were made.

27 : MINUTES

The minutes of the meeting of the Audit Committee of 16 September 2015 were agreed as a correct record and signed by the Chairperson subject to an administrative correction to the Membership list to list Independent Members separate to the Councillors.

28 : BUDGET STRATEGY

The Corporate Director Resources / Section 151 Officer, Christine Salter gave an update on the in-year budget position; the Capital programme; the budget strategy and future years; and details of the Budget consultation process for 2016/17 which would go live on 11 December 2015.

The Committee considered the current position and directorates showing an overspend and were assured that work was ongoing to offset the position from other areas of the service to try to ensure a balanced position by the end of the financial year. It was noted that robust due diligence and scrutiny of 2016/17 proposals was in progress.

Members discussed the levels of agency spend and noted that further work on analysis of spend data was ongoing.

The slippage in the capital programme was noted which mainly related to delays in the construction of the new Eastern High School and various energy projects including LED street lighting.

RESOLVED – That

1. the budget update be noted;
2. the position on Agency staffing be noted and any further data be submitted to Committee in due course. The Audit & Risk Manager verified that IA have recently completed an analysis of Agency Spend as part of the VFM reviews and will provide an update at its next meeting on the 1st February 2016; and
3. the details of the 2016/17 budget consultation events be circulated to the Committee for their information.

Governance and Risk Management

29 : CORPORATE RISK REGISTER

The Committee received its mid-year review of the Council's Corporate Risk Register, which is updated quarterly and agreed with the Senior Management team.

The Audit and Risk Manager advised the Committee that the number of corporate risks had reduced by one to twenty-four; that following the senior management re-structure in April 2015 the number of Directors had reduced from eleven to seven and with the ownership and management of the ongoing risks had been adjusted accordingly, with a closer focus and robust strategic approach to risks.

A benchmarking exercise with other UK Core Cities to identify and consider the comparability of risk themes on the Corporate Risk Register with other Local Authorities had been concluded. This exercise found that the makeup of the Cardiff's Corporate Risk Register broadly aligned with those of the other Core Cities, and further work was being undertaken to compare the data in greater detail.

RESOLVED – That the Corporate Risk Register is noted and that the Committee have regard to its content when considering its Work Programme.

30 : RISK APPETITE

The Committee was advised of work undertaken to define the Council's Risk Appetite. The Committee was advised that the Risk Management Policy, Strategy and Methodology outlines the importance of a risk appetite in identifying the level of risk the Council is prepared to tolerate before it takes protective action. Risk measurement and management tools are corporately available, but decision making could be further supported by a defined risk appetite position.

To assist in the development of a corporate risk appetite, a risk management briefing paper had been prepared along with ten a risk assessment questions to be completed by the Senior Management Team and the Risk Management Steering Group the findings of

which would be prepared for the Audit Committee to input into the position paper and recommendations going forward to Cabinet.

RESOLVED – That the progress on defining of Risk Appetite be noted.

### 31 : CONSTRUCTING EXCELLENCE WALES ON BUILDING MAINTENANCE FRAMEWORK AND ACTION PLAN

The Committee received a presentation on the Building Maintenance Framework and the review of the current arrangement by Constructing Excellence Wales (CEW). The presentation provide Committee with a briefing on key features of the Building Maintenance Framework Agreement; the remit of CEW Review and the process; summary of findings both from the supplier and contractor and the experiences of clients and those delivering the services, i.e. the external contractors providing the services to the Council.; detail of the CEW recommendations; and the action plan and work ongoing with directorates.

Jane Thomas, Assistant Director Housing and Communities; Dylan Roberts, Senior Category Manager, Commissioning & Procurement; Lesley Ironfield, OM, Facilities Management and Sue Bartlett, OM, Community Maintenance Services supported the presentation and questions from the Committee.

Members welcomed the detailed briefing on this area which was of concern and had been discussed at previous meetings. A number of matters were raised in discussion with the officers in particular

- the need for better communication of the policies and processes with Elected Members;
- the need for a focussed single Council delivery approach to provide best use of resources and improved monitoring, customer service and satisfaction;
- the need to ensure effective use of Council resources, value for money in parallel to effectiveness and efficiencies of current framework;
- the need to learn from current framework contract arrangements;
- the importance of a robust process for complaints; their review; and consideration be given to a quality assurance report for tenants / clients to complete and return (aimed at providing the more vulnerable people with a greater opportunity to comment on work done and quality issues);
- the Asset Management group continue to monitor the implementation of the recommendations arising from the CEW report.

RESOLVED – that

- (1) Officers be thanked for the detailed briefing;
- (2) Internal Audit follow up on the action plan and the work on the future framework arrangements on a 6 monthly basis and report as necessary to Audit Committee;
- (3) communications with Members on the process and procedure be improved.

### 32 : WALES AUDIT OFFICE REPORT PROGRESS UPDATE

The Chairperson welcomed Chris Pugh, Wales Audit Office Auditor and Grants Specialist to the meeting.

Chris Pugh advised that the Corporate Assessment follow up assessment had been completed in October and the closing meeting had clarified any matters that had been highlighted during the assessment. A report was being drafted for internal review with a draft copy to be discussed with the Leader and Chief Executive before a final report is submitted to the Council and published. The timescales for this process was not available for the meeting.

WAO were undertaking a programme of national and local studies.

RESOLVED – That

1. the WAO briefing be noted;
2. Internal Audit to arrange a short meeting between the Chair and WAO prior to Audit Committee on the 1<sup>st</sup> February to discuss the Corporate Assessment – Follow on and Internal Review Process.

### 33 : TREASURY MANAGEMENT PERFORMANCE REPORT

The Chair reminded the Committee that Appendix 1 and Appendix 3 to the report for agenda item 7.1 (Treasury Management – Performance Report) contained exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972, and should there be any detailed discussion on these items the public would be excluded from the meeting

The Committee received the quarterly Treasury Performance report and position statement as at 31 October 2015 and highlighted key changes from the previous report received as at 31 August 2015. There had been no significant changes since the last report.

The Director provided an update on the borrowing undertaken in relation to the Housing Revenue Account settlement payment. No further borrowing had been undertaken during the year to date. £3.6 million of loans will mature in the remainder of the year and £15 million of new Public Works Loans would be taken to reduce internal borrowing and to benefit from preferential rates (Project Rate) available for investment related to 21<sup>st</sup> Century School projects in 2015/16.

The Committee noted that the maturity of debt profile was improved with a stable projection to 2056.

RESOLVED – That the report be noted.

Internal Audit

### 34 : INTERNAL AUDIT HALF-YEAR PROGRESS REPORT

The Chair advised that Appendices B and E in Annex 1 to the report for agenda item 10.1 (Internal Audit Half-Yearly Progress Report) contained exempt information as defined in Section 100 (1) (1A) of, and paragraphs 14 and 21 of Schedule 12A to, the Local Government Act 1972 and should any Member wish to raise any matters contained in this

report it would be necessary to resolve that the public be excluded for the duration of the discussion of this item

The Audit and Risk Manager provided an update on the work of Internal Audit for the period up to 30 September 2015 as part of its Strategy and Audit Plan. The Committee noted the changes to resources and support for risk and audit management; the number of audits completed and outcomes; level of assurance on the audit reports; performance indicators; benchmarking work and investigation team's half year report.

Members discussed a number of matters relating to process; costs; and governance; value for money; comparison information; and commended the team on their performance to date.

RESOLVED – That

1. the report be noted;
2. Audit Committee be notified at its next meeting of those audits that will not be completed / slippage in 2015/16 Audit Plan;
3. the Audit & Risk Manager consider whether a random check of 'High/Satisfactory' school CRSA's should be undertaken.

### 35 : MEASURING EFFECTIVENESS OF INTERNAL AUDIT

The Audit & Risk Manager presented details of work undertaken as part of the Quality Assurance and Improvement Programme used to measure the effectiveness of internal audit in relation to the following different elements:

- Delivery against the Audit Plan;
- Delivery against Annual Objectives;
- Internal quality assurance reviews;
- Extent to which audit recommendations are agreed and implemented;
- Director meetings and audit assurance questionnaires;
- Public Sector Internal Audit Standards – self assessment;
- Institute of Internal Auditors – “ What Every Director Should Know “ self-assessment;
- Audit Committee view as part of Audit Committee Self-Assessment;
- Benchmarking;
- External Assessment ;
- Wales Audit Office opinion on Internal Audit and overall financial control opinion;
- Management Performance Review.

The Committee welcomed the report and its detail and commended the team on its robust audit work against a reducing level of resources. The client feedback showed that the effectiveness; professionalism and understanding of the audit function were high.

RESOLVED – That the report was noted.

### 36 : ASSURANCE MAPPING

The Committee received the Audit and Risk Manager's report on development of an Assurance framework which directly correlates with the Council's internal control environment; identifies areas of individual responsibility and mapping risk, governance and

controls across the Council linking with the key sources including the Corporate Risk Register, Annual Governance Statements and any matters arising from the Senior Manager's Assurance Statements as well as matters raised by external regulators and auditors.

The Committee was advised that by mapping assurance against the key risks and significant issues within the organisation, it should be possible to give senior management and Members an informed view on the level of assurances in different areas and to make more informed decisions on where resources are best targeted. It should avoid duplication of effort and contribute to supporting the work on compiling the Annual Governance Statement. It will also support Internal Audit with their Audit Plan to ensure activities can be targeted to key areas to minimise duplication/ crossover and better co-ordination and sharing of activities.

RESOLVED – That the update be noted.

### 37 : PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) EXTERNAL ASSESSMENT

The Audit and Risk manager provided an update on the arrangements for the Public Sector Internal Audit Standards - External Assessment. The Council adopted standards and the Audit Charter from 1<sup>st</sup> April 2013. The PSIAS require that an assessment is carried out by external assessors at least once every five years.

The Welsh Chief Auditor's group are proposing that all Welsh authorities establish joint peer group to undertake such assessments. This approach is consistent with a peer group established for Core cities across the UK; and is based around a robust self-assessment and an external evaluation that fully meets the requirements of the Standard and has significant cost savings.

Over the next few weeks the Terms of Reference will be finalised; grouping and matching authorities will be agreed that avoid any potential conflicts of interest and a draft timetable.

RESOLVED - That the Committee approved the approach to be adopted for carrying out external assessments in compliance with Public Sector Internal Audit Standards (PSIAS).

### 38 : OUTSTANDING ACTIONS - ACTION LOG

The purpose of this item was to update the Committee on outstanding actions from the Audit Committee's Action Plan.

RESOLVED – That the report be noted.

### 39 : WORK PROGRAMME UPDATE

The Audit & Risk Manager draft attention to the work programme of items for the municipal year. At the next the Committee will receive a selection of value for money studies.

It was agreed that consideration of the Final Business Cases for the Infrastructure Alternative Delivery Model was outside of the remit of this Committee. The Director of Corporate Resources agreed to discuss with Councillors on the most appropriate way of scrutinising this area



RESOLVED – That the Work Programme be noted.

40 : URGENT BUSINESS

There were no urgent items to report.

41 : DATE OF NEXT MEETING

The next scheduled meeting is on Monday 1 February at 2.00pm in Committee Room 4.

The meeting terminated at Time Not Specified

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**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD****AUDIT COMMITTEE:****1 FEBRUARY 2016**

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**FINANCIAL UPDATE 2015/16****REPORT OF THE CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 4.1**

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**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for Governance, Risk & Control and also Financial Reporting. This report allows the Committee to be updated with reference to the above.
2. This report has been prepared to provide the Audit Committee with an update on the Council's financial position.

**Background**

3. To assist the committee in understanding the current financial context within which the Council is operating, this report sets out an overview of the current monitoring position for 2015/16 and gives an update on the preparatory work for 2016/17 and the medium term.

**Issues****Financial Monitoring**

4. The Cabinet considered the Month Six Monitoring Report on the 12 November 2015 and a summary of this was presented to the Audit Committee at its meeting on the 30 November. The next full Council monitoring report will be based on the position at month nine and this is due to be presented to Cabinet on the 18 February. For information, a summary of the month six position is set out below. The key issues identified at month six are not expected to change significantly although some improvement to the directorate positions is anticipated which should serve to increase the overall projected surplus. Work is currently progressing on the month nine monitoring position and this will be reported to the Committee at its meeting on 22 March.
5. Overall, the month six revenue monitoring for the Council shows a potential surplus of £309,000 as compared to the balanced position previously reported at month four. Financial pressures and shortfalls against budget savings targets in directorate budgets continue to be offset by projected savings on capital financing, an anticipated surplus on Council Tax collection and by NDR refunds on Council properties. Directorate budgets are currently projected to be overspent by £6.1 million however it is anticipated that management actions will enable this to be reduced by the year end. The current position includes projected overspends in

the Social Services, City Operations and Economic Development Directorates and in Corporate Management. This reflects a number of factors including shortfalls against budget savings targets set as part of the 2015/16 budget and on-going shortfalls carried forward from the previous financial year. The directorate overspends are partially offset by the £4.0 million general contingency budget which was maintained as part of the 2015/16 budget in order to reflect the quantum, risk and planning status of the proposed savings for 2015/16.

6. The 2015/16 savings for each directorate currently anticipated to be achieved show an overall shortfall of £5.717 million against the £32.473 million directorate savings target with £18.730 million having been achieved to date and a further £8.026 million anticipated to be achieved by the year end. The budget approved by Council on the 26 February 2015 identified red or red / amber achievability risks totalling £10.230 million with £5.854 million of the savings proposals still at a general planning stage. These risks are evident in the projected shortfall currently reported as part of the month six monitoring. A projected shortfall of £2.868 million has also been identified in relation to savings targets carried forward from 2014/15. The projected shortfalls are reflected in the directorate monitoring positions although where possible shortfalls have been offset by savings in other budget areas. The £4.0 million General contingency budget which was allocated to reflect the risk and planning status of the proposed savings for 2015/16 is also available to offset the shortfall in the current financial year.
7. Actions are being taken by those directorates currently reporting a projected overspend in order to try to resolve the position and this will continue to be reviewed as part of the challenge process to review the performance of directorates including the budget monitoring position. The financial monitoring position and any actions being taken by directorates to reduce projected overspends are also discussed in the Chief Executive's monthly meetings with directors.
8. The total council Capital Programme for 2015/16 amounts to £327.8 million and against this the projected out-turn is £297.6 million resulting in a net variance of £30.2 million. The majority of the projected variance is due to slippage in two main areas, namely, construction of the new Eastern High School and various energy projects including LED for street lighting. Directorates have been reminded of the need to avoid slippage wherever possible by ensuring that their project plans and profiles of activity are robust.

## **Budget Preparation**

9. Following the approval of the Budget Strategy report by Cabinet and Council in July 2015, directorates spent the summer constructing their savings proposals as part of establishing a balanced budget position for approval by Council in February 2016. Work was then carried out in the autumn to update and review the budget strategy assumptions and to undertake due diligence on the initial 2016/17 savings proposals. Due diligence work was also undertaken in respect of the budget savings shortfalls identified as part of the budget monitoring process in the current financial year in order to form a view regarding the future achievability of these savings. This was reflected in the Cabinet's budget proposals for consultation.
10. The Cabinet approved the 2016/17 budget proposals for consultation on 10 December. This was based on an updated budget reduction requirement of £45.645 million. The report outlined the financial planning assumptions on Council

Tax, schools, use of reserves and capitalisation and identified the budget savings proposals for consultation. These amounted to £33.897 million. The consultation commenced on 11 December and ran until midnight on 12 January. The results of the consultation are currently being analysed and will be considered by Cabinet when finalising their 2016/17 budget proposals for consideration by Council.

11. The Provisional Local Government Settlement information from Welsh Government is usually received in October however this year it was not announced until 9 December. This was too late for it to be reflected in the budget consultation process. The Settlement was more favourable than had been anticipated with all the indications prior to the announcement of the Comprehensive Spending Review suggesting a significant reduction in funding to Councils. In the event, the average decrease for Welsh Authorities was 1.4% with Cardiff having a reduction of 0.1% equating to £301,000. The higher settlement for Cardiff reflects the increased demographic pressures faced by the city as compared to other authorities in Wales although this still falls well short of providing the funding necessary to meet the commitments arising from these and the other pressures faced by the Council. Overall, compared to the planning assumption which reflected a 3% reduction the Settlement provided an additional £11.56 million. In addition, the revision to the Council Tax Base which was reported to Cabinet on 10 December 2015 also provided increased income of £1.9 million before any increase in the rate of Council Tax is considered. The Cabinet will take these changes into account when considering the consultation responses and finalising their budget proposals for consideration by Council.
12. This change to the anticipated position affords the Council an opportunity to significantly reshape the challenges of the medium term through:
  - Improving the Council's financial resilience next year and for the medium term
  - Addressing areas of significant risk within existing proposals for 2016/17
  - Developing a robust set of proposals extending into 2017/18 and beyond
  - Giving more scope to consider the outputs of consultation
  - Giving more scope to protect the Council's corporate priorities
13. The timescales for the release of the Provisional and Final Local Government Settlement information from Welsh Government has created risk and uncertainty for all Councils in Wales both in terms of the level at which budgets are set and in terms of the timeframes for approval by Council. The Final Settlement is not due to be announced until the 2 March. Even then there will be a degree of uncertainty as the Welsh Government Budget is not due to be debated and approved by the National Assembly until 8 March. The Council's budget timetable currently assumes that the Budget will be considered at the Council Meeting on 25 February. This is still subject to review however there are also statutory considerations in that the Local Government Finance Act 1992 requires that Councils set their budgets no later than 11 March. Any delay beyond the 25 February would also have implications for the collection of Council Tax in the new financial year.

#### **Reason for Recommendations**

14. To inform the Audit Committee of the current financial context for the Council.

## **Legal Implications**

No direct legal implications arise from this report.

## **Financial Implications**

15. There are no direct implications arising from this information report.

## **RECOMMENDATIONS**

16. To note the financial information provided in respect of the 2015/16 monitoring position and the process being adopted in respect of budget preparation for 2016/17 and the medium term.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**January 2016**

**AUDIT COMMITTEE: 01 February 2016**

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**ANNUAL GOVERNANCE STATEMENT ACTION PLAN****REPORT OF THE CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 5.1**

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**Reason for this Report**

1. The Audit Committee Terms of Reference requires that they review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk and internal control.
2. This report provides Members of the Audit Committee with the Annual Governance Statement mid year position. To outline the AGS framework and inform the Committee of the Senior Management Team's mid year responses to the Senior Management Assurance Statements (SMAS).

**Background**

3. The Annual Governance Statement is a key governance document which forms part of the Statement of Accounts. It is underpinned by a Governance Framework, adopted from the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.
4. The Audit Committee reviews the Annual Governance Statement prior to approval and considers whether it properly reflects the risk environment and supporting assurances. The SMAS responses are supporting assurance documents which contribute to the Annual Governance Statement (AGS).
5. The AGS is informed by a number of other internal and external assurance sources, supported by an assurance mapping process and a governance working group. Internal Audit currently co-ordinate much of the work on this.
6. A consultation document was produced last summer "Delivering Good Governance in Local Government", and the Council provided a response. This has the potential to significantly change the framework we have used for the past 4 years and much preparatory work has been completed, in anticipation of changes proposed. Recent confirmation has been received from CIPFA that the current framework will be used for the Annual Government Statement for 2015/16. Any new arrangements will be introduced next year.

7. A process of engagement and consultation with key stakeholders and AGS contributors and a facilitated workshop to map and align assurance sources to the governance framework has been put in place. The draft AGS will then be prepared after the year end.

### Senior Management Assurance Statements

8. For several years each Director has been asked to complete a SMAS, with responses reviewed by the Audit & Risk Manager. The statements received contribute to ongoing reviews of governance and risk management.
9. The purpose of the SMAS exercise is to provide a true reflection of the governance arrangements in place within the Council. Good governance ensures that as a Council we are open and transparent in our affairs and any areas which are of concern at a corporate level are identified and managed.
10. This is the first SMAS exercise since the Senior Management restructures which took place at the beginning of the financial year (2015/16) and resulted in the number of Directors reducing from eleven to seven.
11. Completion of the SMAS requires each Director to respond to a number of statements with regards to the functions for which they have been responsible during the financial period. In addition, there is a requirement to declare if any significant governance issues have occurred during the period, which may merit inclusion on the Annual Governance Statement Action Plan, in addition to providing updated comments on four ongoing significant governance issues.
12. Since the last exercise, completed at the end of the financial year 2014/15, the SMAS pro forma has been refreshed to require Directors to provide examples and comments in support of their responses. Audit Relationship Managers have met with their respective Directors to discuss SMAS responses. This involved attendance at most Directorate Management Team meetings where Directorate responses were discussed, challenged where appropriate and collated.
13. A framework is being developed to review responses by managers with expertise in risk management, procurement and performance information disciplines. This secondary review will be introduced to validate the accuracy and consistency of responses and provide more robust assurance at the year end position in support of the AGS for the 2015/16 financial year.

### Chief Executive Assurance Statement

14. A Chief Executive Assurance Statement is being developed and the intention is that this will be introduced to support the 2015/16 AGS. This will ensure a complete set of assurance statements from Senior Management at the year end position.

### Issues

15. All seven Directors completed and returned a SMAS. A summary of the responses is included in Appendix A to this report.



16. From the 46 assurance statement responses from each Director, there was a 93% (301) 'yes' response, 6% (19) 'partly' and 1% (2) 'no' response. Although, there was a high proportion of positive responses to key assurance statements overall, in some areas a need for improvement was identified. Internal Audit has subsequently engaged with relevant managers to provide support in respect of risk management.
17. The SMAS response identified that risk management arrangements were incomplete in the City Operations Directorate. Consequently, the Audit and Risk Manager and Principal Auditor (Risk and Governance) facilitated a risk management workshop with the City Operations Management Team. The training was well received by the Directorate who have committed to developing a Directorate Risk Register to coincide with the development of the Directorate's Delivery Plan for 2016/17.
18. In the mid-year SMAS responses, the four significant issues identified in the AGS for 2014/15 were updated by Directors in their returned Statements, and these are shown at Appendix B, along with any emerging new issues faced within their directorates. This will need to be reassessed later in the year and featured in the current year AGS as closed or ongoing issues. All responses are being used to inform audit priorities through an Audit Planning and Assurance working group within Internal Audit.

### **Reasons for Recommendations**

19. To inform the Audit Committee of the summary content of the returned Senior Management Assurance Statements, which support the ongoing in-year monitoring and review of governance issues and actions.

### **Legal Implications**

20. There are no direct legal implications arising from this report.

### **Financial Implications**

21. There are no direct financial implications arising from this report.

### **Recommendations**

22. The Audit Committee to note the AGS framework and summary of returned SMAS questionnaires, which contribute to the mid year AGS position.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**

**Date: 11.01.16**

*The following Appendices are attached:*

**Appendix A - SMAS Mid-Year Director Responses 2015/16**

**Appendix B - SMAS Significant Issues (Mid-Year Responses 2015/16**

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## Senior Management Assurance Statement - Mid Year Director Responses 2015/16

Assurance Categories	Total Yes	Total Partly	Total No
1. Corporate Risk Management	27	0	1
2. Directorate Risk Management	32	9	1
3. Partnership / Collaboration Risk	14	0	0
4. Compliance with Council Rules	34	1	0
5. Project Quality Assurance (PQA)	41	1	0
6. Budget Monitoring	21	0	0
7. Resource Savings	13	1	0
8. Internal Control Environment	21	0	0
9. Fraud & Financial Impropriety	28	0	0
10. Independent Assurance	18	3	0
11. Service Delivery	20	1	0
12. Performance Measurement & Management	32	3	0
<b>Yes</b>		<b>301</b>	
<b>Partly</b>		<b>19</b>	
<b>No</b>		<b>2</b>	

Mae'r dudalen hon yn wag yn fwriadol

**A. Significant Governance Issues - Updated Position**

Significant issue	Resources	Social Services	Economic Development	Education & LL	Governance & Legal Services	Communities, Housing & Customer Services	City Operations
Position as at 30.09.2015							
<p><b>Capacity &amp; Decision Making</b> The Council is facing unprecedented financial pressures where significant savings have had to be realised, consequently Directorates have seen a reduction in staff resources which increases the pressure on staff to have the capacity to provide professional and sound advice.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 19</p>	<ul style="list-style-type: none"> <li>• Prioritisation of work to make best use of internal expertise.</li> <li>• Use of Technology such as DigiGOV, which has streamlined processes.</li> <li>• Service Reviews and key activity analysis of statutory and non statutory services.</li> <li>• Considerations are given to what can no longer be delivered with a balanced budget.</li> </ul>	<p>Difficult to fully or effectively quantify since all areas of the business are under significant pressure much of which is mitigated by very committed staff being prepared to work additional hours without remuneration. Significant inroads have been made in terms of reducing caseloads, bringing new preventative initiatives on stream and additional capacity at Assistant Director level which is critical.</p>	<p>Major budgetary pressures and the need for recognition that this will lead to a reduced service in Economic Development, with objectives needing to be reviewed accordingly for next year.</p>	<p>The Directorate continues to prioritise available resources and make best use of internal expertise. We have made significant savings and improved outcomes over the last two years. Whilst challenging, further savings and further deliverables are deliverable.</p>	No change	No change	Unchanged
<p><b>Organisational Development (OD) Plan</b> The Cabinet acknowledges the range of critical challenges facing the Council. In order to respond to these challenges an ambitious programme of organisational change has been established to reflect the transformational ambition for the Council and for Cardiff. This includes a wide number of capital and other projects. We need to ensure that projects are commissioned through proper arrangements and that their subsequent sponsorship ensures that project objectives are met. The requirement to have sound processes and governance arrangements are critical to the success of the Programme.</p>	<p>It is felt that this no longer represents a 'significant governance issue'. The focus is now on delivering the OD Plan to bring about the required changes which is managed as a corporate risk.</p>	<p>This is providing much needed capacity and enables robust and effective programme management in Adults Services and Children's Services.</p>	No change	<p>The Directorate is engaging in the OD programme, identifying where Education can benefit from each project and continuing to develop the SOP through the OSD framework.</p>	No change	No change	Unchanged

Significant issue	Resources	Social Services	Economic Development	Education & LL	Governance & Legal Services	Communities, Housing & Customer Services	City Operations
Position as at 30.09.2015							
<p><b>Commissioning Capability and Capacity</b> In the new Organisational Framework this will be a critical competency and capability. The success of a number of programmes depends on having this capability and capacity in place e.g. Health &amp; Social Care transformation.</p>	<p>It is felt that this can be closed as a significant governance issue. Given the refocus of the Organisational Development programme and in particular the establishment of the Reshaping Services Portfolio and associated programmes, although we will still be progressing the Council's strategic commissioning approach, it will not impact on or delay delivery of the Reshaping Services programmes.</p>	<p>It is recognised that the scale of change required in commissioning requires review as part of the ODP</p>	<p>No change</p>	<p>No change</p>	<p>No change</p>	<p>No change</p>	<p>Unchanged</p>
<p>Page 20</p> <p><b>Transparency of Internal Market Costing</b> The Council's internal charging arrangements are not always sufficiently transparent in terms of rate setting, monitoring and charging. Some council wide arrangements, for instance the timescales operated by Service Desks are not always sufficiently aligned to the requirements of business critical services within Directorates.</p>	<p>Work has been undertaken across the directorate with regards to understanding the costs of providing individual services. This has shown itself in the revised Service level agreements to schools in areas such as IT, HR and Finance and now needs to be developed further so that the cost allocation of 'central support' areas is clear and transparent. The current position is that not all services 'pay' for central services and whilst this may remain the position there is a need to ensure that the services that are delivered from the resources directorate respond to the needs of the customer. Looking forward, there are therefore two distinct pieces of work that need to be completed, one being an understanding of the cost and charging relationship of central services and the second is the continuation of the directorate reviewing its service delivery either by commencing a review or in most cases delivering against an action plan that has arisen out of the several service review completed within the directorate.</p>	<p>No change</p>	<p>No change</p>	<p>The Directorate continues to work through the School Budget Forum to review the services provided to schools. The first Council provided service to be challenged through the new SLA Standards Board will be FM services.</p>	<p>No change</p>	<p>No change</p>	<p>Unchanged</p>

## B. New Significant Issues

Directorate	Significant Issue	Action Implemented / Proposed
Resources	The range and extent of new models of service delivery is impacting on the work of officers within Resources.	Resources requirements for project needs to be clearly identified in order to ensure proper professional advice is provided
Social Services	Failure to implement the Social Services & Wellbeing (Wales) Act 2014	<ul style="list-style-type: none"> <li>- New governance arrangements in place to ensure effective monitoring of progress across the region.                             <ul style="list-style-type: none"> <li>- Senior lead officers identified with responsibility for each work stream</li> </ul> </li> <li>- Regional task and finish groups established for each work stream and action plans being delivered</li> <li>- Updated Social Care Development and Workforce Plan submitted to Welsh Government in September 2015                             <ul style="list-style-type: none"> <li>- Successful partnership workshop held to ensure full engagement in process</li> <li>- Officers contributing to national work groups as required</li> </ul> </li> <li>- Regular reports to Scrutiny Committee with references to Cabinet in place</li> </ul>
	Failure to reduce the cost of delivering Social Services	Strategic service improvement governance arrangements including: <ul style="list-style-type: none"> <li>- Organisational Development Programme</li> <li>- Children's Services Improvement Board                             <ul style="list-style-type: none"> <li>- Adult Services Improvement Board</li> </ul> </li> <li>- Vulnerable Families Partnership Board</li> <li>- Social Services Reshaping Programme</li> </ul>
Economic Development	Major Budgetary pressures and the need for recognition that this will lead to a reduced service in Economic Development, with Objectives needing to be reviewed accordingly for next year	Unchanged
Education & LL	no significant issues identified	no significant issues identified
Governance & LS	no significant issues identified	no significant issues identified
Communities, Housing & CS	Unchanged	Unchanged
City Operations	Unchanged	Unchanged

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**AUDIT COMMITTEE: 01 February 2016**

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**AUDIT COMMITTEE ANNUAL SELF ASSESSMENT REVIEW 2014/15**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5.2**

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**Reason for this Report**

1. The Audit Committee's Terms of Reference sets out their responsibility for overseeing governance, risk and control and it is important they are able to demonstrate that they are effective in doing so. A Self-Assessment exercise is undertaken annually in order to measure the effectiveness of the Committee in undertaking its role.
2. This report has been prepared to provide Audit Committee with an updated position on the improvement actions resulting from the Self-Assessment closed session workshop in January 2015.

**Background**

3. The Audit Committee undertook their first self assessment in December 2013. Future assessments were considered appropriate to take place annually to feed into the Audit Committee's Annual Report.
4. The Self Assessment Framework was produced based on best practice guidance from CIPFA, the requirements of the Local Government Measure and local knowledge of the Council. The latest workshop, held in January 2015, was facilitated by the Wales Audit Office and the Audit & Risk Manager; both the Corporate Director Resources (Section 151 Officer) and the Director of Governance and Legal Services were in attendance.
5. At the workshop, Members of the Committee completed a Self Assessment exercise, answering yes, no or partly to the Self Assessment Questionnaire which comprised forty six questions. All questions were answered; the majority of questions were answered with yes and a small minority with partly. The questionnaire itself was used to show the evidence thought appropriate to support the response for each question.
6. In January 2015, following completion of the Self Assessment questionnaire an Action Plan was produced. The Action Plan included sixteen proposed actions for improvement, for which a series of target dates were set and action owners allocated.

## **Issues**

7. The Audit and Risk Manager has reviewed the current position of the sixteen improvement actions from the January 2015 Self Assessment. An updated assessment is included in Appendix A.
8. This shows that most of the actions have now been implemented. Two actions (reference 5 and 6) are contingent on the finalisation of a Scrutiny and Audit Protocol. This protocol has been drafted and discussed, and has an approval target of quarter four 2015/16. The remaining actions can be updated and considered when the next workshop is held, scheduled for September 2016.
9. This review provides strong assurance around the role of the Audit Committee and the ongoing work to drive improvements in identified areas.

## **Reasons for Recommendations**

10. To inform the Audit Committee of the updated position, against the improvement actions from the 2015 Self Assessment.

## **Legal Implications**

11. There are no direct legal implications arising from this report.

## **Financial Implications**

12. There are no direct financial implications arising from this report.

## **Recommendations**

13. Audit Committee to consider the updated Action Plan position as summarised in Appendix A and the current status of ongoing actions.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**

**Date: 11.01.16**

*The following Appendix is attached:*

**Appendix A – Self-Assessment Improvement Actions (2015) – Updated Position  
(February 2016)**

**Self Assessment: Improvement Actions (2015) – Updated Position (February 2016)**

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
	<b>Roles &amp; Responsibilities</b>				
1	<u>Audit Committee Terms of Reference</u> Officers to undertake a review of the Committee's Terms of Reference prior to Annual Council in May 2015 to ensure fit for purpose and in line with current best practice.	May 2015	Audit & Risk Manager	The Audit Committee Terms of Reference was reviewed and approved in May 2015.	Actioned.
Page 25	<u>Volume of Meeting Papers</u> Members noted that although the agenda supports the Work Programme there are often large volumes of paper associated with each agenda item. It can be difficult for Members to digest prior to the meeting given other demands. Officers to be reminded that the information put in front of Members to be relevant and concise and not overly detailed. Where Members of the Committee have concerns over such matters to report to the Committee Chair.	Ongoing	Corporate Director Resources & Audit & Risk Manager	To reduce the agenda size in Audit Committee meetings three new approaches have been introduced.  1) An Audit Committee SharePoint site has been created so that documentation of interest to the Audit Committee can be stored for Member information. This is being developed, with solutions being sought for Independent Members who are not currently able to access the SharePoint site.  2) Emails are being circulated to Members for information communications, to limit Audit Committee agendas.  3) Members are invited to a pre meeting of the Audit Committee giving them an opportunity to raise and discuss any issues prior to the formal meeting.	Actioned
3	<u>Information Items</u> Items for information to be taken off the Agenda and distributed for information only. Any ongoing actions to be reviewed and where appropriate to be reported, in brief, under Outstanding Actions (for information only.)	Ongoing	Secretariat	As above, information only items are being reduced in Audit Committee meetings.  Pre meeting allows Members with the opportunity to raise issues.	Actioned

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
4	<p><u>Assurance Summary</u> The Audit Committee annually are presented with an Assurance Summary of the key governance issues and corporate risks. Members of the Committee to continue to receive this summary annually to provide a level of assurance against the Committee's Work Programme.</p>	Annually	Audit & Risk Manager	<p>On a biannual basis, the Audit Committee receives</p> <ul style="list-style-type: none"> <li>An action plan of the 'Significant Governance Issues' affecting the Council, as updated by the Senior Management Team, and;</li> <li>the Corporate Risk Register (detailed and summary versions).</li> </ul>	Actioned
5	<p><u>Circulation of Work Programme</u> The Committee's Work Programme is to be published more widely amongst elected Members similar to Scrutiny.</p>	Ongoing	Democratic Services	Meeting papers published on the Council Website.	Ongoing
6	<p><u>Audit Committee &amp; Scrutiny Committees</u> In order to address the issue of items being considered by Scrutiny overlapping with Audit Committee a protocol is to be developed by officers.</p> <p>In order to support this notion the Audit Committee Chair would consider it beneficial to meet with the Scrutiny Chairs on an annual basis.</p> <p>In future, Scrutiny work programmes to be shared with Audit Committee Members and used to inform Audit Committee work programme to avoid duplication.</p>	Ongoing	Secretariat	<p>A draft Scrutiny and Audit Protocol has been developed to promote work synergies.</p> <p>The Audit Committee Chair also attended a Scrutiny Chair's Liaison Forum in quarter two (2015/16).</p>	Draft protocol Prepared - Ongoing
7	<p><u>Chairperson's Letters</u> There have been instances where issues have been reported to the Committee on more than one occasion, where action has not been taken. In order to escalate these matters the Chair will in future write to the Chief Executive, relevant Cabinet Member or relevant Scrutiny Chair if the Director cannot provide a resolution.</p>	Ongoing	Audit & Risk Manager	This is now happening and the Chair does raise issues with the Chief Executive, Cabinet Member or relevant Scrutiny Chair as considered appropriate.	Actioned

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
8	<p><u>Independent Members</u></p> <p>Engagement with Members - To benefit the independent Members an item to be included on each agenda which can be used for elected members to bring any matters of interest to the independent Members.</p> <p>Members Newsletter - The newsletter circulated to elected Members to be distributed to the Independent Members.</p>	Ongoing	Democratic Services	<p>All Members receive induction training.</p> <p>There is a pre meeting before every Audit Committee meeting, where there is an opportunity for all Members to have discussions and to bring any matters of interest to the independent members.</p> <p>Being considered as to best means of sharing this. Potential to use SharePoint website once access provided to Independent members.</p>	<p>Actioned</p> <p>Ongoing</p>
<b>Monitoring &amp; Oversight</b>					
Page 27	<p><u>Internal Audit Resource</u></p> <p>The impact of reducing resources within the Internal Audit Team to be highlighted in the Audit Committee's Annual Report.</p>	March 2015	Audit & Risk Manager	<p>The impact of reducing resources within the Internal Audit Team was highlighted in the Audit Committee's Annual Report and emphasised in the Annual Governance Statement.</p> <p>Regular updates to Audit Committee mention resource issues and next year's Audit Plan will highlight any resource implications on audit coverage.</p>	Ongoing
10	<p><u>Chief Executive Attendance</u></p> <p>The Committee would appreciate if the Chief Executive would attend the Audit Committee on an annual basis to provide an update on the progress of the Organisational Development Plan and the strategic direction of the Council.</p>	December 2015	Corporate Director Resources, Secretariat & Chief Executive	The CEO and Leader have attended Audit Committee to provide updates on the ODP and have agreed to continue to provide updates and attend as appropriate.	Actioned
11	<p><u>Monitoring Officer</u></p> <p>The Monitoring Officer to attend Audit Committee when the Annual Governance Statement is considered.</p>	In accordance with the Work Programme	County Clerk	The Monitoring Officer now attends Audit Committee whenever a governance item is included on the Agenda. She also attends the Agenda conference meeting with the Chair.	Actioned
12	<p><u>Audit Committee Self Assessment</u></p> <p>The assessment exercise to be held on an annual basis.</p>	January 2016	Secretariat & Audit & Risk Manager	The Audit Committee Self Assessment position will be reviewed annually. Agreed the next workshop would be held in Sept 2016.	Actioned & Ongoing

Ref.	Proposed Improvement Actions	Target Date	Action Owner	February 2016 Position	February 2016 Status
	<b>Internal &amp; External Audit Process</b>				
13	<u>Meeting with Audit Manager</u> A formal arrangement will be offered to Members of the Committee to meet with the Internal Audit Manager and External Auditors on an individual basis.	Commencing June 2015	Secretariat & Audit & Risk Manager & Wales Audit Office	Members are aware that this is possible. The introduction of time to get together pre Audit Committee helps raise issues of interest and retain focus during the meeting.	Actioned
14	<u>Wales Audit Office</u> External Auditors to be represented at all meetings.	Ongoing	Wales Audit Office	In Place.	Actioned
	<b>Membership</b>				
15	<u>Vice Chair</u> It was agreed that a Vice Chair should be nominated by the Committee for the municipal year and to act in the absence of the Chair.	June 2015	Audit Committee	Actioned and a Vice Chair appointed in June when the Chair was appointed. MP (independent member) for current year.	Actioned
	<b>Meetings</b>				
28	No matters to report			N/A	N/A
	<b>Skills &amp; Training</b>				
16	<u>Individual Self Assessment</u> The Committee Members may wish to undertake a personal self assessment in context with the role of an Audit Committee Member which may identify gaps in knowledge and areas where training can be arranged.  The suggested framework was presented to <a href="#">Council in December 2013</a> : The Wales Charter for Member Support and Development: An Introduction for Authorities. Specifically the role of a Member of an Audit Committee.	-	Chairperson, Secretariat, Corporate Director Resources & Audit & Risk Manager	This opportunity has been offered to members	Actioned

**AUDIT COMMITTEE: 01 February 2016**

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**DRAFT LOCAL GOVERNMENT (WALES) BILL – WELSH  
GOVERNMENT CONSULTATION**

**REPORT OF THE DIRECTOR GOVERNANCE & LEGAL SERVICES**

**AGENDA ITEM: 5.4**

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**DRAFT LOCAL GOVERNMENT (WALES) BILL – WELSH GOVERNMENT  
CONSULTATION**

**Reason for this Report**

1. To enable the Committee to consider the Welsh Government's draft Local Government (Wales) Bill proposals in so far as they concern matters relevant to the Committee; and respond to the Welsh Government's consultation in this respect.

**Background**

2. In July 2014, the Welsh Ministers published the Devolution, Democracy and Delivery White Paper – Reforming Local Government, which stated the Welsh Ministers' intention to introduce legislation to deliver local government reform. Two further White Papers were published in October 2014 and February 2015 further developing these proposals. The first Local Government (Wales) Bill was passed by the Assembly on 20 October 2015, enabling preparations to be made for the programme of local government mergers and reform.

**Issues**

3. The Welsh Government is now consulting upon a second Local Government (Wales) Bill. The stated purpose of the Bill is to establish new Counties by the merger of existing Counties and County Boroughs, to establish a new and reformed legislative framework for local government democracy, accountability, performance and finance, and to establish a statutory Public Services Staff Commission. The consultation is intended to provide the opportunity for comments on the proposals to be considered by the Welsh Government after the May 2016 elections, to inform its decision on how to proceed. The deadline for responses is 15 February 2016.

4. The draft Bill and accompanying documentation total around 650 pages, and 'not only expands on the much heralded structural reform, but proposes wholesale reform of how councils are governed and managed too' (extract from Welsh Local Government Association spokesperson's response to publication of the draft Bill).
5. Part 4 of the draft Bill imposes statutory duties upon the Members of the proposed new County Councils relating to the performance of their functions. Members are placed under a statutory obligation to attend meetings, hold regular ward surgeries, answer correspondence, complete compulsory training courses and publish an annual report. Leaders of political groups are required to take reasonable steps to promote and maintain high standards of conduct by Members of their group (draft Bill, Part 4, Chapters 2 and 4).
6. Part 5 of the draft Bill renames audit committees as 'corporate governance and audit committees' and provisions are made with regards to their functions ( see section 148 and section 149 ). Particularly, the Bill provides that a committee is required to assess, and report on, the council's ability to: comply with its duties in respect of its governance arrangements (see section 111 of this Draft Bill); make progress in respect of the priorities as set out in its corporate plan (see section 112); and, handle complaints effectively. A corporate governance and audit committee must also assess, and report on, the arrangements made by the council in respect of self assessments (see section 116) and peer assessments (see section 118). The committee must also review the council's draft self assessment report (see section 117) and its draft response to: peer assessment reports and combined assessment reports (see sections 121 and 126); governance review reports (see section 134).
7. Additionally, provision is made with regards to the membership of the corporate governance and audit committees; specifically the draft Bill contains a requirement for one third of the committee to be lay persons, with the other two thirds being council members, (see section 150). The chair of the committee must be a lay person; however the deputy chair may be a member of the council, although not a member of the council's executive. The draft Bill also amends the definition of a 'lay person' by excluding more categories of persons from being a lay person, (see section 151). The definition provides that a lay person is someone who is not a member or officer of any local authority, at the time of appointment or within the 12 months preceding the appointment, nor are they a spouse or civil partner of a member or officer of any local authority. The draft Bill also stipulates who may chair a meeting of the Corporate Governance and Audit committee (section 152).
8. Part 4 and Part 5 of the draft Bill is attached at **Appendix A**. Members are invited to provide comments on the provisions of Part 4 and Part 5 of the Bill in so far as they relate to matters within the remit of the Committee (current or proposed).
9. Members may wish to note that other aspects of the draft Bill are being carefully considered by other relevant parts of the Council; and a corporate response will be collated in due course.



10. A Report setting out the Council's response to the consultation is being prepared for Cabinet to consider at its meeting in February 2016. The Committee are invited to set out their views in relation to the proposals to inform the final council response

### **Legal Implications**

11. Relevant legal provisions are set out in the draft Bill, Part 4 and Part 5, attached at **Appendix A**.

### **Financial Implications**

12. There are no financial implications arising from this report.

### **RECOMMENDATION**

The Committee is recommended to:

1. Note the provisions of Part 4 and Part 5 of the draft Local Government (Wales) Bill, set out in **Appendix A**, in so far as they relate to matters within the (current or proposed) remit of the Committee, and provide comments as appropriate; and
2. Delegate authority to the Corporate Director of Resources, in consultation with the Chair, to prepare a response for Cabinet to consider on behalf of the Committee.

**Marie Rosenthal**  
**Director Governance & Legal Services and Monitoring Officer**  
1 February 2016

### **APPENDICES**

Appendix A            Draft Local Government (Wales) Bill, Part 4 and Part 5

Background papers

[Consultation Documents, Draft Local Government \(Wales\) Bill](#) -

Welsh Local Government Association Statement on the Draft Local Government (Wales) Bill, 24<sup>th</sup> November 2015

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(4) In subsection (3) –

- (a) after “constitution” insert “or, as the case may be, their constitution guide”;
- (b) for the words “who requests” to the end of the subsection, substitute “on request, either free of charge or at a charge representing no more than the cost of providing the copy”.

## 80 Duty on county councils to publish official addresses

A county council must publish on its website, and in any other manner it considers appropriate, an official electronic and postal address for each member of the council, to which correspondence for the member may be sent.

## PART 4

### FUNCTIONS OF COUNTY COUNCILS AND THEIR MEMBERS

#### CHAPTER 1

#### OVERVIEW OF PART

## 81 Overview

In this Part –

- (a) Chapters 2 to 4 impose duties upon members of a county council which relate to their performance, and make connected provision, including for the enforcement of those duties;
- (b) Chapter 5 makes provision –
  - (i) for objectives to be set relating to the performance of an executive of a council operating executive arrangements;
  - (ii) for candidates for election as executive leader of a council to produce written manifestos;
  - (iii) for the appointment of assistants to executives where a council is operating executive arrangements;
  - (iv) for issuing guidance to elected mayors and executive leaders on equality and diversity;
- (c) Chapter 6 makes provision –
  - (i) removing the requirement for a county council to designate a head of paid service and requiring instead that a chief executive be appointed for the council, whose functions will include duties imposed under that Chapter;
  - (ii) relating to the appointment of the head of democratic services of a county council, and a council’s pay policy as it relates to that post;
- (d) Chapter 7 makes provision –
  - (i) in respect of the meetings and functions of overview and scrutiny committees;

- (ii) requiring standards committees to produce annual reports on the exercise of their functions;
- (e) Chapter 8 makes minor amendments to the 2000 Act and the Local Government (Democracy) (Wales) Act 2013 (anaw 4).

## CHAPTER 2

### DUTIES ON MEMBERS OF COUNTY COUNCILS

#### *Performance duties*

#### **82 Members of county councils to attend meetings**

- (1) A member of a county council must attend all relevant meetings.
- (2) But a member is not in breach of the duty under subsection (1) if the member has a good reason for not complying with the duty.
- (3) For the purposes of subsection (1), each of the following is a relevant meeting –
  - (a) a meeting of the county council of which the person is a member;
  - (b) a meeting of a committee or sub-committee of the county council, if the person is a member of that committee or sub-committee;
  - (c) a meeting of any joint committee, joint board or other body of which the person is a member, if that committee, board or body is discharging any of the functions of the county council, or has been appointed to advise the council on any matter relating to the discharge of its functions;
  - (d) if a county council is operating executive arrangements and the person is a member of the executive, a meeting of the executive or of a committee of the executive of which the person is a member;
  - (e) any other meeting that the person would reasonably be expected to attend in the exercise of his or her functions as a member of the county council.
- (4) Subsection (1) does not apply to a member of a county council who is exercising a right to a family absence under Part 2 of the 2011 Measure.
- (5) Nothing in this section affects the operation of section 85 of the 1972 Act (vacation of office because of failure to attend meetings for six months).

#### **83 Members of county councils to hold surgeries**

- (1) A member of a county council must hold a surgery at least four times in every relevant 12 month period.
- (2) But a member is not in breach of the duty under subsection (1) if the member has a good reason for not complying with the duty.
- (3) A member holds a surgery if the member makes himself or herself available for at least one hour to meet members of the public to discuss matters in private.
- (4) In complying with subsection (1), the member must ensure that the location, date and time of the surgery is published on the council's website and in any other manner he or she thinks appropriate more than seven days before the day of the surgery.

- (5) For the purposes of this section, a relevant 12 month period is –
- (a) the period of 12 months starting with the day on which the member assumes office as member of the council, and
  - (b) each subsequent period of 12 months.
- 5 (6) For the purposes of subsection (5), any period during which a member is exercising a right to a family absence under Part 2 of the 2011 Measure is to be disregarded; accordingly, the following two periods are to be treated as consecutive –
- (a) any part of a 12 month period that falls immediately before the period of family absence, and
  - 10 (b) the period that begins immediately after the period of family absence.

#### **84 Members of county councils to answer correspondence**

- (1) A member of a county council must respond to all correspondence sent to his or her official address within 14 days of receipt.
- 15 (2) But a member is not in breach of the duty under subsection (1) if the member has a good reason for not complying with the duty.
- (3) A member's "official address" is any address (whether postal or electronic) which is published by the council under section 80.
- (4) This section does not apply to a member of a county council who is exercising a right to a family absence under Part 2 of the 2011 Measure.

#### **85 Members of county councils to complete training**

- 20 (1) A member of a county council must complete all compulsory training courses.
- (2) But a member is not in breach of the duty under subsection (1) if the member has a good reason for not complying with the duty.
- 25 (3) Training is compulsory if the county council of which a person is a member has notified the person that he or she must complete it.
- (4) This section does not apply to a member of a county council who is exercising a right to a family absence under Part 2 of the 2011 Measure.

#### *Duty to make an annual report*

#### **86 Members of county councils to make annual reports**

- 30 (1) A member of a county council must make a report –
- (a) about his or her activities as a member of the council during the period of 12 months to which the report relates;
  - (b) setting out the results of those activities, if known to the member.
- 35 (2) A member of a county council must submit his or her report made under subsection (1) (an "annual report") to the county council's head of democratic services in accordance with the council's standing orders made by virtue of subsection (3)(b).
- (3) A county council must specify in its standing orders –

- (a) the period to which annual reports must relate, and
  - (b) when annual reports must be submitted to the head of democratic services.
- (4) Standing orders made under subsection (3)(b) must not permit an annual report to be submitted after the end of the period of three months starting with the day of the annual meeting of the county council which follows the period to which the annual report relates.
- (5) A county council must publish the annual reports submitted by its members.

### CHAPTER 3

#### BREACHES OF DUTIES UNDER CHAPTER 2

10

##### *Possible breach of performance duties*

#### **87 Complaints about a member's non-compliance with duties**

- (1) A person may make a complaint about a possible breach by a member of a county council of a duty imposed by section 82, 83, 84 or 85 to the monitoring officer of that council.
- (2) A complaint under subsection (1) must be made in writing.

#### **15 88 Deciding whether to investigate possible breach of performance duties**

- (1) If the monitoring officer of a county council –
  - (a) receives a complaint under section 87, or
  - (b) otherwise has reason to believe that a member has breached a duty under section 82, 83, 84 or 85,
 he or she must refer the matter to the chair of the standards committee of the county council.
- (2) The monitoring officer and the chair of the standards committee must together consider whether or not the matter should be investigated.
- (3) When considering whether a matter should be investigated, the monitoring officer and the chair of the standards committee must consider –
  - (a) in cases where the monitoring officer has received a complaint under section 87 –
    - (i) whether the complaint is frivolous or vexatious, and
    - (ii) whether the complaint relates to the same, or substantially the same, facts as a complaint that has already been disposed of, and
  - (b) in all cases, whether it is appropriate for the matter to be investigated.
- (4) If either the monitoring officer or the chair of the standards committee consider that a matter should be investigated, the monitoring officer must investigate the matter.
- (5) If the monitoring officer and the chair of the standards committee both consider that a matter should not be investigated, no investigation may take place; and, in cases where the monitoring officer has received a complaint under section 87, the monitoring officer must as soon as practicable take reasonable steps to –
  - (a) notify the person who made the complaint that the matter will not be investigated,

35

and

(b) give reasons for that decision.

- (6) The monitoring officer and the chair of the standards committee may, for the purpose of deciding whether to investigate a matter, make such enquiries as they think necessary.

5 *Possible breach of duty to make annual report*

### 89 Deciding whether to investigate possible breach of duty to make annual report

- (1) This section applies where the head of democratic services for a county council considers that a member of the county council may have breached the duty under section 86.

- (2) The head of democratic services may –

- 10 (a) notify the monitoring officer of the council, who may investigate the matter;  
 (b) if the head of democratic services is also the monitoring officer of the council, investigate the matter (in the exercise of his or her functions as monitoring officer).

- (3) When considering whether to conduct an investigation under this section, the monitoring officer must consult the chair of the standards committee of the county council on  
 15 whether it is appropriate for the matter to be investigated.

*Investigations, reports and sanctions*

### 90 Investigation by monitoring officer

- (1) This section applies if the monitoring officer of a county council investigates a matter under section 88 (possible breach of performance duties) or 89 (possible breach of duty to  
 20 make annual report).

- (2) The monitoring officer must give the member who is the subject of the investigation an opportunity to respond to the matter being investigated.

- (3) The monitoring officer may –

- 25 (a) ask any person for information relating to the matter being investigated, and  
 (b) ask any person to assist him or her in conducting the investigation.

### 91 Monitoring officer's report

- (1) After conducting an investigation under section 88 or 89, the monitoring officer of a county council must –

- 30 (a) provide the standards committee of the county council with a report on the investigation,  
 (b) make any recommendations to the standards committee that the monitoring officer considers appropriate,  
 (c) send a copy of the report, and any recommendations made, to the member of the county council who was the subject of the investigation, and  
 35 (d) if the investigation results from a complaint under section 87, take reasonable steps to send a copy of the report, and any recommendations made, to the person who made the complaint.

- (2) The standards committee must allow the monitoring officer to appear before it for the purpose of presenting the report and any recommendations made.
- (3) The Welsh Ministers may by regulations make provision about the publicity to be given to reports and recommendations provided under this section.

5 **92 Consideration of matter by standards committee**

- (1) This section applies if the standards committee of a county council receives a report from a monitoring officer under section 91.
- (2) The standards committee must determine whether there is any evidence of a breach of the duty in question.
- 10 (3) If the standards committee determines that there is no evidence of a breach of the duty, it must –
  - (a) notify the member who is the subject of the report, and
  - (b) if the report results from a complaint under section 87, take reasonable steps to notify the person who made the complaint.
- 15 (4) If the standards committee determines that there is evidence of a breach of the duty, it must give the member who is the subject of the report written notice that he or she may make representations to the standards committee, either orally or in writing, in respect of the report.
- 20 (5) The standards committee may, for the purposes of exercising its functions under this section –
  - (a) ask the monitoring officer to attend before it for the purposes of assisting it, and
  - (b) ask any person for information, or invite any person to make representations to it.
- (6) The monitoring officer may not unreasonably refuse a request made under subsection (5).
- 25 (7) The standards committee must determine the period within which a member may make representations under subsection (4); but the period must not be less than 28 days starting with the day on which the member is given notice under that subsection.

**93 Standards committee's determination**

- 30 (1) After the period determined under section 92(7) for making representations has ended, the standards committee must determine whether the member who is the subject of the report under section 91 has breached the duty in question.
- (2) If the standards committee determines that the member has breached the duty, it may decide to –
  - 35 (a) censure the member,
  - (b) suspend or partially suspend the member from being a member of the county council for a period not exceeding six months, or
  - (c) take no further action.
- (3) The standards committee must –
  - (a) notify the member of its determination under this section, and of any action that will follow, and



- (b) if the report results from a complaint under section 87, take reasonable steps to notify the person who made the complaint of those matters.
- (4) The Welsh Ministers may by regulations make provision about the publicity that is to be given to any determination under this section and to any action taken against a member.
- 5 (5) The Welsh Ministers must by regulations make provision conferring rights of appeal on members of a county council against any determination of a standards committee under this section.

## CHAPTER 4

### FURTHER PROVISION ABOUT DUTIES ON MEMBERS

#### *Regulations and guidance relating to Chapters 2 and 3*

#### 94 Regulations

- (1) The Welsh Ministers may by regulations make further provision about the way in which a possible breach of a duty imposed by Chapter 2 is to be dealt with.
- (2) Regulations under subsection (1) may, in particular, make provision—
- 15 (a) about matters to be taken into account in considering whether a possible breach of a duty should be investigated;
- (b) about matters to be taken into account in determining whether a member has breached a duty;
- 20 (c) enabling a monitoring officer or a standards committee to refer a possible breach of a duty, or any other matter that comes to the monitoring officer or the standards committee's attention in the course of an investigation, to the monitoring officer or the standards committee of another relevant authority;
- (d) about procedures to be followed by a monitoring officer or a standards committee;
- (e) about the disclosure of information;
- 25 (f) enabling sums to be paid to persons by way of expenses and allowances or costs;
- (g) about how appeals are to be made, considered and determined.
- (3) For the purposes of subsection (2)(c), a "relevant authority" means—
- (a) a county council;
- (b) a fire and rescue authority;
- 30 (c) a National Park authority for a National Park.

#### 95 Guidance

A person exercising functions under Chapter 2 or 3 must have regard to any guidance issued by the Welsh Ministers.

#### *Related amendments*

#### 35 96 Standards committee to provide training

In section 54 of the 2000 Act (functions of standards committees), before subsection (3)

insert –

“(2B) A standards committee of a county council in Wales also has the specific function of advising, training or arranging to train members of the council on matters relating to the duties imposed by sections 82 to 86 of the Local Government (Wales) Act 2017 (duties to attend meetings, hold surgeries, answer correspondence, complete training and make annual reports).”

## 97 Amendments to the 2011 Measure

(1) The 2011 Measure is amended as follows.

(2) Section 5 is repealed.

(3) In section 7, after subsection (1), insert –

“(1A) A local authority must –

(a) consider whether it should be compulsory for its members to complete any training under section 85 of the Local Government (Wales) Act 2017, and

(b) in exercising its functions under subsection (1), secure the provision of any training which it is compulsory for a member to attend under section 85 of that Act.”

### *Role of leaders of political groups on county councils*

## 98 Duties of leaders of political groups in relation to standards of conduct

(1) The 2000 Act is amended as follows.

(2) After section 52 insert –

### **“52A County councils: duties of leaders of political groups in relation to standards of conduct**

(1) A leader of a political group consisting of members of a county council in Wales –

(a) must take reasonable steps to promote and maintain high standards of conduct by the members of the group, and

(b) must co-operate with the council’s standards committee (and any sub-committee of the committee) in the exercise of the standards committee’s functions.

(2) In complying with subsection (1), a leader of a political group must have regard to any guidance issued by the Welsh Ministers.

(3) The Welsh Ministers may by regulations make provision for the purposes of this section about the circumstances in which –

(a) members of a county council in Wales are to be treated as constituting a political group;

(b) a member of a political group is to be treated as a leader of the

group.

(4) Before making regulations under subsection (3), the Welsh Ministers must consult such persons as they consider appropriate.”

(3) In section 54 (functions of standards committees), after subsection (2) insert –

“(2A) A standards committee of a county council in Wales also has the specific functions of –

(a) monitoring compliance by leaders of political groups on the council with their duties under section 52A(1), and

(b) advising, training or arranging to train leaders of political groups on the council about matters relating to those duties.”

## CHAPTER 5

### EXECUTIVES OF COUNTY COUNCILS

#### 99 Objectives to be met by council executives

In the 2000 Act, at the appropriate place insert the following section –

##### “15A Duty to set objectives etc. in relation to discharge of functions

(1) As soon as practicable after an elected mayor or, as the case may be, executive leader of a local authority is elected, he or she must set objectives to be met by the executive in the discharge of functions which, under executive arrangements, are the responsibility of the executive.

(2) An elected mayor or executive leader must keep objectives set under this section under review, and may revise the objectives at any time.

(3) As soon as is reasonably practicable after 31 March in each year, the elected mayor or the executive leader of a local authority must prepare a report on the extent to which objectives set under this section have been achieved.

(4) An elected mayor or executive leader must arrange for the publication of –

(a) objectives set under this section, and

(b) reports prepared under subsection (3).”

#### 100 Manifestos: election of executive leader

(1) In paragraph 2 of Schedule 1 (leader and cabinet executives, Wales) to the 2000 Act –

(a) insert –

“(1A) The executive arrangements –

(a) must include provision requiring a candidate for election as the executive leader to prepare a written manifesto, and provision for ensuring that copies of the manifesto are made available before the election to the other members of the authority;

(b) may include other provision with respect to the election of the executive leader.”;

(b) in sub-paragraph (2)–

(i) after “may” insert “also”, and

(ii) in paragraph (a) omit “election and”.

(2) After paragraph 2 of Schedule 1 insert –

“2A The standing orders of a local authority operating executive arrangements which involve a leader and cabinet executive (Wales) must include provision for the purpose of ensuring that a candidate for election as the executive leader is given the opportunity to promote his or her written manifesto at a meeting of the authority held before the election.”

## 101 Appointment of assistants to executive

(1) Schedule 1 to the 2000 Act (executive arrangements in Wales: further provision) is amended as follows.

(2) Before paragraph 4 insert –

### *“Assistants to the executive*

3A (1) Executive arrangements by a local authority may make provision for councillors of the authority to be appointed to assist the executive in discharging functions which are the responsibility of the executive.

(2) Such a councillor is referred to in this Schedule as an assistant to the executive of the authority.

(3) Assistants to the executive of an authority are to be appointed –

(a) in the case of an authority operating a mayor and cabinet executive, by the elected mayor;

(b) in the case of an authority operating a leader and cabinet executive (Wales), by the executive leader or the authority.

(4) Executive arrangements which make provision for the appointment of assistants to an executive may include provision about –

(a) the number of assistants that may be appointed,

(b) their term of office, and

(c) their responsibilities.

(5) The assistants to the executive of a local authority may not include –

(a) the chairman and vice-chairman of the authority;

(b) the presiding member and deputy presiding member of the authority (if the authority has a presiding member).

(6) An assistant to the executive of an authority is not a member of the executive of the authority.

(7) Section 101 of the Local Government Act 1972 (arrangements for discharge of functions by local authorities) does not apply to a local authority's function of making appointments under sub-paragraph (3) (b)."

5 (3) In paragraph 5—

(a) at the beginning insert—

"(1) An assistant to the executive of a local authority is entitled to attend, and speak at, any meeting of the executive or of a committee of the executive.

10 (2) “;

(b) for “not a member of the authority's executive” substitute “neither a member of the authority's executive nor an assistant to the executive”.

(4) Schedule 6 contains further amendments relating to assistants to local authority executives.

## 15 102 Guidance

(1) Section 38 of the 2000 Act (guidance) is amended as follows.

(2) In subsection (1), after “local authority” insert “, an elected mayor or an executive leader”.

(3) After subsection (1) insert—

20 “(1A) The guidance may, among other things, include provision designed to encourage good practice in relation to equality and diversity (within the meaning of section 8(2) of the Equality Act 2006).”

## CHAPTER 6

### APPOINTMENT ETC. OF CERTAIN CHIEF OFFICERS

## 25 103 Appointment and reports of chief executive

(1) A county council must appoint a chief executive.

(2) The chief executive of a county council must—

(a) keep each of the matters specified in subsection (3) under review, and

30 (b) where he or she considers it appropriate to do so, prepare a report to the council setting out his or her proposals in respect of any of those matters.

(3) Those matters are—

(a) the manner in which the exercise by the council of its different functions is co-ordinated;

35 (b) the number and grades of staff required by the council for the exercise of its functions;

(c) the organisation of the council's staff;

(d) the appointment of the council's staff;

(e) the arrangements for the management of the council's staff (including arrangements for training and development).

5 (4) As soon as practicable after preparing a report under subsection (2)(b), the chief executive of a county council must arrange for a copy of the report to be sent to each member of the council.

(5) A county council must consider a report prepared under subsection (2)(b) at a meeting held not more than three months after copies of the report are first sent to members of the council; and section 101 of the 1972 Act does not apply to the duty imposed by this subsection.

10 (6) A county council must provide its chief executive with such staff, accommodation and other resources as are, in the chief executive's opinion, sufficient to allow the chief executive's duties under this section to be carried out.

(7) Schedule 7 makes amendments to other legislation in consequence of this section.

#### 104 Council leaders to set objectives for chief executives etc.

15 (1) This section applies where a county council is operating executive arrangements.

(2) The council's senior executive member must, as soon as is practicable after a person is appointed as chief executive of the council, set objectives to be met by the chief executive.

(3) The council's senior executive member must annually –

20 (a) review the extent to which the chief executive has met objectives set under this section, and

(b) review and, if the senior executive member considers it appropriate, revise the objectives.

(4) The council's senior executive member must arrange for objectives set under this section to be published.

25 (5) The council's senior executive member must –

(a) prepare a report on each review under subsection (3)(a),

(b) arrange for the report to be published, and

(c) arrange for a copy of the report to be sent to each member of the council.

30 (6) The council must consider a report on a review under subsection (3)(a) at a meeting held not more than three months after the date on which the report is published; and section 101 of the 1972 Act does not apply to the duty imposed by this subsection.

(7) The council's senior executive member may not do anything mentioned in subsection (2), (3), (4) or (5) without consulting its chief executive.

(8) The Welsh Ministers may issue guidance to –

35 (a) a senior executive member of a county council;

(b) a county council,

on the exercise of functions under this section, and the person to whom any guidance is issued must have regard to it.

(9) In this section "senior executive member" means –

- (a) in the case of a council operating a leader and cabinet executive, the executive leader;
- (b) in the case of a council operating a mayor and cabinet executive, the elected mayor.

5 (10) In subsection (9) –

“executive leader” (“*arweinydd gweithrediaeth*”) has the same meaning as in section 11(3)(a) of the 2000 Act;

“leader and cabinet executive” (“*gweithrediaeth arweinydd a chabinet*”) means a leader and cabinet executive (Wales) within the meaning of section 11(3) of the 2000 Act.

## 105 Head of democratic services

(1) In section 8(4) of the 2011 Measure –

(a) omit paragraph (b), and

(b) in paragraph (c), for “that section” substitute “section 5 of the Local Government and Housing Act 1989”.

(2) In section 43(2) of the Localism Act 2011 (c.20) (meaning of “chief officer” for the purposes of pay policy statements), after paragraph (e) insert –

“(f) its head of democratic services designated under section 8(1) of the Local Government (Wales) Measure 2011 (designation by council of a county or country borough in Wales).”

## CHAPTER 7

### OVERVIEW AND SCRUTINY COMMITTEES AND STANDARDS COMMITTEES

## 106 Voting rights of co-opted members of overview and scrutiny committees

(1) The 2000 Act is amended in accordance with subsections (2) and (3).

(2) In Schedule 1 (further provision about executive arrangements), at the end insert –

*“Overview and scrutiny committees: voting rights of co-opted members*

15 (1) A local authority may –

(a) permit a co-opted member of an overview and scrutiny committee of the authority to vote at meetings of the committee;

(b) permit a co-opted member of a sub-committee of an overview and scrutiny committee of the authority to vote at meetings of the sub-committee.

(2) Permission to vote at meetings of an overview and scrutiny committee may include permission to vote at meetings of its sub-committees (including sub-committees it may appoint in the future).

(3) Permission under this paragraph may only be given with the

agreement of the overview and scrutiny committee.

- (4) Permission must relate to a specific co-opted member.
- (5) Permission may be given subject to limitations.
- (6) A limitation may, in particular, relate to—
  - (a) the questions on which the co-opted member is entitled to vote;
  - (b) the duration of the co-opted member's entitlement to vote.
- (7) The Welsh Ministers may by regulations make provision about the exercise of the functions of local authorities and overview and scrutiny committees under this paragraph.
- (8) Regulations under sub-paragraph (7) may, in particular, include—
  - (a) provision for a maximum or minimum number of co-opted members of an overview and scrutiny committee or sub-committee that may be permitted to vote at meetings;
  - (b) provision about the procedure for giving permission.
- (9) Section 101 of the Local Government Act 1972 (c.70) (arrangements for discharge of functions by local authorities) does not apply to the functions of a local authority under this paragraph.
- (10) In this paragraph, "co-opted member", in relation to an overview and scrutiny committee of a local authority or a sub-committee of such a committee, means a member of the committee or sub-committee who is not a member of the authority."

- (3) In section 21(10) (co-opted members of overview and scrutiny committees), after "that meeting" insert "unless permitted to do so under paragraph 15 of Schedule 1".
- (4) In section 58(3)(c)(i) of the 2011 Measure (provisions that may be applied to joint overview and scrutiny committees), after "section 21 of" insert ", or paragraphs 8 to 15 of Schedule 1 to,".
- (5) In section 185(3)(b)(i) of the National Health Service (Wales) Act 2006 (c.42) (provisions that may be applied to joint overview and scrutiny committees with functions relating to the health service), after "(6) to (17) of" insert ", and paragraph 15 of Schedule 1 to,".

### 30 **107 Making information available to overview and scrutiny committees**

In section 22(10) of the 2000 Act (power to require information to be made available about decisions), for "or members of the authority" substitute ", members of the authority, an overview and scrutiny committee of the authority or a sub-committee of such a committee".

### 35 **108 Power to require authorities to appoint joint overview and scrutiny committees**

- (1) Section 58 of the 2011 Measure (joint overview and scrutiny committees) is amended as follows.
- (2) In subsection (1), after "authorities may" insert "or must".
- (3) In subsection (3), for paragraph (a) substitute—



- “(a) provision about the circumstances in which arrangements may be made;
- (aa) provision prescribing circumstances in which arrangements must be made;
- 5 (ab) provision for arrangements to be made subject to prescribed conditions or limitations;”.

## 109 Duty of standards committee to make annual report

In Part 3 of the 2000 Act, at the end of Chapter 1 insert—

### “56B Annual reports by standards committees

- 10 (1) As soon as reasonably practicable after the end of each financial year, a standards committee of a relevant authority must make an annual report to the authority in respect of that year.
- (2) The annual report must describe how the committee’s functions have been discharged during the financial year.
- 15 (3) In particular, it must include a summary of—
- (a) what has been done to discharge the general and specific functions conferred on the committee by section 54 or 56;
- (b) reports and recommendations made or referred to the committee under Chapter 3 of this Part;
- 20 (c) action taken by the committee following its consideration of such reports and recommendations;
- (d) notices given to the committee under Chapter 4 of this Part.
- (4) An annual report by a standards committee of a county council in Wales must include—
- 25 (a) the committee’s assessment of the extent to which leaders of political groups on the council have complied with their duties under section 52A(1) during the financial year;
- (b) a summary of—
- 30 (i) matters referred to the chair of the committee under section 88 (possible breach of performance duties by members) of the Local Government (Wales) Act 2017, and
- (ii) matters considered under section 92 of that Act (consideration by standards committee of possible breaches of duties), and determinations made under section 93 of that Act (standards committee’s determination in relation to possible breaches of duties).
- 35 (5) An annual report by a standards committee of a relevant authority may include recommendations to the authority about any matter in respect of which the committee has functions.
- 40

- (6) A relevant authority must consider each annual report made by its standards committee before the end of 3 months beginning with the day on which the authority receives the report.
- (7) The function of considering the report may be discharged only by the relevant authority (and is accordingly not a function to which section 101 of the Local Government Act 1972 applies).
- (8) In this section “financial year” means a period of 12 months ending with 31 March.”

## CHAPTER 8

### MINOR AMENDMENTS TO OTHER LEGISLATION

#### 110 Minor amendments to other legislation

- (1) Section 106 of the 2000 Act (orders and regulations) is amended in accordance with subsections (2) and (3).
- (2) Omit subsection (5).
- (3) In subsection (6) –
- (a) after “made under” insert “section 52A(3),”;
  - (b) after “54(5)” insert “or under paragraph 15(7) of Schedule 1”.
- (4) In the Local Government (Democracy) (Wales) Act 2013 (anaw 4), omit section 68(4)(a).

## PART 5

### COUNTY COUNCILS: IMPROVEMENT OF GOVERNANCE

#### CHAPTER 1

##### DUTY TO MAKE ARRANGEMENTS TO SECURE GOOD GOVERNANCE ETC.

#### 111 Governance arrangements

- (1) A county council must, in relation to the exercise of its functions, make, implement and comply with arrangements (“governance arrangements”) for the purpose of securing –
- (a) good governance;
  - (b) accountability;
  - (c) economy, efficiency and effectiveness in its use of resources.
- (2) In making governance arrangements, a county council must comply with the principles, processes and practices set out or otherwise prescribed by the Welsh Ministers in regulations made under subsections (3) and (4).
- (3) The Welsh Ministers must by regulations make provision about principles, processes and practices relating to good governance, and they may do so by prescribing in the regulations any code of practice or guidance (whether or not issued by the Welsh Ministers).

- (4) The Welsh Ministers may by regulations make provision about principles, processes and practices relating to accountability and the economy, efficiency and effectiveness of a county council in its use of resources, and they may do so by prescribing any code of practice or guidance (whether or not issued by the Welsh Ministers).
- 5 (5) The Welsh Ministers may by regulations make further provision about governance arrangements

## CHAPTER 2

### CORPORATE PLANS

#### *Preparation, publication and review of corporate plans*

#### 10 **112 Duty of county councils to prepare and publish a corporate plan**

- (1) A county council must prepare and publish a corporate plan in accordance with this section.
- (2) The plan must include a statement of the council's priorities in relation to the exercise of its functions (including its priorities in relation to its performance in the short-term, 15 medium-term and long-term).
- (3) The plan must include a statement identifying matters in relation to which the council anticipates making decisions of particular significance.
- (4) The plan must set out information about the council's strategies relating to—
- 20 (a) workforce and workforce planning;
- (b) financial affairs and financial planning;
- (c) complaints handling;
- (d) risk management;
- (e) overview and scrutiny of the exercise of its functions;
- 25 (f) management of assets;
- (g) public participation (as to which, see section 38).
- (5) The plan must, when it is first published, include—
- (a) the documents mentioned in subsection (6), as most recently published, or
- (b) information on how to obtain those documents (including in electronic form).
- (6) The documents are—
- 30 (a) the self assessment report published by the county council under section 117,
- (b) the well-being objectives, and the statement relating to them, published by the county council in accordance with sections 3 and 7 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2),
- 35 (c) the annual report published by the county council under section 13 of that Act, and
- (d) the assessment of local well-being published by the public services board for the county under section 37 of that Act.

- (7) The Welsh Ministers may by regulations make further provision about what must be included in a corporate plan.

### 113 When corporate plan is to be published

- (1) A county council must publish its first corporate plan no later than three months after the date of the first ordinary election of councillors of the council following the coming into force of this section.
- (2) Subsequently, a county council must publish corporate plans no later than three months after the date of each ordinary election of councillors of the council.
- (3) The Welsh Ministers may by regulations make—
- (a) provision about how a corporate plan is to be published, and
  - (b) further provision about when a corporate plan must be published, including provision amending subsection (1) or (2) for the purpose of changing the deadline by which publication must take place.

### 114 Review and revision of corporate plan

- (1) A county council must review its corporate plan from time to time (but not less frequently than at intervals of one year).
- (2) As part of each review, the council must assess its progress in relation to the priorities set out in the statement included in the plan under section 112(2).
- (3) On completing the review, the council must publish a revised corporate plan that includes a report of the assessment under subsection (2).
- (4) The council must ensure that the revised plan includes—
- (a) the documents mentioned in section 112(6), as most recently published, or
  - (b) information on how to obtain those documents (including in electronic form).
- (5) The council must also publish a revised plan if it thinks it is appropriate to do so for any other reason.

### 115 Consultation about corporate plan

Before preparing or revising its corporate plan, a county council must consult—

- (a) each Local Health Board for an area any part of which is in the council's area,
- (b) the public services board for the council's area, and
- (c) any other persons the council thinks appropriate.

## CHAPTER 3

### ASSESSMENTS OF GOVERNANCE ARRANGEMENTS

#### *Self assessment*

### 116 Duty of county council to carry out self assessment

- (1) A county council must carry out a self assessment from time to time (but not less

frequently than at intervals of one year).

- (2) A self assessment is an assessment by the council of its compliance with its duties under section 111.

### 117 Self assessment report

- 5 (1) A county council must prepare a report of each self assessment that it carries out (a “self assessment report”).
- (2) A self assessment report must –
- 10 (a) set out the council’s assessment of its compliance with its duties under section 111, and
- (b) identify what action (if any) the council proposes to take in the light of that assessment.
- (3) The county council must make a draft of the self assessment report available to its corporate governance and audit committee.
- 15 (4) The corporate governance and audit committee must review the draft of the self assessment report and may make recommendations for changes to the draft.
- (5) The county council must, in finalising the self assessment report –
- (a) have regard to any recommendations for changes made by the corporate governance and audit committee, and
- 20 (b) if it does not make a change recommended by the committee, set out in the self assessment report the recommendation and the reasons why it did not make the change.
- (6) The county council must publish the finalised self assessment report.
- (7) The Welsh Ministers may by regulations make provision about –
- 25 (a) the form and content of a self assessment report;
- (b) when and how it must be published.

#### *Peer assessment*

### 118 Duty of county council to arrange peer assessments

- (1) A county council must arrange for peer assessments to be carried out.
- 30 (2) A peer assessment is an assessment, by a panel appointed by the county council, of the council’s compliance with its duties under section 111.
- (3) The Welsh Ministers may by regulations make provision about the appointment of panels to carry out peer assessments.
- (4) The regulations may, in particular, include provision about –
- 35 (a) the number of people who may or must be appointed to a panel;
- (b) descriptions of people who may or must be appointed to a panel;
- (c) circumstances in which a person may not be appointed to a panel.

### 119 Frequency of peer assessments

- (1) Arrangements made by a county council under section 118 must ensure that a peer assessment is carried out in relation to the council –
  - (a) no later than 31 March 2023, and
  - (b) at least once during each electoral cycle after that date.
- 5 (2) In subsection (1)(b), an “electoral cycle” means a period that –
  - (a) begins with an ordinary election of members of a county council, and
  - (b) ends with the next ordinary election of members of the council.
- (3) The Welsh Ministers may by regulations amend subsections (1) and (2) for the purpose of changing when and how often a peer assessment must be carried out.

#### 10 **120 Peer assessment report**

- (1) Arrangements made by a county council under section 118 must require a panel that carries out a peer assessment in relation to the council to –
  - (a) prepare a report of the assessment (a “peer assessment report”), and
  - (b) submit the report to the council.
- 15 (2) The peer assessment report –
  - (a) must set out the panel’s assessment of the council’s compliance with its duties under section 111, and
  - (b) may recommend action to be taken by the council in the light of that assessment.
- (3) The county council must publish the peer assessment report.

#### 20 **121 Council’s response to peer assessment report**

- (1) A county council must prepare a response to each peer assessment report submitted to it.
- (2) The response must –
  - (a) state whether the council accepts the assessment and recommendations (if any) set out in the report, and
  - 25 (b) identify what action (if any) the council proposes to take in the light of the report.
- (3) The county council must make a draft of the response to the peer assessment report available to its corporate governance and audit committee.
- (4) The corporate governance and audit committee must review the draft of the response to the peer assessment report and may make recommendations for changes to the draft.
- 30 (5) The county council must, in finalising the response to the peer assessment report –
  - (a) have regard to any recommendations for changes made by the corporate governance and audit committee, and
  - (b) if it does not make a change recommended by the committee, set out in the response the recommendation and the reasons why it did not make the change.
- 35 (6) The county council must publish the finalised response to the peer assessment report.

#### **122 Further provision about peer assessment report and response**

The Welsh Ministers may by regulations make provision about—

- (a) the form and content of a peer assessment report and response;
- (b) when and how the report and response must be published.

*Combined regulators' assessment*

5 **123 Definitions of “relevant regulator” and “relevant functions”**

(1) In this Part—

- (a) “relevant regulator” means a person listed in subsection (2);
- (b) the “relevant functions” of a relevant regulator means the functions specified in respect of the regulator in that subsection.

10 (2) The relevant regulators and their relevant functions are—

- (a) Her Majesty’s Chief Inspector of Education and Training in Wales exercising functions under section 38 of the Education Act 1997 (c.44);
- (b) the Welsh Ministers exercising functions under sections 149A and 149B of the Social Services and Well-being (Wales) Act 2014 (anaw 4);

15 (c) the Auditor General for Wales—

- (i) auditing the accounts of a county council under Chapter 1 of Part 2 of the Public Audit (Wales) Act 2004 (c.23),
- (ii) undertaking studies under Chapter 2 of Part 2 of that Act in relation to a county council, or
- (iii) carrying out examinations of a county council under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2).

20

(3) The Welsh Ministers may by regulations amend subsection (2) by—

- (a) adding or removing a person or function, or
- (b) varying the description of a person or function.

25 **124 Duty to carry out combined assessment of governance arrangements of county council**

(1) The relevant regulators must, at such intervals as they think fit, carry out a combined assessment in relation to each county council.

(2) A combined assessment is an assessment of a county council’s compliance with its duties under section 111 carried out jointly by the relevant regulators, based on a review by the relevant regulators of—

- (a) reports relating to the council made by each of the relevant regulators in the exercise of their relevant functions,
- (b) information available to the relevant regulators as a result of exercising their relevant functions in relation to the council, and
- (c) documents published in relation to the council under this Part.

35 (3) A relevant regulator may share reports and information within subsection (2)(a) and (b) with the other relevant regulators for the purposes of a combined assessment.

- (4) In carrying out a combined assessment, the relevant regulators may consult any other person who exercises functions of a public nature in relation to the council.

## 125 Report of combined assessment

- 5 (1) The relevant regulators must prepare a report of each combined assessment (a "combined assessment report").
- (2) The combined assessment report must set out the relevant regulators' assessment of the county council's compliance with its duties under section 111.
- (3) The combined assessment report may also include –
- 10 (a) recommendations to the council about action that it should take in the light of that assessment;
- (b) recommendations to the Welsh Ministers about the exercise of their functions under this Part in relation to the council.
- (4) The relevant regulators must try to reach agreement about the matters to be set out in the combined assessment report, but where they are unable to do so, the report may set out
- 15 the views of each of them separately.
- (5) The relevant regulators must send a copy of the combined assessment report –
- (a) to the county council to which the combined assessment relates, and
- (b) if the report includes recommendations to the Welsh Ministers, to the Welsh Ministers.
- 20 (6) The county council must publish the combined assessment report.

## 126 Council's response to combined assessment report

- (1) A county council that receives a combined assessment report must prepare a response to the report.
- (2) The response must –
- 25 (a) state whether the council accepts the assessment and recommendations (if any) set out in the report, and
- (b) identify what action (if any) the council proposes to take in the light of the report.
- (3) The county council must make a draft of the response to the combined assessment report available to its corporate governance and audit committee.
- 30 (4) The corporate governance and audit committee must review the draft of the response to the combined assessment report and may make recommendations for changes to the draft.
- (5) The county council must, in finalising the response to the combined assessment report –
- 35 (a) have regard to any recommendations for changes made by the corporate governance and audit committee, and
- (b) if it does not make a change recommended by the committee, set out in the response the recommendation and the reasons why it did not make the change.
- (6) The county council must send a copy of the finalised response to the combined assessment report –



- (a) to the relevant regulators, and
  - (b) if the combined assessment report includes recommendations to the Welsh Ministers, to the Welsh Ministers.
- (7) The county council must publish the response to the combined assessment report.

5 **127 Further provision about combined assessments**

The Welsh Ministers may by regulations make provision about –

- (a) when a combined assessment must be carried out;
- (b) the form and content of a combined assessment report and response;
- (c) when and how the report and response must be published.

10

**CHAPTER 4**

**GOVERNANCE REVIEWS AND INTERVENTION**

*Governance reviews*

**128 Welsh Ministers' power to arrange governance review**

- 15 (1) If the Welsh Ministers consider that a county council is, or may be, failing to comply with any of its duties under section 111, they may arrange for a governance review to be carried out in respect of the council.
- (2) A governance review is a review of a county council's compliance with its duties under section 111, with a view to identifying any action that should be taken to ensure its compliance with those duties.
- 20 (3) Arrangements made by the Welsh Ministers for a governance review to be carried out must –
- (a) describe the scope of the review,
  - (b) identify the person by whom the review is to be carried out (the "reviewer"), and
  - (c) specify a period within which the reviewer is to send a report to the Welsh
- 25 Ministers under section 133(4).
- (4) The arrangements may include any other provision that the Welsh Ministers think is appropriate.

**129 Consultation to be carried out before making arrangements for governance review**

30 Before making arrangements for a governance review to be carried out in respect of a county council, the Welsh Ministers must consult –

- (a) the council, and
- (b) whatever other persons (if any) the Welsh Ministers think appropriate.

**130 Duty to notify council of arrangements for governance review**

- 35 (1) As soon as reasonably practicable after making arrangements for a governance review, the Welsh Ministers must notify the council concerned of the arrangements, and of the

reasons for making the arrangements.

- (2) The notification must –
- (a) describe the scope of the review,
  - (b) identify the reviewer, and
  - (c) state the period specified under section 128(3)(c).

### 131 Council's duty to co-operate with governance reviewer

A county council that is the subject of a governance review must provide the reviewer with whatever facilities and assistance the reviewer may reasonably require for the purpose of carrying out the review, including among other things by providing documents, records and other information.

### 132 Provision of information by other persons

- (1) A reviewer carrying out a governance review in respect of a county council may require a person within subsection (3) to provide the reviewer with whatever facilities and assistance the reviewer may reasonably require for the purpose of carrying out the review, including among other things by providing documents, records and other information.
- (2) That person must take all reasonable steps to comply with the requirement.
- (3) The persons are –
- (a) the public services board for the county council's area;
  - (b) the Local Health Board for an area any part of which is in the county council's area;
  - (c) a community council in the county council's area;
  - (d) Her Majesty's Chief Inspector of Education and Training in Wales;
  - (e) the Auditor General for Wales.
- (4) A person is not required by this section to provide documents, records or other information if the person is prohibited from providing them by any enactment or other rule of law.
- (5) The power in subsection (1) includes power to require documents or records to be produced in a form which is legible and portable.
- (6) The Welsh Ministers may by regulations amend subsection (3) by –
- (a) adding or removing a person, or
  - (b) varying the description of a person.

### 133 Reviewer's duty to prepare report

- (1) Where a governance review has been carried out in respect of a county council, the reviewer must prepare a report on the review (a "governance review report").
- (2) The governance review report must –
- (a) set out the reviewer's assessment of the council's compliance with its duties under

section 111,

- (b) identify any action that the reviewer recommends be taken in order to ensure that the council complies with those duties,
- (c) specify the person who the reviewer considers should take the action,
- (d) specify the period within which the reviewer considers that the action should be taken, and
- (e) set out whether the reviewer considers that the action is likely to be taken within that period.

(3) The report must also contain any other information about the review, or the governance arrangements of the council, that is requested by the Welsh Ministers.

(4) The reviewer must send a copy of the governance review report to –

- (a) the county council, and
- (b) the Welsh Ministers.

(5) The county council must publish the report within the period of 14 days starting with the date on which a copy of it is sent to the council under subsection (4).

#### **134 Council's response to governance review report**

(1) A county council must prepare a response to any governance review report sent to it under section 133(4).

(2) The response must identify what action (if any) the council proposes to take in the light of the report.

(3) The county council must make a draft of the response to the governance review report available to its corporate governance and audit committee.

(4) The corporate governance and audit committee must review the draft of the response to the governance review report and may make recommendations for changes to the draft.

(5) The county council must, in finalising the response to the governance review report –

- (a) have regard to any recommendations for changes made by the corporate governance and audit committee, and
- (b) if it does not make a change recommended by the committee, set out in the response the recommendation and the reasons why it did not make the change.

(6) The county council must –

- (a) send the finalised response to the governance review report to the Welsh Ministers before the end of the period of 31 days starting with the date on which the copy of the report is sent to the council under section 133(4), and
- (b) publish the response.

(7) The Welsh Ministers may extend the period in subsection (6)(a) in any particular case if satisfied that the extension is reasonable to allow the council to discharge its duties under this section.

(8) A period may be extended under subsection (7) more than once.

*Intervention directions***135 Welsh Ministers' power to give intervention directions**

- (1) The Welsh Ministers may give an intervention direction to a county council if –
- (a) they have received a copy of a governance review report in respect of the council, and the council's response to the report, and
  - (b) they consider that giving an intervention direction is necessary or appropriate in order to ensure that the council complies with its duties under section 111.
- (2) An intervention direction is a direction within section 136, 137 or 138.

**136 Direction to obtain support services**

- (1) A direction within this section is a direction to a county council to enter into a contract or other arrangement with a specified person, or with a person of a specified description, for the provision to the council of specified support services.
- (2) "Support services" are services that the Welsh Ministers consider to provide information, advice, training, or other support.
- (3) A direction within this section may require the contract or other arrangement to contain specified terms and conditions.

**137 Direction to take specified steps**

A direction within this section is a direction to a county council to take specified steps, within a specified period.

**138 Direction that functions be performed by Welsh Ministers or their nominee**

- (1) A direction within this section is a direction that specified functions of a county council be exercised by the Welsh Ministers or a person nominated by them.
- (2) If a direction within this section is in force –
- (a) the council to which it relates must comply with the instructions of the Welsh Ministers or their nominee in relation to the exercise of the functions, and
  - (b) the functions of the council to which it relates are to be treated for all purposes as being exercisable by the Welsh Ministers or their nominee.
- (3) The Welsh Ministers may by regulations make provision amending, repealing, revoking or applying any statutory provision (whenever passed or made, including a statutory provision contained in or made under this Act), for the purposes of its application in respect of functions exercisable by the Welsh Ministers or their nominee by virtue of a direction within this section.
- (4) In this section, "statutory provision" means a provision of –
- (a) a Measure or Act of the National Assembly for Wales;
  - (b) an Act of Parliament;
  - (c) an instrument made under a Measure or Act of the National Assembly for Wales, or under an Act of Parliament.

**139 General provision about intervention directions**

- (1) A county council must comply with an intervention direction given to it.
- (2) An intervention direction –
- (a) must be in writing;
  - (b) may be varied or revoked by a later direction.

**140 Duty to co-operate**

- (1) A county council must provide a person within subsection (2) with whatever facilities and assistance the person may reasonably require in connection with the exercise of functions by virtue of an intervention direction, including among other things by providing documents, records and other information.
- (2) The persons are –
- (a) the Welsh Ministers;
  - (b) any person authorised for the purposes of this section by the Welsh Ministers;
  - (c) any person acting under an intervention direction;
  - (d) any person assisting –
    - (i) the Welsh Ministers, or
    - (ii) a person mentioned in paragraph (b) or (c).

**141 Powers of entry and inspection**

- (1) A person within subsection (2) has at all reasonable times –
- (a) a right of entry to the premises of the county council concerned;
  - (b) a right to inspect, and take copies of, any records or other documents kept by that council, and any documents containing information relating to that council, that the person considers relevant to the exercise of the person's functions under or by virtue of this Chapter.
- (2) The following persons are within this subsection –
- (a) a person specified in a direction within section 136 given to a county council, or, where a direction within section 136 given to a county council specifies a description of persons, the person with whom the county council enters into the contract or other arrangement required by the direction;
  - (b) the Welsh Ministers, where they have given a county council a direction within section 138 that specified functions of the council be exercised by the Welsh Ministers;
  - (c) a person nominated by a direction within section 138 given to a county council.
- (3) In exercising the right under subsection (1)(b) to inspect records or other documents, a person ("P") –
- (a) is entitled to have access to, and inspect and check the operation of, any computer and any associated apparatus or material which is or has been in use in connection with the records or other documents in question, and

(b) may require the following persons to provide any assistance P may reasonably require (including, among other things, the making of information available for inspection or copying in a legible form) –

(i) a person by whom or on whose behalf the computer is or has been so used;

(ii) a person having charge of, or being otherwise concerned with the operation of, the computer, apparatus, or material.

(4) Any reference in this section to a person falling within subsection (2) includes a reference to any person assisting that person.

## 142 Interpretation of Chapter

(1) In this Chapter, “specified”, in relation to a direction, means specified in the direction.

(2) References in this Chapter to “documents” and “records” each include information recorded in any form.

## CHAPTER 5

### CO-ORDINATION BETWEEN REGULATORS

## 143 Co-ordination of relevant functions of relevant regulators

(1) The relevant regulators must have regard to the need for co-ordination in the exercise of relevant functions.

(2) The Welsh Ministers may by regulations make further provision for and in connection with the co-ordination of the exercise by relevant regulators of relevant functions.

(3) Regulations made under subsection (2) may, among other things, make provision for –

(a) a timetable for the exercise of relevant functions to be prepared and published;

(b) relevant regulators to be required to adhere to the timetable;

(c) information to be shared between relevant regulators in connection with the exercise of relevant functions;

(d) relevant regulators to consult one another in relation to the exercise of relevant functions.

## CHAPTER 6

### MISCELLANEOUS PROVISION ABOUT CHAPTERS 1 TO 5

## 144 Guidance

A person exercising functions under this Part must have regard to any guidance issued by the Welsh Ministers.

## 145 Exercise of functions under this Part

(1) The functions conferred on a county council by this Part (other than functions expressly conferred on a committee of a council) may be exercised by the council or by its executive, as the council may determine.

- (2) Section 101 of the 1972 Act (arrangements for discharge of functions by local authorities) does not apply in relation to any function of a county council under this Part (including the function in subsection (1)).
- (3) If a county council determines that any function under this Part is to be exercised by its executive, section 14 or (as the case may be) 15 of the 2000 Act (discharge of functions by executives) does not apply in relation to that function.

#### 146 Interpretation of Part

In this Part –

“combined assessment” (*“asesiad cyfun”*) has the meaning given in section 124 and “combined assessment report” has the meaning given in section 125;

“corporate plan” (*“cynllun corfforaethol”*) is to be interpreted in accordance with section 112;

“governance arrangements” (*“trefniadau llywodraethu”*) has the meaning given in section 111;

“governance review” (*“adolygiad llywodraethu”*) has the meaning given in section 128 and “governance review report” (*“adroddiad ar adolygiad llywodraethu”*) has the meaning given in section 133;

“intervention direction” (*“cyfarwyddyd ymyrryd”*) has the meaning given in section 135;

“peer assessment” (*“asesiad gan gymheiriaid”*) has the meaning given in section 118 and “peer assessment report” (*“adroddiad ar asesiad gan gymheiriaid”*) has the meaning given in section 120;

“public services board” (*“bwrdd gwasanaethau cyhoeddus”*) has the same meaning as in the Well-being of Future Generations (Wales) Act 2015 (anaw 2);

“relevant regulator” (*“rheoleiddiwr perthnasol”*) and “relevant functions” (*“swyddogaethau perthnasol”*) have the meanings given in section 123;

“reviewer” (*“adolygydd”*) has the meaning given in section 128(3)(b);

“self assessment” (*“hunanasesu”*) has the meaning given in section 116 and “self assessment report” (*“adroddiad hunanasesu”*) has the meaning given in section 117.

#### 147 Amendment of Local Government (Wales) Measure 2009

- (1) In the Local Government (Wales) Measure 2009 (nawm 2), in section 1 (meaning of “Welsh improvement authority”), omit paragraph (a).
- (2) In consequence of the amendment in subsection (1), in Part 1 of that Measure –
- in section 4 (aspects of improvement), omit subsection (3)(a);
  - in section 11 (meaning of “powers of collaboration”), omit subsections (1)(b) and (2);
  - in section 16 (meaning of “relevant regulators” and “relevant functions”), omit subsection (2)(a) and (b);
  - in section 22 (reports of special inspections), omit subsection (5).

## CHAPTER 7

## CORPORATE GOVERNANCE AND AUDIT COMMITTEES

**148 Renaming of audit committees**

- 5 (1) In section 81 of the 2011 Measure (local authorities to appoint audit committees), in subsection (1), for “(an “audit committee”)” substitute “(a “corporate governance and audit committee”)”.
- (2) Schedule 9 makes consequential amendments to the 2011 Measure relating to the renaming of audit committees.

**149 Functions of corporate governance and audit committee**

- 10 (1) After section 81 of the 2011 Measure insert –

**“81A Further provision about functions of committees**

- (1) In exercising its functions under section 81(1) the corporate governance and audit committee of a local authority must, in particular, assess –

- 15 (a) the authority’s ability to comply with its duties under section 111 of the Local Government (Wales) Act 2017;
- (b) the authority’s ability to make progress in relation to the priorities set out in the statement included in its corporate plan under section 112(2) of that Act;
- 20 (c) the arrangements made by the authority –
- (i) in relation to self assessments under section 116 of that Act;
- (ii) under section 118 of that Act (peer assessments), and
- (d) the local authority’s ability to handle complaints effectively.

- 25 (2) The corporate governance and audit committee must report to the local authority on an assessment under subsection (1).

- (3) A corporate governance and audit committee also has functions under –

- 30 (a) section 117 of the Local Government (Wales) Act 2017 (self assessment reports);
- (b) section 121 of that Act (responses to peer assessment reports);
- (c) section 126 of that Act (responses to combined assessment reports);
- 35 (d) section 134 of that Act (responses to governance review reports).”

**150 Membership of corporate governance and audit committee**

- (1) Section 82 of the 2011 Measure (membership) is amended as follows.



(2) In subsection (2) –

(a) in paragraph (a) omit the words “at least”;

(b) for paragraph (b) substitute –

“(b) one-third of the members of that committee are lay persons;”.

(3) After subsection (5) insert –

“(5A) A corporate governance and audit committee is to appoint –

(a) a member of the committee as its chair (“the committee chair”),  
and

(b) a member of the committee as the deputy to the committee  
chair (“the deputy chair”).

(5B) The member appointed as the committee chair must be a lay person.

(5C) The member appointed as the deputy chair must not be a member of  
the local authority’s executive.”

(4) Omit subsection (6).

## 151 Meaning of lay person

In section 87 of the 2011 Measure (interpretation), omit the definition of “lay member”  
and insert –

““lay person” (“*person lleyg*”) means a person who –

(a) is not a member or an officer of any local authority,

(b) has not at any time in the period of twelve months ending with  
the date of that person’s appointment been a member or an  
officer of any local authority, and

(c) is not the spouse or civil partner of a member or an officer of  
any local authority;”.

## 152 Proceedings etc.

(1) Section 83 of the 2011 Measure (proceedings) is amended as follows.

(2) For subsections (1) and (2) substitute –

“(1) A meeting of a corporate governance and audit committee is to be  
chaired –

(a) by the committee chair, or

(b) if the committee chair is absent, by the deputy chair.

(2) If both the committee chair and the deputy chair are absent the  
committee may appoint another member of the committee (who may  
not be a member of the local authority’s executive) to chair the  
meeting.”

(3) Omit subsection (8).

Mae'r dudalen hon yn wag yn fwriadol

**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD**

**AUDIT COMMITTEE:**

**1 FEBRUARY 2016**

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**TREASURY PERFORMANCE REPORT AS AT 31 DECEMBER  
2015**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 7.1**

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Appendix 1 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

**PORTFOLIO: CORPORATE AFFAIRS**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 31 December 2015 and highlight key changes from the previous report received as at 31 October 2015.

**Background**

3. The report attached at Appendix 1 provides the Committee with a snapshot of treasury performance together with position statements on investments and borrowing.

**Performance**

4. The report updates for the latest forecast for interest income on investments and external interest payable as at Month 9 of 2015/16, which remain at levels previously reported. Assumptions around external interest payable reflect an underspend due to deferral of the timing of borrowing in the current financial year. Without any further borrowing during the year, the level of internal borrowing at 31 March 2016 is projected to be £50 million, however this is dependant on timing and funding of capital expenditure and completion of the Council's Outturn position.

## Investments

5. Pages 2 and 3 of the Performance Report consider the position on investments. The charts on the Performance Report show the position at a point in time and investments continue to be closely monitored.
6. The current investments list details each investment, the interest rate, the start date and maturity date. It also links this back to the credit criteria by a colour coding which indicates the perceived strength of the organisation.
7. The balance of investments is at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants, capital receipts etc.
8. The charts that surround this table provide additional information and the key areas to highlight are shown below.
  - **Counterparty Exposure** displays actual investment against the maximum permitted directly with an organisation – This demonstrates that the council is not exceeding any exposure limits.
  - **Remaining Maturity Profile of Investments.** Maturities of investments have been spread to achieve a balanced profile.
  - **Investments by Institution.** This expresses the investments held with different institutions as a percentage of the total. It can be seen that investments remain diversified over a number of organisations.
  - **Geographic Spread of Investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per the council's approved criteria.
  - **Investments by Financial Sector.** The majority of investments are with banks.

## Borrowing

9. As reported previously, the intention was to undertake new PWLB loans to reduce internal borrowing and to benefit from preferential rates (Project Rate) available for investment related to 21<sup>st</sup> Century School projects. WG have approved £12.975 million to be undertaken by the end of 2015/16.
10. Borrowing of £11 million was taken during December at the average rate and average period set out in the report. Accordingly, at 31 December 2015, the total level of borrowing is £667.3 million. The timing and quantum of the balance of borrowing will continue to be reviewed in conjunction with the Council's Treasury advisors.

## Reason for Report

11. To provide Audit Committee Members with an update on the treasury management position as at 31 December 2015.

## Legal Implications

12. No direct legal implications arise from this report.

## **Financial Implications**

13. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report indicates the treasury management position at one point in time and makes a number of assumptions in forecasts which will be updated in future reports. The report provides a tool for indicating to Members the treasury position. Future reports will highlight main changes since this report.

## **RECOMMENDATIONS**

14. That the Treasury Performance Report for 31 December 2015 be noted.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**8 January 2016**

*The following appendix is attached*

Appendix 1 – Cardiff Council Treasury Management Performance Report

Mae'r dudalen hon yn wag yn fwriadol

Yn rhinwedd paragraff (au) 14, 21 Rhan (nau) 4 a 5 o Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972.

Document is Restricted

Mae'r dudalen hon yn wag yn fwriadol



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**DRAFT TREASURY MANAGEMENT STRATEGY 2016/17**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 7.2**

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**PORTFOLIO: CORPORATE AFFAIRS**

**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with the draft Treasury Management Strategy for 2016/17.

**Background**

3. The proposed strategy for 2016/17 is required to be approved as part of the Budget Report to Council in February 2016. The strategy is attached for Committee to review at Appendix 1.

**The Strategy**

4. The strategy covers the following areas:-
  - The current treasury position.
  - Economic background and prospects for interest rates.
  - Capital Programme Plan and Capital Financing Requirement (CFR)
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Housing Finance Reform Settlement Amount (Self Financing Buyout) and Treasury Management Implications
    - Council borrowing requirement and choice between internal and external borrowing and
    - Borrowing Strategy
  - Treasury management indicators and limits for 2016/17 to 2018/19
  - Investment policy and strategy, including security and investments approved for use.
  - Training.

5. It should be noted by the Committee that many of the indicators are dependant on the final Capital Programme which will only be determined at Council in February 2016. However, there are unlikely to be significant changes in the proposed Capital Programme.

6. **The main points to note in the strategy are:-**

- Includes the impact of the Housing Subsidy system settlement payment undertaken in 2015/16 amounting to £187 million
- It is a single integrated strategy for the Council as a whole rather than separate strategies for the Housing Revenue Account and the Council's General Fund being prepared and approved. Council to retain a single integrated pool of debt
- The medium term shows an increase in the Council's underlying need to borrow to meet capital expenditure commitments
- Retention of a prudent approach to provision for debt repayment
- The timing of borrowing decisions, associated risks and financial implications will be important in order to achieve a balance between using temporary cash balances held (internal borrowing) in the short term or external borrowing. The Strategy proposes that given the higher level of borrowing rates compared to investment rates, the Council continues to use an element of internal borrowing, whilst setting aside sufficient financial provision to ensure external borrowing can be accommodated if needed.
- New indicator to monitor HRA debt cap
- Little change in investment parameters from existing strategy. The priority for investments is security, with the Strategy retaining the potential use of a range of investment options to increase diversification where possible.
- Interest rates on investments are likely to remain low
- Strong credit criteria are set for investments undertaken by the Council based on Fitch Credit Criteria and other factors taken into account in determining with whom to invest.
- The Strategy is consistent with the Prudential Code and Welsh Government guidance on investments.
- The Strategy applies from the date of approval by Council.

**Reason for Report**

7. To note the proposed Treasury Management Strategy for 2016/17 and provide any comments as necessary that can be factored into the final document.

**Legal Implications**

8. No direct legal implications arise from this report.

## **Financial Implications**

9. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2016/17 and Medium Term Financial Plan to be considered by Council.

## **RECOMMENDATIONS**

10. Audit Committee to note the proposed Treasury Management Strategy for 2016/17 and provide comments as necessary with any amendments being considered for inclusion in the final Strategy which will be considered by Cabinet prior to approval by Council as part of the 2016/17 Budget Proposals Report.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**8 January 2016**

*The following appendices are attached*  
Appendix 1 – Draft Treasury Management Strategy 2016/17

Mae'r dudalen hon yn wag yn fwriadol

Draft

# Treasury Management Strategy

The County Council of the City and County of Cardiff

2016/17



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## **Treasury Management**

1. Treasury management involves:-
  - ensuring cash is available when needed
  - investing temporary cash balances and
  - ensuring appropriate borrowing facilities to pay for the Council's capital expenditure commitments and for the prudent management of its financial affairs.
2. The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice developed for public services in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requires the Council to set out the policies and objectives of its treasury management activities and adopt the four Clauses of Treasury Management. These were formally adopted by the Council in February 2010. Appendix 1 includes a glossary of terms used in relation to Treasury Management.
3. The Council's Audit Committee undertakes scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
4. During the course of each year, a number of reports are produced in relation to the Council's treasury management activities including a strategy at the start of the year, performance reports during the year, a mid year report and an outturn report.

## **Treasury Management Strategy**

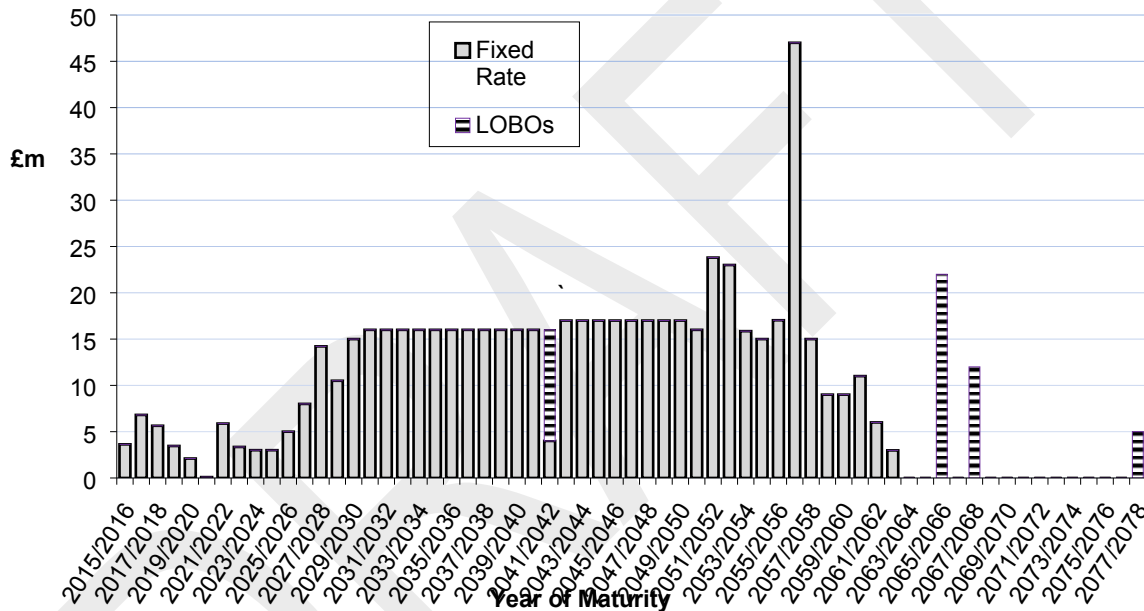
5. The strategy links plans for capital investment, financing and affordability of those plans and how cash will be safely managed to meet the Council's financial commitments and objectives.
6. It is accepted that no treasury management activity is without risk. In undertaking its treasury management activities, the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs.
7. The successful identification, monitoring and control of risk are integral elements of treasury management activities. Risks include credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks which were last updated in March 2015 following a review by Internal Audit and Audit Committee.
8. The Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by Capita Asset Services Treasury Solutions includes advice on timing of decision making, training, credit updates, economic





	Principal £m	Average Rate %
<b>External Borrowing</b>		
- Public Works Loan Board	614.5	4.94
- Market Loans	52	4.13
- Other	0.9	0
<b>Total Debt</b>	<b>667.3</b>	<b>4.87</b>
<b>Treasury Investments</b>	<b>83.4</b>	<b>0.7</b>

14. The Council's current debt maturity profile is shown in the following graph on the assumption that all loans run to their final maturity.



15. The main loans maturities during 2016/17 are PWLB loans of £6.7 million. Unless the Council's Lender Option Borrower Option loans (LOBO's) are required to be repaid early, very little debt matures within the next 10 years.
16. (LOBO) products are loans to the Council where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan. The Council has 6 such loans totalling £51 million.
17. Apart from the option to increase rates these loans are comparable to PWLB loans and have no other complications such as variation in interest rates or complex terms. Interest rates on these loans range between 3.81% and 4.35% and are below the Council's average rate of interest payable. Details of the loans are shown in the next table.

<b>Lender Option Borrower Option (LOBO) Loans</b>			
<b>Potential Next Repayment Date</b>	<b>Loan Value £m</b>	<b>Option Frequency Every</b>	<b>Full Term Maturity Date</b>
01/03/2016	6	6 months	23/05/2067
21/05/2016	6	6 months	21/11/2041
21/05/2016	6	6 months	21/11/2041
21/05/2016	6	6 months	23/05/2067
21/11/2020	22	5 years	23/11/2065
15/01/2018	5	5 years	17/01/2078

18. It should be noted that £24 million of the Lender Option Borrower Option loans (LOBOs) are currently subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £5 million and £22 million have call options in January 2018 and November 2020 respectively and every five years thereafter.
19. Risk of early repayment is deemed to be low, however in the longer term, options will need to be considered to reduce any potential large repayments in a single year.

### **Economic background and prospects for Interest Rates**

20. The following table gives the Council's treasury management advisors latest forecast of interest rates taking into account the 20 basis point certainty rate reduction available for PWLB loans to eligible local authorities. It is a central forecast, acknowledging for example that the bank rate may rise sooner if there are sustained and robust UK growth, employment and inflation expectations.

	<b>January 2016</b>	<b>March 2016</b>	<b>March 2017</b>	<b>March 2018</b>	<b>March 2019</b>
Bank Rate	0.50%	0.50%	0.75%	1.25%	1.75%
5yr PWLB rate	1.92%	2.00%	2.40%	2.80%	3.20%
10yr PWLB rate	2.58%	2.60%	3.00%	3.40%	3.70%
25yr PWLB rate	3.36%	3.40%	3.70%	4.00%	4.10%
50yr PWLB rate	3.18%	3.20%	3.50%	3.90%	4.00%

Forecast at January 2016

21. Whilst counterparty risk of organisations whom we may invest with has eased compared to previous years, financial markets remain volatile and economic forecasts remain uncertain. Growth in the UK economy is strong, however, for it to be balanced and sustainable, it needs to move away from dependence on consumer expenditure and the housing market. With inflation currently subdued due to falling food, oil and gas prices, there also remains uncertainty around how quickly inflation will rise in the next few years. Whilst there are also a number of geopolitical risks that impact on

interest rates, two key factors used by the Bank of England in determining when to change interest rates are growth and inflation.

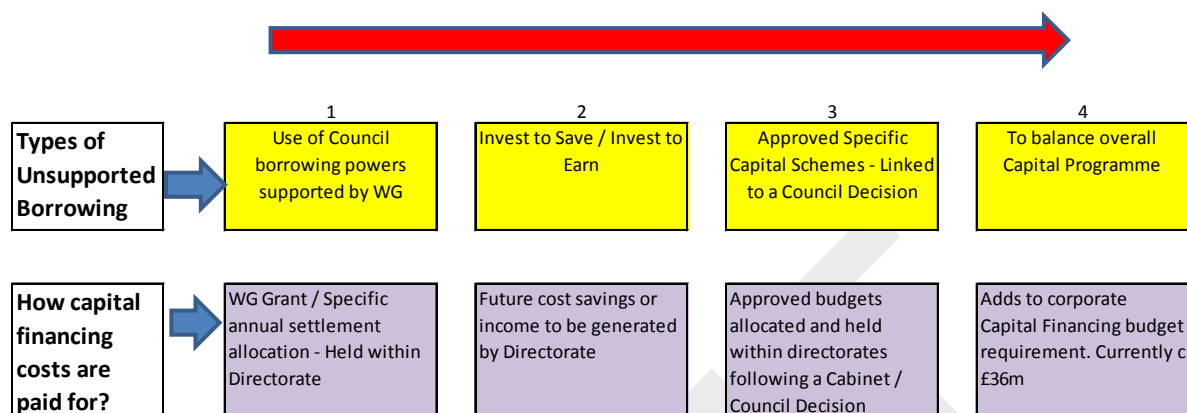
22. The bank rate, which is unchanged since March 2009, is currently forecast to rise towards the end of 2016. As a consequence and coupled with the Bank of England's funding for lending scheme, returns from Council Investments are likely to remain minimal. In respect of future borrowing rates, these are set to rise should growth and inflation be firmly established, as a result of higher levels of UK Government borrowing and reversal in quantitative easing. This will result in higher future borrowing costs for the Council.

### **Capital Programme Plan and Capital Financing Requirement (CFR)**

23. Capital Expenditure commitments and pressures include:
- Ensuring a sustainable property asset base and that property is fit to deliver service improvements, by addressing the maintenance backlog, disabled access and health and safety requirements.
  - Meeting the aspirations of directorates to invest in existing assets or create new capital assets in order to improve service delivery and meet pressures of increasing demand.
  - The need to maintain the highway and associated infrastructure such as roads, traffic signals, bridges, street lighting and address the backlog of repairs to avoid higher costs in future.
  - To continue annual commitments and meet mandatory investment in services such as disabled adaptations, while Welsh Government General Capital Funding has been reduced.
  - Meeting the economic development, regeneration, employment and capital city aspirations of Cardiff and the region.
  - Requirement for capital investment to meet savings targets, to generate income, to reshape the way services are delivered and to meet the costs of organisational development.
  - Meeting expenditure commitments from capital schemes approved in previous years
  - Implementing the Council's 21<sup>st</sup> century schools investment programme
  - Meeting expenditure commitments pending the generation of capital receipts
  - Sustaining Public Housing Welsh Quality Standards and investment in creation of new Council Housing as part of the Housing Partnering scheme
24. There are two main types of borrowing to pay for capital expenditure:-
- 'Supported Borrowing' - costs of servicing are included within the annual Revenue Support Grant (RSG) the Council receives from Welsh Government.
  - 'Unsupported Borrowing' – costs of servicing to be met by the Council from Council tax, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown in the next diagram.

**Total Unsupported Borrowing Types**

**INCREASING RISK**



1. Use of Council borrowing powers paid for by WG or another Central Government body
2. Invest to Save / Invest to Earn
3. Approved Specific Capital Schemes - Linked to a Council Decision
4. To balance unfunded commitments when setting overall capital programme

25. The detailed capital programme will be approved as part of the Budget Proposals in February 2016. Where capital expenditure has been incurred without a resource to pay for it immediately e.g. via capital receipts, grants or other contributions, this will increase what is termed the Council's Capital Financing Requirement (CFR). The Council is required to make annually from its revenue budget, a prudent provision for the repayment of historic capital expenditure. This reduces the CFR. Calculation of the CFR is summarised in the table below.

	Opening Capital Financing Requirement (CFR)
+	Capital Expenditure incurred in Year
-	Grants, Contributions, reserves and receipts received to pay for capital expenditure
-	Prudent Minimum Revenue Provision & Voluntary Repayment
=	Closing Capital Financing Requirement (CFR)

26. It is the Capital Financing Requirement that results in the need to borrow. The actual CFR as at 31 March 2015 (Excluding provision for Landfill) and estimates for current and future years are shown below:

<b>Capital Financing Requirement as at 31 March</b>					
	<b>2015 Actual £m</b>	<b>2016 Estimate £m</b>	<b>2017 Estimate £m</b>	<b>2018 Estimate £m</b>	<b>2019 Estimate £m</b>
General Fund	400	438	459	454	455
HRA	95	277	279	296	302
<b>Total</b>	<b>495</b>	<b>715</b>	<b>738</b>	<b>750</b>	<b>757</b>

27. The timing of capital expenditure, timing of capital receipts and new schemes that may be considered for approval in future years are risks to the CFR forecast, however summarising the above, it can be seen that the Council's underlying need to borrow is increasing. This will eventually need to be paid for by revenue savings, revenue income or Council Tax and Housing Rents.
28. As the Council realigns itself strategically to lower funding levels it needs to consider the level of debt and potential financial resilience issues that may be a consequence of increasing borrowing. General Fund Capital financing costs as a percentage of controllable budget which are committed in the long term are increasing significantly. Even if they remain static, they will account for a greater proportion of the Councils revenue base budget. This clearly limits the scope for additional borrowing in future years and will be a factor considered by Members when determining the current and future capital programme along with:-
  - The Prudential Indicators highlighting longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability
  - Control mechanisms for different types of unsupported borrowing before approval.
  - Determining core areas of long term investment e.g. Maximum exposure limits to unsupported borrowing for 'Discretionary' type services
  - Whether the inherent risks in a project are better managed via commercial options rather than direct Council investment

## **Borrowing**

### **Policy**

29. Borrowing to pay for capital investment has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future in the form of interest and provision for repayment of capital expenditure. These costs are assumed in the Council's revenue budgets.
30. Loans are not undertaken for specific schemes or directorates. All loans are taken in the name of the Council and secured on all revenues of the Council meaning that all loans and investments are pooled. The Council will aim to manage its debt portfolio on a long-term basis with a high regard to the effects on current and future Council Tax and Rent Payers.
31. The view of the Section 151 Officer is to maintain a single pool for all Council debt. In determining this approach, the Council has also sought advice from its treasury management advisors and considered guidance from CIPFA.
32. The reasoning for this included consideration of the following:-

- One pool is consistent with the pooling of treasury management activities for effective management of risk and control
- The Council is ultimately responsible for all debt, including debt undertaken by the HRA. Interest costs are recharged to the HRA, in the same way as to Directorates who take invest to save schemes.
- All loans are charged across all the revenues of the authority in accordance with the Local Government Act 2003.
- Loans are not taken out for specific purposes in accordance with good treasury management practice.
- The Section 151 Officer is ultimately responsible for all Council debt, including that funding HRA capital expenditure.
- There is no mechanism to charge HRA for risks of default on Investments. This is all borne by the General Fund so it is deemed inconsistent to treat debt and investments separately
- A single pool avoids the requirement for two separate Treasury Strategies and documents at all current reporting meetings. The extent of additional work in administration, management and reporting of maintaining two pools should not be underestimated.
- Planned loan maturities for HRAS exit were taken with regard to existing debt maturity profile to smooth the historic debt maturity profile to minimise overall re-financing risk to the Council.
- The Prudential Code still requires indicators to be aggregated and Treasury risk is managed across the council.
- De-pooling is a one off exercise which ignores the historic benefit which may have accrued either to the HRA / cost to General Fund.
- One pool avoids the risk of over borrowing. If the HRA pays off debt quicker than anticipated, this allows flexibility to transfer loans at nil cost to the General Fund. In addition the HRA can secure a long term, stable portfolio.

33. The Council's borrowing strategy for 2016/17 and the capital financing revenue budgets included in the MTFP will consider all options to meet the long-term aims of:

- Promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact.
- Pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities.
- Reduction over time in the average rate of interest on overall Council borrowing.
- Ensuring any refinancing risk is manageable each financial year, using opportunities to re-profile borrowing where cost effective to do so both in the short and long term.
- Ensuring borrowing plans are aligned to known capital expenditure spending plans, the useful life of assets created, financial reserve levels and consistent with the prudent provision for the repayment of any such expenditure paid for by borrowing.

34. The Council will not borrow in advance of need, purely to profit from any investment of the extra sums borrowed. However, if it is felt that by borrowing in advance of need up to a maximum of three years, opportunities exist to lock into favourable long-term rates and the credit risks associated with this can be managed, then this is an option that will be considered.

### **Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement**

35. The Council has a Statutory Duty to calculate and set aside each year from its annual revenue budget an amount 'which it considers to be prudent'. This results in a reduction in the Council's underlying need to borrow (CFR).
36. The broad aim of the 'prudent provision' is to ensure that debt arising from Capital expenditure is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits to service delivery (useful life) or in the case of borrowing supported by the Welsh Assembly Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
37. Legislation does not define what constitutes a 'prudent provision'. Instead WG has provided guidance and examples to interpret that term. Whilst authorities must have statutory regard to that guidance, other approaches can be considered if they are deemed prudent in the judgement of the S151 Officer and individually designed for each local authority circumstance.
38. A statement on the Council's policy for its annual MRP is required to be submitted to full Council for approval before the start of the financial year to which the provision will relate. Similar to decisions to undertake capital expenditure funded by borrowing, decisions in respect of the allocation of MRP have short, medium and very long term impacts. Impacts of changes in policy decisions should be considered over that time horizon.
39. It is proposed that the Council's MRP Policy will be as follows with any change in the level, timing and method of provision in year delegated to the Section 151 Officer :
- General Fund historic expenditure prior to 1 April 2004 as well as subsequent supported borrowing approved by the WG is to be provided for at 4.5% on a reducing balance basis in 2016/17. This is in excess of the WG grant basis of 4%, and will continue to be reviewed for ongoing affordability and consideration of what expenditure the Council incurs utilising supported borrowing.
  - HRA supported borrowing, which was part of the previous housing subsidy system is to be provided for at 2% on a straight line basis. MRP on the £187million settlement buyout payment is to be at 2% straight line basis, as a minimum, with the first provision made in the year of the settlement.
  - Additional borrowing for a general increase in investment either in the general fund or HRA to balance the Capital Programme in a year is to be provided for on a straight line basis over the estimated average life of

the assets created.

- Any additional expenditure linked to specific schemes e.g. Invest to Save, 21<sup>st</sup> Century Schools etc. is to be provided for on a straight line basis, or over the estimated useful life of assets being created or a shorter period as determined by the Section 151 Officer or suggested periods determined by WG as is the case with Local Government Borrowing Initiative (LGBI).
- Revenue Provision in excess of the above requirements can be made subject to affordability and following advice of the S151 officer.
- MRP may be waived on expenditure recoverable within a prudent period of time through capital receipts (e.g. land purchases) or deferred to when the benefits from investment are scheduled to begin.
- The MRP charged against liabilities under finance leases, or contracts that have the characteristics of finance leases, shall be equal to the principal element of the lease repayment, calculated on an annual basis.

### Council's Borrowing Requirement

40. The following table shows the projected level of external borrowing currently held by the Council, taking into account any scheduled loan repayments. It compares this to the projected CFR\*\* based on current, known estimates and timing of the Council's capital expenditure plans, subject to approval of the Council's budget in February 2016. The difference between the projected CFR in 2018/19 (£757 million) and the level of external borrowing after any planned repayments (£649 million) is £108 million, i.e. there will be a requirement for additional external borrowing over the medium term.

<b>Gross Debt compared to Capital Financing Requirement</b>					
	<b>2014/15 Actual £m</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
External Borrowing at 1 April	473	470	665	658	652
New borrowing	5	13	tbd	tbd	tbd
Settlement Payment		187			
Scheduled repayments	(8)	(5)	(7)	(6)	(3)
<b>External Borrowing at 31 March</b>	<b>470</b>	<b>665</b>	<b>658</b>	<b>652</b>	<b>649</b>
Capital Financing Requirement **	495	715	738	750	757
<b>Under / (Over) borrowing</b>	<b>25</b>	<b>50</b>	<b>80</b>	<b>98</b>	<b>108</b>

\*\* The definition of the CFR in accordance with the current Prudential Code for Capital Finance in local authorities is an authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed by the receipt of grants, contributions or charges to the revenue account. To be meaningful for treasury management purposes, the CFR figures in this strategy exclude the accounting provisions for the management and aftercare of landfill sites which may not be incurred for many years to come. Accordingly, when setting the treasury indicators, landfill provision is excluded from the calculations, except for the setting of the Authorised Limit for external debt, which is required to be set under statute.



41. Some of this requirement may be covered by internal borrowing in the short term, dependent on the sustainability and risks of any internal borrowing position. The table demonstrates that over the medium term, borrowing is undertaken only for a capital purpose and the Council is not borrowing in advance of need.

### **External versus Internal borrowing**

42. Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the cost of carry), it makes financial sense to use any internal cash balances held in the short-term to pay for capital expenditure and minimise costs (Internal Borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does actually need to borrow in future and so this position is kept under continuous review.
43. A high level balance sheet review undertaken at a point in time suggests that a maximum level of internal borrowing is circa £70 million. However this is dependent on cash flows, the timing of use of General and Earmarked Reserves and provisions and longer term pressures in the Medium Term Financial Plan.

### **Borrowing Strategy**

44. The forecast level of internal borrowing at 31 March 2016 in relation to the CFR is deemed manageable. However, based on the current forecasts of future capital expenditure plans and high level analysis of the sustainability of internal borrowing from the Council's balance sheet position for future years, external borrowing will be required to be undertaken in the medium term.
45. The following strategy is proposed to manage the Council's Capital Financing Requirement:-
- Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs where possible.
  - Any external borrowing is to be a balance between temporary borrowing on a short term basis to minimise revenue costs (the cost of carry) where possible, with options considered to take an element of the Council's borrowing requirement with loans of longer periods. This strategy should help to mitigate against the risk of borrowing rates rising faster than currently anticipated.
46. If it were felt that there was a significant risk of a sharp rise in long and medium-term rates, then fixed rate borrowing may be undertaken whilst rates were still relatively cheap. If there was a significant risk of a sharp fall in rates, then long-medium term borrowing would be deferred, following consideration of internal borrowing capacity.

47. Current interest rates on the Council's existing debt portfolio compared to new borrowing rates and the high penalty rates charged by the PWLB for early debt repayment, results in limited options for restructuring of debt. Options have been considered but these have resulted in very short term financial gains outweighed by the risk of higher longer term costs. Opportunities will continue to be reviewed to determine whether options exist to reschedule debt at an acceptable refinancing risk.

### Treasury Management Indicators and limits for 2016/17 – 2018/19

48. The Council is required to set its treasury management indicators for the years 2016/17 - 2018/19. Appendix 2 gives further background in respect of the Prudential Indicators.
49. The Council must set and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined indicators when setting this limit and be content that capital investment plans are within sustainable limits and that the impact upon future Council Tax payers and tenants is acceptable.
50. It is recommended that the Council approve the following authorised limits (Statutory limit under Section 3(1) of the Local Government Act 2003) and operational boundaries for the next three years (figures for 2015/16 are for comparison only). The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.

#### Authorised limit for external debt

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Limit for external borrowing and other long-term liabilities	781	780	780	780

51. This limit is consistent with known commitments, existing plans and proposals contained within the budget for capital expenditure, financing and revised accounting requirements. It includes landfill provision and is based on the estimated and prudent, but not worst case scenario and in addition with sufficient headroom over and above this to allow for operational management and unforeseen cash movements. The limit for the Council overall has been set at a constant level of £780 million for 2016/17 to 2018/19.
52. Whilst there is currently no self imposed or national imposed overall cap on the level of General Fund borrowing, exit from the Housing Subsidy system, HM Treasury required a cap on HRA borrowing to be implemented. Breach of this cap could result in the Council incurring financial penalties from WG. The cap is based on the level of the HRA Capital Financing Requirement (CFR) at the end of each year. The table below shows that based on HRA

business plan forecasts for capital expenditure, capital resources to pay for it and prudent provision for repayment of capital expenditure, the Council is forecast to be within the cap currently set.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
HRA CFR forecast at 31/03	277	279	296	302
HRA CFR Current Cap	316	316	316	316
<b>Headroom / (Excess)</b>	<b>39</b>	<b>37</b>	<b>20</b>	<b>14</b>

53. The HRA 30 year business plan will need to be monitored closely in order to ensure that any risks to the breach of the Cap and any unsupported borrowing is prioritised and remains affordable and sustainable in the long term.

#### Operational boundary for external debt

54. The proposed operational boundary or projected level of external debt (excluding landfill) is initially set at the anticipated level of the Capital Financing Requirement at the end of each year. This will be subject to the level and timing of borrowing decisions.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Boundary for external borrowing and other long-term liabilities	665	738	750	757

55. The Council's actual external debt represented by borrowing at 31 March 2015 was £470 million, with no significant other long-term liabilities. The Council's external debt increased significantly in April 2015 due to the £187 million payment of the HRA subsidy buyout payment.

#### Limits for fixed and variable interest rate exposure

56. Various upper limits are required to be set in order to manage risk and reduce the financial impact on the Council of any adverse movement in interest rates. The limits below reflect that whilst the majority of Council borrowing is currently at long term fixed rates, there could be exposure to variable rates. This is in the form of interest on LOBO loans being changed early, the strategy to utilise internal borrowing where possible and short term external borrowing when required to manage cash flow.

	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Upper limit for fixed interest rate exposure:-	100	100	100	100
Upper limit for variable rate exposure:-	25	25	25	25

**Maturity structure of fixed rate borrowing**

57. Limits are set to guard against a large element of the Council’s debt maturing and having to be refinanced in a very short space of time, when it may not be economically favourable to do so. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be undertaken for the optimum period. The table assumes that loans run to their final maturity, however a separate column is also included to show the maturity profile should the Council repay its LOBO loans early.

<b>Maturity structure of borrowing in 2016/17</b>	<b>Upper limit</b>	<b>Lower limit</b>	<b>Actual to Maturity</b>	<b>Actual if LOBOs Repaid Early</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Under 12 months	10	0	0.99	4.64
12 months and within 24 months	10	0	0.82	1.60
24 months and within 5 years	15	0	0.82	4.17
5 years and within 10 years	20	0	2.95	3.05
10 years and within 20 years	30	0	20.96	21.65
20 years and within 30 years	35	0	23.92	22.90
30 years and within 40 years	35	0	26.06	26.92
40 years and within 50 years	35	0	17.79	15.07
50 years and within 60 years	15	0	4.96	0.00
60 years and within 70 years	5	0	0.73	0.00

**Investments**

**Policy**

58. The Council has regard to the WG Guidance on Investments issued in 2004 and its subsequent amendments, as well as the 2011 revised CIPFA’s Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA Treasury Management Code).
59. The Council recognises that given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity, however the level of risk will be contained by ensuring:-
- All investments and repayments are in sterling.
  - Investment instruments identified for use in the financial year are listed under ‘Specified’ investments and ‘Non-Specified’ investment categories, dependant on their complexity and risk.
  - A list of highly credit worthy counterparties with whom to invest is created and monitored.

- Diversification of approach, investment product and counterparties are sought where possible to avoid concentration of risk.
- Any set limits are implemented with immediate effect following approval of this Treasury Management Strategy by Council.
- Continual monitoring of treasury activities with the categories of investments that may be used, the credit criteria and associated limits in determining with whom to invest and timing of decisions being delegated to the Section 151 Officer.

### Specified Investments

60. A specified investment is defined as one :
- being for a period up to one year.
  - which is in straightforward easily understood low risk products.
  - not involving corporate share or loan capital.
  - where the principal sum to be repaid at maturity is the same as the initial principal sum invested.
61. Specified investments may comprise up to 100% of the Council's total investments.

<b>Instruments approved for use</b>	<b>Minimum Credit Criteria</b>
Debt Management Agency Deposit Facility	Assumed Government Guarantee
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Deposits with the Council's banking services provider	Long-term A /Short-term F1
Term deposits – banks and building societies	Long-term A /Short-term F1
Term deposits with variable rate and variable maturities up to one year e.g. structured investment products	Long-term A /Short-term F1
Deposits with banks wholly or partly nationalised or where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Assumed Government Guarantee

### Non-Specified Investments

62. These are all other investments not meeting the definition of a specified investment which could be used in order to achieve diversification and manage liquidity needs. A maximum upper level of £60 million is to be set for non-specified investments including investments for greater than one year.

<b>Instruments approved for use</b>	<b>Min Credit Criteria</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits with Local Authorities (with maturities in excess of 1 year)	Assumed Government Guarantee	15	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- /Short-term F1+	15	2 Years
Deposits over one year with banks wholly or partly nationalised institutions where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Government Guarantee	20	2 Years
Term deposits with variable rate and variable maturities in excess of 1 year e.g. structured investment products	Long-term AA- /Short-term F1+	10	2 Years
Term deposit with Financial institutions in accordance with the Council's Local Authority Mortgage Scheme	Long Term A / Short Term F1	Budget approved limit for scheme	5 years
Certificates of Deposit (In-house)	Long-term AA- /Short-term F1+	10	Maximum 2 year duration
UK Government Gilts and Gilt funds (In-house)	Assumed Government Guarantee	40	Maximum 3 year duration
Treasury Bills (In-house)	Assumed Government Guarantee	40	6 Months
Collective Investment Scheme structures - Money Market Funds	AAA Constant Net Asset Value	60	Weighted Average Maturity 60 days
Other Collective Investment Schemes structures - e.g. enhanced cash funds, Government and Corporate Bond, Gilt or Liquidity Funds and floating rate notes	AAA Variable Net Asset Value	20	Weighted Average Maturity 3 years

63. The Council uses money market funds and other collective investment funds which pool together investments in a diversified portfolio of products and sectors mainly high quality, short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial paper. It should be noted that any such funds are triple A rated and allow instant access.

**Security**

- 64. Credit and fraud risk are managed through procedural requirements and controls. The Council uses Fitch Credit ratings as a basis for assessment of credit worthiness of institutions it will invest with. (See Appendix 3). Changes in the criteria and decisions with whom to invest are delegated to the Section 151 Officer. Commercial organisations (counterparties) on its approved list will have at least the short-term credit rating of F1 and be authorised institutions within the meaning of the Financial Services and Markets Act 2000. The rating F1 infers “Highest Credit Quality” and indicates the strongest capacity for timely payment of financial commitments.
- 65. For internally managed investments provided by the private sector, the lending list for any new direct investment in an organisation is based on the following credit criteria:

<b>Fitch Ratings (minimum)</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Limit £m</b>
Overnight to one year	A	F1	10
Overnight to two years	AA-	F1+	12
UK Part Nationalised Banks overnight to two years	A	F1	15

- 66. For internally managed funds the maximum limit for direct investment in any one group of related companies is £15 million.
- 67. Credit ratings are monitored regularly through use of the treasury management advisor’s credit service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council’s criteria, its further use for new investment will be withdrawn immediately.
- 68. Where investments are held with a counterparty which falls below the Council’s approved criteria for new investment, the investments will be reviewed and options to call back funds before the maturity date would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.
- 69. Whilst Fitch ratings form the basis of the Council’s threshold criteria, the Council will also have regard to the following when determining with whom to invest:
  - Rating updates provided by treasury advisors in respect of all three credit rating agencies, as well as credit default swaps, support ratings and other market data.
  - Media reports as well as sovereign credit ratings with the minimum requirement being a Fitch sovereign rating of AA for non UK based institutions.

- The informed judgement of treasury staff and treasury management advisors after consideration of wider economic factors.
- Financial sector and country exposure.
- The extent to which organisations who do not meet the above criteria, are nationalised.

## **Liquidity**

70. The Council aims to have sufficient funds to ensure it does not become a forced borrower for a significant period of time at rates in excess of what may be earned on such investments. In determining the maximum periods for which funds may be available and can be invested, short term cash flow forecasts are undertaken and a longer term balance sheet review is undertaken as part of the calculation of Prudential Code indicators.

## **Investment Strategy**

71. Given uncertainty of financial markets, the Specified and Non Specified investments above allow for a range of products to be available to manage short term investment balances and diversification.
72. Given the likelihood of internal borrowing and the interest rate forecasts identified above, longer term investments above one year will be unlikely. The Debt Management Agency Deposit Facility will be used only as a last resort.
73. The investment strategy for 2016/17 will continue to adapt to changing circumstances and market sentiment, with a pragmatic approach taken. Credit criteria changes delegated to the Section 151 Officer, which allows a prompt response to uncertainties with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the course of the year.

## **Treasury Management Training**

74. Treasury staff directly and regularly involved in borrowing and lending activities are provided access to a wide range of training. This includes seminars and workshops organised by treasury advisors bringing together practitioners from different authorities; seminars organised by CIPFA and other national bodies, regular contact with a client relationship manager as well as their briefing notes and articles. Staff responsible for treasury activity on a day to day basis have a recognised accountancy qualification and are encouraged to undertake relevant treasury management training.
75. The Council's Audit Committee Members who are responsible for scrutiny of treasury management activities have also been provided with training and offered one to one training in order to support their role.



## **APPENDIX 1 - Glossary of Terms**

### **Bank Rate**

The rate of interest set by the Bank of England as a benchmark rate for British banks.

### **Bonds**

A long-term debt security issued by a company, a financial institution, a local authority, national government or its affiliated agencies. It represents an undertaking to repay the holder the fixed amount of the principal on the maturity date plus a specified rate of interest payable either on a regular basis during the bond's life (coupon) or at maturity.

### **Borrowing**

Loans taken out by the authority to pay for capital expenditure or for the prudent management of the Council's financial affairs, which are repayable with interest.

### **Capital Expenditure**

Capital expenditure pays for improvements to existing and new assets used in the delivery of Council services as well as other items determined by Regulation. Capital resources are scarce, costly and also have long term revenue implications over many years and even generations where capital expenditure is funded by borrowing. Hence the requirement of the Prudential Code to ensure what is charged as Capital Expenditure is Prudent, Sustainable and Affordable.

The statutory definition of capital expenditure is given in the Local Government Act 2003, the Local Authorities (Capital Finance) Regulations 2003 and 2004 as amended. Statute relies on the accounting measurement of cost in International Accounting Standard (IAS) 16 to determine whether expenditure is eligible to be capitalised or whether it should be treated as revenue expenditure. Key to what is eligible as capital spend are the following words in IAS 16 - 'Costs directly attributable to bringing the specific asset into working condition for its intended use'.

### **Capital Financing Requirement (CFR) (Real and Notional)**

An authority's underlying need to borrow for a capital purpose. It measures capital expenditure incurred but not yet financed by the receipt of grants, contributions and charges to the revenue account. This is termed the Real CFR.

Revised accounting guidance from Wales Audit Office on accounting for Landfill Obligations requires a provision to be created and charged to capital. As this is for future spend, this is not incurred expenditure, hence caution needs to be adopted when comparing the latter figure compared to external borrowing to ensure borrowing in advance of need does not take place.

### **Capital Market**

A market for securities (debt or equity), where companies and governments can raise long-term funds (periods greater than one year). The raising of short-term funds takes place on other markets (e.g. the money market).



**Credit Rating**

A credit rating assesses the credit worthiness of an individual, corporation, or even a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan. Ratings usually consist of a long-term, short-term, viability and support indicators. The Fitch credit rating of F1 used by the Council is designated as “Highest Credit quality” and indicates the strongest capacity for timely payment of financial commitments.

**Debt Management Account Deposit Facility (DMADF)**

The Debt Management Office provides this service as part of its cash management operations and of a wider series of measures designed to improve local and central government’s investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.

**Debt Restructuring**

Debt restructuring is a process that allows an organisation to reduce, renegotiate and undertake replacement debt.

**Diversification of Investments**

The process of creating a portfolio of different types of financial instruments with regard to type, price, risk issuer, location, maturity, etc. in order to reduce the overall risk of the portfolio as a whole.

**Duration (Maturity)**

The length of time between the issue of a security and the date on which it becomes payable.

**External Borrowing**

Money borrowed from outside of the Council.

**Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial liabilities are borrowing and financial guarantees. Typical financial assets include bank deposits, amounts owed by customers, loans receivable and investments.

**Fitch Credit Ratings**

A commercial organisation providing an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The opinion is usually provided in the form of a credit rating.

**Fixed Rate**

An interest rate that does not change over the life of a loan or other form of credit.

**Floating Rate Notes**

A money market security paying a floating or variable interest rate, which may incorporate a minimum or floor.

## **Four Clauses of Treasury Management**

In compliance with the First Clause, this Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable Treasury Management Practices (TMP's), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

In compliance with the Second Clause, this Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMP's.

In compliance with the Third Clause, this Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director Resources in accordance with existing delegations, who will act in accordance with the organisation's policy statement, TMP's and CIPFA's Standard of Professional Practice on Treasury Management.

In compliance with the Fourth Clause, this Council requires the scrutiny of the accounting, audit and commercial issues of its Treasury management Strategy and Practices to be undertaken by the Council's Audit Committee due to the technical nature of the documents.

### **Fraud / Error Risk**

Risk of losses being incurred as a result of fraud, error or corruption in treasury management and failure to institute adequate systems, procedures and other arrangements to prevent irregularities.

### **Housing Revenue Account (HRA)**

The HRA is an account of expenditure and income that every local authority housing department must keep in accordance with the Local Government & Housing Act 1989. The account is kept separate or ring fenced from other Council activities. Income is primarily generated by the rents and service charges paid by tenants, while expenditure is on the management and maintenance of the housing stock, and capital financing charges on the HRA's outstanding loan debt.

### **Interest Rate Risk**

Risk that fluctuations in interest rates could impose extra costs against which the Council has failed to protect itself adequately.

### **Internal Borrowing**

Money borrowed from within the Council, sourced from temporary internal cash balances.

**Investments**

The purchase of financial assets in order to receive income and/or make capital gain at a future time, however with the prime concern being security of the initial sum invested.

**Lender Option Borrower Option Loans (LOBOs)**

Loans to the Council where the lender can request a change in the rate of interest payable by the Council at pre-defined dates and intervals. The council at this point has the option to repay the loan.

**Liquidity**

The ability of the Council to meet its financial obligations as they fall due.

**Market Loans**

Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Body.

**Minimum Revenue Provision (MRP)**

This is the amount which must be charged to the authority's revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities. The prudent amount is determined having regard to guidance issued by WG. This has the effect of reducing the Capital Financing Requirement (CFR).

**Money Market**

The market for short-term securities or investments, such as certificates of deposit, commercial paper or treasury bills, with maturities of up to one year.

**Money Market Funds**

An investment fund which pools the investments of numerous depositors, spreading those investments over a number of different financial instruments and counterparties. Funds with a constant Net Asset Value (NAV) are those where any sum invested is likely to be the same on maturity. Funds with a variable Net Asset Value (NAV) are those where the sum on maturity could be higher or lower due to movements in the value of the underlying investments.

**Net Asset Value (NAV)**

The market value of an investment fund's portfolio of securities as measured by the price at which an investor will sell a fund's shares or units.

**Pooling**

The process whereby investments or loans are held corporately rather than for specific projects or parts of the Council, with recharges to those areas for their share of the of relevant income and expenditure using an agreed methodology, where such a recharge is required to be made.

**Prudential Code for Capital Finance**

The system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003 which allows local authorities to borrow without Government consent, provided that they can afford to service the debt from their own resources and that

any such borrowing is prudent and sustainable. This requires the preparation and approval of various indicators.

### **Public Works Loans Board (PWLB)**

The Public Works Loans Board is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

### **Refinancing Risk**

Risk that maturing borrowing or other financing of capital projects cannot be renewed on terms that reflect existing assumptions and that the Council will suffer extra costs as a result.

### **Regulatory Risk**

Risk that actions by the Council or by any person outside of it are in breach of legal powers or regulatory requirements resulting in losses to the Council, or the imposition of extra costs.

### **Security**

Protecting investments from the risk of significant loss, either from a fall in value or from default of a counterparty.

### **Sovereign Credit Ratings**

The credit rating of a country. It indicates the risk level of the investing environment of a country, taking into account political risk and other factors.

### **Sterling**

The monetary unit of the United Kingdom (the British pound).

### **Term Deposits**

A term deposit is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time.

### **Treasury Management**

Treasury management activities are the management of an organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

### **Treasury Bills**

Debt securities issued by a government with a short-term maturity of up to 6 months.

### **UK Government Gilts**

Fixed-interest debt securities issued or secured by the British Government. Gilts are always denominated in sterling though the Government occasionally also issues instruments in other currencies in the Eurobond market or elsewhere.

### **Variable Rate**

An interest rate that changes in line with market rates.

**Yield**

The annual rate of return paid out on an investment, expressed as a percentage of the current market price of the relevant investment.

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## **APPENDIX 2 - Prudential Indicators**

### **The Prudential Code**

**The current system of capital finance is CIPFA's Prudential Code.**

It is a professional Code of practice to support the decisions local authorities have to make to plan for capital investment at a local level. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part I of the Local Government Act 2003 i.e. compliance with the Code is a statutory requirement.

### **Objectives of the Code**

The key objectives of the Code are:-

- To ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable
- That Treasury Management decisions are taken in accordance with good professional practice
- That local strategic planning, asset management planning and proper option appraisal are supported
- To provide a clear and transparent framework to ensure accountability

### **Prudential Indicators**

The indicators required are shown below, with further explanation as to their meaning:

#### **1(a). External Debt - Operational Boundary**

The most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long term liabilities (e.g. finance leases). It encompasses all borrowing, whether for capital or revenue purposes.

#### **1(b). External Debt - The Authorised Limit**

The upper limit on the level of gross external indebtedness, which must not be breached without Council approval. It is the worst-case scenario. It reflects the level of borrowing which, while not desired, could be afforded but may not be sustainable. Any breach must be reported to the executive decision making body, indicating the reason for the breach and the corrective action undertaken or required to be taken.

#### **1(c). External Debt - Actual External Debt**

The indicator for actual external debt will not be directly comparable to the operational boundary and authorised limit, since the actual external debt will reflect the actual position at one point in time.



## **2. Financing cost to Net Revenue Stream**

The percentage of revenue budget set aside each year to service debt financing costs

## **3. Capital Financing Requirement (CFR)**

The Capital Financing requirement (CFR) replaced the 'Credit Ceiling' measure of the 1989, Local Government and Housing Act. It measures an authority's underlying need to borrow or use other long-term liabilities, to pay for capital expenditure.

## **4. Capital Expenditure**

The level of capital expenditure incurred and likely to be incurred in future years. This is to be based on an accruals basis and on the definition of capital expenditure.

## **5. Incremental impact of Capital Investment decisions on Council Tax / Average weekly Housing Rents**

This shows the impact of new capital investment decisions included in the budget on the Council Tax and average weekly rent for HRA.

## **6. Gross External Borrowing and the Capital Financing Requirement**

The level of external borrowing is required to be compared to the Capital Financing Requirement which represents the underlying need to borrow. Requires that borrowing in the medium term can only be for capital purposes.

## **7. Adoption of CIPFA's Treasury Management Code of Practice**

CIPFA's Code of Practice for Treasury Management in the Public Services (the CIPFA Code) primary aim is to ensure that public services manage and control the risks attached to its treasury functions in an efficient effective and economic manner.

Accordingly the adoption of the Code has been encapsulated in Local Authorities (Capital Finance and Accounting) Regulations that call for explicit compliance with the CIPFA Code.

## **8. Interest Rate Exposures**

Recognition of the impact on revenue budgets of changes in interest rates as well as the need to ensure that local authorities maintain flexibility in their treasury strategy has resulted in the adoption of an interest rate exposure indicator.

This indicator sets out for the following three years an upper limit for both fixed rate and variable rate exposure.

## **9. Maturity Structure of Borrowing**

Local Authority debt portfolios consist of a number of loans with differing maturities. Setting limits assists in ensuring any new borrowing in particular when combined with existing borrowing does not result in large concentrations of borrowing maturing in a short period of time.

## **10. Principal sums invested for greater than one year**

This indicator measures the exposure of a local authority to investing for periods of greater than one year.

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**APPENDIX 3 – Approved list of Counterparties (Authorised to accept sterling deposits in the UK) (@ 31/12/15)**

	£	Duration
<b>Australia</b>		
Australia and New Zealand Banking Group	12m	2 years
Commonwealth Bank of Australia	12m	2 years
National Australia Bank	12m	2 years
<b>Canada</b>		
Canadian Imperial Bank of Commerce	12m	2 years
Toronto Dominion Bank	12m	2 years
<b>France</b>		
Credit Industriel et Commercial	10m	1 year
Societe Generale	10m	1 year
<b>Germany</b>		
DZ Bank (Deutsche Zentral-Genossenschaftsbank)	12m	2 years
<b>Netherlands</b>		
Cooperatieve Centrale Raiffeisen Boerenleenbank (Rabobank Nederland)	12m	2 years
<b>Singapore</b>		
DBS Bank	12m	2 years
Oversea Chinese Banking Corporation	12m	2 years
United Overseas Bank	12m	2 years
<b>Sweden</b>		
Skandinaviska Enskilda Banken	10m	1 year
Svenska Handelsbanken	12m	2 years
<b>Switzerland</b>		
UBS AG	10m	1 Year
<b>U.K</b>		
Barclays Bank	10m	1 Year
Close Brothers	10m	1 Year
Goldman Sachs International Bank	10m	1 Year
HSBC Bank plc	12m	2 years
Santander UK plc	10m	1 Year
Standard Chartered Bank	10m	1 Year
Bank of Scotland	10m	1 Year
Lloyds Bank	10m	1 Year
Royal Bank of Scotland	15m	2 Years
Coventry BS	10m	1 Year
Nationwide BS	10m	1 Year
Local Authorities	15m	2 Years
Debt Management Agency Deposit Facility	n/a	6 Months
<b>Money Market Funds</b>		
BlackRock ICS Sterling Fund	12m	Instant Access
Deutsche Managed Sterling Fund	12m	Instant Access
Fidelity GBP ICF	12m	Instant Access
Goldman Sachs Sterling Reserves Fund	12m	Instant Access
Insight Sterling Liquidity Fund	12m	Instant Access
LGIM Sterling Liquidity Fund	12m	Instant Access
Northern trust sterling Government Liquidity Fund	12m	Instant Access
Royal Bank of Scotland Global Treasury Fund	12m	Instant Access
SLI Sterling Liquidity	12m	Instant Access

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**AUDIT COMMITTEE: 01 February 2016**

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**INTERNAL AUDIT PROGRESS REPORT****REPORT OF THE AUDIT & RISK MANAGER****AGENDA ITEM: 8.1**

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**Appendix B and D of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**Reason for this Report**

1. The Audit Committee's Terms of Reference requires that Members consider reports from the Audit & Risk Manager on Internal Audit's performance during the year eg. progress reports.
2. This report provides the Audit Committee Members with an update on the work of Internal Audit up to the 31<sup>st</sup> December 2015.

**Background**

3. An Annual Audit Strategy/Plan is prepared each year which acts as a yardstick by which the work of Internal Audit can be measured. It is important that this allows for flexibility so that professional judgement can be applied to enable work to be prioritised over the life of the Plan in order to maximise the use of audit resources and add most value to the organisation in targeting changing risks.
4. The Audit & Risk Manager prepares quarterly briefings and a half yearly progress report outlining the work undertaken by the audit teams and key performance information.
5. Progress reports are discussed with the Corporate Director Resources and Head of Finance, to provide them with a meaningful update of the work of the team and to give them the opportunity to discuss changing priorities. This is then presented to Audit Committee.

**Issues**

6. The progress report, to the 31<sup>st</sup> December 2015, is attached at Annex 1 for information.

**Legal Implications**

7. There are no legal implications arising from this report.

**Financial Implications**

8. There are no financial implications arising from this report.

**RECOMMENDATIONS**

9. That the Committee note the report.

The following is attached:  
**Annex 1: Internal Audit Progress Report**



# CORPORATE RESOURCES INTERNAL AUDIT SECTION

## INTERNAL AUDIT PROGRESS REPORT AS AT 31 DECEMBER 2015

<p><b>Open</b></p> <p>We are open and honest about the difficult choices we face, and allow people to have their say on what's important to them and their communities.</p>	<p><b>Fair</b></p> <p>We champion fairness, recognising that with less resource we need to prioritise services for those who need them most.</p>	<p><b>Together</b></p> <p>We work with our communities and partners across the city to deliver the best outcomes for the people of Cardiff.</p>
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## OVERVIEW

1. The past three months have been busy and challenging with an increasing pressure to target an ever changing risk profile, at a time where resources are stretched and priorities require constant monitoring.
2. We have continued to use the Audit Plan as a framework to target fundamental and high risk audits and are optimistic that most of these will be undertaken and reported upon, before the year end. We have recently appointed two new auditors who start with us on 4<sup>TH</sup> January.
3. We do have a few fundamental systems audits to complete during quarter 4 e.g. debtors and rent setting and need to ensure these are delivered. It is anticipated that there will be some slippage at year end as detailed below. We have planned work in quarter 4 for computer and contracts assignments and the other audits listed have been discussed with directors and the reason for delaying the audit is shown.

Audit	Comments
Computer audits	Some work has been scheduled for Q4 and we are currently liaising with other councils regards some joint audits over the next 3 months. There may however be some slippage in one or two areas. We have discussed these with the Head of ICT. We are also investing in training in this specialised area.
Contract audits (Procurement)	A number of contract audits are underway and some follow up work is ongoing but there may be some slippage on some planned work. We have a few key ongoing assignments which will help provide assurance.
Domiciliary Care	Audit deferred - CSSIW carried out an in-depth review of Dom Care and the new Proactis systems in September 2015. Currently awaiting outcome of this review to see what (if any) assurance can be taken from this work.
Home Care	Plan to carry out an audit once mobile scheduling has been introduced to assess controls in place, however, introduction of this technology has been repeatedly delayed and is now not expected until 2016/17.
Concessionary Travel	Assurance received from work of WAO. To be reviewed in 2016-17.
Education and Lifelong Learning – cross cutting audits	Not undertaken due to increased emphasis on CRSA.

4. Audit Reports issued over the past 3 months have been added to **Appendix A**, which provides an updated list of audits where reports have been issued since April 2015. It is important to note that much work is undertaken not formally reported e.g. contributing to meetings and workshops on system developments, general advice and guidance.
5. The Audit Opinion tracker is attached at **Appendix B**, providing an overview of all audits where the opinion has been “Limited” or “No” Assurance. This provides details of audits over the past three months with a Limited or No assurance opinion and provides an update on any follow up plans. Executive summaries have been prepared for all Limited



Assurance opinions to be discussed with the Corporate Director Resources and the Chief Executive. There has been two audit reports issued in recent weeks with a “no” assurance opinion and, in accordance with protocols, the Executive summary for these is attached with the Tracker at Appendix B. Some key follow up audits are ongoing at the moment and will be reported to the March Audit Committee.

6. Given some school audits still feature as Limited assurance, it is worth noting that we are ahead of schedule in extending our Control Risk Self-Assessment approach to all schools and they have all had an opportunity to attend a workshop and to become part of this new approach (plan was to do this by end of March). Feedback continues to be positive regards this approach and we are currently reviewing completed assessments and sharing our views, and any suggested improvements, with Head teachers and their teams.
7. Work has continued monitoring performance and contributing to our Quality Assurance Improvement programme and the report on the “Measurement of the Effectiveness of Internal Audit presented to Audit Committee in December captured a lot of updated information. **Appendix C** does provide some further statistics in some key performance areas and it can be seen all are encouraging. An exercise to capture the views of Directors was concluded in the autumn, which again showed a good understanding and appreciation of the support provided by Internal Audit. On the key question of whether Internal Audit adds value to their business, all responded positively.
8. **Appendix D** provides an overview of the work of the Investigation team over the past three months with some cumulative statistics for the year to date.
9. Work has continued on risk, governance and project assurance work with some key documents updated and information shared with Audit Committee. A new CRSA approach has been introduced and is being piloted within some key ODP projects. The aim will be to use this approach for all projects both within and outside of the ODP should the pilot be a success.

#### **Priorities for Quarter 4**

10. There are proposed changes to the management structure within Internal Audit with the Audit & Risk Manager role changing and the current post holder likely to be leaving at the end of March. The current Audit & Risk Manager has worked in Internal Audit for over 40 years and as Audit Manager for over 30 years and thus a vast amount of knowledge and experience will be lost. A key challenge will be to appoint a new Audit Manager and the transition, at what is always busy time of the year. Every effort will be made for a seamless transition, but clearly there will be pressure on key tasks year end and planning for 2016-17.
11. A priority will be to target the high risk audits planned to minimise the number not completed during the financial year, which will need to carry forward and impact on the coverage for 2016-17. There is already a pressure as a consequence of the high level of limited assurance reports, currently being issued, that will require a follow up in 6 months and will need a revisit.
12. New staff will need induction and training to get up to speed to contribute to delivering the Plan.

13. Quarter 4 is always a busy period for both audit and risk & governance with a number of year end matters to be dealt with. For Audit it is a time to gather thoughts for the Annual Audit report (and Opinion) and to review and update the Audit Strategy and all its elements, that sets out the plan and objectives for the coming financial year. For risk and governance, Audit lead on many key tasks as the year end approaches, including a review of the Corporate risks and preparation of the Annual Governance Statement. The Audit & Risk Manager also supports the Chair of Audit Committee in preparing the Audit Committee Annual Report at the year end.

## Audit Work Undertaken to 31.12.15

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<b><i>Fundamental / High</i></b>				
NDR	Satisfactory			
Council Tax	Satisfactory			
Cheque Printing	Satisfactory			
Housing Rent Arrears	Satisfactory			
Invest to Save	Satisfactory			
Main accounting – CRSA & in year testing	Satisfactory			
Service Charges	Satisfactory			
SRB – Whitchurch High School	Limited	4	4	
Castle – overtime review	Limited	3	3	
Mental Health Contracts	Limited	3	3	
Residential and Nursing Care	Satisfactory			
<i>AP processing – WOM &amp; Supplies teams</i>	<i>Satisfactory</i>			<i>Draft report issued</i>
<b><i>Medium</i></b>				
Pencaerau Primary School	Satisfactory			
Cashless catering in schools	Satisfactory			
St. Monica's	Limited Assurance	9	9	
Whitchurch High School – CRSA	Satisfactory			
Willows – CRSA	Satisfactory			
Crosslands	Satisfactory			
Targeted Elderly	Satisfactory			
Insurance – CRSA & in year testing	Satisfactory			
Post 16 funding	Satisfactory			
All Saints	Satisfactory			
Ysgol Treganna - CRSA	Satisfactory			
Cantonian High School - CRSA	Limited Assurance	6	6	
Woodlands	Limited assurance	6	6	No response from Head teacher
Penalty Charge Notices	Limited assurance	5	5	
Youth Centre inventories	No assurance	7	7	
<i>Gladstone Primary School</i>	<i>Satisfactory</i>			<i>Draft report issued</i>
<i>St. Mary the Virgin</i>	<i>Satisfactory</i>			<i>Draft report issued</i>

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Mileage and Subsistence	Limited Assurance	0		Draft report issued
Weighbridge (Lamby Way)	Limited Assurance	5		Draft report issued
Riverbank	No assurance	1		Draft report issued
Pen y Bryn Primary School - clerk	Deferred	8		Draft report issued
<b>Grants / Accounts / External Bodies</b>				
Communities 2.0	Satisfactory			
Homelessness	Satisfactory			
WIMLU	Satisfactory			
European grants – Spider Project (claims 5 and 6)	Satisfactory			
<b>Follow-ups</b>				
Direct Payments – Resources	Satisfactory progress			
Rumney High School (Second follow up)	Satisfactory progress			
Supervised Contact Service	Deferred			
Supporting People programme	Limited assurance	2	2	
Children with Disabilities	Limited assurance	3	3	
Child Protection (core groups) – 3 <sup>rd</sup> follow up	Satisfactory progress			
Contract variations – CMS	Limited assurance	3	3	
Glyn Derw / Michaelston School	No assurance	12	12	
<b>Ad hoc Assignments</b>				
Property, Land and Procurement Changes				Briefing paper
Additional salary payments				E-mails to Directors
Consultancy contract				Briefing paper
Sickness absence				E-mail to HRPS
Prosiect Gwyrdd – annual return				Annual returns audited and signed off (for the Council's Statement of Accounts, 2014/15)
Welsh Purchasing Consortium – annual return				
Port Health – annual return				
Glamorgan Archives – annual return				
Highways Street Operations payroll				
Dr Who Experience	Satisfactory			Email to BBC

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Conferences, Seminars and other events	Limited assurance	0	0	Email to Director of Governance
Children's Services payments	Limited assurance	7	7	
Pool cars	Deferred			
Business Continuity				Email to directors
CRSA				Ongoing workshops with schools
Income discrepancy – County Hall restaurant				Email to manager
Annual Leave				VFM briefing paper
Agency Managed Service				VFM briefing paper
Overtime Payments				VFM briefing paper
Standby Payments				VFM briefing paper
Unassigned employees				Briefing paper
St. Philip Evans – After School Club				Briefing paper
Home to Office mileage				Briefing paper

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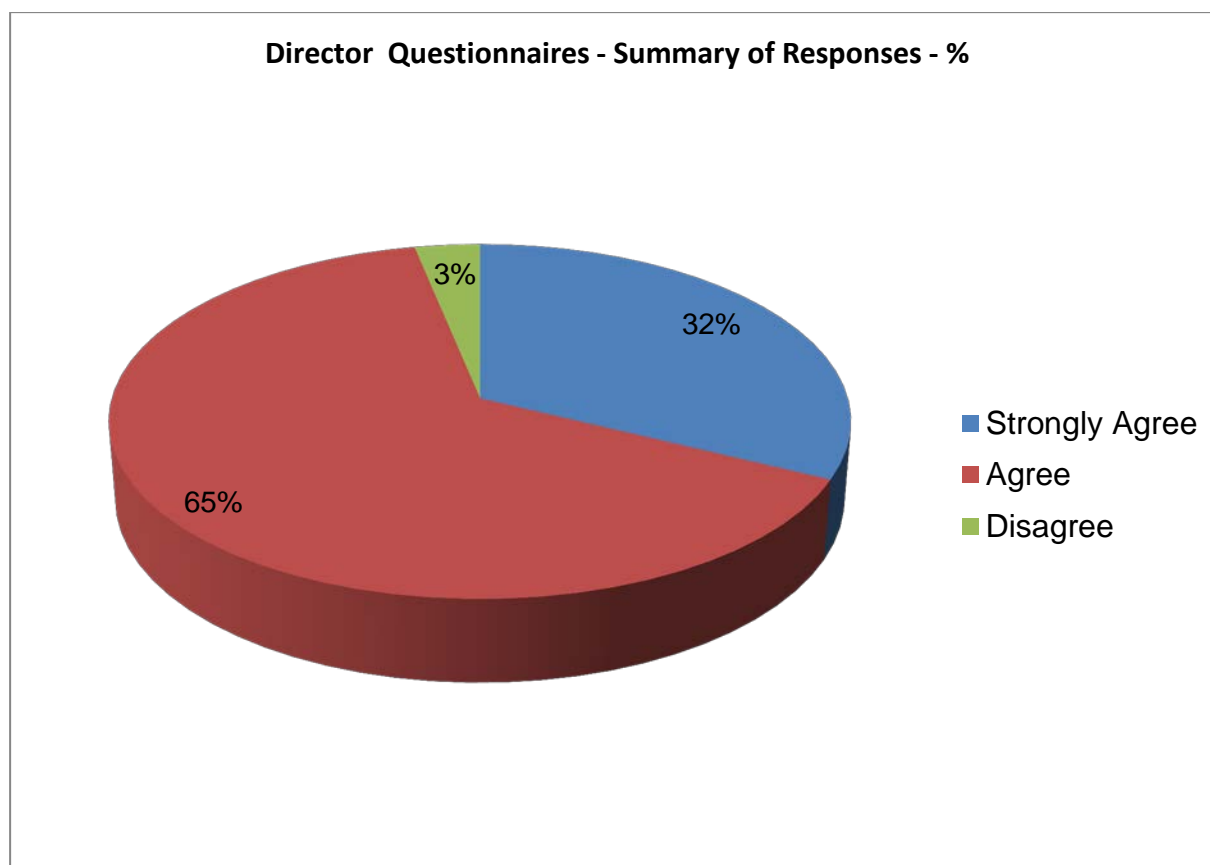
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## KEY FACTS – up to end of December 2015

AUDIT RECOMMENDATIONS		Proposed	Agreed
No. of Recommendations		313	310
No. of Risks:	Red	85	85
	Red/Amber	146	144
	Amber/Green	82	81
% Agreed			99%
AUDIT QUESTIONNAIRES		Detail	
No. of Questionnaires Completed:		28	
Excellent		34%	
Good		61%	
Satisfactory		5%	
Unsatisfactory		0%	
Adds value		100%	
Satisfaction Rating:		100%	

## Analysis of Director Responses (one off review)



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**VALUE FOR MONEY STUDIES**

**REPORT OF THE AUDIT & RISK MANAGER**

**AGENDA ITEM: 8.2**

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**Appendix A of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**

**Reason for this Report**

1. The Audit Committee's Terms of Reference sets out that Members should receive summaries of specific internal audit reports in accordance with agreed protocols.
2. This report provides Members with an update on value for money studies, two of which have been reported previously to Audit Committee, namely, Agency Spend and Standby Payments.

**Background**

3. The Audit & Risk Manager had previously reported the findings from value for money studies into Agency spend and Standby allowance payments and was asked to report back on these at a later date. This work has now been undertaken and additional studies relating to annual leave, overtime payments, home to office travel and mileage claims, has also been completed. The aim for these studies has been mainly to highlight the spend in these areas and seek assurances of the appropriateness of this spend and to identify any potential areas for savings to be considered. In some studies compliance issues have been highlighted and recommendations made to enhance control.
4. These studies were reported to the Senior Management Team on the 12 January 2016 where the information was shared with Directors who were recommended to discuss the information with their management teams and to seek assurance that the level of spend was appropriate, the mechanisms for approving the spend robust, and potential savings were being considered and progressed to maximum benefit.

**Issues**

5. Appendix A attached provides an updated position regards the value for money exercises. The figures shown relate to the period for the half year ending 30 September 2015.
6. The **Agency Spend** analysis compared the most recent data for the six months, April to September 2015, to comparable 2014 figures. During this period, there was a 12% (£673,000) decrease in expenditure on agency workers compared to the same period in 2014. A 5% reduction in agency workers engaged corresponds with the reduction in expenditure in nearly all Directorates. There are some directorates where agency spend still is relatively high. The number of timesheets being auto-approved has also decreased;

however, the overall value where timesheets are not being approved by a Manager, remains high at £501,000 and is still of concern.

7. The **Standby Payments** review (as at 27.10.15) showed that the cost of standby is projected to increase slightly in 2015/16, from the last financial year, despite there being a budget reduction for 2015/16 of £100,000.
8. There is clearly a need to deal effectively with incidents outside normal office hours, and a need for a number of officers to be available to respond to calls, but having 381 standby recipients claiming this allowance, is considered high by Internal Audit and that there could be potential savings should a more corporate approach be taken.
9. A review of the effectiveness of controls relating to **Annual Leave** was undertaken for the current year, up to 24.09.15. The review analysed the flexi time system (ProTime) and DigiGov (which records employees working time, leave and sickness). Under the current system, there is evidence in some areas of little reconciliation of annual leave adjustments between these two systems which has highlighted that employees have taken a number of annual leave days, which they have not accounted for in their annual leave balance within DigiGov. This questions how this leave has been approved in advance and requires urgent attention as there is a risk that employees can continue to make adjustments and take more days than they are entitled to over the year. Recommendations have been made to address the situation.
10. Internal Audit has extracted and analysed **Overtime** payments in the financial year 2015/16 (to 12.10.15). The analysis is restricted to those officers who have received overtime payments which have exceeded their basic (stored) pay by 10%, or greater. With over 1,000 officers claiming overtime in excess of 10% of their basic pay, projected at £4million for the year, this seems high to Internal Audit in context with budgetary pressures. Equally, ten officers accounting for almost £100,000 overtime claimed over the first 6 months of the year appears high. Internal Audit is not suggesting that the overtime has not been worked or has not been necessary, however, in the current economic climate, managers need to be satisfied that the requirement for overtime is essential, and that the cost is the most economically advantageous.
11. Internal Audit recently followed up on some long held concerns over the use of Council vehicles for **home to office travel**. In advance of this review, all Directors were asked to coordinate the preparation of business cases for any Council vehicles being used for home to office journeys. These business cases were reviewed by Internal Audit with reference to the Quartix vehicle tracking systems used within the Council. The briefing shows a large number of vehicles used to support home to office travel, with some significant costs associated with this. As a consequence of challenge, nine vehicles are being withdrawn, and Directors have been asked to provide personal assurance that the remaining business cases are robust, particularly where vehicles are taken home, outside the city boundary, on a regular basis.
12. A review of **mileage claims** highlighted the level of spend (2014/15) and provided a directorate analysis. The audit was undertaken partly as value for money exercise and partly as a probity audit and identified a number of compliance and control issues around claims and approval thereof. Given the control and compliance issues highlighted this is being progressed as a "normal" audit (Limited Assurance) and a draft report has been issued with an Action Plan to enhance controls. This will then be finalised and a follow up audit undertaken in the new financial year.



### **Reasons for Recommendations**

13. To provide Members with an update on ongoing work on Value for Money Studies.

### **Legal Implications**

14. There are no direct legal implications arising from this report.

### **Financial Implications**

15. There are no direct financial implications arising from this report.

### **Recommendations**

16. That the Committee note the report, and consider whether further communication to specific directorates is required.

**Derek King**  
**Audit & Risk Manager**

Appendix A – VFM Briefings

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**AUDIT COMMITTEE: 01 February 2016**

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**AUDIT MANAGEMENT ARRANGEMENTS**

**REPORT OF THE CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 8.3**

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**Reason for this Report**

1. The Audit Committee Terms of Reference sets out their responsibility for approving the Internal Audit Strategy comprising the risk based internal audit plan containing the internal audit resources. This report has considered that there is no impact on the approved Internal Audit Strategy.
2. This report has been prepared to provide the Audit Committee with the amended management arrangements that will be put in place for Internal Audit.

**Background**

3. In April 2011, the management arrangement in respect of the functions of Internal Audit, Pensions and Risk were job share as a result of flexible retirement of the two postholders. With the exit of one half of the job share arrangement in May 2015, temporary measures were put in place which enabled the role to continue at 0.5 FTE. flexible retirement.
4. The Pensions Team has over the last ten months reported directly to the S151 Officer whilst there was also a managed reduction of staff in relation to investigations and fraud as a result of the introduction of the Single Fraud Investigation service and the transfer of benefit fraud work and benefit fraud investigators to the Department for Work and Pensions.
5. The recent guidance from the Public Sector Internal Audit Standards board reaffirms the position that the Internal Audit role should be an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. With the Audit Manager role having responsibility for areas such as Pensions and Risk, the principle of objectivity needed particular consideration so that assurance could be taken that a balanced assessment could still be made of these activities.
6. With the appointment of the Head of Finance in September 2015, a review has been undertaken to consider the overall management structure for Finance which included consideration of the sustainable arrangements needed going forward for the Internal Audit function.

7. Specifically in respect to Pensions, the outcome of this review was the transfer of responsibility being permanently allocated to the Operational Manager for Revenues.

### **Issues**

8. The reducing role in Pensions and Fraud and Investigation indicated that there would be a need to assess the Grade of the role of the Audit, Pensions & Risk Operational Manager OM1.
9. In addition, the responsibility for overseeing risk management arrangements has lain with Internal Audit. Whilst, there have been clear lines of separation in order to avoid any conflict when reviewing those said arrangements the position has not been ideal. Therefore any review needs to consider the advantages of allocating the management arrangements for risk to a different area within the Resources Directorate. Those advantages would include a clear distinction between the championing of risk across the Council and performing the independent review.
10. Looking forward, the sustainability of a 0.5 FTE Internal Audit Manager also needed to be reviewed. This needed to be in conjunction with ensuring that there was appropriate management resource available to lead a team that focussed on delivering the Internal Audit function. This review identified the need for a full time manager which required formal evaluation as per the Council's senior management arrangements. The evaluation determined that the Internal Audit Manager post was at OM2.
11. This review provides the Council with a opportunity to reset the function of Internal Audit in order for it to be focussed on delivering an independent assessment of the Council's governance and control arrangements. The Internal Audit Manager will be the key link with Audit Committee going forward and a key member of the Finance Management Team.
12. The recruitment for the role has commenced and it is anticipated that the interview arrangements will be concluded in March 2016. In the event of the successful applicant not joining before 1 April 2016 then interim arrangements will be put in place that will involve the Head of Finance.

### **Reasons for Recommendations**

13. To inform the Audit Committee of the change in the management arrangements in respect of Internal Audit.

### **Legal Implications**

14. There are no direct legal implications arising from this report.

### **Financial Implications**

15. There are no direct financial implications arising from this report as all changes will be found from within currently allocated budgetary resources.

**Recommendations**

- 16. Audit Committee to note the content of the change in the management arrangements in respect Internal Audit.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**

**Date: 19.01.16**

Mae'r dudalen hon yn wag yn fwriadol



Topic	Wednesday 16.09.15 at 2pm (CR4)	Monday 30.11.15 at 2pm (CR4)	Monday 01.02.16 at 2pm (CR4)	Tuesday 22.03.16 at 2pm (CR4)	Wednesday 22.06.16 at 2pm (CR4)	September '16 (workshop)
Wales Audit Office	Corporate Assessment Update		Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Update	Corporate Assessment Update
	Annual Improvement Report (deferred from June)			Annual Financial Audit Outline (to include revised statement of responsibilities)	Annual Improvement Report	
	Audit of Financial Statement Report (ISA260)			Cardiff & Vale Pension Fund Audit Plan	Regulatory Prog. Update & Fee Information 2016-17	Audit of Financial Statement Report (ISA260)
	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies	Report progress updates and Value for Money studies
	The Financial Resilience of Councils in Wales					
	Certificate of Compliance					
Treasury Management	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report	Performance Report
	Annual Report	Half Year Report	Strategy 2016-17	Treasury Management Practices		Annual Report
Finance	Budget Update and Financial Resilience Update (if approp.)	Budget Update	Budget Update and Financial Resilience Update (as approp.)	Budget Update and Financial Resilience Update (as approp.)	Budget Update and Financial Resilience Update as approp.)	Budget Update and Financial Resilience Update (as approp.)
	Annual Report Statement of Accounts & Audit of Statements Report			Draft Statement of Accounts/AGS (report any changes in accounting policy)	Draft Statement of Accounts 2015-16 (including the AGS)	Annual Report Statement of Accounts & Audit of Statements Report
	Audit of the Financial Stat't Report – Cardiff & Vale of Glamorgan Pension Fund					Audit of the Financial Stat't Report – Cardiff & Vale of Glamorgan Pension Fund
Internal Audit		Half Yearly Progress Report	Progress Update	Progress Update	Progress Update	Progress Update
		Measuring Effectiveness of Internal Audit		Audit Strategy 2016-17	Internal Audit Annual Report 2015-16	
		Assurance Mapping	Internal Audit Management (C Salter)			
Governance and Risk Management	Organisational Development Plan Update (CS)		Audit Committee Annual Report Discussion	Audit Committee Draft Annual Report 2015-16	Audit Committee Annual Report 2015-16	
			Audit Committee Annual Self-Assessment Review 2014-15			Self-Assessment Workshop (pre Committee meeting exercise)
		Corporate Risk Register (Mid Year)			Corporate Risk Register (Year End)	
			AGS 2014-15 Action Plan (Mid-Year)	Draft Annual Governance Statement '15/16		
		Risk Appetite		Risk Appetite Exercise		
			Local Government Bill Consultation (M Rosenthal)			
Operational matters / Key risks	Bldg. Maintenance Disabled Facilities Services Contracts (Deferred to Nov. 15)	Bldg. Maintenance Disabled Facilities Services Contracts (Jane Thomas, Dylan Roberts)			Education – Briefing on Schools in Deficit	

Mae'r dudalen hon yn wag yn fwriadol

## Audit Committee – Action Plan

Item 10

(Updated following meeting held on 30<sup>th</sup> November 2015)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
<b>Finance (Budget)</b>			
AN4.1 23.03.15	Audit Committee to receive a report highlighting how the Committee can add value, on behalf of the Council, in setting the Budget.		CS
MN28 30.11.15	The position on Agency staffing be noted and any further data be submitted to Committee in due course. The Audit & Risk Manager verified that IA have recently completed an analysis of Agency Spend as part of the VFM reviews and will provide an update at its next meeting on the 1st February 2016; and	01.02.16	DJK
MN28 30.11.15	The details of the 2016/17 budget consultation events be circulated to the Committee for their information.		CS
<b>Governance &amp; Risk Management</b>			
AN6.3 22.06.15	Audit Committee requested a SMAS be completed for the half year and outcome reported back to Committee. <i>Reported under AGS 2014-15 action plan.</i>	01.02.16	DJK
AN6.5 22.06.15	<b>Procurement &amp; Contracting Sub Group</b> That relevant officers should attend the Audit Committee meeting in September to discuss Member concerns on the Building Maintenance Framework, and the progress of the action group in implementing the recommendations from the Constructing Excellence review. ( <i>Deferred to November meeting</i> )	30.11.15 Completed	Chair/CS/ DJK
MN29 30.11.15	<b>Corporate Risk Register</b> That the Corporate Risk Register is noted and that the Committee have regard to its content when considering its Work Programme.		Chair
MN31 30.11.15	<b>Constructing Excellence Wales on Bldg. Maintenance Framework and Action Plan</b> That Internal Audit follow up on the action plan and the work on the future framework arrangements on a 6 monthly basis and report as necessary to Audit Committee;		DJK
MN31 30.11.15	Communications with Members on the process and procedure be improved.		
<b>Items of Interest for Members</b>			
AN6.1 22.06.15	That a Value for Money audit be considered in respect of the way in which schools employ supply teachers.	01.02.16	DJK
<b>Wales Audit Office (WAO)</b>			
MN18 16.09.15	<b>Corporate Assessment Update (WAO Project Brief)</b> That the Committee consider this again at its meeting on 1 February 2016	01.02.16	WAO
MN18 16.09.15	That WAO consider the relative representation of independent and elected Member survey responses. <b>Page 153</b>		WAO

Minute No. /Agenda No.	Actions	Timeline	Action Owner
	The Committee be provided with further information / intelligence on how the fee of the WAO's work is formulated e.g. benchmarking / comparisons with other local authorities.	22.03.16	WAO
MN32 30.11.15	Internal Audit to arrange a short meeting between the Chair and WAO prior to Audit Committee on the 1 <sup>st</sup> February to discuss the Corporate Assessment – Follow On, and Internal Review Process.	01.02.16	DJK
<b>Treasury Management</b>			
<b>Internal Audit</b>			
AN8.2 19.01.15	<b>Value for Money</b> Committee requested a further briefing on Agency Spend to identify further potential savings. This report should also consider further savings in relation to stand-by allowances where spend was considered high.	01.02.16	DJK
MN09 22.06.15	<b>Assurance Mapping</b> Further information to be provided later in the year.	30.11.15 Completed	DJK
MN34 30.11.15	Audit Committee be notified at its next meeting of those audits that will not be completed / slippage in 2015/16 Audit Plan.	01.02.16	DJK
MN34 30.11.15	The Audit & Risk Manager to consider whether a random check of 'High/Satisfactory' school CRSA's should be undertaken.		DJK
MN37 30.11.15	<b>PSIAS</b> That the Committee approved the approach to be adopted for carrying out external assessments in compliance with Public Sector Internal Audit Standards (PSIAS).		Chair
<b>Outstanding Actions</b>			
AN10.2 22.06.15	<b>Education – Governance</b> The Director of Education to provide a further briefing on school balances.	22.06.16	NB
AN10.2 22.06.15	<b>Director Strategic Planning &amp; Highways – Response to Internal Audit Report</b> That the Committee receives a further progress report in six months.	22.03.16	DJK
<b>Work Programme</b>			
MN22 16.09.15	That the WAO reports expected for 2015-16 be added to the work programme.	When available	DJK