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AGENDA

Committee AUDIT COMMITTEE

Date and Time of Meeting TUESDAY, 17 NOVEMBER 2020, 2.00 PM

Venue REMOTE MEETING

Membership Hugh Thomas (Chairperson) Gavin McArthur and David Price
Ian Arundale (in a period of approved leave of absence)
Councillors Cunnah, Goodway, Howells, Lister, Simmons, Singh and
Williams

*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 5 - 6)

To approve as a correct record the minutes of the previous meeting.

4 Audit Committee Matters

2.10 pm

4.1 Ian Arundale - Leave of Absence Request (Pages 7 - 8)

4.2 Audit Committee Meeting Times (Pages 9 - 10)

5 Finance

2.20 pm

5.1 Financial Update including Resilience Issues

5.2 Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic: (Pages 11 - 52)

- Audit Wales Report
- Cardiff Council Management Response

This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg

- 5.3** Commercialisation in Local Government (*Pages 53 - 114*)
- Audit Wales Report
 - Cardiff Council Management Response
- 6** **Governance and Risk Management** 2.50 pm
- 6.1** Corporate Risk Management 2020/21 (Mid-Year update)
(*Pages 115 - 148*)
- COMFORT BREAK**
- 7** **Internal Audit** 3.15 pm
- 7.1** Audit and Investigation Team - Progress Update (*Pages 149 - 222*)
- 7.2** Draft Anti-Money Laundering Policy (*Pages 223 - 266*)
- 8** **Treasury Management** 3.35 pm
- 8.1** Performance Report (*Pages 267 - 272*)
- 8.2** Half Year Report (*Pages 273 - 300*)
- 9** **Outstanding Actions** (*Pages 301 - 302*) 3.55 pm
- 10** **Correspondence**
- 11** **Work Programme Update** (*Pages 303 - 304*)
- 12** **Urgent Items (if any)**
- 13** **Date of Next Meeting - 26 January 2021**

Davina Fiore

Director Governance & Legal Services

Date: Wednesday, 11 November 2020

Contact: Graham Porter, 02920 873401, g.porter@cardiff.gov.uk

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AUDIT COMMITTEE

20 OCTOBER 2020

Present: David Hugh Thomas(Chairperson)
Gavin MacArthur, David Price
Councillors Cunnah, Howells and Williams

41 : APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Lister and Simmons.

42 : DECLARATIONS OF INTEREST

None received.

43 : DRAFT AUDIT OF ACCOUNTS REPORTS (ISA 260) FOR FINANCIAL YEAR 2019/20

The Chairperson welcomed Ann-Marie Harkin – Audit Wales to introduce the report. Members were provided with an overview of the financial statements and were advised that this was an annual report that sets out the results of the years Audit.

It was stressed that Cardiff Council met the 15 June 2020 deadline which was a tremendous achievement in the pandemic and people having to quickly adjust to working from home.

Members' attention was drawn to key points such as the intended unqualified opinion; 1 uncorrected mis-statement and some corrected mis-statements (which were to be expected). Members' attention was also drawn to the Contingent Liability HMRC; Disclosure of Cardiff City Transport Services which happened late in the audit but auditors were happy with the proposed way forward and noted there may be a need for adjustment.

The Chairperson invited questions and comments;

Members referred to page 12 and asked if the additional narrative requested by Audit Wales had been agreed with Cardiff Council. Officers advised that it had and it had been clarified to enable user understanding; this would be provided to Audit Committee Members.

Members noted that Council was to consider an item on Cardiff City Transport Services this week and asked for more information on this. Officers advised that there has been a lot of work on viability and sustainability; it was a confidential report however there was a broad open cover report online and could be sent to Audit Committee Members if requested. Members asked if the financial risk had been quantified in the report to Council and Officers advised that it was all fully documented in the report.

Members referred to the first two items in exhibit 3 and non-current assets, noting that they both relate to activities on collaboration/partnership working. Members asked if the errors/mis-recordings in the draft accounts were an oversight or whether they reflected something more substantive in relation to the finance teams understanding of the issues. Members noted that previously, as a Committee they have stated they need more understanding of the partnership process and auditing them. Members were advised that in relation to the Central South Consortium, it was an oversight in the way things were recorded/classification and there was no change to the final figure. Work was underway on providing templates to partners so they know what is required. In relation to the City Deal, it was a misclassification of the asset that didn't change the outcome. In relation to non-current assets, Officers noted that where there is more collaboration, there are more people to request information from; a change in timescales from September to July could prove to be a risk in having less time to gather information, in the correct formats and could in fact mean more errors. A discussion took place around giving partners sufficient notice of requirements and having sufficient dialogue to tighten up this process going forward as the errors do not reflect well on the nature of partnership working. Officers agreed to take this on board in terms of process going forward.

RESOLVED: To provide to audit committee with the main narrative and numerical presentation adjustments throughout the account as highlighted by Audit Wales in Appendix 3 of the ISA 260 (Audit of Accounts Report 2019/20 – The County Council of the City and County of Cardiff)

The Chairperson invited Phil Pugh Audit Wales to introduce the Cardiff Harbour Report. Phil Pugh thanked all involved for their huge effort in such unique circumstances. Members were advised of the key points from the report including the Materiality Level, the threshold was £171k, which was vastly different to the £3.2million non-current assets. Members were also advised that due to the pandemic there had been no year-end Stock Check of Inventory, and as Audit Wales were unable to re-perform any balances they had no alternative but to have a qualified opinion. It was stressed however that this was not uncommon this year across many authorities.

The Chairperson invited questions and comments;

Members asked for further information on how Audit Wales had sought assurance on the balances, stating that they presumed there was an inventory system which would have recorded stock in/out. Members were advised that under the Auditing Standards procedure they were required to confirm the existence and condition of the inventory. As an alternative to attending the stock take, they could consider if there had been any instruction for a stock take to be undertaken; observe the performance of a stock take; look at the inspection of the inventory or perform test counts. However, there was no periodic ongoing stock checks that could be referred to; the council had said the levels had been kept the same. Members asked if this was a reasonable statement to make and were advised it was, Audit had looked over a period of years and there was no huge fluctuation in levels.

Members asked why there was no stock management system in place and if there was no stock movement, could it be overvalued in the balance sheet. Officers

advised that the area had been subject to internal audit with regards to the stock system so they were unable to comment further. They did however explain that the actual stock is made up of parts for the operation of the Barrage, such as screws and rollers. The view had been taken to keep the levels the same as last year rather than make a guess; the area has been asked to undertake a stock take by the end of November. There were no questions on this report

RESOLVED: Following the 19/20 year end stock check, Audit Committee to receive a briefing on the stock held by Cardiff Harbour Authority and the process for recording and verifying stock.

The Chairperson invited Phil Pugh Audit Wales to introduce the report on the Cardiff and Vale Pension Fund, which detailed the audit findings.

Members were advised that the fund stands at £20.3 million. There are still some reports outstanding from Investment Managers. Reference was made to Exhibit 1, and Members were advised that Audit Wales had received the accounts by 17 July which was within the revised timescale. Work started on the accounts in Mid-September. There was an unqualified opinion presumed once the letter of representation was received.

Members' attention was drawn to Exhibit 2 and the significant issue of the Pool Property Fund Valuation. External Fund Valuers have included modification of their opinion. This was consistent across all funds and it was not the intention to alter the opinion.

Appendix 3 showed there was only 1 corrected error which was nothing significant and there were no uncorrected mis-statements.

Phil Pugh wished to thank all involved for their help.

The Chairperson invited Phil Pugh to introduce the report on Cardiff Port Health Authority, in which he advised Members that this was an Independent Examination of the CPHA. The thresholds were much lower in terms of Income/Expenditure and therefore do not require a full audit. There were no amendments. Members' attention was drawn to the fact that the accounts needed to be signed as draft as this was omitted at the time; a retrospective corrective action had been taken. There were no questions on this report.

The Chairperson advised that a letter of representation was needed by Audit Wales by 26 October 2020.

The Chairperson wished to add his real appreciation to staff in getting all the work done and in the original time scales in such unusual circumstances.

Resolved to:

- I. Note the 2019/20 Audit of Accounts Reports (ISA 260) for the Statement of Accounts for Cardiff Council, Cardiff Harbour Authority, Cardiff and Vale of Glamorgan Pension Fund and the Audit Opinion for Cardiff Port Health Authority.
- II. Agree that the 2019/20 Audit of Accounts Reports (ISA 260) for the Statement of Accounts for Cardiff Council, Cardiff Harbour Authority, Cardiff and Vale of Glamorgan Pension Fund and the Audit Opinion for Cardiff Port Health Authority, be sent to Council for approval of the Statement of Accounts on 22 October 2020.

44 : URGENT ITEMS (IF ANY)

None received.

45 : CHAIRPERSONS ANNOUNCEMENT

The Chairperson also wished to put on record his thanks Councillor Rod McKerlich for all his work on the Audit Committee and wished him well in his role as Lord Mayor.

46 : DATE OF NEXT MEETING -17 NOVEMBER 2020

The meeting terminated at 2.45 pm

AUDIT COMMITTEE: 17 November 2020

**IAN ARUNDALE - LEAVE OF ABSENCE REQUEST
REPORT OF THE HEAD OF DEMOCRATIC SERVICES**

AGENDA ITEM: 4.1**Reason for this Report**

1. For the Audit Committee to consider a request from Ian Arundale, an Independent Lay Member of the Audit Committee, to extend his current leave of absence until the end of the municipal year 2020/21.
2. The report provides the Audit Committee with an opportunity to note the request and to consider recommending its approval to Council.

Background

3. In accordance with section 82 of the Local Government (Wales) Measure 2011, the Audit Committee is required to have at least one lay member, and at least two thirds of the Audit Committee are to be members of the authority.
4. The Audit Committee is comprised of eight Councillors (5 Labour, 2 Conservative and 1 Liberal Democrat) and four Independent Lay Members. At the time of reporting, there is one Labour Councillor vacancy, and one unoccupied Independent Lay Member position (in lieu of the current leave of absence) on the Committee.
5. Ian Arundale has served as a Member of the Audit Committee from 25 June 2014 and as Chairperson between 22 June 2015 – 28 November 2019. Council approved his reappointment to the Audit Committee for a second term for the period 25 June 2019 to 24 June 2024.
6. Council approved Ian Arundale's ongoing leave of absence of 'up to a year' on 28 November 2019, to enable him to take up the position of Deputy Chief Constable through a short-term contract with Cleveland Police. The request followed consideration by Audit Committee on 12 November 2019, and was recommended for approval.

Issues

7. Over recent weeks, Ian Arundale has discussed concerns with the Audit Committee Chairperson and the Audit Manager relating to his capacity to return to attend Audit Committee meetings from 26 January 2021, being the first Committee meeting to follow the end of the one-year leave of absence approval by Council.
8. On 1 November 2020, Ian Arundale submitted a formal written request to the Audit Manager for his current leave of absence to be extended to cover the remainder of the municipal year 2020/21. The request is included in paragraphs 9 to 11.

Leave of Absence Request

9. Following our recent conversation, I am writing to update you, and outline my current position, in relation to the leave of absence that I been granted as a member of the Audit Committee.
10. As you are aware, the current expectation was for me to recommence attendance at Audit Committee meetings from 26th January 2021. My contract with Cleveland Police is still extant and the work programme I have contacted to complete continues due to complications arising from the Covid pandemic and the additional challenges that have arisen. It is therefore no longer realistic that I can make the projected return date for these reasons.
11. I therefore request that consideration be given to extending my return date until the end of this municipal year by which time I anticipate being able to return as a committee member.

Request Process

12. Council determines the size and membership of the Audit Committee, and has the authority to approve a leave of absence request.
13. Prior to the Council decision, the Audit Committee has an opportunity to consider the request, and to determine if it will recommend the approval to Full Council on 26 November 2020.

Legal Implications

14. There are no legal implications other than those set out in paragraph 3 of this report.

Financial Implications

15. There are no direct financial implications arising from this report. However, for any period where there are fewer serving Co-opted Audit Committee Members there would be a reduction in the need for payments associated with the preparation and attendance of Committee Meetings, in accordance with the rates applicable through the Members' Schedule of Remuneration.

RECOMMENDATIONS

16. That the Audit Committee:
 - Notes the request for an extension of the leave of absence of Ian Arundale to the end of the municipal year 2020/21;
 - Considers recommending approval of the request to Full Council.

Gary Jones
Head of Democratic Services

BRIEFING NOTE – AUDIT COMMITTEE TIMING OF MEETINGS

1. The Local Government (Wales) 2011 Measure provides the opportunity for Committees to review the timings of their meetings to support the effective participation of its members at its meetings. The guidance indicates that:

Although many councillors are retired, others have difficulty in marrying their work commitments with those of their council duties, or, in other cases, did so at the expense of any meaningful personal time. For many councillors in full-time employment, the extent to which their employers are supportive of their new commitment is a vital concern. Although employment legislation entitles councillors to time off for public duties, operating that in practice may be more difficult. The timing and frequency of meetings is the most problematic issue in this respect. Other duties may be fulfilled at times which suit the individual but a meeting is at a set time and (subject to any arrangements made for remote attendance) at a set venue.

It is neither practical nor desirable for the Council to prescribe the times and frequency of meetings of committees and sub-committees as these are matters for each Committee to consider.

However, it is important that committees do not simply continue to hold their meetings at the same time as they always have done simply out of inertia. What may have been tradition or an arrangement which suited the previous councillors and committee members will not necessarily serve the interests of the other members

2. The legislation enables Committees to review the times at which meetings are held. The rule of thumb should be that meetings will be held at times, intervals and locations which are convenient to its members and as far as is practicable have regard to equality and diversity issues.
3. It should be acknowledged that this could result in long-serving members having to make changes to their pattern of working which would be worth doing if it meant that the committee was better able to support its members with outside responsibilities.
4. Issues to be taken into account in during this discussion could include: whether:
 - daytime or evening meetings are preferred.
 - particular times cause difficulties for Councillors/Members with particular characteristics, such as age, gender, religion, having caring responsibilities or being in employment.
 - there may be advantages to rotating meeting times due to an impossibility of pleasing all their members all of the time.

Audit Committee members are requested to share their views on the timings of the committee meetings and to determine the most suitable time for future meetings of the Committee to be held.

GP Jones
Head of Democratic Services
09 November 2020

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**CARDIFF COUNCIL
CYNGOR CAERDYDD****AUDIT COMMITTEE: 17 November 2020**

FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT AS A RESULT OF THE COVID-19 PANDEMIC**REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 5.2**

Reason for this Report

1. The Audit Committee's Terms of Reference requires that Members:
 - To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
 - To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
2. This report will outline to Audit Committee members the management response

Background

3. In October 2020, the Auditor General of Wales issued a report on its findings on Financial Sustainability of Local Government as a result of the Covid 19 pandemic (Appendix A). This national review built on financial sustainability of each local council during 2019-20, and these reports showed that councils were in very different positions in terms of their level of reserves and track record of spending within their agreed budgets. The individual report for Cardiff is set out in Appendix B.
4. The report is the beginning of Audit Wales work on financial sustainability of local councils during 2020-21, building on the work completed in 2019-20. The report sets a high-level baseline position, including the reserves position, of local councils before the pandemic. It also sets out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward, as well as some reflections on the preparedness of local government in Wales for such an unprecedented event.

Issues

5. The findings in both the Cardiff and the national report are set out in Appendix C. The findings are broadly agreed and the Management response sets out the positions for Cardiff Council

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

8. That the Committee notes and provide comment on the report and accompanying appendices

Christopher Lee
Corporate Director Resources

The following appendices are attached:

Appendix A Financial Sustainability of Local Government as a result of the Covid 19 pandemic

Appendix B Financial Sustainability Assessment – Cardiff Council

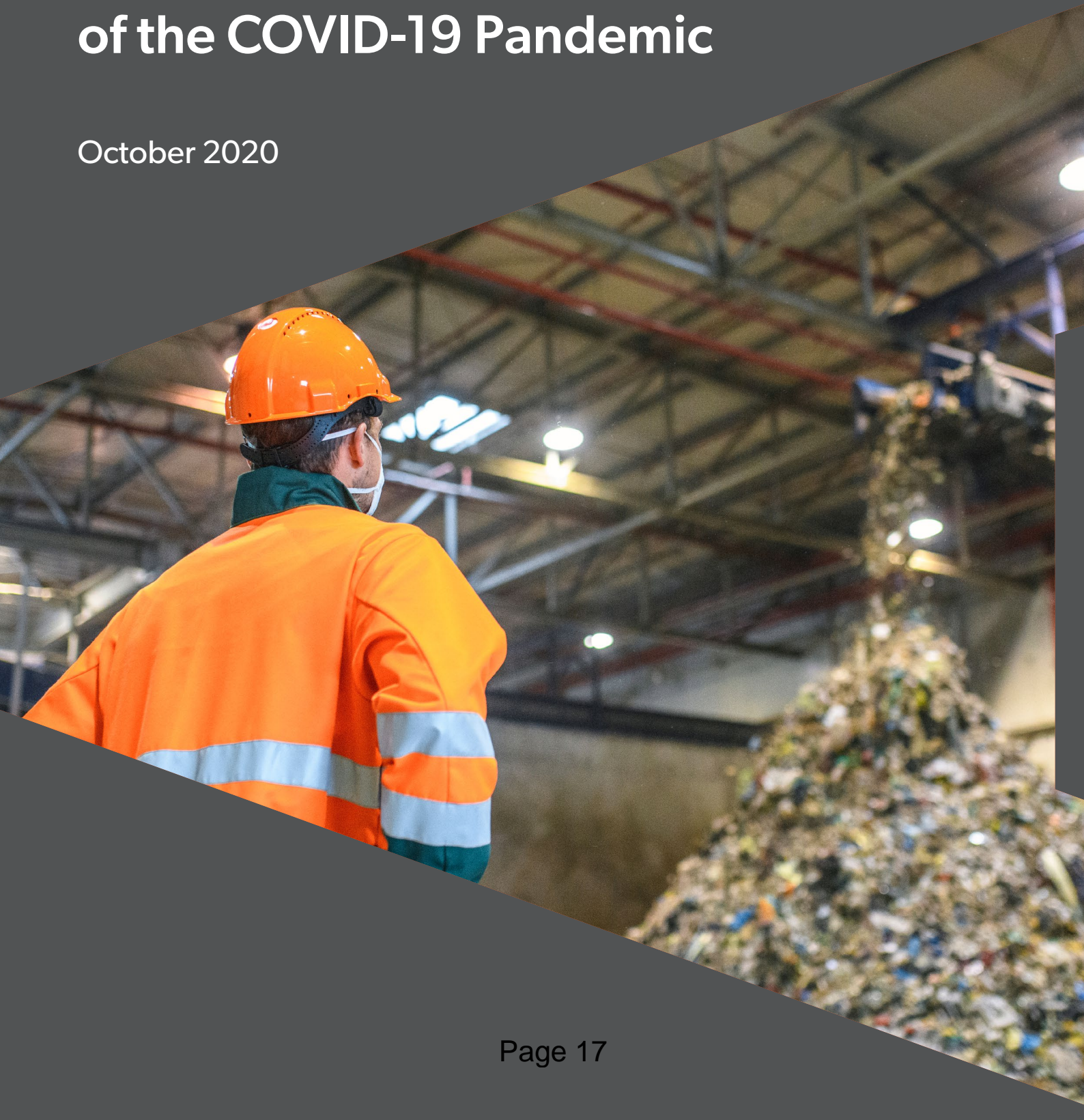
Appendix C Management response

Appendix D Financial snapshot

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Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic

October 2020



Adrian Crompton
Auditor General for Wales
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Summary report

Summary

Why we have produced this report

- 1 We had already identified financial sustainability as a key risk to councils' arrangements before the pandemic occurred. This was, in part, due to the significant pressures on UK and, therefore, Welsh public finances following the financial crisis of 2008-09. We produced a report on the financial sustainability of each local council during 2019-20, and these reports showed that councils were in very different positions in terms of their level of reserves and track record of spending within their agreed budgets.
- 2 Against this backdrop the pandemic has already had an even more profound and immediate effect on public sector finances as a whole and, as a consequence, on councils' financial position. The impact on public sector spending over such a short period of time is unprecedented in modern peace time.
- 3 This report is the beginning of our work looking at the financial sustainability of local councils during 2020-21, building on the work we completed in 2019-20. The report sets a high-level baseline position, including the reserves position, of local councils before the pandemic. It also sets out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward, as well as some reflections on the preparedness of local government in Wales for such an unprecedented event. Finally, we set out how Audit Wales intends to provide support and constructive challenge to councils and the local government sector, as a whole, over the remainder of 2020-21, in their efforts to maintain financial sustainability against such significant funding pressures.

Detailed report

Councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date but the future sustainability of the sector is an ongoing challenge

Against a backdrop of existing funding pressures, the financial costs of the pandemic are unprecedented in modern times

- 4 Local government funding in Wales has been under significant pressure for over a decade, following the financial crisis in 2008-09 that triggered a severe worldwide recession.
- 5 In response to this, councils have relied on a combination of significant savings for example through efficiencies, transforming services and cuts to services to reduce costs. Councils have also increased their income through council tax and the fees and charges applied to some services. Our previous reports on the financial sustainability and resilience of local councils, including our work on savings planning in local government, includes more detail on this. These reports are [available on the Audit Wales website](#).
- 6 Against this backdrop, the cost to public spending of tackling the pandemic will seemingly dwarf the cost of the financial crisis, affecting health and wellbeing, the wider economy and public spending. Below are just some of the predictions that the Office for Budget Responsibility has made recently (July 2020):
 - net UK public sector borrowing to be between £264 billion and £391 billion for 2020-21;
 - UK GDP will shrink by between 10.6% and 14.3%; and
 - borrowing to fund public spending will rise to between 94.8% and 113.2% of GDP over 2020-21.

- 7 It is highly unlikely that the financial impact of the pandemic will be limited to the current financial year. It will almost certainly affect public sector finances including local government, for many years to come regardless of the future path of the pandemic. In an [earlier blog](#) in June 2020, we set out how £2.5 billion additional funding has been allocated to, and within, Wales in response to COVID-19. This illustrates the scale of the financial response to date. As with many things associated with the pandemic, things continue to change rapidly with further funding announcements from both the UK and Welsh Governments. ‘The Local Government Hardship Fund’ now makes available nearly £500 million in support including an announcement from the Welsh Government of up to £264 million in financial support for local authorities for the remainder of the financial year on 17 August 2020. Other funding available has also been made available for local authorities in addition to the hardship fund, for example in relation to extra funding for teachers for catch up support from education, cleaning materials for schools and part of the cultural fund.

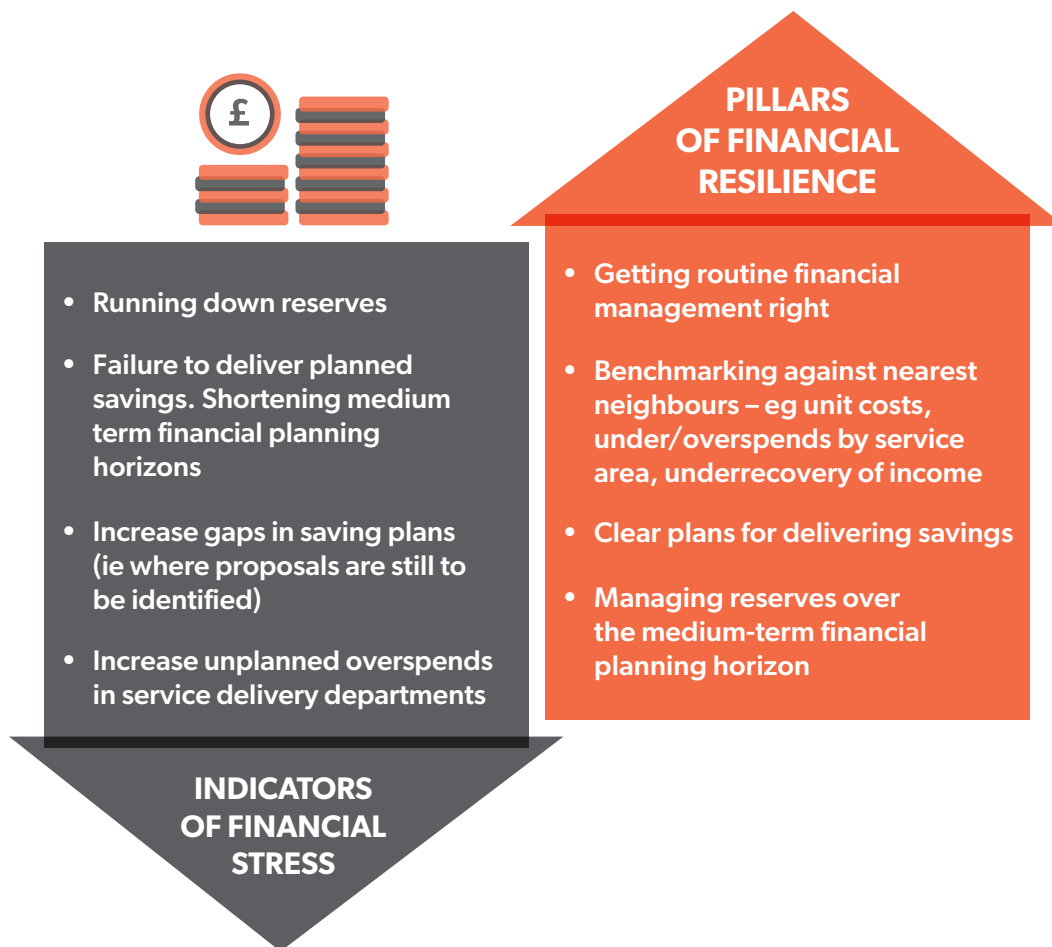
Some councils were better placed financially than others to respond to the challenges of the pandemic

- 8 Over 2019-20 we looked at the financial sustainability of councils in Wales and produced a report on each council. Publication of some of these reports was delayed by the pandemic but most are [now available on our website](#).
- 9 The reports show that some councils were much better placed than others to weather a financial challenge such as the pandemic. This is most clearly illustrated by the varying levels of usable revenue reserves held by councils, their track record of spending within their agreed budgets in recent years and, linked to this, the extent to which their usable revenue reserves have been increasing or decreasing in recent years. We also think that the ability of councils to identify, plan and deliver savings is a key indicator of financial sustainability.
- 10 The report [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#) by Sir Tony Redmond noted that:
- ‘This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely.’¹
- 11 The report also summarises CIPFA’s pillars of financial resilience and indicators of financial stress². These are presented in **Exhibit 1** below and include several areas that we commented on in our work in 2019-20.

1 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond, September 2020

2 building financial resilience: managing financial risks in local authorities, CIPFA, June 2017

Exhibit 1: CIPFA Pillars of Financial Resilience³



- 12 **Exhibit 2** shows the level of usable revenue reserves held by each council at 31 March 2019 and then at 31 March 2020, together with the amount by which they increased or decreased over that time. **Exhibit 2** shows that, in total, councils held over £1 billion usable reserves at the end of March 2020. We commented above that for 2020-21 additional funding from the Welsh Government has largely mitigated the financial impact of the pandemic on local councils. However should the impact of the pandemic continue into future years, it may be the case that councils will need to increasingly use their reserves to meet additional costs or supplement income losses.
- 13 We would expect differences in the level of reserves held by each council with, for example, those councils with larger net cost of services are likely to hold higher levels of reserves. **Exhibit 3** shows the amount of reserves held by each council as a percentage of their net cost of services. This varies considerably between councils, with the usable reserves as a percentage of the net cost of services varying from 33% to 5%.

3 Taken from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redburn, September 2020

- 14 However, the level of usable reserves should be treated with some caution. Whilst we have defined this as the level of revenue reserves including ‘earmarked’ reserves and ‘general fund’ reserves that could be re-purposed should the council decide to do so, we recognise in practise that some reserves would be easier to re-purpose than others, depending on what they have been earmarked for.
- 15 There are clearly a range of factors that could affect a council’s financial sustainability as we noted above. These also include but are not limited to its balance sheet, level of liabilities and also other funding that it has available that could be re-directed such as contingency funds that are not part of reserves. Nevertheless, clearly a council with significantly higher levels of revenue reserves relative to its net cost of services that have been increasing in recent years, indicates that its financial position is more sustainable than a council with lower reserves that have been reducing over several years. Particularly where reserves have been used to fund unforeseen revenue expenditure.
- 16 The table below sets out the level of usable revenue reserves held by each local council at the end of 2018-19 and 2019-20. By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose.

What we mean by ‘usable reserves’

Reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves and schools balances. It excludes the HRA, Capital receipts and capital grants unapplied.



Exhibit 2: amount of usable reserves by local authority 2018-19 and 2019-20

	Net cost of services 2019-20 in £000⁴	Usable revenue reserves at 31 March 2019 in £000⁵	Usable revenue reserves at 31 March 2020 in £000⁶	Increase/ (decrease) in usable revenue reserves between 2019 and 2020 in £000⁷
Blaenau Gwent	£148,762	£12,725	£14,056	£1,331
Bridgend	£289,242	£56,883	£64,562	£7,679
Caerphilly	£370,910	£90,896	£100,547	£9,651
Cardiff	£712,111	£67,969	£69,149	£1,180
Carmarthenshire	£373,888	£93,898	£100,837	£6,939
Ceredigion	£155,817	£24,192	£27,688	£3,496
Conwy	£237,279	£14,114	£11,005	(£3,109)
Denbighshire	£207,366	£38,047	£36,434	(£1,613)
Flintshire	£315,765	£27,334	£24,318	(£3,016)
Gwynedd	£250,149	£64,885	£71,090	£6,205
Isle of Anglesey	£143,705	£15,271	£16,017	£746
Merthyr Tydfil	£118,608	£16,743	£15,875	(£868)
Monmouthshire	£177,834	£13,741	£15,246	£1,505
Neath Port Talbot	£306,961	£61,394	£59,093	(£2,301)
Newport	£313,904	£94,742	£78,806	(£15,936)
Pembrokeshire	£240,375	£46,435	£45,746	(£689)
Powys	£276,153	£26,758	£28,584	£1,826
Rhondda Cynon Taf	£529,390	£119,470	£119,873	£403
Swansea	£444,555	£77,022	£93,752	£16,730
Torfaen	£186,602	£18,690	£16,738	(£1,952)
Vale of Glamorgan	£248,602	£81,161	£83,008	£1,847
Wrexham	£257,842	£28,944	£26,205	(£2,739)
Total	£6,305,820	£1,091,314	£1,118,629	£27,315

4 Draft statement of accounts for 2019-20 subject to audit. Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest

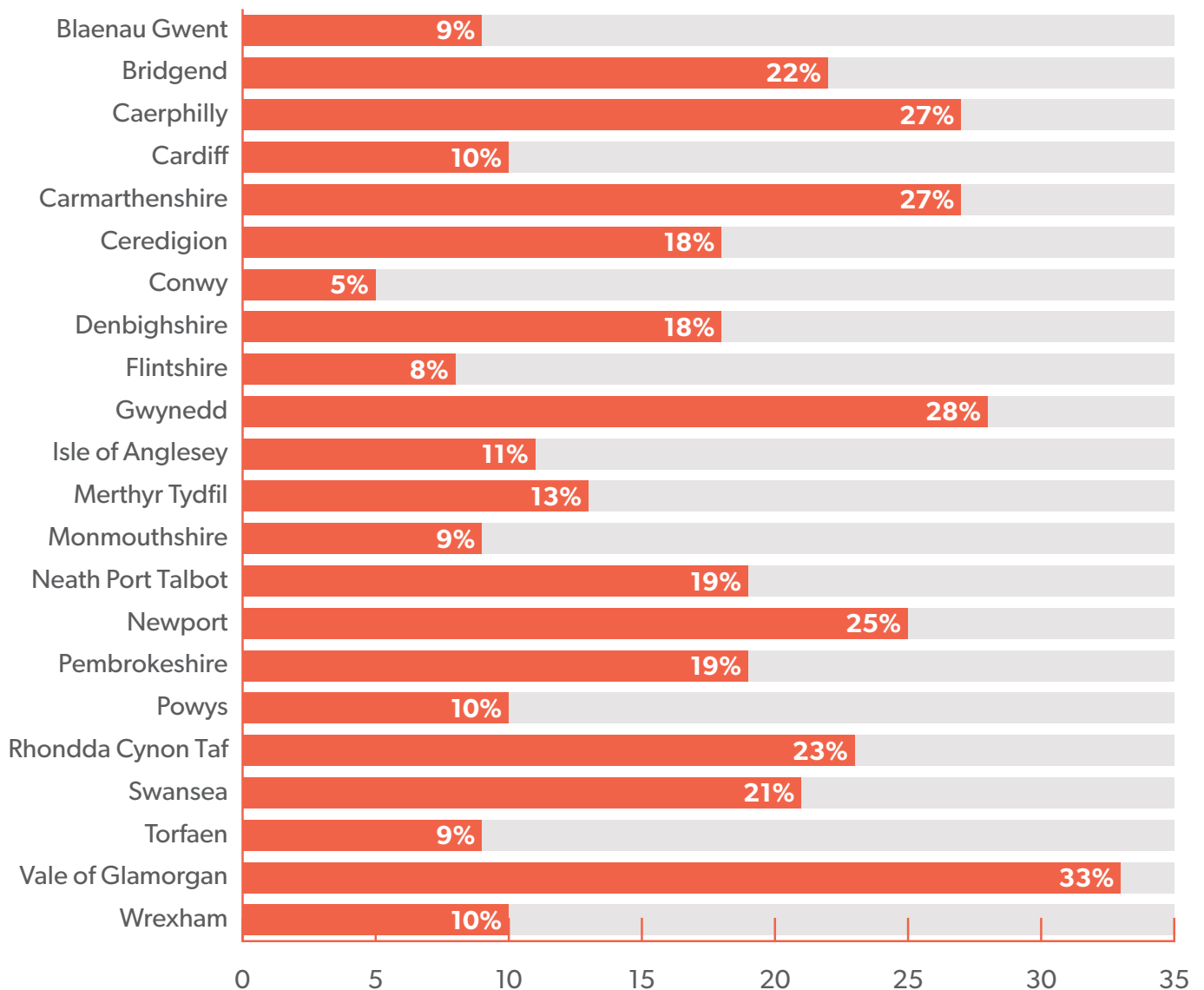
5 Audited Statement of Accounts for 2018-19

6 Draft Statement of Accounts for 2019-20 subject to audit

7 Audit Wales calculations

17 The exhibit below sets out the level of usable revenue reserves held by each local council at the end of 2019-20 as a proportion of the net cost of services of each council.

Exhibit 3: amount of usable reserves as a proportion of the net cost of services of each council



■ Usable revenue reserves as a % of net cost of services⁸

- 18 As shown above, at the end of the 2019-20 financial year councils held over £1 billion in usable revenue reserves, which equates to 18% of the total net cost of service across all councils. However, this is not evenly spread across councils, and it is also clear that some councils hold significantly more reserves than others relative to their approximate net cost of services. Although this is a relatively simplistic analysis, the level of usable reserves available to a council is one of the key indicators of financial resilience and sustainability.
- 19 From the work we undertook during 2019-20, that largely focused on the position at the end of the 2018-19 financial year, we identified some of the following themes that pre-date the pandemic but may well impact on the ability of councils to respond to it. These include:
- most councils reported either relatively small underspends or overspends overall in 2018-19 and it was a similar picture for 2017-18.
 - some councils relied on the unplanned use of reserves to balance their budgets during 2018-19. This approach is unlikely to be sustainable, particularly in those councils whose levels of usable reserves were already relatively low.
 - some councils relied on planned use of reserves as part of budget setting. Whilst this may have been planned at the start of the financial year, nevertheless, consistently using reserves, even in a planned way, to balance revenue expenditure is unlikely to be sustainable if this contributes to declining levels of reserves.
 - most councils, including those who delivered an overall surplus, still had some significant overspends in some demand-led services, with services such as social services being an area of overspend in many councils. Pressure on many demand-led services is likely to intensify as a result of the pandemic.
 - most councils delivered most of their savings, but very few delivered all of their planned savings in 2018-19.

The cost of the pandemic to councils is significant, although a large proportion of the short-term impact has been mitigated through the provision of extra funding

- 20 The costs to councils in responding to the pandemic have been unprecedented both in their scale and the speed with which they have arisen. Additional funding has been made available to councils to mitigate these costs, however, the extent to which this will fully fund the cost of dealing with the pandemic, particularly over the medium to long term, is unknown. This is partly inevitable due to the rapidly developing picture in terms of the progress of the pandemic, as well as its economic impact. This picture will also change considerably depending on whether or not there are future waves of the pandemic, and how many and how severe they might be.
- 21 The pandemic has affected local government finances both in terms of increased costs and loss of income. **Exhibit 4** shows the estimated additional net expenditure and income loss that councils have estimated as a result of the pandemic for the first six months of the 2020-21 financial year for quarter 1 and quarter 2.
- 22 The biggest areas of increased cost pressures so far are in social services and education.
- 23 Councils receive income from a range of services including leisure facilities, car parking, school meals and school transport. The largest estimated income losses are in leisure and cultural services.
- 24 It is also clear that the financial impact of the pandemic is likely to continue throughout 2020-21 and into future years.
- 25 **Exhibit 4** sets out the total amount of additional expenditure and income loss that local authorities have estimated as a result of the COVID-19 pandemic, based on submission from local authorities to the Welsh Local Government Association (WLGA).

Exhibit 4: total estimated additional net expenditure and income loss across the 22 unitary authorities in Wales as a result of the COVID-19 pandemic

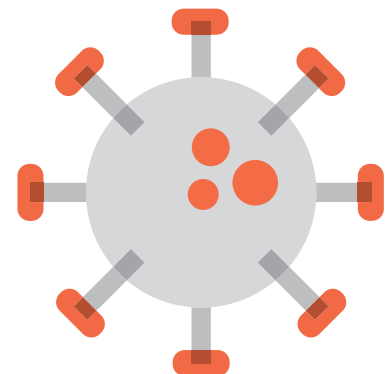
	Estimated additional net revenue expenditure	Estimated revenue income loss as a result of COVID-19
Quarter 1 (Apr-Jun)	£84.2 million	£100.1 million
Quarter 2 (Jul-Sept)	£81.3 million	£59.7 million

Source: WLGA

- 26 Public services have been significantly impacted by the pandemic and, in this context, mitigating the impact on councils will not only depend on the actions that they are able to take, but also to a large degree on the amount of resources allocated by governments. We recognise that a key issue for councils in trying to financially plan over the medium term remains uncertainty around both the level of funding they will receive from government, and their own income streams, such as council tax and fees and charges. Added to this is the uncertainty around the potential future costs associated with the pandemic. We note above that Welsh Government made nearly £500 million available for councils through the Local Government Hardship Fund as well as other additional funding.
- 27 This has mitigated local councils additional costs and income losses to date, but depending on the future course of the pandemic, there may still be a significant funding shortfall for local authorities during 2020-21. Welsh Government has also accelerated access to the Revenue Support Grant and other funding streams early in the financial year to help councils' cashflow. Welsh Government also announced in August 2020 an extra £2.8 million for councils to help fund the increase in demand on the Welsh Government's Council Tax Reduction Scheme (CTRS) since the start of the pandemic. There is clearly uncertainty surrounding the future course of the pandemic and therefore the costs and income loss associated with it. This poses a considerable challenge to both local and national governments in supporting the sustainability of the local government sector. We recognise the many uncertainties around the course of the pandemic and the future funding that will be available to councils. This makes it more difficult for councils, and governments, to plan over the medium term. However to ensure the future sustainability of councils, robust medium term financial planning is crucial.
- 28 Our local work on financial sustainability will continue to examine the extent to which councils face a budget shortfall for this and future years, and their plans to mitigate this in the context of future Welsh Government funding.

The financial challenges arising from the pandemic are numerous and go well beyond the more immediate and obvious costs of responding to the crisis

- 29 The pandemic is likely to affect almost every aspect of local government services, and therefore finances. The income loss and additional expenditure costs noted above are a significant element of this. But even as services re-open in the short to medium term, there will be added costs around the provision of personal protective equipment for staff and for other safety measures. For example, as schools re-open in September, there are likely to be costs associated with the re-introduction of school transport.
- 30 At the same time, it is likely that income streams such as from leisure centres and car parks will continue to be affected, due to safety requirements and/or potentially less demand for services. The economic impact of the pandemic is also likely to have wider repercussions for people's ability to pay for services, particularly those that they may view as 'non-essential'. This could also lead to an increase in eligibility for concessionary pricing schemes, which might also affect the level of income that councils are able to draw in.
- 31 As the economic impact of the pandemic deepens, it is also likely that income from council tax will fall, as well as housing revenue for those councils that still hold their own housing stock.
- 32 The sustainability of some services may be under threat with particular pressures likely to be felt in areas such as leisure services and the social care sector. The WLGA has also identified significant cost pressures in some service areas, most notably social services and education. By 2022-23 it estimates that the combined costs pressures in these services alone will equate to approximately £600 million.
- 33 Given the breadth, and depth, of the impact of the pandemic to date, alongside the uncertainty surrounding its future course, local authorities are likely to face difficult choices over the short and medium term. In this context, good strategic financial planning and robust governance and decision-making arrangements become even more important.



Audit Wales future work – supporting financial sustainability and recovering planning

- 34 Over 2020-21, in keeping with our commitment to support public bodies' response to the pandemic, we will work with councils to gain assurance that they are putting in place proper arrangements to secure financial sustainability. In doing so, we will seek to gather and share real-time learning and practice across the public sector. The focus of our financial sustainability work over 2020-21 will be on the issues identified above and how councils are planning for a sustainable recovery over the medium and long term. This work will also run alongside our support and challenge of recovery planning and the work we are undertaking through our 'COVID-19 learning project'. We will shortly be engaging with councils to discuss the next phase of our financial sustainability work in more detail.



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Financial Sustainability Assessment – **Cardiff Council**

Audit year: 2019-20

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Phil Pugh, Sara-Jane Byrne and Jon Martin under the direction of Huw Rees.

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Currently, we have no major concerns about the Council's financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning.

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Summary 4

Detailed report

Currently, we have no major concerns about the Council's financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning 7

The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium term financial plan 7

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Summary report

Summary

What we reviewed and why

- 1 The project sought to assess the sustainability of councils' short to medium-term financial position.
- 2 This included a focus on the financial strategy of each council as well as reviewing financial 'indicators' of each council's financial position in relation to:
 - Performance against budget
 - Delivery of savings plans
 - Use of reserves
 - Council tax
 - Borrowing

Exhibit 1: about the Council [sources: 2018-19 statement of accounts and 2019-20 budget]

This exhibit sets out some background information on the Council's net revenue budget, the number of staff it employs and the value of its fixed assets



The Council's net revenue budget for 2019-20 was £623.589m



The Council employs around 11,994 people (5344 FTEs and 6600 school-based employees)

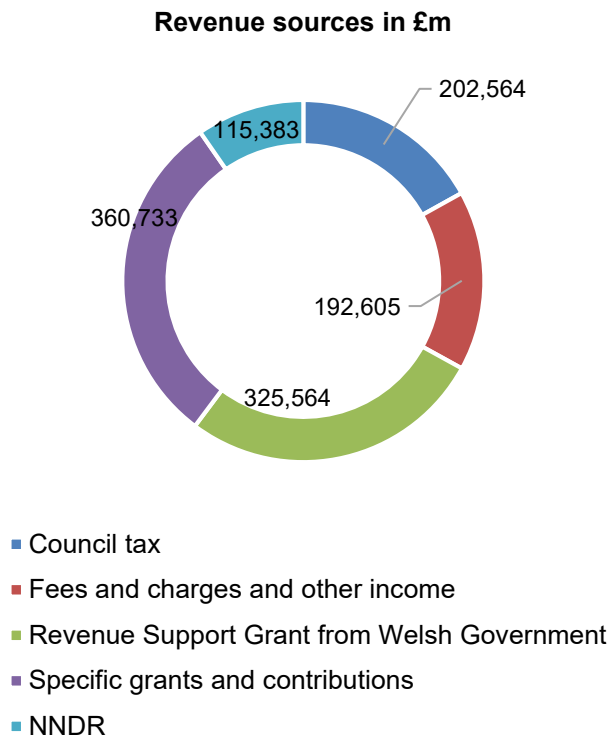


The Council's Plant, Property & Equipment and Investment Property assets as at 31 March 2019 were £1,867m

- 3 We undertook this assessment because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services.

Exhibit 2: the Council's sources of revenue – source – Council's financial sustainability self-assessment

The pie chart below shows how much money the Council received from different funding sources during 2018-19



4 We undertook the review during the period July to December 2019.

What we found

5 Overall, we found that: Currently, we have no major concerns about the Council's financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning.

6 We reached this conclusion because:

- The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium-term financial plan.
- Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas

- The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to deliver them in the future and the Council needs to strengthen its savings planning process.
- The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time.
- Council tax collection rates have generally improved over the past few years.
- The Council's capital city status and major capital programme mean that it has a relatively high level of borrowing.

Detailed report

Currently, we have no major concerns about the Council's financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning

The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium-term financial plan

Why strategic financial planning is important

- 7 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify how it intends to respond to those pressures, and particularly how they will meet projected funding gaps.

What we found

- 8 The Council has a medium term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium term financial plan.

We reached this conclusion because:

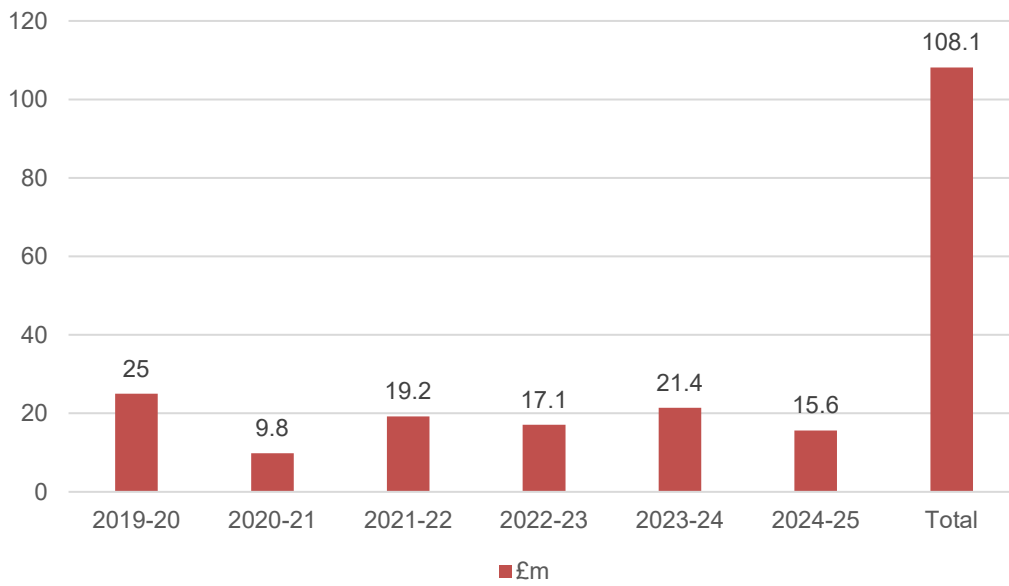
- 9
 - the Council has already made £220 million savings over the past 10 years and has reduced its non-school staff by about 20%.
 - the Council's medium-term financial plan 2020-21 – 2023-24 agreed in July 2019 was based on reasonable assumptions. It identified a budget gap of £101m.
 - the Welsh Government's provisional settlement issued in December 2019, indicated that for 2020-21, the Council is likely to receive an increase of 4.1% as opposed to the 0.5% reduction anticipated in the medium term financial plan. After an assumed Council tax increase of 4.5% in 2020-21 therefore, the Council needs to find £9.8 million savings rather than the £18.5 million forecast in July 2019. In February 2020, the Council updated its

medium term financial plan for 2021-22 and beyond to reflect this more positive settlement.

- as the Council's reports to Cabinet on 19 December 2019 and 20 February 2020 recommend, whilst this is a more positive position, the Council must use the opportunity to strengthen its financial resilience and build a robust position from which to move forward recognising the medium and longer term challenges.
- the Council intends to meet its budget gap over the period of the MTFP through a combination of:
 - efficiency savings;
 - service change/transformation;
 - increases to fees and charges/income opportunities; and
 - increases in Council tax
- the Council's focus is mainly on addressing the annual budget gap for the immediate financial year but it needs to determine how it will address the budget gap over the medium to longer term.
- in addressing the funding gap identified in the MTFP, the Council aims to maintain the delivery of its services where possible but recognises that this will become increasingly difficult.
- the Council recognises a need to make significant efficiency savings over the medium-term but intends to make the majority of these savings from services other than education and social services. The Council is considering reducing the level of savings it will seek from the education and social services departments in future years due to funding pressures and difficulties in meeting previous savings targets. As these services account for two thirds of the Council's budget, it will be increasingly challenging to find the equivalent savings from other areas without making significant changes to the way the services are delivered.
- the Council has implemented a range of alternative delivery mechanisms and continues to explore options to address its budget gap. For example, it has outsourced eight leisure centres and it is transferring the running of the New Theatre to a partner provider.
- the extent to which the Council's transformation programme will contribute to achieving the required savings required remains unclear.
- the Council does not have a corporate strategy for income generation despite us raising this as a proposal for improvement in our Savings Planning report issued to the Council in March 2017. There is no consistent approach to fees and charges. For example, charges for some services have remained at the same level for a number of years.
- the Council has included a contingent liability for landfill tax in its financial statements since 2017-18. This remains an ongoing matter with HMRC and the extent of any potential liability is as yet unknown. We will continue to monitor the position.

Exhibit 4: projected funding gap [sources – Budget report 2019-20, Budget report 2020-21 February 2020 and Council's medium term financial plan 2021-22 – 2024-25, February 2020]

The following graph shows the funding gap that the Council has identified for this year, and the following five years as identified in its medium term financial plan agreed in February 2020.



Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas

Why accurately forecasting expenditure is important

10 It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.

What we found

11 Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas. We reached this conclusion because:

- overall the Council delivered a balanced outturn position. However, there has been a trend of overspending in some key services: social services, education and waste.
- the Council is continuing to take action to address and understand these overspends, such as re-basing its social services budgets.

Exhibit 5: amount of overspend/underspend relative to total net revenue budget [sources – Council’s financial sustainability self-assessment, annual outturn reports and month 6 report 2019]

The following exhibit shows the amount of overspend or underspend for the council’s overall net revenue budget for the last two years and the year to date as at month 6 September 2019.

	Original Budget net revenue budget	Actual Outturn net revenue budget	Amount of overall surplus/overspend	Percentage difference from net revenue budget
2017-18	£586,984m	£586,984m	0	0%
2018-19	£608,913m	£608,913m	0	0%
2019-20	£623,589m	£623,803m	£214,000 overspend	0.03% overspend

The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to deliver them in the future and the Council needs to strengthen its savings planning process

Why the ability to identify and deliver savings plans is important

- 12 The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures. Where savings plans are not delivered this can result in overspends that require the use of limited reserves whilst increasing the level of savings required in future years to compensate for this. Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.

What we found

- 13 The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to meet them in the future and the Council needs to strengthen its savings planning process. We reached this conclusion because:
- the Council has a track record of meeting the majority of its overall savings but is predicting that it will not deliver £6.200 million of savings out of a total of £19.157 million in 2019-20.
 - Underachievement of savings is a common theme within most directorates. The fact the Council has managed in recent years to balance its outturn position overall is as a result of several factors. For example, this includes achieving additional savings elsewhere or from underspends in other services. This approach is unlikely to be sustainable.
 - Robustness of savings plans remains an issue despite us raising related proposals for improvement in our previous financial resilience reports. For 2019-20, for example, about £3.5 million of savings were still at the planning stage at the time the annual budget was agreed. The Council is now addressing this by ensuring that from 2020-21 onwards, no savings are included in the budget unless they are supported by detailed savings plans, which have been subject to scrutiny and challenge.
 - The Council does not undertake an annual lessons learnt exercise highlighting the key reasons why savings plan have not been achieved in order to learn lessons and inform future plans.

Exhibit 6: savings delivered during 2018-19 as a percentage of planned savings [source – Council’s financial sustainability self-assessment]

The following exhibit sets how much money the Council intended to save through planned savings during 2018-19 and how much of this it actually saved.

£14,296m £10,207m £4,089m 71.4%

Total planned savings	Planned savings delivered	Planned savings not delivered	Percentage savings achieved
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The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time

Why sustainable management of reserves is important

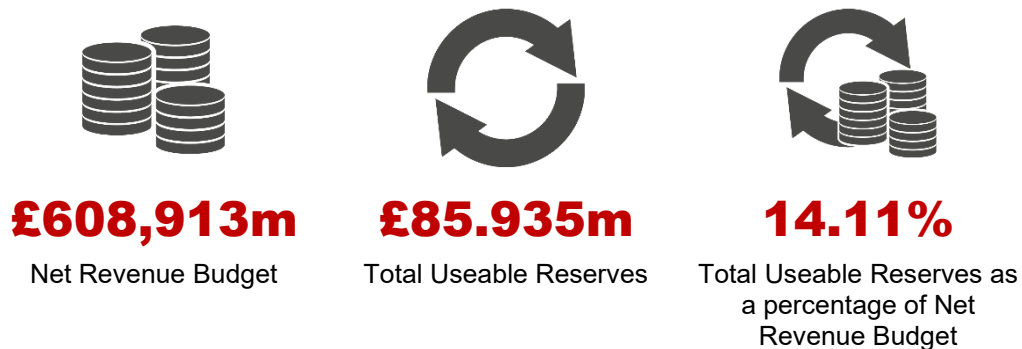
14 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the on-going cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

What we found

- 15 The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time. We reached this conclusion because:
- the Council’s level of useable reserves (which includes earmarked reserves) has increased throughout the period 2014-15 (£57.579 million) to 2018-19 (£85.935 million).
 - the Council’s general fund reserves has remained static at about £14.25 million since 31 March 2017.
 - the Council has adopted a relatively prudent approach to managing its reserves. It has a number of contingency budgets and strategic earmarked reserves, such as the Strategic Budget Reserve, Financial Resilience Mechanism, General Contingency budget and looked after children reserve. These provide the Council with options to respond to budget pressures.
 - the Council has used its reserves in a planned way to help it balance its budget and intends to use £5.75 million of its Strategic Budget Reserve to support the budget over the period.

Exhibit 7: amount of reserves vs annual budget, 2018-19 [Source: Balance sheet as at 31 March 2019 insert source]

This exhibit shows the amount of usable reserves the Council had during 2018-19 compared with its net revenue budget for the same year.



Council tax collection rates have generally improved over the past few years

Why council tax collection rates are important

16 Failure to collect the amount of council tax due to the Council will result in less income. This in turn may increase the financial pressures on the Council and require it to make additional savings. Whilst council tax is not the biggest source of funding for councils in Wales, it remains a key income source.

What we found

- 17 Council tax collection rates have generally improved over the past few years. We reached this conclusion because:
- Council tax accounts as a proportion of the Council's funding annually has increased over time – from 14.7 % in 2017-18 to 16% in 2019-20.
 - Council tax collection rates have been between 97% and 97.7% over the past five years, having increased from 94.5% in 2010-11.

Exhibit 8: council tax collection rates [source: StatsWales]

This exhibit shows the percentage of council tax due that the Council collected during 2018-19



Cash collected from Council Tax at 31 March 2019 was **£168.455m** ([97.4%]) against a collectable debit of **£172.908m**

The Council's capital city status and major capital programme mean that it has a relatively high level of borrowing

Why maintaining sustainable levels of borrowing is important

- 18 Borrowing can be a valuable source of funding, for example to fund large scale capital projects such as new schools or leisure centres. However, the cost of repaying borrowing including interest costs can have a long-term impact on ongoing revenue budgets. Councils that fail to properly balance the benefits and costs of borrowing with their current and predicted revenue budgets risk reducing the amount of funding available for service delivery. Borrowing to fund commercial activity has the potential to generate additional income to fund council services, however, it can also bring significant risks that would be associated with any commercial activity.

What we found

- 19 The Council's total borrowing as at 31 March 2019 was £731m. Total borrowings have increased by approximately 8% since 2016 (31 March 2016 £676 million). The Council's total borrowings are the highest in Wales, but this is not unexpected given the Council's capital city status, its significant capital programme and the fact that it retains its housing stock.
- 20 The Council's borrowings mainly consist of Public Works Loan Board loans (PWLBs) and Lender Option Borrowing Options loans (LOBOs) – £669 million and £52 million respectively as at 31 March 2019.
- 21 The level of the Council's PWLB loans is the highest in Wales and LOBOs are the 4th highest in Wales.
- 22 The Council has recently purchased a commercial property as part of its plan to develop a new indoor arena which will require additional borrowing.

23 Interest and similar charges payable on the Council's borrowings totalled £32.176 million in 2018-19 which represented 5.3% of the Council's 2018-19 Net Revenue budget.

Exhibit 9: Council borrowing [source: 2018-19 statement of accounts]

The exhibit below shows the cost of all the borrowing that the Council has as a proportion of its net revenue budget.



5.28%

Cost of total borrowing as a proportion of net revenue budget 2018-19

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Management Commentary, Findings and Recommendations

1. Financial Resilience

Findings: Cardiff Council	Management Response:
<ul style="list-style-type: none">• Currently, there are no major concerns about the Council’s financial resilience. However, the Council continues to face significant financial challenges over the medium term given the level of savings required, and the Council needs to have more of a focus on how it will narrow the gap over the medium term, including improving its savings planning • The Council has a medium-term financial plan based on reasonable assumptions but needs to consider how it is going to meet its longer-term funding gap, including strengthening the links between its transformation programme and its medium-term financial plan • Overall, the Council has managed its spend within budget but there is a pattern of overspending in some service areas	<ul style="list-style-type: none">• Agreed• More robust savings methodology introduced in advance of the 2020/21 budget with a focus on:<ul style="list-style-type: none">○ Efficiency○ Transformation / Service Change• Business case development strengthened, and no savings included in the budget strategy 2020/21 ‘at planning stage’• Focus on identification and delivery of savings in year, not just as part of an annual budget setting process • Agreed – closer working underway between Performance, Finance, Risk and Service Planning ... both in terms of strategy planning and reporting• Critical issue remains the annual nature of funding settlements inhibiting the ability to provide robust enough longer-term planning • Agreed• Budget monitoring processes robust and identify / report over and under spends appropriately• For the Budget Strategy 2020/21 realignments of budgets in some areas addressed some historic budget overspend areas e.g. waste, but volatility still exists in some areas e.g. Social

Management Commentary, Findings and Recommendations

<ul style="list-style-type: none"> • The Council has a track record of achieving the majority of its overall savings, but it will become increasingly challenging to deliver them in the future and the Council needs to strengthen its savings planning process • The Council has not made any unplanned use of reserves to fund its revenue budget and its level of useable reserves has generally increased over time • Council tax collection rates have generally improved over the past few years 	<p>Services ... but more effective demand modelling is being developed</p> <ul style="list-style-type: none"> • Agreed that the delivery of savings is becoming more challenging which is in part a consequence of many service areas now at core levels following delivery of successive year reductions (cumulatively over £200m of savings in the last 10 years) • As noted, for the 2020/21 budget strategy, no savings were included if only 'at planning stage' and new business case methodology was developed • Agreed • Noted that use of reserves is appropriate where planned e.g. to support the phasing of part year savings delivery • Reserves are a key part of the Financial Resilience Snapshot reported regularly to Members (<i>example included at Appendix D extracted from the Medium Term Financial Plan reported to Council September 24th 2020</i>) • Agreed but under constant review and an assessment is currently underway to assess whether the COVID-19 pandemic is having a significant detrimental impact on collection rates
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Management Commentary, Findings and Recommendations

<ul style="list-style-type: none"> The Council’s capital city status and major capital programme mean that it has a relatively high level of borrowing 	<ul style="list-style-type: none"> Agreed but noted that it is ‘relatively high’ in comparison to others given the size of the Council’s Capital Programme requirements and number of major project developments The delivery of Major projects has the potential for a positive impact not only within the city, but also regionally and nationally All borrowing is undertaken in accordance with Prudential Code requirements and is supported only where it is affordable and sustainable Key Prudential Indicators are reported regularly to all Members and Audit Committee plays a key challenge and oversight role Key Prudential Indicators are included in the Financial Resilience Snapshot (<i>See Appendix D</i>)
<p>Findings: Financial Sustainability – Local Government</p> <ul style="list-style-type: none"> Councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date but the future sustainability of the sector is an ongoing challenge Against a backdrop of existing funding pressures, the financial costs of the pandemic are unprecedented in modern times Some councils were better placed financially than others to respond to the challenges of the pandemic 	<p>Management Response:</p> <ul style="list-style-type: none"> Agreed Positive engagement between councils and Welsh Government (along with other key stakeholders e.g. Health) has been critical in steering the sector through the crisis Welsh Government have supported all councils through a claims based process for the vast majority of additional expenditure and lost income as a result of the pandemic

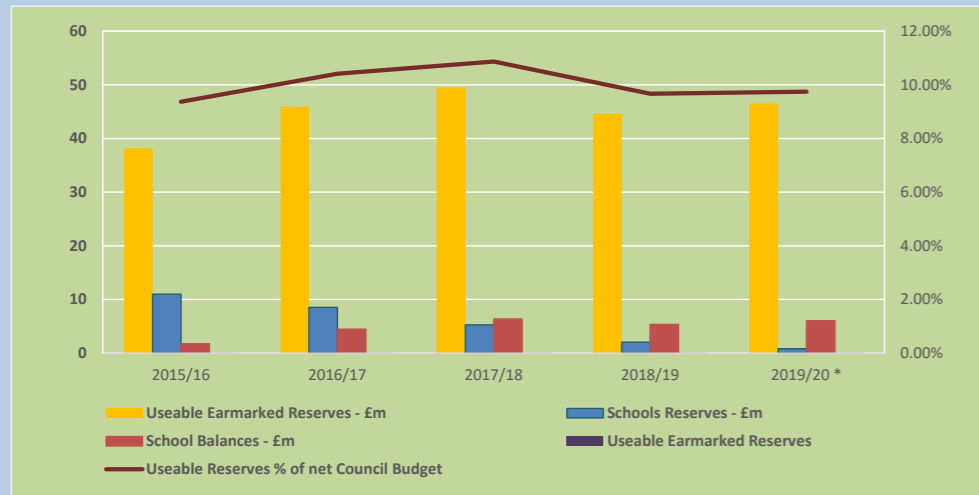
Management Commentary, Findings and Recommendations

<ul style="list-style-type: none">• The cost of the pandemic to councils is significant, although a large proportion of the short-term impact has been mitigated through the provision of extra funding• The financial challenges arising from the pandemic are numerous and go well beyond the more immediate and obvious costs of responding to the crisis	<ul style="list-style-type: none">• Agreed • Agreed• Risk analysis for the 2021/22 Budget Strategy includes potential ongoing pressures and wider concerns that will continue to be monitored, for example:<ul style="list-style-type: none">○ Failure of businesses / unemployment○ Public Health Issues○ Behavioural Shift○ Demographics
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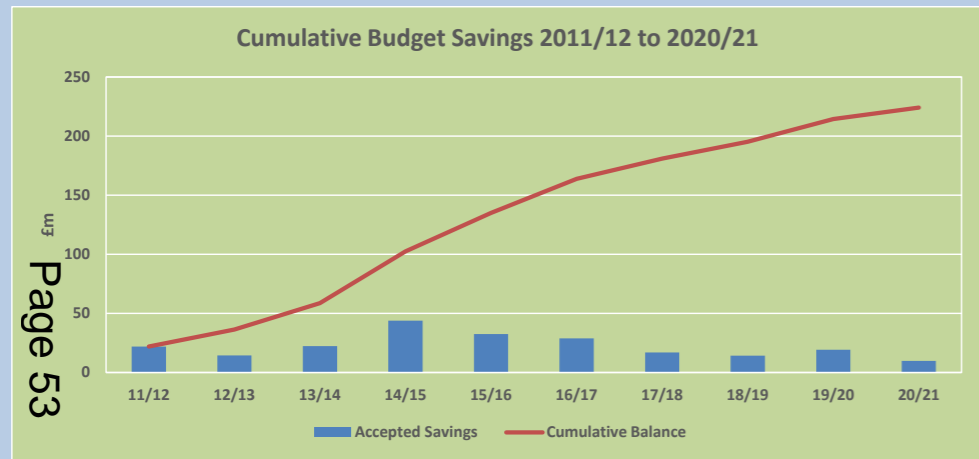
FINANCIAL SNAPSHOT REPORT - BUDGET STRATEGY VERSION - SEPTEMBER 2020

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts.

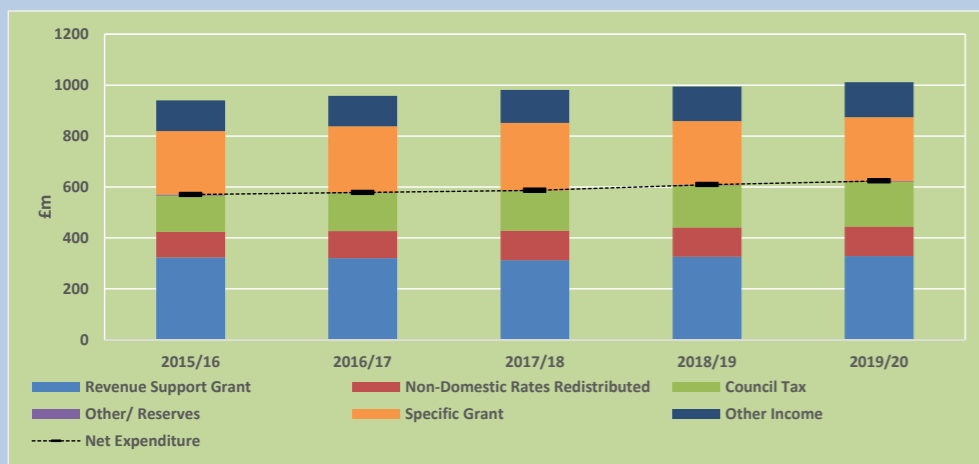
Level of Useable Earmarked Reserves and Useable Reserves as a % of net Council Budget



Cardiff Council Historic Cumulative Budget Savings



Actual Revenue Funding Split



Other Financial Indicators

Indicator	2016/17	2017/18	2018/19	2019/20*
Working Capital as a percentage of Gross Revenue Expenditure (%)	6.99%	8.69%	7.15%	10.94%
Unallocated/General Reserves to Gross Revenue Expenditure (days)	6	6	6	6
Long-term Borrowing to Long-term Assets (ratio)	35.13%	36.36%	36.91%	38.46%
Long-term Borrowing to Taxation & Aggregate External Finance	103.10%	103.10%	104.00%	114.75%

* 2019/20 figures are estimates, subject to Audit.

The tables below show the Outturn position for the 2019/20 financial year for both revenue and capital, and the current position at Month 4 2020/21.

Revenue Outturn Position

Directorate	Net Expenditure Budget £000	Outturn £000	Variance £000	Variance %
Corporate Management	26,337	26,290	(47)	(0.2%)
Economic Development	4,035	4,425	390	9.7%
Education & Lifelong Learning	272,126	272,812	686	0.3%
People and Communities				
Housing and Communities	45,145	44,416	(729)	(1.6%)
Performance and Partnerships	2,762	2,616	(146)	(5.3%)
Social Services	172,727	177,241	4,514	2.6%
Planning, Transport and Environment	37,702	41,027	3,325	8.8%
Resources				
Governance & Legal Services	5,493	6,136	643	11.7%
Resources	16,662	16,655	(7)	(0.0%)
Total Directorates	582,989	591,618	8,629	1.48%
Capital Financing	35,236	34,789	(447)	(1.3%)
General Contingency	3,000	0	(3,000)	(100.0%)
Summary Revenue Account etc.	1,964	571	(1,393)	(70.9%)
Discretionary Rate Relief	400	421	21	5.3%
Total	623,589	627,399	3,810	0.6%
Funded by:				
Revenue Support Grant	328,126	328,126	0	0.0%
Non-Domestic Rates (NDR)	116,504	116,504	0	0.0%
Reserves and Balances	2,750	2,750	0	0.0%
Council Tax	176,209	180,019	(3,810)	(2.2%)
Total Funding	623,589	627,399	-3,810	0.0%
Net (Surplus) /Deficit for Year	0	0	0	0

Capital Outturn Position - 19/20

Directorate	Budget £000	Outturn £000	Variance £000	Variance %	(Under)/Overspend £000	Slippage £000
Economic Development	72,119	65,665	(6,454)	(8.9%)	0	(6,454)
Education & Lifelong Learning	42,759	17,236	(25,523)	(59.7%)	2,453	(27,976)
People and Communities						
Housing and Communities	13,285	8,937	(4,348)	(32.7%)	0	(4,348)
Social Services	899	616	(283)	(31.5%)	0	(283)
Planning Transport and Environment	39,288	23,772	(15,516)	(39.5%)	(50)	(15,466)
Resources	9,005	6,670	(2,335)	(25.9%)	0	(2,335)
Total	177,355	122,896	(54,459)	(30.71%)	2,403	(56,862)

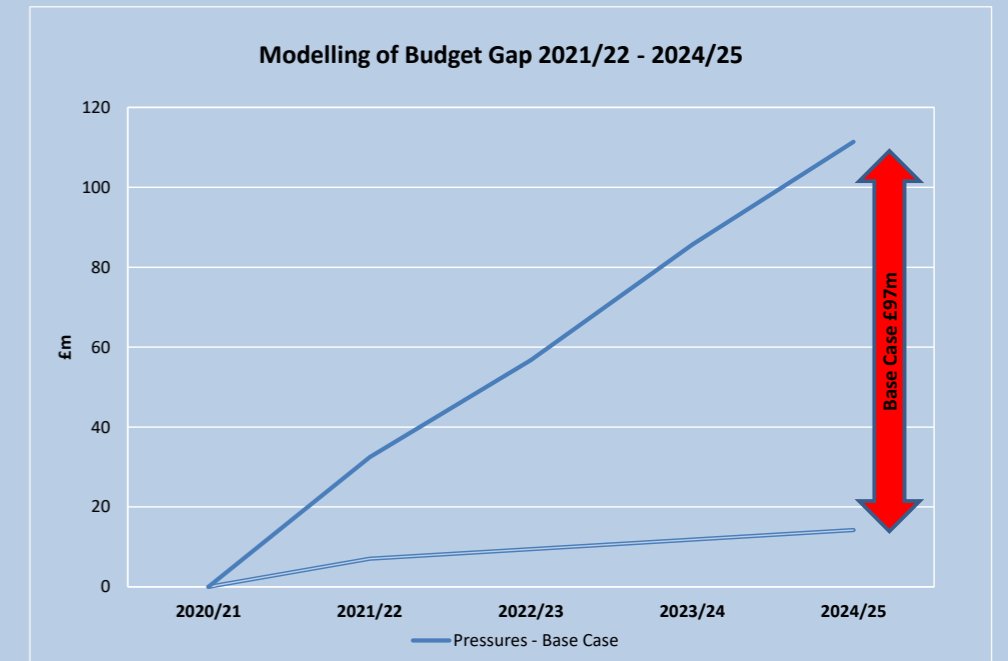
Month 4 Monitoring Position

Directorate	Covid-19 Impact £000	Directorate Position £000	In-Year Savings £000	Total Variance £000
Corporate Management	1,013	0	0	1,013
Economic Development	45	(150)	(399)	(504)
Education & Lifelong Learning	155	2,401	(1,035)	1,521
People and Communities				
Housing and Communities	19	(432)	(536)	(949)
Performance and Partnerships	0	0	0	0
Social Services	113	3,878	(753)	3,238
Planning, Transport and Environment	134	(43)	(91)	0
Recycling & Neighbourhood Services	6	(6)	0	0
Resources				
Central Transport Services	0	327	0	327
Governance & Legal Services	0	512	(11)	501
Resources	167	73	(305)	(65)
Total Directorates	1,652	6,560	(3,130)	5,082
Corporate Contingency	0	(3,000)	0	(3,000)
Capital Financing	0	300	0	300
Summary Revenue Account	0	(400)	0	(400)
Net Position	1,652	3,460	(3,130)	1,982

The tables below show the Medium Term Financial Plan (MTFP), the risks and affordability indicators facing the Council.

MTFP Scenario

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	TOTAL £000
Total Pressures	32,453	24,285	28,954	25,702	111,394
Funding Assumptions	(7,036)	(2,380)	(2,392)	(2,404)	(14,212)
Budget Requirement Reduction	25,417	21,905	26,562	23,298	97,182
Council Tax Assumptions - at 4%	6,090	6,334	6,587	6,880	25,891
Total Savings	19,327	15,571	19,975	16,418	71,291
Total Strategy	25,417	21,905	26,562	23,298	97,182



Capital Expenditure & Capital Financing Requirement (CFR)

	31 Mar 20 £000	31 Mar 21 £000	31 Mar 22 £000	31 Mar 23 £000	31 Mar 24 £000	31 Mar 25 £000
Capital Expenditure	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
Council Fund (General Fund)	122,896	101,953	196,028	168,801	59,508	27,304
Housing Revenue Account	41,521	52,783	87,565	87,330	55,805	62,230
Total Capital Expenditure	164,417	154,736	283,593	256,131	115,313	89,534
Capital Financing Requirement excl. Landfill						
Council Fund CFR	537,273	532,000	600,666	633,580	634,247	614,697
Housing Revenue Account CF	290,217	314,000	381,433	441,044	464,434	493,030
Total CFR	827,490	846,000	982,098	1,074,624	1,098,682	1,107,727

Affordability Indicator - Capital Financing Costs as a % of Controllable Budget

	2011/12	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Difference 11/12-24/25
	Actual	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	
	%	%	%	%	%	%	%	%
Net	13.47	11.87	11.21	11.35	11.21	12.88	12.49	(7.28)
Gross	15.17	17.27	16.02	16.41	17.05	19.35	18.82	24.06

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AUDIT COMMITTEE: 17 November 2020

COMMERCIALISATION IN LOCAL GOVERNMENT

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5.3

Reason for this Report

1. The Audit Committee's Terms of Reference requires that Members:
 - To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
 - To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
2. This report will outline to Audit Committee members the next steps to be taken having received this report

Background

3. In October 2020, the Auditor General of Wales issued a report on its findings on Commercialisation in Local Government. This review has been undertaken through a combination of literature review, surveys and fieldwork.

Issues

4. The report is split into seven sections and considers each in turn as a building block of commercialisation. The Seven sections are as follows;
 - Agreeing what commercialisation means for us and our citizens / communities
 - Creating a commercial culture
 - Having the right skills and capacity to be able to initiate, implement and manage commercial ventures
 - Setting a clear vision and taking a strategic approach to commercialisation
 - Robust options appraisal processes to decide on commercial ventures
 - Identifying the risk and reward of individual commercial ventures and managing reputational risk and political exposure
 - Appropriate and effective accountability and scrutiny of commercial ventures
5. The report has one recommendation and considers that undertaking commercialisation requires councils to have enough capacity, the right skills and robust but agile systems to be in place. The recommendation is that councils use Audit Wales self-evaluation tools to develop a strategy for the extent to which they want to pursue commercialisation.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

8. That the Committee notes, considers and provide comment on the report.

9. That the Committee receives an update on the results of the self-review exercise by April 2021

Christopher Lee
Corporate Director Resources

The following Appendix is attached
Appendix A - Commercialisation in Local Government

Commercialisation in Local Government

Report of the Auditor General for Wales

October 2020



This report has been prepared for presentation to the Senedd under the Public Audit (Wales) Act 2004.

The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary

Councils need the right culture, skills and systems to unlock the benefits and mitigate the risks of commercialisation

- 1 Local government has handled the impact of austerity well so far. This has been achieved in several ways. Mainly by implementing efficiency measures, cutting back on service offers, reducing staff numbers, and increasing council tax. With rising citizen expectations and increasing demand for services, councils face a challenging future. With the impact of the COVID-19 pandemic, they are also working in ways and delivering services to communities that may have fundamentally changed.
- 2 In recent years there has been a shift in councils' attitudes to change and innovation, largely brought about by austerity. However, whilst many councils are now thinking radically, a significant proportion are less willing to change, or have the will but are unsure how to. With future funding at best unpredictable, new thinking is needed to transform the way councils operate to protect and improve services for their communities. The result is that there has never been a more pressing need to innovate and transform local government, to think big and think radically about what councils do and how they do it, and the relationship they have with their residents.
- 3 Councils have undertaken some form of commercial activity for a long time, and many councils are exploring additional commercial opportunities to mitigate against the financial pressures they face. In the recent past commercial activity has mainly focussed on charging for services and selling services to neighbouring councils. Commercialisation has consequently focussed on traditional areas of council operation and has usually been an extension of well-established and well used services. However, with ever more ambitious financial targets, there is a need to look at different ways to make savings, safeguard services and generate income. Commercialisation is consequently becoming more important for councils.

- 4 There is no agreed definition of what constitutes 'commercialisation'. Working more commercially can range from:
 - a operating a service more efficiently by, for example, reducing cost, raising charges, attracting new customers or users;
 - b generating profit by charging more than it costs to provide a service and not subsidising it;
 - c delivering services differently with less council ownership, influence or control by outsourcing an activity or transferring an asset to a community group to enable the service to operate in the commercial world with little or no council subsidy or influence; and
 - d developing entirely new services in the 'private' marketplace in competition with private businesses for the specific purpose of creating profit.
- 5 However, because councils are responsible for the provision of an extensive range of public services, they must also balance being more commercially focussed with their primary responsibilities as the 'safety net' for their citizens and communities. A key challenge facing councils is to therefore judge the extent to which they should, or should not, pursue 'commercialisation'.
- 6 Should councils decide to invest in commercial opportunities, they need to be clear what the benefits of this are for the council, local people and the wider community. It is also important that a council's key partners and stakeholders understand and know what commercialisation is for the council, and what it is not given councils are investing public money. Being open about where money is being invested and the benefits this will bring is essential to get buy in from stakeholders.
- 7 If the approach to commercialisation is not well managed or does not deliver what is intended, it can also place the council's financial health at risk. And the more a council adopts a commercial mind-set, the more it pushes beyond its comfort zone and management of risk. It will place a council, its processes, members and staff in a very different place and there is no guarantee that everything will just come together, and work as expected. There is a degree of risk involved in commercial activity and it can require the investment of significant sums of money which may not be recouped if investment decisions do not deliver what was anticipated and/or customers do not use the new services and opt to buy from others.

- 8 Given the challenges of pursuing commercialisation and the need to maximise reward and minimise risk, on behalf of the Auditor General for Wales, we have examined how councils are approaching commercial ventures. Overall, we have concluded that **councils need to have the right culture, skills and systems to unlock the benefits and mitigate the risks of commercialisation.**
- 9 Below we provide an analysis of why commercialisation is important; the challenges facing councils in addressing these matters; and some pointers, drawing on our research and fieldwork, on how councils can take commercialisation forward.
- 10 This report is specifically targeted at helping elected members and senior officers to examine and judge the potential impact on their organisations when considering whether to undertake commercialisation. It will also help councils to demonstrate how well they are discharging their value for money responsibilities.
- 11 The report is split into seven sections. Each of the sections focuses on a core aspect of commercialisation. These are set out in **Exhibit 1**. In each of these sections of the report we summarise our key findings to help councils:
 - a understand this aspect of commercialisation;
 - b challenge current approaches; and
 - c judge where and how they could take this work forward.
- 12 Each section concludes with a short self-evaluation based on key questions for councils to reflect on and judge where they are now, and where they need to improve. These assessments can be used individually, but we recommend that you consider them together and this report in its entirety. Taken together, we believe these provide a helpful framework for councils to use when considering commercialisation.
- 13 Finally, **Appendix 1** sets out our audit methods and **Appendix 2** summarises some of the key legislation that underpins commercialisation.

Exhibit 1 – The ‘building blocks’ of commercialisation



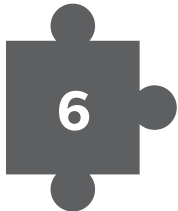
Agreeing what commercialisation means for us and our citizens / communities



Creating a commercial culture



Having the right skills and capacity to be able to initiate, implement and manage commercial ventures



Identifying the risk and reward of individual commercial ventures and managing reputational risk and political exposure



Robust options appraisal processes to decide on commercial ventures



Setting a clear vision and taking a strategic approach to commercialisation



Appropriate and effective accountability and scrutiny of commercial ventures

Source: Audit Wales.



Recommendations

Recommendations

Recommendations

- R1** Undertaking commercialisation requires councils to have enough capacity, the right skills and robust but agile systems to be in place. **We recommend that councils use our self-evaluation tools to develop a strategy for the extent to which they want to pursue commercialisation.**

Councils need to define and agree what commercialisation means for themselves, their communities and citizens

- 1.1 Commercialisation, if undertaken in the right way, properly planned, implemented and controlled, offers opportunities for councils to safeguard the provision of essential public services by delivering them through new models which reduce cost or generate profit. Pursuing commercial opportunities can also result in a greater choice of services to address wider needs in the local area and supports modernisation and transformation of a council.
- 1.2 Pursuing commercial opportunities and becoming more entrepreneurial also brings with it a degree of risk. Thinking commercially requires a council to be able to generate insight by joining different parts of the organisation together. To do this well you need to have people with the right skills who understand the wider operating environment and have commercial acumen. They must be able to make a compelling case for pursuing options and this must be based on good quality data and analysis.
- 1.3 Given that entrepreneurship is a process of balancing risk and reward, there are two fundamental issues that councils need to consider and agree on before pursuing commercialisation.

Agree what commercialisation means for our council

- 1.4 At its simplest commercialisation is about selling goods or services to citizens or organisations. This is not controversial and is a well-established practice for local government. However, where it can become more controversial is the extent to which a council intends to pursue commercial activity. There are key questions that need to be considered to ensure a council sets appropriate parameters on the extent to which it wants to pursue commercial activity. We call these the 'principles of commercialisation'. For example, are they:
- going to pursue commercial activity that builds on their existing services?
 - going to enter entirely new areas of operation?
 - pursuing commercial activity only within their geographical boundaries?
 - prepared to pursue opportunities in other local authority areas and/or countries?
 - going to compete with local businesses?
 - going to compete with the third sector?
 - going to compete with other councils?
 - looking to recover all costs associated with the activity?
 - seeking to maximise profit generation?
 - clear on how they will use the profits they create?
- 1.5 Knowing up front the extent of what is considered acceptable for your council gives clarity to all on what commercialisation means for you, but also what it is not. In our fieldwork, we often heard a genuine concern from senior officers and elected members that commercialisation is (or could be seen as) privatisation or the selling off of council services. The danger is councils may lose their core purpose: 'Is our main aim to serve the public or to make money from them?' Commercialisation therefore needs to be considered in the round; warts and all.

- 1.6 Why is this important? Well, councils are the leaders of their local community and the safety net for some citizens. They are often the organisation people turn to when they are in crisis and need help. They organise and provide a wide range of services that help keep people safe and well. If they divert too much from their core activity, they run the risk of failing to meet their wider statutory obligations. The pandemic has shown how much citizens rely on council services and exposed how much austerity has threatened the provision of highly valued council services. The profile of local government's role in shaping and serving communities has been raised during our fieldwork and put simply, if councils continue to cut services it is questionable what relevance they continue to have for many of their citizens.

Understand the potential impact of commercial choices on our citizens and communities

- 1.7 Involving citizens and local communities is vital when it comes to developing a sense of ownership in local decision-making and service delivery. It is essential when councils are considering diverging from their core activity and engaging in things that many may consider outside their comfort zone.
- 1.8 The message from our survey is clear. Councils should invest in opportunities and activities that directly benefit their area and the citizens they serve but should not seek to compete with private businesses. They should not expose themselves to unnecessary risk even if there is an opportunity to recoup greater income. The people we spoke to value their council for doing what it does well. Whilst they see benefits in becoming more entrepreneurial, they do not want to see core services in jeopardy because their council is pursuing risky activities.
- 1.9 Importantly, our citizen survey highlights that there is strong support for councils to act more commercially. Nine in ten respondents broadly supported their council pursuing commercial activities which ultimately support the local area through economic growth and investment in the most disadvantaged communities. Two in three also agreed that the council should only pursue commercial activities that help to support and assist the most vulnerable in society. Many that we surveyed want to see their council take steps to safeguard highly valued local services and recognise one way of doing this is to increase revenue and develop new sources of income.

1.10 This support, however, comes with some strings attached:

- just over half of respondents (51%) did not support their council pursuing commercial activity in other parts of Wales;
- over half of respondents did not want to see councils competing with private businesses (53%); and
- most people responding to our survey (63%) opposed their council undertaking new commercial activity in other parts of the UK, and three quarters (74%) in other European countries.

1.11 When it comes to appetite for risk, citizens have mixed views. Just under 40% support their council using their financial reserves to generate income. But a quarter (23%) are opposed to public money being invested in commercial activities at all, and a fifth (17%) want to see their council prioritise getting their money back rather than take riskier decisions that can get a better return on their investment.

1.12 In addition, councils need to ensure the choices they take for their communities reflect the socio-economic make-up of the area. Many communities in Wales have significant social, health and economic challenges. Even before the pandemic, people were struggling with low incomes, low wage growth, in-work and out-of-work poverty. Similarly, many towns and businesses across Wales have also been struggling in recent years with reducing footfall, competition from online suppliers and rising costs. And this has been accentuated with COVID19.

1.13 The bottom line is that local councils need to be mindful of how their commercial choices affect their communities and local businesses. For example, we found that where councils have changed services to operate more commercially and increase income, citizens have not always had a positive experience. Our survey found that nine in ten citizens consider traded services like leisure to be more expensive now, and eight in ten stated that they could not afford to use services as much as they would like. Roughly seven in ten survey respondents also felt that the quality of their council's offer is not as good as before.

1.14 The opportunity to generate significant levels of new income must therefore be balanced with judging the potential impact on people and businesses. If you increase charges there could be a fall in usage – this may balance out, or you may see an increase in revenue. You could also experience a fall in income if services are felt to be unaffordable. Similarly, competing with private businesses may offer an opportunity to raise new income. But being in competition could put local businesses at risk, adversely impact town centres with more empty units/properties, and result in rising unemployment. Councils are very mindful of this based on our survey of elected members, where 53% of respondents flagged an adverse impact and reaction from the local community as a barrier to commercialisation.

Agreeing what commercialisation means for us, our citizens and communities

Below we have set out a self-assessment to help councils evaluate their current performance and identify where they need to improve.

Issues for us to consider and agree	Yes, we are clear on this and no further work is required	No, there is more for us to do
We are going to pursue commercial activity that builds on our existing services.		
We are going to enter entirely new areas of commercial operation.		
We are going to pursue commercial activity only within our geographical boundaries.		
We are prepared to pursue opportunities in other local authority areas and/or countries.		
We are going to compete with local businesses.		
We are going to compete with the third sector.		
We are going to compete with other councils.		
We are looking to recover all costs associated with the activity.		
We are seeking to maximise profit generation.		
We are clear on how we will use the profits we create.		
We have involved citizens, businesses and stakeholders to help us define what commercialisation is for our council.		

Issues for us to consider and agree	Yes, we are clear on this and no further work is required	No, there is more for us to do
<p>We understand the impact of pursuing commercialisation on:</p> <ul style="list-style-type: none"> • Citizens • Businesses • Our communities • Partners • Stakeholders 		
<p>We have gauged what is affordable for our citizens and communities.</p>		
<p>We communicate effectively internally and externally what commercialisation is for this council and what it is not.</p>		

Creating a strong commercial culture is key to pursuing commercial activity

- 2.1 Councils are changing. The last 20 years have seen major shifts in how services are commissioned, managed and delivered with a growth in shared services, digital delivery, joint ventures, and city region and growth deals. Local government does not stand still and has a long history of innovation and change.
- 2.2 However, once a council has established the extent to which it wants to act more commercially, it needs to ensure that it has the right ethos or culture with clear and effective senior leadership to drive the process. To do this requires a council to ensure that the way that it works supports entrepreneurship and enterprise to create a 'commercial culture'.
- 2.3 From our fieldwork we found that changing the culture of organisations is the topic flagged most consistently as the key challenge facing councils becoming more entrepreneurial. Councils are beginning to apply a more commercial mindset to both in-house service provision, but also in considering new opportunities.
- 2.4 Early on, Monmouthshire County Council identified the importance of culture, and political and professional leadership. There has been a clear steer from the top of the Council on being more innovative and proactive. Rather than respond to austerity by continuing to make cuts, the council encourages staff to pursue options that can make a profit for the benefit of council services.
- 2.5 Some authorities have embedded commercialisation in their transformation programmes recognising that successfully becoming more entrepreneurial is ultimately about changing their organisation's culture. For example, the approaches in Cardiff Council, Rhondda Cynon Taf County Borough Council and Caerphilly County Borough Council.
- 2.6 Despite recognising the importance of creating a commercial culture and needing effective leadership to underpin new approaches, progress has often been limited and/or slow in some councils. Building the appetite, skills and culture within both the elected member group and the workforce to innovate and operate more commercially requires motivation, commitment and focus to accomplish. This can be challenging to achieve when you need to balance providing services for the public good with running services as a business that focusses on creating profit.

- 2.7 Our survey of elected members found that there is strong support for their council pursuing new commercial activity, with three-quarters favouring this activity. This is echoed by Corporate Management Team survey respondents where 83% noted that they have support from Elected Members to pursue new commercial activity, with the key drivers of the entrepreneurial agenda being the Leader of the council and/or the chief executive.
- 2.8 Despite this, seven in ten members do not want their council to take greater risks to generate greater rewards. Importantly, only a third of elected members believe that their council has the right organisational culture to be able to effectively pursue commercialisation.
- 2.9 Often the starting point for many councils at the beginning of their 'commercial journey' relates to winning 'hearts and minds'. We found that the task of nurturing a more commercial culture often sits with transformation lead officers and involves defining what commercialisation means to their council; what commercial activity is already taking place and determining the council's risk appetite.

2.10 From our research the key features of an organisation with a positive commercial culture will be embodied by the following – **Exhibit 2**:

Exhibit 2 – A council with a positive commercial culture is characterised by...



Committed, highly visible political leaders, with ambitious goals, supported by a strong officer management team



A clear understanding that commercialisation is 'how we do things around here, and commercialisation reflects our values'



Transparent, accountable and timely decision making



Acknowledging that those making decisions are accountable and will be held to account



Realistic expectations that are clearly understood by all areas of the council



Effective communication that makes clear what commercialisation is and what it is not



High levels of support between leadership and staff demonstrated by high levels of commitment to the council's commercial vision and strategies



Commitment to delivery and attention to detail and thoroughness in the execution of commercial policies and strategies

Source: Audit Wales

2.11 Involving local stakeholders in commercial decision making is a good way of drawing on local expertise, knowledge and skills and to ensure decisions are mindful of the local context. Councils also need to ensure that they effectively communicate with stakeholders and are clear about how commercial choices will impact on citizens, businesses and communities. This is important because citizens may not understand what is going on and may resent public money being spent on new commercial ventures such as commercial property acquisition.

Creating a commercial culture

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more for us to do
We have set realistic expectations on what commercialisation is for us and this is clearly understood by all areas of the council.		
We understand that commercialisation is part of ‘how we do things around here, and commercialisation is reflected in our values’.		
We have committed, highly visible political leaders, with clear commercialisation goals.		
We have a strong officer management team that is clear on commercialisation and is supporting delivery of our goals.		
We have set clear expectations that decisions relating to commercialisation will be taken transparently and as soon as it is appropriate to do so.		

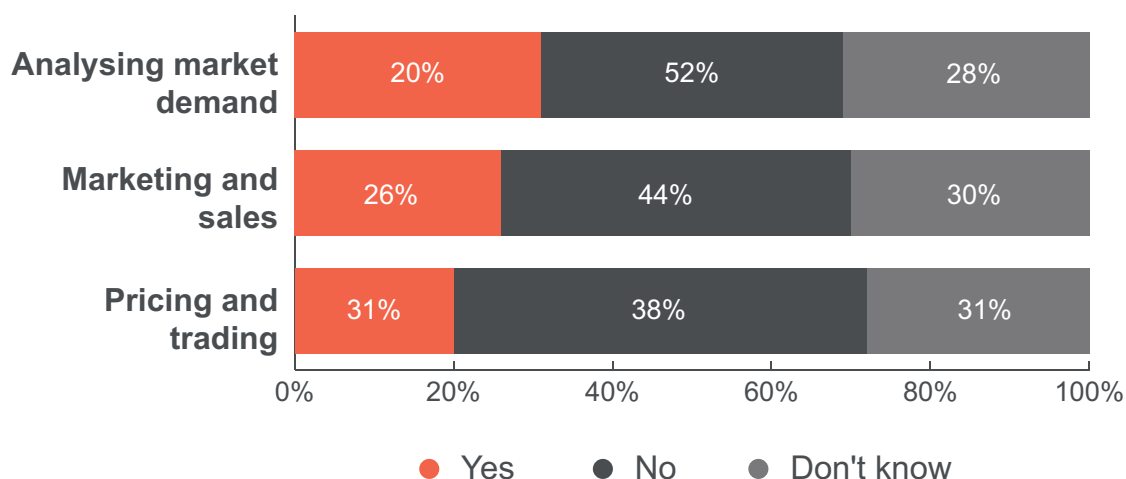
Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more for us to do
Those who make decisions on commercialisation are accountable for their choices and are held to account through clear governance arrangements.		
There are high levels of commitment to work together to deliver the council’s commercial vision and strategies.		
We have a good attention to detail and are thorough in how we assess and challenge ourselves.		
We have an open and honest learning culture to help the council learn from investment decisions from across the UK and use this information to shape our approaches.		

Councils pursuing new commercial activity will need to invest in their workforce to ensure they have sufficient capacity and the right skills

- 3.1 The experience, knowledge and skillset required to successfully pursue commercial activities are not those that are traditionally associated with local government. However, as more and more councils begin to pursue commercial activities, it is important that they equip themselves with the right skills to do this well.
- 3.2 The pursuit of new commercial ventures requires people who can spot opportunities and apply commercial acumen to their understanding of the wider operating environment. Importantly, doing this well also requires senior officers and Elected Members to have the right skills to oversee and scrutinise decisions and commercial activity that involve public money.
- 3.3 Councils need people who can undertake robust options appraisals, cost modelling, market and segmentation analysis; people who are skilled at making a compelling case for pursuing options based on sound data analysis; and who can identify and mitigate risk in unfamiliar or new areas of business. **Exhibit 3** shows that in these key fields, councils believe that they do not always have the necessary skills and experience.

Exhibit 3: The views of corporate management teams about having the right level of commercial skills in three key areas

Less than a third of corporate management team members believe that their council has the necessary skills and expertise to successfully undertake commercialisation in key areas.



Source: Audit Wales, Corporate Management Team Survey, January 2020.

- 3.4 Our survey of corporate management teams found that councils recognise that they are not currently resourced or skilled to pursue new commercial activity. Only 16% of respondents to our survey of corporate management teams believe that, broadly, their council has the staff skills and resources to pursue and deliver new commercial activity. Elected Members are of the same view, with 57% of those who responded to our survey citing officers' skill levels as a barrier to the successful pursuit of new commercial ventures.
- 3.5 Austerity – in many ways the catalyst for more and more councils needing to pursue commercial activity – has paradoxically also hampered councils' ability to do just that, by eroding the level of skills and expertise in their workforce. Council workforces are less resilient and lack the capacity to generate and deliver on new ideas because services are stretched, and people are under pressure.

- 3.6 Competing with the private sector to secure the right people with the right skills to progress commercial activity can also be challenging. Councils we spoke to highlight the difficulties of being able to attract people of the right calibre without an ability to match private sector salaries. There is a reluctance in some councils to offer market salaries, which inhibits their ability to secure people with the right skills and experience. Similarly, national bodies such as the Federation of Small Businesses, and Wales Trades Unions Congress believe that councils in the Cardiff city region are better placed to attract people with the right skills, but councils in other parts of Wales will struggle to compete with the private sector and need to pool their resources.
- 3.7 Despite these workforce pressures, only one of the commercialisation strategies we examined identified this as a major risk and had set out how that council is seeking to address it. This is concerning as over half of councils responding to our survey of corporate management teams highlighted that they needed to enhance staff skills to equip themselves to be able to pursue new commercial activities.

Bristol City Council's Commercialisation Strategy 2019-22



The Council recognises the importance of investing in its current workforce to ensure it has the skills and capacity to pursue new commercial activity. This includes a considerable amount of 'hearts and minds' work with Elected Members to promote the benefits of commercialisation – both financial and strategic – for Bristol, the Council and its citizens.

- 3.8 However, there are some councils that are addressing the issue of staff skills and capacity. At the time of our fieldwork in early 2020, Monmouthshire County Council had just established a Commercial Legal Team to help support the Council in delivering its commercial ambitions and focus on mitigating key risks. The Council actively sought to fill these new posts with people who primarily had a commercial background, rather than local government experience.

- 3.9 Some councils are addressing gaps by using external support – for example, Neath Port Talbot County Borough Council is working with the Association for Public Service Excellence. However, with councils increasingly looking at generating income through commercial means, many need to do more to invest in their workforce and ensure they have the right skills and capacity.
- 3.10 Our survey of corporate management team members highlighted that only six councils have invested in dedicated officers to lead on commercial activity. These are:
- Blaenau Gwent County Borough Council;
 - Caerphilly County Borough Council;
 - Merthyr Tydfil County Borough Council;
 - Monmouthshire County Council;
 - Pembrokeshire County Council; and
 - Swansea Council.
- 3.11 Almost two-thirds of the Elected Members who responded to our survey cited Elected Members' ability to effectively decide on options as a barrier to their council's pursuit of new commercial ventures. Responses to our corporate management teams survey correspond with this – only 19% said they believe that Elected Members are sufficiently trained and skilled to be able to consider, and then approve, new commercial ventures. Senior management team members are also highlighted by Elected Members as lacking in commercial acumen.
- 3.12 Our evidence identifies scrutiny as another area that councils need to invest in upskilling when pursuing new commercial ventures. Respondents to our corporate management teams highlighted weaknesses in their council's ability to effectively oversee commercial activity – 41% of respondents said that their council's scrutiny committee does not have the knowledge and experience to provide effective risk oversight of new commercial activity. If councils are to unlock the benefits of commercialisation, an investment in upskilling their workforce must form a key part of their commercial strategy.

Our workforce, skills and capacity

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have prioritised the creation of a commercial culture and entrepreneurial mindset within the council.		
We have the right experience, knowledge and skillset required to successfully pursue commercial activities.		
We have enough staff to undertake commercial work.		
We have staff in the right services and with the required seniority to undertake commercial work.		
We can recruit the right people with the right skills to deliver our commercial work.		
<p>We have set out how the council will equip elected members and staff with the key skills to successfully deliver commercialisation including:</p> <ul style="list-style-type: none"> • Analysing markets and demand • Marketing and sales • Pricing and trading 		
We have a training programme that is equipping our staff and elected members to undertake commercial work.		

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have defined and clarified roles, responsibilities and the legal powers for pursuing commercial activity.		
We have taken legal opinion to support all aspects of commercial activity and especially on how to treat profits raised, and staff are clear on how to address this.		
We can draw on and utilise the skills and knowledge of our local businesses and stakeholders to help us develop our workforce to become more commercially skilled.		

Councils need to agree a clear vision and strategic approach for commercialisation that integrates with wider priorities

- 4.1 Councils and private business are not the same. They have different responsibilities, obligations and aims. While there may be a common language around income generation and acting commercially, councils also need to have due regard for their statutory obligations and duties. Whilst acting more commercially is focussed on generating income, this should not be an end in itself. Councils must also consider how commercial activity can help support the delivery of their core services and the achievement of strategic priorities.

A good strategic approach to commercialisation will:

- take a long-term corporate council-wide approach and start with the purpose and function of the council, not the form or structure of current service delivery;
- be based on a clear set of principles and values that set out the importance of social value and 'ethical' investment principles;
- integrate commercialisation initiatives with programmes of long-term transformation and/or organisational recovery to ensure commercialisation is part of a 'bigger picture' and not seen as outside core council activity;
- show the benefits and risks of commercialisation for citizens, the local economy and local communities, and clearly define what commercialisation is and is not for the council;
- integrate and link with wellbeing objectives, corporate priorities and other council and regional strategies, especially plans for organisational transformation and recovery from COVID-19;
- seek to ensure commercial activities deliver more than just profit, or at least do not hinder their wider contribution to the local area and community;
- recognise the importance of creating a commercial culture and entrepreneurial mindset;
- set out how the council will equip elected members and staff with the key skills to successfully deliver commercialisation;
- define and clarify roles, responsibilities and the legal powers for pursuing commercial activity. For instance – client, commissioner, contract manager, board of directors (Company Law), shareholders, etc;
- identify who is accountable for decisions; and
- have clear, transparent and appropriate governance arrangements for commercial activity that are embedded fully in the local democratic decision making and accountability system.






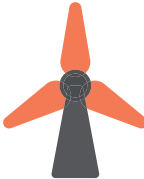
Source: Audit Wales.

- 4.2 From our fieldwork we found that few councils have created a strategy for commercialisation. Monmouthshire County Council has integrated its commercial approach with its Investment and Treasury strategy, and these align well with the corporate plan and wellbeing plan. Caerphilly County Borough Council has a draft commercialisation and investment strategy, but at the time of our fieldwork this had not been approved. A further six councils are in the process of developing a commercial strategy but have not yet agreed their commercial values and principles.
- 4.3 Whilst commercialisation has become more important, and figures more on scrutiny and cabinet agendas, our review of council papers in the last two financial years found that progress has mostly been slow. Too often councils are focussed on what they already do, and whilst a growing number talk about being more commercially minded in how they deliver services, few have developed a specific commercial policy or strategy. Lacking an agreed strategic approach to commercialisation means that councils are not maximising the potential benefit of commercial ventures and risks missing out on opportunities when they arise.
- 4.4 Other councils have been slower to adopt a strategic approach to commercialisation, and progress has been more organic, with the appetite for acting more entrepreneurial varying widely between senior officers, members and operational services. For instance, our survey of all 22 councils' corporate management teams found that in total eight councils have or are in the process of developing a commercial strategy and have not agreed their commercial values and principles.
- 4.5 Only 41% of elected members from across all 22 councils responding to our survey, agreed that their council has agreed a position on pursuing commercialisation. Despite two-thirds of elected members acknowledging that commercialisation will help to alleviate the impact of funding cuts, and over half feeling it would support delivery of wellbeing objectives, most have concerns about a commercial activity going wrong and less about learning from what is working. Generally, elected members see getting the **'return of their money'** as more important than getting **'a return on their money'**. Elected members are more comfortable with investment in commercial activity that helps to improve local infrastructure and deliver regeneration programmes than directly investing in ventures that simply create profit.

- 4.6 The best councils are using commercial opportunities to help deliver their strategic priorities and wider community benefits. From our work we saw several good examples of how councils in England use their statutory powers and approach to commercialisation to focus on:
- helping to support and assist the most vulnerable in society, especially when they 'fall' or 'fail';
 - improving people's lives and the place in which they live; and
 - creating new income streams to create wealth and improve the economic circumstances of those in disadvantaged communities.
- 4.7 For instance, defining both the commercial and strategic benefits of a potential venture will allow a council to identify both the opportunity to generate income and the wider benefits of pursuing an option. **Exhibit 4** provides examples of four commercial activities that can generate income for a council, and also help to deliver strategic benefits such as wellbeing goals.

Exhibit 4: Defining the strategic benefit of commercialisation

Thinking of commercialisation in the round and highlighting both the profit and community/strategic benefit of options and activities can help decision makers to contextualise and make fully informed decisions.

Activity	Commercial Benefit	Strategic Benefit
<p>Energy supply</p> 	<ul style="list-style-type: none"> • Profit with increased income • Ready to use infrastructure to be able to take advantage of the opportunity (data, etc) 	<ul style="list-style-type: none"> • Tackling ‘fuel’ poverty • Championing social equality • Championing local renewables • Tackling poverty
<p>Commercial Property</p> 	<ul style="list-style-type: none"> • New income stream • Create profit • Grow tax base 	<ul style="list-style-type: none"> • Regeneration (physical, social and economic) • Attracting inward investment • Supports delivery of local development plan targets • Acts as a catalyst for change – e.g. investment in designated regeneration zones, etc.
<p>Private housing development – residential lettings and/or sales including affordable and low-cost housing for sale</p> 	<ul style="list-style-type: none"> • New income stream • Create profit through rental income and sales • Create/use S.106 contributions to improve community infrastructure 	<ul style="list-style-type: none"> • Tackle homelessness and housing need • Reducing social inequality • Improving people’s health • Supports local housing developers • Create jobs/apprenticeships
<p>Energy Generation</p> 	<ul style="list-style-type: none"> • New income stream • Create profit through ‘Feed in Tariff’ scheme • Access to grant schemes and renewal programmes 	<ul style="list-style-type: none"> • Addressing climate change • Tackling fuel poverty • Reducing use of fossil fuels • Reducing our carbon footprint • Increase ‘green’ energy supply

Source: Audit Wales.

- 4.8 In recent years, a number of City and Growth Deals have been signed. City Deals and Growth Deals give more power and flexibility to cities and regions to develop employment and skills, commercial opportunities, business support, housing, transport and inward investment. There are several such Deals in Wales – the Cardiff Capital Region and Swansea Bay City Deals and Growth Deals in Mid Wales and North Wales.
- 4.9 City Deals are bespoke packages of funding with devolved decision-making powers negotiated between governments and local councils. Audit Scotland’s January 2020 report on Scotland’s City Region and Growth Deals concluded that councils should ensure Deals are aligned with an agreed regional economic strategy, with input from a wide range of partners, and can demonstrate how they will help deliver national and local priorities for economic development.

Exhibit 5 – Tay Cities Deal

A regional economic strategy was developed first and used to inform the Tay Deal proposal. The strategy considered the economic issues identified in the Community Plans and Local Outcomes Improvement Plans (LOIPs) for the region. The objectives in the Tay Cities Regional Economic Strategy are based on the key priorities in Scotland’s Economic Strategy. Inclusive growth is at the heart of the Deal and there is a clear understanding of what inclusive growth means for the Tay Cities Region. More effort was made to engage with stakeholders when identifying projects, including through an open invitation for project ideas.



Source: Audit Scotland¹.

A strategic approach to commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have an agreed corporate council-wide approach to commercialisation.		
We have a clear set of principles and values that set out what we are trying to achieve through commercialisation.		
We focus on social value and 'ethical' investment principles in our commercial work.		
Our approach to commercialisation is part of a 'bigger picture' and not seen as outside core council activity.		
We have embedded commercialisation with programmes of long-term transformation and/or organisational recovery from COVID-19.		
We are clear on the benefits and risks of commercialisation for citizens, the local economy and local communities.		
We have clearly defined what commercialisation is and is not for the council.		
Our approach to commercialisation is integrated and links with wellbeing objectives, corporate priorities and other council and regional strategies.		
We are seeking to ensure that commercial activities deliver more than just profit and make a wider contribution to our area and communities.		
We have identified who is accountable for commercial decision making and it is clear where the 'buck stops'.		

Councils need robust options appraisal processes to be able to evaluate and decide on commercial choices

- 5.1 An effective options appraisal will identify the most appropriate set of actions needed to achieve desired outcomes. It needs to have the right information and data to consider and decide on the right option. It should clearly show how the commercial opportunity contributes to delivering corporate objectives. Options appraisals need to follow a structured and documented process so Elected Members know what to expect and are clear on their role in decision making.
- 5.2 We found some good examples of councils' consideration of a range of commercial options. Monmouthshire County Council has clear routes of accountability for their two-stage process, with investment proposals first presented to an Investment Committee for consideration on whether to proceed to undertake due diligence and further negotiation. The Investment Committee then receives a business case and recommendation following the conclusion of the due diligence process. This process allows for a full discussion of options and assessment of risks and provides elected members with opportunities to challenge and examine business cases in detail before deciding to invest. Likewise, at the time of our fieldwork Caerphilly County Borough Council were introducing a new business planning template and options appraisal process. Templates included options for crowdfunding and community asset transfer.
- 5.3 The findings of our survey of corporate management teams identify that roughly half of councils believe they have a robust approach to options appraisal for commercial ventures and are focussing on the key issues when considering choices. For instance, risk to the council and risks associated with undertaking the venture, the 'true' cost of options and how they will be funded, likely service usage and how options fit with statutory responsibilities such as the Welsh language and equalities. These are key areas to focus on to inform discussions and provide assurance to decision makers.
- 5.4 Councils' appraisal arrangements generally have less emphasis on external factors. For instance, quantifying and understanding the impact of options on local business and the community, analysing markets, and determining pricing and trading issues. Competition analysis is especially underdeveloped. Business cases mostly do not include a sufficiently detailed assessment on the impact of competition. This is important because commercial investments can either have a detrimental or a stimulating effect on local competition.

- 5.5 In addition, through our fieldwork and document reviews, we identified several other areas where options appraisal processes and documentation need strengthening. Options appraisals are generally not reported or made available publicly. We recognise the likelihood of commercial sensitivities in assessing options, however this must be balanced with the wider council responsibilities of acting transparently especially in relation to the investment of public money. Being open wherever possible is a principle we would expect councils to embrace.
- 5.6 In some councils, documentation is not sufficiently detailed and is based on a simple 'yes' or 'no' sign-off, without an accompanying rationale for the decision. We found that a number did not include implementation and benefits realisation timescales, nor summarise or set out why an option has been rejected. In addition, few include the risk of 'doing nothing' as an option. Including an analysis of why an option is not supported and being clear on the wider risks of doing nothing helps to strengthen working practices and decision making by elected members.
- 5.7 Diversification is the best way to increase the stability of investments and decrease the risk of losing money if a single commercial venture decreases in value. However, we found that too many options appraisals consider commercial investment in isolation and did not consider the total investment portfolio. Diversification does not remove risk in its entirety, but it will help maintain a portfolio's stability over time. It is important to therefore consider individual options within the totality of all investments that have been approved and rejected to ensure decision makers see the totality of current activity.
- 5.8 Ensuring clear links between commercial decisions and strategic priorities or corporate objectives and identifying the social value and long-term community benefit such as increases in average earnings, more apprenticeships, and local procurement needs more emphasis. Equality impact assessments and single impact assessments are not routinely included in business cases. Some impact assessments take a short-term focus and several national stakeholders noted a tendency to treat them as a 'tick box exercise'.
- 5.9 A good way of doing this is by completing a commercial due diligence assessment. Due diligence helps to consider the risk of funding decisions and is essential in creating an environment of accountability and transparency. Due diligence is important to enable elected members to make an informed decision on whether to pursue a commercial venture or not – **Exhibit 6**.

Exhibit 6 - The importance of commercial due diligence

Commercial due diligence is the process of gauging the commercial attractiveness of an investment decision. Unlike financial due diligence, which focuses solely on the financial health of the decision, commercial due diligence provides a fuller overview of both the finances and also the internal and external environment the commercial venture will operate in.

A commercial due diligence assessment will analyse performance, the likelihood that the targets will be met, and highlights potential problems that may occur. The assessment helps to provide councils with an in-depth knowledge of their venture and the market in which they are positioned. It is designed to enable the council to make an informed decision, and highlight any potential risks associated with the commercial decision it is taking.

A commercial due diligence assessment will vary but typically will include the following information:

- Review of the options appraisal predictions
 - How realistic are targets?
 - How achievable is the business plan?
- Research and assessment of the market
 - Where is the option positioned within the market?
 - Where is the market heading?
 - How could this affect the value/success of our venture?
 - What are the trends in the market?
- Analysis of competitors and customer base
 - Who are the strongest and weakest competitors?
 - How will this venture perform against its competitors?
 - What is its customer profile?
- Revenue/capital modelling
 - What are our prospects for reaching our projected revenues?
 - How much can we expect to make over a set period?
- Pricing and margins
 - How have average prices fluctuated historically?
 - What is the forecast for prices in the future?

Source: Audit Wales.



Options Appraisal for commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have a clear options appraisal process for deciding on each commercial option.		
Within each commercialisation options appraisal we always: <ul style="list-style-type: none"> • clearly define our objectives, the constraints/ risks, the potential rewards and what we want to achieve; • gather enough information to fully understand the options being considered; • consider a wide range of options for the commercialisation venture; • include consideration of the risk of ‘doing nothing’; • assess and analyse options using an agreed rating/scoring matrix; and • select the appropriate option based on our analysis. 		
We make transparent decisions based on good-quality information when deciding on each commercialisation options appraisal.		
We implement the decision that has been taken on completion of an options appraisal in a timely manner and effectively.		
We have robust performance management arrangements in place to monitor delivery of the selected option.		
We review the effectiveness of our decisions and undertake post-implementation evaluation to check that the objectives we set are being delivered.		

Councils need to define and agree their appetite to risk and reward when deciding on pursuing commercialisation

- 6.1 Risk appetite is a hot topic and matters because it is fundamental to making the right decisions. It is often driven by recognised financial and accounting standards, corporate governance regulations, and other statutory requirements². The ability to understand and express risk appetite allows decision makers to decide how much risk the council should take in each situation.
- 6.2 The attitude and appetite for risk is therefore a political decision: it is part of a council's culture and is set by the senior leaders of the organisation. It is important for all levels of the council to understand their risk appetite, from the Cabinet to the Corporate Management Team to the project manager, and for these multiple levels to be consistent, coherent and aligned in their attitude to risk.
- 6.3 However, being good at managing risks is not about avoiding decisions and maintaining the status quo. No decision is risk free. There is always some uncertainty associated with decisions and decision-making, and there is always risk. Similarly, doing nothing may also be risky, as cost pressures from ageing populations, increasing demand for services and increasing wage bills continue to grow. In the current financial climate, thinking that the status quo is the less risky path could itself be a far riskier decision than seeking to change a service or develop a new one.
- 6.4 In respect of taking decisions on commercial activity, councils need to contextualise the relative risk with the potential reward that will be received. This is important because some councils (particularly in England) place a high reliance on commercial income to fund frontline services. Therefore, any loss of commercial income could have a detrimental effect on front line services. Councils must therefore weigh the potential reward against the risks to decide if it is worth putting public money and the Council's reputation at risk.

2 For example, CIPFA's [Statutory Guidance on Local Government Investments](#) makes clear that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed and that a local authority should avoid exposing public funds to unnecessary or disproportionate risks.

- 6.5 For instance, acquiring commercial property such as airports or harbours, retail parks, supermarkets, hotels, education campuses or GP surgeries to generate income through rents offers an opportunity to make large sums of money. It is also riskier because it often requires unsupported borrowing to invest in such acquisitions. In 2014-15, English councils invested just over £1 billion to acquire land and buildings. By 2018-19 the figure had risen to £4.4 billion. The Ministry of Housing, Communities and Local Government (MHCLG) data shows that in 2018-19 the largest investors in commercial property were Spelthorne Borough Council at £270 million, Warrington Borough Council with £220 million and Eastleigh Borough Council which spent £194 million³.
- 6.6 The growth in borrowing to fund commercial acquisitions in England has therefore raised concerns in both government and professional bodies like the Chartered Institute of Public Finance and Accountancy (CIPFA), that councils are taking progressively riskier decisions. The latter advises councils to refer to the government guidance, which cautions councils against becoming dependent on commercial income; taking out too much debt relative to expenditure; and taking on debt to finance commercial investments.
- 6.7 For example, when considering property investment, if retail properties remain vacant for long periods and are not generating any rental income then other sources of funds will be required to maintain loan repayments. Similarly, a downturn in the property market is likely to lead to a fall in property values and the risk of negative equity for the investor local authority. Risks are also apparent for other non-property related commercial ventures⁴.
- 6.8 In response to the increased risk of borrowing for commercial activity, some important changes are being made. Firstly, the MHCLG consulted on revising the Prudential Code in 2017⁵ to require the development and publication of an annual capital strategy. Secondly, CIPFA published new guidance in autumn 2019 focused upon commercial property investment. And thirdly, and most significantly, the HM Treasury Public Works Loans Board's future lending terms consultation on loans provided for commercial investments⁶. Taken together, it is anticipated that the impact of these changes will reduce the level of public borrowing for commercial investment in the future.

3 Ministry of Housing, Communities and Local Government, [Local Authority Capital Expenditure and Receipts, England: 2018-19 Final Outturn](#), 26 September, 2019.

4 Bournemouth Borough Council set up a Bank of Bournemouth with the aim of lending to local businesses. Eighteen months later it was forced to close having only acquired 22 customers in that time.

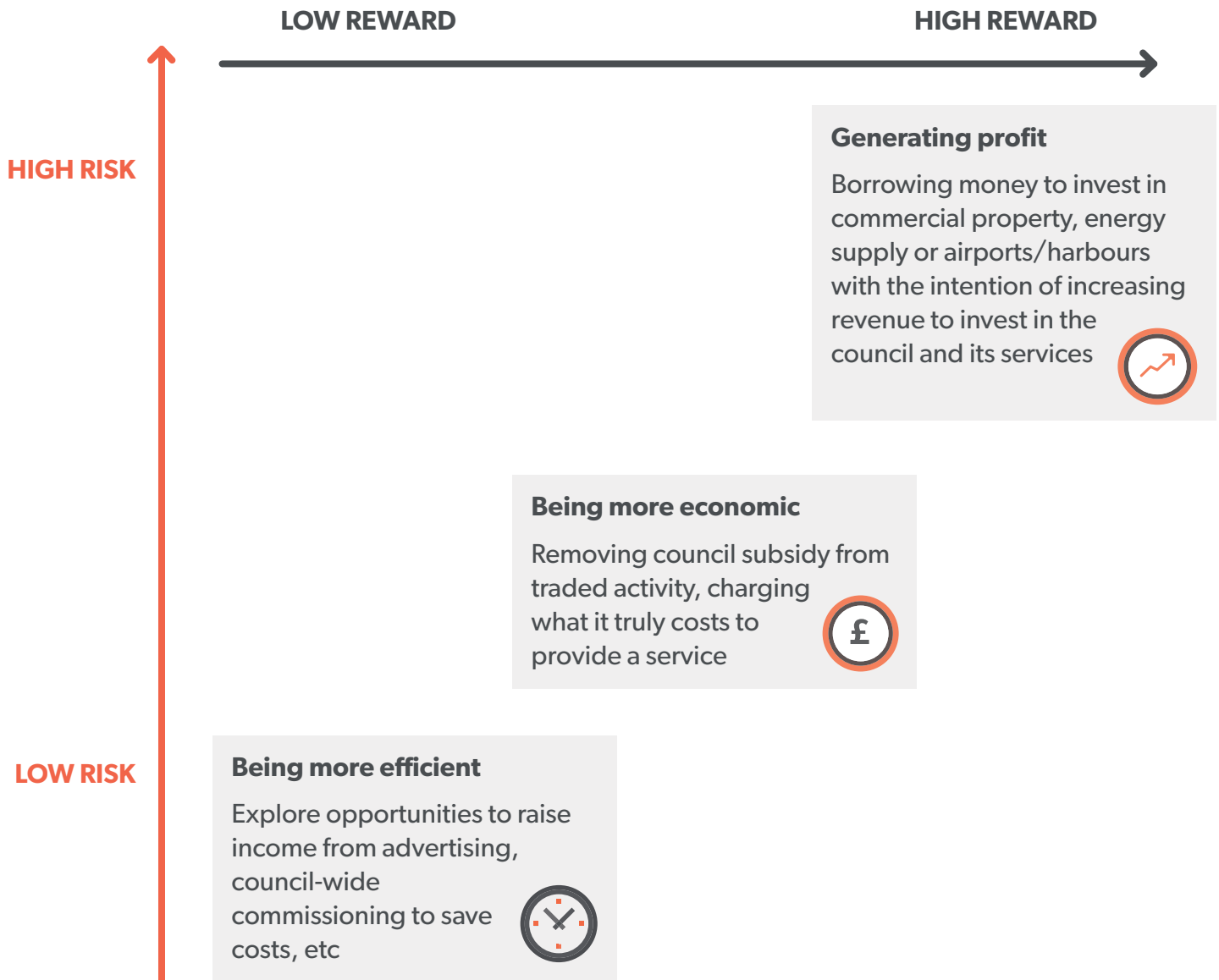
5 GOV.UK, [Proposed changes to the prudential framework of capital finance](#), November 2017 (updated February 2018).

6 CIPFA, [Future Lending Terms Consultation](#), July 2019.

- 6.9 One of the most important decisions for any council considering commercialisation, is therefore, how much risk to take. The phrase 'risk appetite' is often used to describe the level of acceptable risk, but there is no accepted definition for this term. Important management decisions can often involve risk taking, and councils need to be able to answer some key questions:
- How much risk do we face?
 - How much risk can we take?
 - How much risk should we take?
 - How much risk do we want to take?
 - How much risk will we take?
 - How much risk are we taking?
 - How much risk are our citizens comfortable with us taking?
- 6.10 Consequently, councils need to assess and understand the decisions they are making and seek to mitigate and control their potential impact. Councils need to therefore highlight the likelihood of things happening and how severe the impact could be. This assessment should be jargon free and easy to understand. Some options will be relatively low risk with low reward and others the opposite – **Exhibit 7**.

Exhibit 7 – The risk: reward ‘matrix’

Councils need to consider the risk and reward of the commercial decisions they take. Being low risk often means that the financial return is low. Accepting greater risk can bring greater reward, but it also places the council’s finances and services in danger if it does not work out as envisaged or hoped.



Source: Audit Wales.

6.11 Councils need to therefore consider what the risk means for them and how comfortable they are undertaking such an activity. This is not a black and white issue – it is about getting the balance of the decision right when you are considering commercial choices. Based on our fieldwork and research, we summarise below the key features of an effective approach to assessing risk and reward when evaluating commercial investments – **Exhibit 8**.

Exhibit 8 – The key features of an effective approach to assessing risk and reward when evaluating commercial investments

- ✓ Understand who and what is at risk, and who will benefit from the commercial decisions. Pure financial gain for a Council is too narrow an objective and the wider social or economic worth of a decision needs to be considered
- ✓ Ensure commercialisation forms part of the Council’s high-level strategic risk assessment process
- ✓ Assess the impact of risk on business continuity scenarios such as the impact of a drop in investment income and a fall in demand
- ✓ Ensure commercialisation is subject to appropriate due diligence, scrutiny and evaluation which includes consideration of wider social benefit, market shaping, and impact
- ✓ Focussing on social responsibility considerations such as keeping investment local, and not investing in companies or banks with a poor track record on ethical investment
- ✓ Using a single impact assessment template that considers all relevant legal issues, social wellbeing, environmental wellbeing, economic wellbeing, and equality, diversity and Welsh language considerations
- ✓ In considering risk focus on the impact of ‘doing nothing’ as well as doing something

Source: Audit Wales.

Councils need to understand and manage reputational risk and political exposure when deciding on which commercial opportunities to pursue

- 7.1 Poor commercial investments can dent public perceptions of the decision-making ability of their local council. This is important because a poor understanding and mismanagement of risks can have a severe impact on a local council's reputation, and this can have significant knock-on effects on the public perceptions of the trustworthiness and effectiveness of our democratic institutions. Poor risk management can also affect staff morale, deter high quality staff applying for council jobs, and adversely affect the willingness of stakeholders and suppliers to work with the council. Ultimately it will also influence the council's appetite for taking risks in the future.
- 7.2 A council's reputation is not formed in the same way as that of a private sector company. The public's view of councils is heavily influenced by previous experience, expectations, political beliefs and an array of other personal factors such as your age, health and wellbeing. From our survey with citizens it is also very clear that people view councils very differently to private businesses – they have a different role and value.
- 7.3 One way of councils managing reputational risk is to pursue ventures that are bedded in doing things ethically and ensuring commercialisation supports a council's reason for being; activity which is as much about addressing local problems such as fuel poverty or growing the third sector and investing in ways that embody the council's vision.
- 7.4 Senior council staff need to work closely with elected members and give them reassurance any commercial decisions will not leave them unduly over exposed. Focussing on the wider benefits of a commercial decision is one good way of framing this debate. For instance, highlighting that commercial ventures can often be more responsive to residents' needs, offer greater choice and provide better quality services. Commercial approaches can provide affordable alternatives to private businesses and respond to unmet demand and enable councils to deliver services that the private market does not supply.

- 7.5 Making socially responsible commercial investments is one way of improving citizens' confidence in their local council's decision-making. There are some good examples of socially responsible policy making in Wales. Flintshire, Monmouthshire and Cardiff councils are at various stages of establishing systems to monitor the organisation's ethical standards and performance. Cardiff has a Standards and Ethics Committee and a new Socially Responsible Procurement Policy⁷ and the council plans to consider commercial investments as part of the committee's work programme.
- 7.6 Our detailed examination of a sample of ethical governance policies from across the UK plus analysis of comments and opinions from our national interviews and fieldwork find some important learning points on socially responsible commercial investment. These include being clear on what social investment, ethical governance or fair-trade means for the council and its communities. Favouring local companies and keeping investments local are an increasing feature of council commissioning frameworks and recovery planning to ensure investment makes a positive impact on a council's communities. The Welsh Government's 2017 **Ethical Employment in Supply Chains Code of Practice**⁸ provides a good range of information that will help councils ensure their activity supports ethical employment practices.
- 7.7 Following our detailed evaluation of commercial investments across Wales, we set out below in **Exhibit 9** four key principles for how councils can seek to manage reputational risk and political exposure.

7 [Cardiff Council's Socially Responsible Procurement Policy](#)

8 Welsh Government, [Code of Practice – Ethical Employment in Supply Chains](#), 2018

Exhibit 9: Principles of 'Socially Responsible' commercialisation



Establish a set of ethical and socially responsible standards for commercialisation and insist suppliers, lenders, and partners act in accordance with these



Effectively communicate what the council is trying to achieve internally and externally



Ensure council leaders and staff practice what they preach and demonstrate ethical and socially responsible behaviour



Creating an open and honest learning culture to help the council learn from investment decisions from across the UK and use this information to shape its work

Source: Audit Wales

Balancing the risk and reward of commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have agreed what is an acceptable level of commercialisation risk.		
When considering and approving a commercial venture we know: <ul style="list-style-type: none"> • how much risk we face; • how much risk we can take; • how much risk we should take; • how much risk we want to take; • how much risk we will take; • how much risk we are taking; and • how much risk our citizens are comfortable with us taking. 		
When approving a commercial venture: <ul style="list-style-type: none"> • we set a realistic net profit target – i.e. profits after all operating expenses are accounted for; and • we have made a realistic forecast of income by month for each commercial venture. 		

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
<p>We have established a commercial due diligence process, and we use this to support us when approving commercial risks. Our due diligence assessment leads us to:</p> <ul style="list-style-type: none"> • set realistic and achievable targets and business plan goals; • research and assess the market and identify where we are positioned; • assess where the market is heading and how this will affect the value/success of our venture; • identify and analyse who are our strongest and weakest competitors and assess how we will perform against them; • identify our customer base and profile likely usage and demand for our venture; • evaluate our prospects for reaching our projected revenues and in what period; • identify average price fluctuations historically; • forecast prices in the future; and • model revenue spend and capital spend. 		
<p>We risk assess commercial activity and ensuring the same level of governance and accountability arrangements extends to all high-risk commercial activity consistently.</p>		
<p>We have effective delegation arrangements for low risk commercial activity.</p>		
<p>Our approach to commercialisation aligns with the council's priorities and we are clear how each option contributes to delivering our corporate plan and wellbeing objectives.</p>		

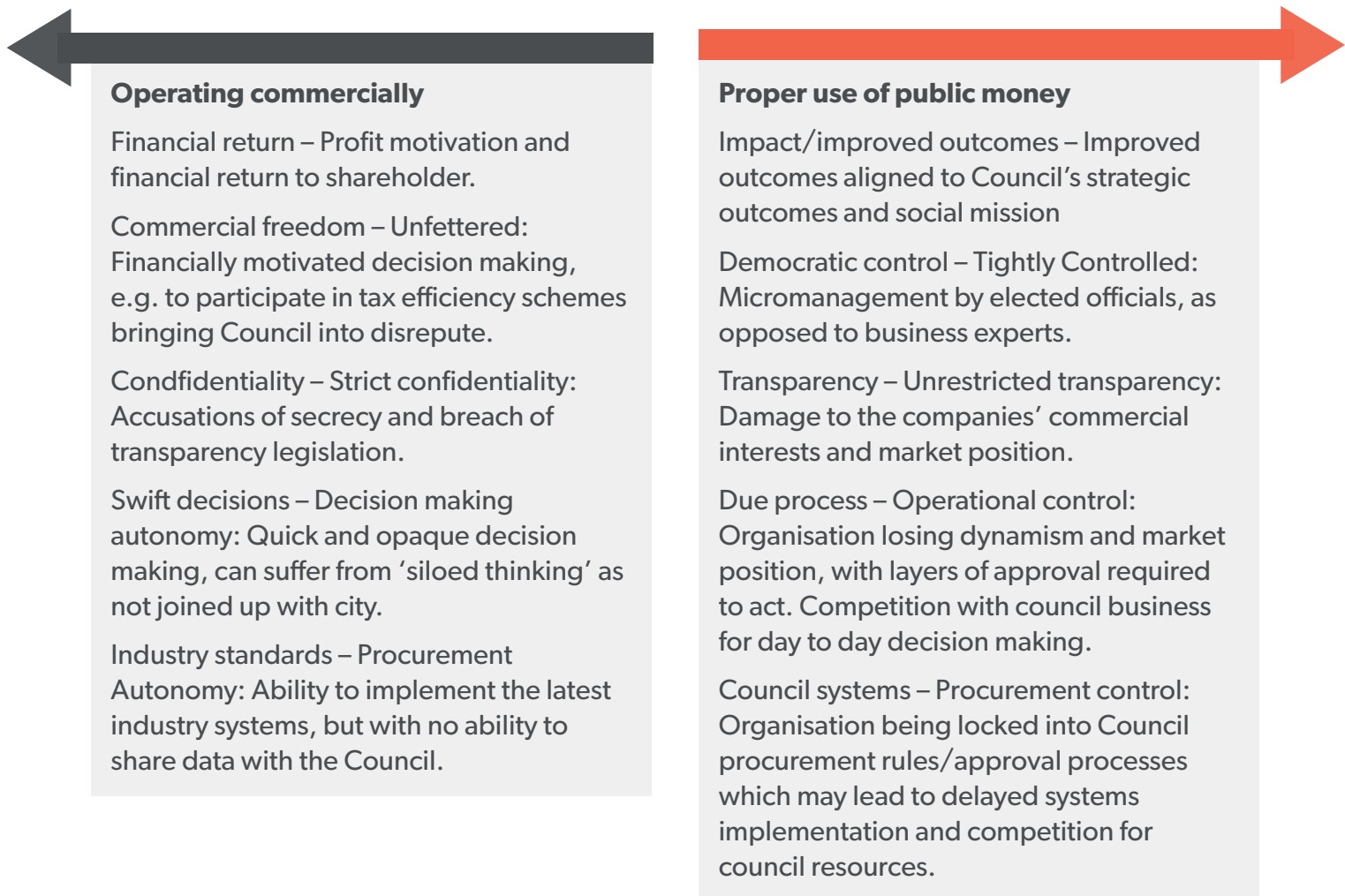
Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We effectively communicate internally and externally what the council is trying to achieve through commercialisation and specifically focus on the social value of our ventures.		
Our options appraisal process includes a specific assessment of how the commercial venture will deliver social value for the council.		
We have established a set of ethical and socially responsible standards for commercialisation.		
We insist suppliers, lenders, and partners act in accordance with our ethical and socially responsible standards.		
Our monitoring and evaluation of commercial ventures explicitly focus on what social value is being delivered.		

Councils need to have effective governance and oversight of commercial decisions

Sound decision making leads to better commercial investments

8.1 Doing business in the post pandemic world means maximising all the resources councils have and taking every opportunity to support the economy. Having appropriate governance and accountability arrangements to approve and scrutinise new commercial activity is key to achieving this wider goal. **Exhibit 10** shows the Bristol City Council approach to understanding how to balance commercial freedom with public accountability. The City Council’s Commercialisation Strategy 2019-22 identifies and sets out the need to get the right balance between operating commercially and being accountable and transparent for public money.

Exhibit 10 – Bristol City Council approach to managing the tension between operating in a commercial environment whilst having due regard to the proper use of public money



Source: Bristol City Council.

- 8.2 We find elected member engagement and involvement in commercialisation issues vary. The best approaches involve elected members early and have specific, well defined, and regularly updated policies that are appropriate to local circumstances and support councillors to discharge their governance, decision making and oversight responsibilities. Industry standards and best practice should be considered in any decision-making process, and we find the most effective councils are outward looking and seek to learn about what works and from other councils' experiences.
- 8.3 Despite finding a mixed picture of effective governance and oversight of commercial decisions in Wales, we did identify some good approaches through our review of cabinet and scrutiny papers. Both Monmouthshire County Council and Neath Port Talbot County Borough Council have created specific cross-party investment committees made up of councillors, officers and external experts, which can help de-politicise issues. Conwy County Borough Council and Flintshire County Council follow a pre-decision scrutiny model and provide elected members with the opportunity to challenge and shape the focus of commercial activity on wider issues such as economic wellbeing. Cardiff Council uses task and finish groups to undertake in-depth analysis and research and identify options for future commercial activity.

Exhibit 11 – ensuring effective governance and oversight of commercial decisions

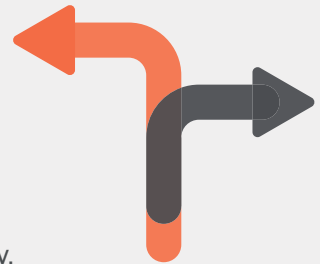
Dorset County Council has a clear decision-making framework for the governance and oversight of commercial issues. The Council sees this as integral to ensuring there is a transparent and accountable 'One Council' approach to commercialisation and income generation.

Commercial activity and key decisions to pursue and support such activity are overseen by the Commercialisation and Income Generation Board.

The key responsibilities of the Board are to:

- act as a gateway for commercialisation and income-related business case investment;
- make 'go' and 'no-go' decisions in relation to new and existing income opportunities and ensure that income decisions are taken on evidence-based principles which support realistic estimates of the income level to be achieved;
- ensure that commercialisation and income generation is being maximised within the framework set out in the policy;
- monitor and review performance of commercialisation and income generation against agreed targets;
- receive and consider an annual review of all chargeable Council services;
- consider and take decisions on proposals for changes in prices and the balance of cost and income;
- consider and take decisions where it is proposed that a 'subsidy' will be required; and
- consider and take decisions on concession rates and target groups.

Source: Dorset County Council, Commercialisation and Income Generation Strategy.



Effective scrutiny of decision making can ensure better results and ensure lessons are learnt

- 8.4 Effective scrutiny is important because, at its best, it can contribute to good decision making and ensure public money is being spent wisely. Our survey of councils' corporate management teams highlights that 86% of respondents believe their council has appropriate and clear scrutiny processes to oversee commercialisation and 84% that elected members are provided with the information they need to challenge and scrutinise commercial matters.
- 8.5 However, only 27% believe that elected members have effective skills, expertise and knowledge to be able to provide effective challenge and scrutinise decisions and options. This is not helped by gaps in key information and elected members are often not getting the level of detail required to scrutinise and decide on commercial choices. For instance, consideration of usage, pricing, market conditions, competitor analysis and growth. Corporate management team members acknowledge that these are big gaps in key data needed to understand, monitor and evaluate commercial activity.

Exhibit 12 – ensuring effective scrutiny of commercial decisions

Medway Council in Kent set out the key role of internal scrutiny in its commercialisation framework in 2015 and updated it in 2020. Specific Member training and guidance has been developed to help scrutinise commercial activity. This includes case studies and performance measures that set the agreed balance between economic, social and environmental objectives contained in business plans.

The six key areas the council has identified for scrutiny include:

- helping drive forward cultural transformation and setting a good example.
- supporting judgements about the rationale underpinning commercial activity.
- a focus on reputational, financial and partnership risks.
- oversight of relationships between partners.
- oversight of performance monitoring (rather than performance monitoring itself).
- early engagement with scrutiny is included in the business development process for major and mid-sized commercial ventures. Minor investments have specific checks and balances under delegated powers contained in the updated council corporate governance framework.

Source: Medway Council.



- 8.6 Our detailed review of all 22 councils' cabinet and scrutiny meeting reports and minutes since January 2018 highlights the importance of clear recommendations that are underpinned by good quality evidence when presenting information to elected members. The best scrutiny reports and minutes also clearly set out what constitutes commercial activity and recognise the importance of monitoring progress and the impact of commercial activity against an agreed range of outcome measures and relevant council priorities/wellbeing objectives.
- 8.7 The importance of good and effective scrutiny of commercial options cannot be underplayed or overestimated. Warrington Borough Council clearly defined its risk appetite and aligned its income generation strategy with the council strategy, customer strategy and the medium-term financial plan to ensure long-term financial sustainability of investments. Scrutiny Members also agreed what things the council would not invest in, and what things would unnecessarily expose them to risk. Because commercial ventures often require significant funding and have greater levels of risk, councils need to ensure they do more scrutiny, not less, to safeguard public money.
- 8.8 From our research the key features of an organisation with effective governance arrangements that support a positive commercial culture are shown in **Exhibit 13**.

Exhibit 13 – a council with a positive approach to scrutinising commercialisation is epitomised by....

- A transparent approach that sets out how decisions are made and by whom
- A confident decision-making culture with elected members not afraid of challenging officers and holding people to account
- Engaging and involving the business community and key stakeholders and ensuring there is cross-party political support
- Ensuring scrutiny is adding value and not unnecessarily slowing down the decision-making process
- Mainstreaming and integrating scrutiny of commercial activity into corporate governance arrangements
- Undertaking pre-decision scrutiny work to help shape choices and post-decision scrutiny work to ensure what is agreed is working
- Scrutinising the setting of targets and measures of success to judge improvement over time, and monitoring these when they have been agreed
- Sharing learning and drawing evidence from other councils in Wales and elsewhere to learn from what works

Source: Medway Council.



Governance and scrutiny of commercialisation

Below we have set out a self-assessment to help councils identify and evaluate their current performance and identify where they need to improve.

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We have a training programme that is equipping our elected members to effectively scrutinise commercial ventures.		
We have clear and appropriate governance structures to evaluate, scrutinise and approve commercial ventures.		
We have mainstreamed and integrated scrutiny of commercial activity into our corporate governance arrangements.		
We act in a transparent way and everyone is clear on how decisions on approving commercial ventures are made and by whom.		
We have a confident decision-making culture and elected members are not afraid of challenging officers and holding people to account.		
We receive good quality information to: <ul style="list-style-type: none"> • judge whether we should approve a commercial venture; and • monitor and fully evaluate performance of our commercial ventures. 		
We draw on and utilise experts to help us scrutinise commercial ventures.		
Our scrutiny is adding value and not unnecessarily slowing down the decision-making process.		

Issues for us to consider	Yes, we are clear on this and no further work is required	No, there is more work for us to do
We undertake pre-decision scrutiny work to help shape choices.		
We undertake post-decision scrutiny work to ensure what we approve is working.		
We set targets and measures of success to judge improvement over time, and monitor these when they have been agreed.		
We scrutinise all our commercial ventures to ensure they are delivering for the council.		
We share learning and draw on evidence from other councils in Wales and elsewhere to learn what works, what does not, the risks we face and the potential rewards.		



Appendices

- 1 Audit methodology**
- 2 The key legislation governing commercialisation**

1 Audit methodology

Review of literature

We have reviewed a wide range of documents and media, including:

- Welsh Government policy, statutory guidance and legislation;
- all 19 PSB Wellbeing Plans;
- all 22 councils' cabinet and scrutiny papers since January 2018;
- a range of income generation and commercial policies and strategies;
- data published by StatsWales and the Office for National Statistics; and
- other relevant research and guidance from government, councils, CIPFA, and research bodies.

Surveys

We completed a detailed telephone survey with 842 people from all 22 council areas in Wales. We completed an online survey with all elected members and received 263 responses from all 22 councils. We also surveyed all 22 Corporate Management Teams and received replies from 44 individual officers. We had responses from all 22 councils in Wales.

Fieldwork

We completed a range of national and local interviews with local authority staff in Monmouthshire County Council, Carmarthenshire County Borough Council, Caerphilly County Borough Council and Neath Port Talbot County Borough Council. We also visited councils and regional offices in Bristol and Manchester. We undertook a range of interviews with national bodies including APSE, the Joseph Rowntree Foundation, NESTA, the Local Government Network, and heard detailed case studies at a UK Government event 'Local Government Commercialisation: Generating Income To Support More Effective Public Services'.

2 The key legislation governing commercialisation

Activity	Key legislation
Specific Powers	<p>Local Government Act 1972 Local Government (Miscellaneous) Act 1976 Road Traffic Regulations Act 1974</p>
Public Bodies	<p>Local Authorities (Goods and Services) Act 1970 – General powers to work with other public bodies in collaboration to provide services.</p>
Community wellbeing	<p>The Local Government Act 2000 gave local authorities a general power to provide services or activities necessary for the wellbeing of the local community.</p>
Power to trade	<p>Local Government Act 2003 – Included a general power for councils to charge for discretionary services. Allows for trade through an LA company where a council has a statutory power to perform the service which is subject to trading. A council can:</p> <ul style="list-style-type: none"> • charge for anything so long as there is legal authority for the council to run the service (and unless charging is prohibited); • charge for anything that it must do to set up, run and invest in a service; • trade for commercial purposes in anything that it wishes for the wellbeing of the community; and • make a profit on its trading activities <p>These freedoms allow a council to stimulate innovation in the delivery of its services and set up potential trading vehicles to carry out a service for the wellbeing of the community.</p>
General Power of Competence	<p>Localism Act 2011 – In England only and has created powers to trade with the public and private sector. Allows councils to do anything an individual can do, unless prohibited by law and subject to public law principles. This does not exist in Wales, but the Welsh Government has included it in the draft Local Government and Elections (Wales) Bill.</p>



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AUDIT COMMITTEE: 17 NOVEMBER 2020

CORPORATE RISK MANAGEMENT - QUARTER TWO 2020/21

REPORT OF CORPORATE DIRECTOR RESOURCES AGENDA ITEM: 6.1

Reason for this Report

1. To update Audit Committee on the risk management position at quarter two 2020/21 and to highlight any changes from the quarter four 2019/20 report.
2. The Audit Committee's Terms of Reference sets out their responsibility:
 - To monitor and scrutinise the effective development and operation of the risk management arrangements within the Council, and;
 - To oversee progress in addressing risk-related issues reported to the Committee, such as the Corporate Risk Register (CRR).

Background

3. Audit Committee ordinarily receives a risk management update each financial quarter with the opportunity to make comments. However, due to scheduling issues caused by the Coronavirus pandemic, the last Audit Committee review was on 28th July 2020, at which time the risk management position at quarter four 2019/20 was presented. As such, this report provides an update covering both quarter one and quarter two 2020/21.
4. Each Directorate holds a Directorate Risk Register (DRR) and the Senior Management Team (SMT) collectively own a Corporate Risk Register (CRR). The CRR records the main risks to the delivery of corporate objectives and priorities, whilst the DRRs record the key risks to the delivery of Directorate functions and priorities.
5. A risk escalation process is in place, whereby each Director is required to take ownership of all residual (current) risks rated as 'red/amber' and above on their DRR and, at a minimum, to escalate all 'red' residual risks to SMT for collective ownership and review.
6. This reporting process allows SMT to determine if any changes are required to the CRR each quarter. The remaining escalated risks continue to be held on DRRs and are reviewed by SMT each quarter until it is agreed that mitigation is sufficient for risk ownership to transfer back to the Directorate.

Issues

7. Each Director has worked with their Risk Champion(s) to undertake their quarter two risk management review. The Risk Management Team has also provided advice and guidance on the measurement and reporting of risks. The quarter two risk assessments are

presented on the Corporate Risk Register Summary Snapshot (Appendix A) and the Detailed Corporate Risk Register (Appendix B).

8. The Risk Management Review process has two tiers (Directorate and Corporate) and the actions at each for quarter two are detailed as follows.

Directorate Risks

9. At the quarter two position, 296 risks were reported from DRRs. All escalated risks and requests for de-escalation were discussed and approved in SMT on 29 October 2020.
10. It was agreed that eight directorate risks would be carried forward as SMT escalated risks at quarter two. Also included in the figure of 296 directorate risks are 82 Covid-19 specific risks that have been identified and are being managed within directorates as at the end of quarter two.

Directorate	Directorate Risks	Risks at SMT Escalation Point	Covid-19 Specific Risks
Economic Development	32	2	12
Education	23	0	9
Governance & Legal Services	14	1 (Shared)	6
Housing & Communities	62	2	26
Performance & Partnerships	2	0	0
Planning, Transport & Environment	29	0	3
Recycling & Waste	1	0	0
Resources	92	1	8
Social Services	41	3 (1 Shared)	18
Total	296	8	82

Corporate Risks

11. SMT collectively reviewed the escalated directorate risks and corporate risk updates at the end of quarter two.
12. In considering the Corporate Risk register, the Senior Management Team considered the appropriateness of the approach in respect to Workforce Planning and Capital Ambition Delivery. The Senior Management Team considered that both of these risks were being managed by each Directorate and, being part of Directorate rather than Corporate Risk registers allowed them to focus on the key risks and challenges for these areas in the relevant detail. The established Risk Management process also allows any directorate risk to be escalated into Senior Management where it is determined that a corporate response is required in terms of action or resources. An example of this has been the continued escalation of the Social Care Workforce Risk by the directorate that is currently being managed and monitored within the directorate with significant support from corporate functions.
13. Capital Ambition was refreshed in January 2020, at the mid-point of the municipal cycle, in recognition of the progress made and the emergence of new delivery priorities. As part of this process, the previously separate reporting arrangements for delivering certain

corporate priorities were brought into the Directorate Performance Management Framework. This formed part of the Council's response to the WAO review of the Council's change management arrangements (the Delivering Capital Ambition Programme) which identified the need for greater alignment between the Corporate Plan Framework and the performance reporting arrangements. This integration ensured the additional resources allocated to address Corporate Priorities are managed through one Planning and Improvement Framework.

14. In addition, it is proposed that the current corporate risk titled Schools Organisation Programme (Band B) is broadened to consider new asset infrastructure across the Council. This will ensure that there is a corporate view on the risks associated with all infrastructure projects. This work is currently being undertaken and will be reported to the Audit Committee in the future.

Coronavirus (COVID-19)

15. The impact of Covid-19 on existing risks has been considered as part of quarter two reporting arrangements. Directorates have also considered Covid-specific risks as set out in the previous table.
16. The speed and uncertainty of events has led to the need for the risks in relation to Covid-19 to be monitored on a more frequent basis. The formal Directorate Risk Registers continue to be updated on a quarterly basis and are reviewed in order to ensure that the risk and the associated impacts and likelihood remain appropriate. As reported previously, the Senior Management Team met on a daily basis at the early onset of the pandemic and this continued until July. Whilst the meetings reduced to three days a week during the period July to September, there remained the opportunity for any issues to be raised at this meeting with the emphasis on those matters that required escalation in terms of capacity, support or speed of response. Since October, as events have become more concerning these meetings have returned to a daily basis.
17. The Directorate Risk Registers have collected a series of risks that are related to Covid-19 and the challenges in delivering services in the current environment, which is subject to various incidences of infection. Where the directorates have identified interdependencies with other services of the Council then these are reported to the Senior Management Team. The Council's response to the pandemic and its risk management is not restricted to delivering its own services, and there are clear links with Welsh Government and Health partners.
18. The Senior Management Team has kept an oversight on preparations and actions of directorates in order to ensure that there is a level of business continuity and resilience built into service delivery plans. This includes identifying the steps taken to embed working practices that can continue even if the pandemic conditions return to April activity levels. This robustness is supported by the existing Emergency Management processes in place and does place reliance on an escalation mechanism.

UK's Exit of the European Union

19. The UK left the European Union on 31st January 2020. It remains in the single market and customs union until the end of the year as part of transition arrangements. Negotiations continue to take place in order to secure the future relationship between the UK and the EU. The UK government's position remains not to extend the transition period beyond 31st December 2020.

Reason for Recommendation

20. To enable the Audit Committee to monitor risk management activity, and consider the Risk Management Review – quarter two 2020/21.

Legal Implications

21. There are no direct legal implications arising from this report. However, one of the benefits of identifying risk is that mitigation measures may be taken, if appropriate, and consequently successful claims against the Council may be avoided altogether, or reduced.

Financial Implications

22. There are no direct financial implications arising from this report. The Corporate Risk register will be used to guide the Internal Audit Plan and the Council's resource planning processes and forms an important part of the governance arrangements for the Council.

RECOMMENDATIONS

23. Audit Committee to note and comment upon the risk management activity and the contents of the Corporate Risk Register, and to consider the information given, in the programming of its work.

Christopher Lee Corporate Director Resources

The following Appendices are attached:

Appendix A - Corporate Risk Register Summary Snapshot – Q2 2020/21

Appendix B - Detailed Corporate Risk Register – Q2 2020/21

The following background papers have been taken into account:

Directorate Risk Registers Q1 & Q2 2020/21

Corporate Risk Register Summary Snapshot Quarter 2 2020/21

Appendix A

Number of Risks by Inherent Risk Rating

Likelihood	A	A1 11	A2 2	A3	A4
	B	B1 6	B2 4	B3	B4
	C	C1	C2	C3	C4
	D	D1	D2	D3	D4
	E	E1	E2	E3	E4
		1	2	3	4
		Impact			

Number of Risks by Residual Risk Rating

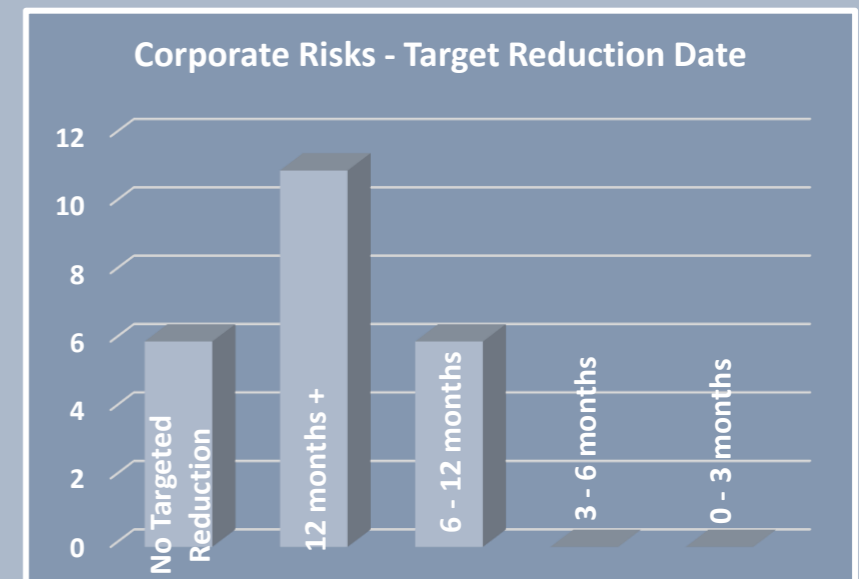
Likelihood	A	A1 1	A2	A3	A4
	B	B1 1	B2 6	B3 1	B4
	C	C1 2	C2 7	C3	C4
	D	D1 3	D2 2	D3	D4
	E	E1	E2	E3	E4
		1	2	3	4
		Impact			

Number of Risks by Target Risk Rating

Likelihood	A	A1	A2	A3	A4
	B	B1 1	B2 2	B3 1	B4
	C	C1	C2 4	C3 2	C4 1
	D	D1 4	D2 4	D3 4	D4
	E	E1	E2	E3	E4
		1	2	3	4
		Impact			

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Inherent Risk Rating	Corporate Risk Title	Residual Risk		Target Risk	
		Rating	Movement from Q4	Rating	Movement from Q4
A1	Climate Change	A1	↔	B2	↔
	City Security	B1	↔	B1	↔
	Brexit	B2	↔	B3	↔
	Financial Resilience		↔	C2	↔
	Air Quality & Clean Air Strategy	C1	↓	C3	↔
	Cyber Security		↔	D1	↔
	Budget Monitoring (Control)	C2	↔	D2	↔
	Schools Organisation Programme (Band B)		↔	C3	↔
	Health and Safety		↔	D3	↔
	Non-completion of Stat Building Eqpt Maintenance	D1	↔	D2	↔
Information Governance	↔		D2	↔	
A2	Welfare reform	B2	↔	B2	↔
	ICT Platforms Unsuitable/ Outdated	C2	↔	D3	↔
B1	Coastal Erosion	B2	↔	C2	↔
	Waste Management		↔	C2	↔
	Increase in Demand (Children's Services)	C1	↔	D1	↔
	Education – Schools Delegated Budgets	C2	↔	D2	↔
	Business Continuity	D1	↔	D1	↔
Safeguarding	↔		D1	↔	
B2	Education Consortium & Attainment	B3	↔	C4	↔
	Legal Compliance	C2	↔	C2	↔
	Performance Management	D2	↔	D2	↔
	Fraud, Bribery and Corruption		↔	D3	↔



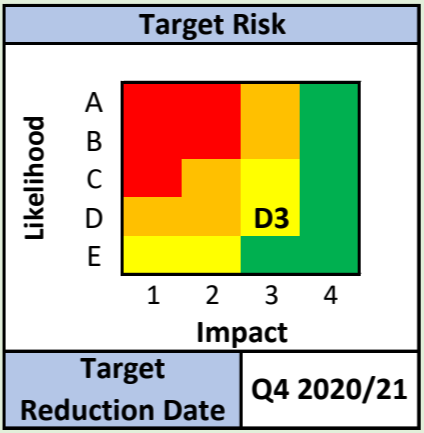
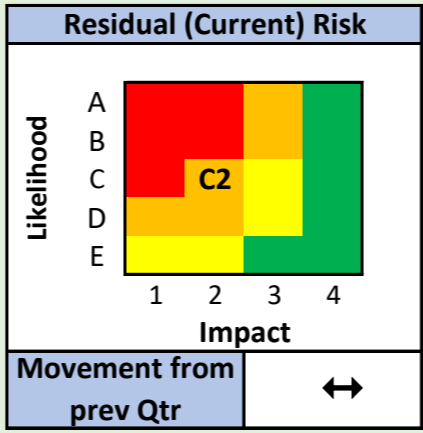
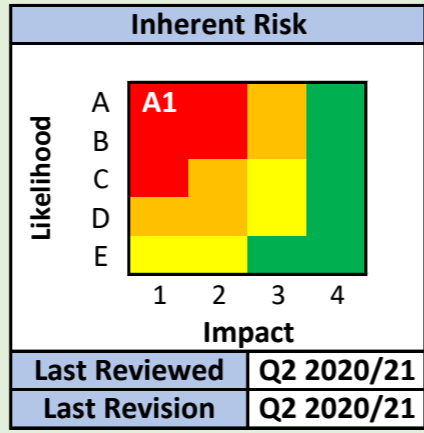
Key	
High (Red)	Medium (Red-Amber)
Medium (Amber-Green)	Low (Green)
↓	Decrease from previous quarter
↔	No change from previous quarter
↑	Increase from previous quarter

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Non-completion of Statutory Building Equipment Maintenance

Description

Non completion of cyclical statutory inspections or the remedial works arising out of the inspections, required to maintain the premises and related installations in a safe and legally compliant condition.



Risk Owner(s)

Neil Hanratty

Councillor Russell Goodway
Investment & Development

What we've done/are currently doing to achieve the Residual Risk Rating

Contractor

- Statutory Planned Preventative Maintenance (PPM) undertaken by competent contractor. Consequential remedial work identified on test certificates.
- Improved statutory maintenance contracting arrangements in place inc. use of SFG 20 as specification for statutory obligations testing and new risk based specification for legionella management supported by RAMIS.
- FM competent person(s) review all test certificates, remedial work captured and communicated to client as necessary/applicable
- Statutory Obligations Team has been established within Building Services to improve monitoring and supervision of statutory obligations contractor. Contractors have been trained in the use of RAMIS in order for test certs to be uploaded directly to the system by contractors.

RAMIS IT Software

- RAMIS implemented across the Council with bi-monthly reporting on statistics to SMT;
- 500 Building Managers have received training in their responsibilities and use for the RAMIS system, including schools estates staff and Headteachers.
- Full time officer Administrating RAMIS, providing training and issuing reports from the system to all service areas to push compliance ratings up to a minimum of 80% set by SMT.
- Condition surveys have been completed which represents an extensive piece of work to improve our understanding and knowledge base of all the Council's land and property holdings.

Corporate Landlord Programme

- County Estates senior management structure established supporting - Strategic Asset Management, Capital Delivery and Property Services, to manage and deliver all the Council's non-domestic property functions within one portfolio.
- The occupancy agreement (Memorandum of Agreement) for Schools was issued with the Schools Handbook and 'one front door' established to assist implementation. An occupancy agreement for non-schools properties has been drafted. This will be circulated by end of Q4 2020/21 (COVID-19 delay).
- The 'One Front Door' approach was rolled out across the corporate estate by end of Q4 2019/20.

Statutory Obligation Compliance

- Continue to commission work to undertake required compliance testing (and works required) where Building Services has responsibility to do so, as defined on RAMIS

COVID-19

- During the COVID 19 period, the periodic gas and 6 monthly fire alarm testing has continued in all buildings. In the core buildings, and also Ty Storrie, Crosslands and Dominions Way Buildings, full statutory obligations testing has continued.

Potential Impact(s)

Potential consequences of non-compliance with statutory maintenance:

- Fatalities or serious injuries
- Closure of part or whole of facilities with major disruption to service delivery
- HSE interventions and consequential actions including fines and prosecution;
- Significant additional expenditure requiring realignment of Corporate budgets;
- Temporary relocation of staff
- Temporary loss of operational service
- Invalidation of insurance policy
- Serious adverse impact on reputation
- Damage to fabric of building or other equipment

Type(s) of Impact

<ul style="list-style-type: none"> Service Delivery Reputational Legal Financial 	<ul style="list-style-type: none"> Health & Safety Partnership Community & Environment Stakeholder
--	--

Linked Risks

Health & Safety

What we plan to do to meet target

Statutory Obligation Compliance

- Continue to commission investigations / work to complete required compliance testing (and works required) in respect of 'gaps' in compliance identified by reports from RAMIS.

Landlord / Occupancy Agreement

- Consult on draft Landlord/Occupancy Agreement template Q3 2020/21 and roll out in Q4 2020/21 (delayed from 19/20 due to COVID-19). This will set out principle occupant and landlord permissions responsibilities and Permission for Works arrangements required.
- Landlord occupancy principles established and reviewed for inclusion in non-schools handbook which will be rolled out in Q4 20/21 (delay from 19/20 due to COVID-19).

COVID-19

- As WG restrictions are lifted and buildings re-open, the statutory obligation contractor will resume statutory obligations testing.

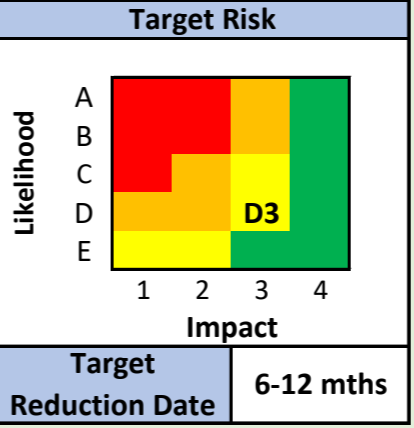
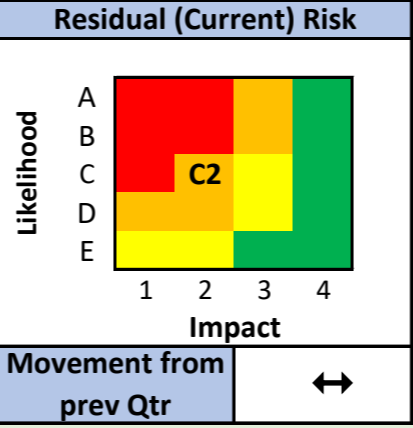
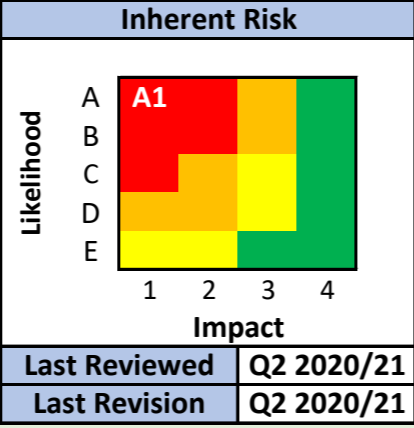
Key Indicators / Measures used to monitor the risk

Compliance stats from the Corporate Health & Safety Team.

Health & Safety

Description

Non Compliance with corporate health and safety arrangements to control key risks across the Council in line with statutory requirements.



Risk Owner(s)

Chris Lee
(Donna Jones)

Councillor Chris Weaver
Finance, Modernisation and Performance

What we've done/are currently doing to achieve the Residual Risk Rating

- RAMIS - New platform roll out be completed in QTR 2 along with training webinars and video links to support navigation and use of the new platform.
- Digital Risk Assessment Library - COVID-19 Building and Service risk assessments were to be uploaded in QTR2, this has been affected by the ongoing C-19 workload.
- Completion of Improvement action plan for Street Scene, installation of employee welfare facility.
- Re-launch of Asbestos Training - mix of virtual and practical training in line with COVID-19 Safety measures.
- Due to the impact of COVID-19 Health and Safety resources have been repurposed towards ongoing infection control measures, including Guidance , procurement and issue of PPE and support of vulnerable staff who are at increased risk from the virus. Risk Assessments to support Restart & Recovery across the Council have been essential to ensure that WG and PHW advice is implemented and staff in or returning to work are not exposed to risk of contracting the virus.

What we plan to do to meet target

- RAMIS - Continue to roll out new platform in Q3 2020/21, including reporting on performance.
- Mandatory training of Headteachers in H&S/Building responsibilities to be considered in Q3 2020/21, workload permitting.
- Digital Risk Assessment Library - COVID-19 Building and Service risk assessments to be uploaded in Q3/4 2020/21.
- Completion of installation of fire suppression in Lamby Way MRF - Q3/4 2020/21, taking into account any local or national restrictions.
- In Q3/4 2020/21 Produce training webinars for building management training for community organisations operating Council premises.
- Condition Surveys School Buildings - Complete Dissemination of Condition Survey information to schools in Q3 2020/21.
- Continue Asbestos Training - online and face to face in line with COVID-19 Safety measures.
- Due to the continued pandemic H&S and OH resources will continue to be repurposed to support the workforce and limit the transmission of the virus in Council workplaces, as well as setting policy and guidance in relation to infection control and mental health and wellbeing support.

- Potential Impact(s)**
- Fatalities
 - Serious injuries
 - Prosecution – fines for corporate body and/or fines/imprisonment for individual
 - Civil Claims
 - Negative Publicity

- Type(s) of Impact**
- Service Delivery
 - Reputational
 - Legal
 - Financial

Linked Risks

Non-completion of Statutory Building Equipment Maintenance

Key Indicators / Measures used to monitor the risk

RAMIS is used to monitor statutory risk in relation to premises safety, bi-monthly reporting to SMT, quarterly reporting to Health and Safety Forum.
Compliance against annual Corporate H&S Objectives, used to monitor improvement secured in Service Areas, reported to Health and Safety Forum.

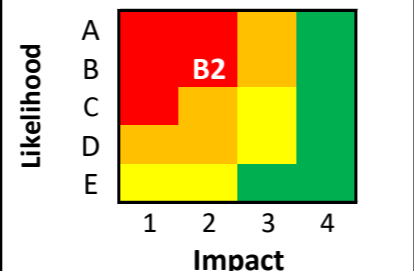
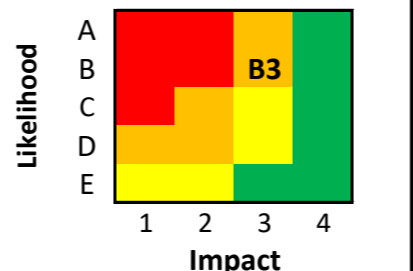
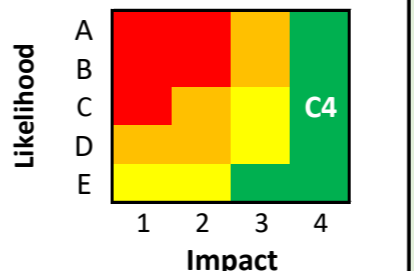
Schools Organisation Programme (Band B)

Description	Inherent Risk	Residual (Current) Risk	Target Risk	Risk Owner(s)	
<p>Failure to deliver on aspects of the School Organisation Programme, which is significant in value and complex. The programme consists of Band B (£284m) 21st Century Schools, asset management improvement work, ICT and sufficiency projects. The programme of work spans across a number of directorates, requires significant capacity and has significant capital spend.</p>	<p>Last Reviewed Q2 2020/21 Last Revision Q1 2020/21</p>	<p>Movement from prev Qtr ↔</p>	<p>Target Reduction Date 12 mths +</p>	<p>Nick Batchelar (Richard Portas)</p>	<p>Councillor Sarah Merry Deputy Leader & Education, Employment & Skills</p>
<p>Potential Impact(s)</p> <ul style="list-style-type: none"> • Opportunities to enhance the school estate, and transform education will be missed • Insufficient secondary places in some central and north east areas of the city • Insufficient places in ALN settings across the city, leading to costly placement in out of county & private settings • School buildings that are not suitable for teaching and learning • Further degeneration of school buildings & rise in asset management backlog • Project cost and time overruns • Risk that school ICT infrastructure fails in the short to medium term and does not support the new curriculum • Risk that in current situation, learners do not have access to ICT equipment to support distance learning 	<p style="text-align: center;">What we've done/are currently doing to achieve the Residual Risk Rating</p> <ul style="list-style-type: none"> • 21st Century Schools Band B funding bid was submitted to Welsh Government in July 2017 and the Strategic Outline Case for £284m was approved in November 2017. Two Cabinet Reports in October and December 2018 outlined the priorities for this second phase of funding. SOP reports for Fitzalan, Doyle Avenue and St Mary the Virgin have been considered by Cabinet under Band B. Progression of these schemes and others have been delayed until October due to COVID-19. A review of Band B is underway to assess the budget shortfall and achieve maximum value for money with the funds available. • Discussions with developers and contractors are taking place around capacity to deliver projects in light of COVID-19 clauses. • Work is ongoing to make sure that all learners have access to digital devices, network and infrastructure to support mobile and distance learning. • Robust governance model, in line with Corporate Landlord approach is in place and is supporting consistent decision making. • The post of Programme Director has been approved by Cabinet to make permanent and the postholder is establishing the capacity and capability requirements of the programme. • Technical feasibility and design work underway • Finance have re-profiled the capital and revenue budgets to assess the required budgets for each scheme. There are ongoing discussions with Welsh Government to assess the affordability of the programme in light of the current programme. • Developing more robust management and monitoring processes for the asset improvement programme, including the three "D" category High Schools, Fitzalan, Cantonian and Willows. • Procurement is underway for ICT infrastructure and devices that will support teaching and learning. 			<p style="text-align: center;">What we plan to do to meet target</p> <ul style="list-style-type: none"> • Develop a high level SOP Strategy that outlines the short/ medium and long term aims of the whole programme. The SOP Strategy will be underpinned by the ongoing Band B review. • Strengthening of the capacity of the SOP team critical to ensuring effective delivery of the different elements of the programme. The SOP team are overseeing Hub childcare provision that was put in place following closure of schools and supporting Admissions Appeals. Developing capacity includes ensuring that corporate colleagues in departments including legal, strategic estates, capital projects, ICT, planning and highways and transportation are available. • Ensure that SOP reports are complete and ready for September and reports are scheduled in a sustainable throughout the next year. • Continued active dialogue with Welsh Government and other professional parties to support progress and development. • Prioritise population data development to underpin accurate projections and forecasts for existing resident populations and to support effective s106 negotiations going forward. • Ensure consistent monitoring and reporting of all risks to Schools Programme Board. • Continue to move forward with digital projects to support distance and mobile learning and embed into a long term and sustainable model. 	
<p>Type(s) of Impact</p> <ul style="list-style-type: none"> • Reputational • Legal • Financial • Social • Health & Safety • Stakeholder • Health and Wellbeing • Sustainability 	<p style="text-align: center;">Linked Risks</p>		<p style="text-align: center;">Key Indicators / Measures used to monitor the risk</p> <ul style="list-style-type: none"> • Proportion of Priority 1a Schools Asset Improvement works completed in financial year, in accordance with the responsibilities of schools and corporate landlord (Corporate Plan). • Timelines to deliver projects within the SOP programme. • New key performance measures which are being developed as part of the overarching SOP Strategy. 		

Education - Schools' Delegated Budgets

Description	Inherent Risk	Residual (Current) Risk	Target Risk	Risk Owner(s)									
<p>The number of schools with deficit budgets and/or the overall value of deficit budgets increases, or that those schools (particularly in the Secondary sector) with existing deficit budgets do not deliver agreed deficit recovery plans.</p>				<p>Nick Batchelar (Neil Hardee)</p>	<p>Councillor Sarah Merry Deputy Leader & Education, Employment & Skills</p>								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #d9e1f2;">Last Reviewed</td> <td>Q2 2020/21</td> </tr> <tr> <td style="background-color: #d9e1f2;">Last Revision</td> <td>Q2 2020/21</td> </tr> </table>	Last Reviewed	Q2 2020/21	Last Revision	Q2 2020/21	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #d9e1f2;">Movement from prev Qtr</td> <td style="text-align: center;">↔</td> </tr> </table>	Movement from prev Qtr	↔	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #d9e1f2;">Target Reduction Date</td> <td>12 mths +</td> </tr> </table>	Target Reduction Date	12 mths +		
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	<p style="text-align: center;">What we've done/are currently doing to achieve the Residual Risk Rating</p> <ul style="list-style-type: none"> The 2020/21 delegated budget allocations were issued to schools in early March 2020 and monitoring arrangements put in place for those schools showing financial concern. Officers from Education and Financial Services work with individual schools through Headteachers and Governing Bodies to formulate Medium Term Financial Plans (MTFP) to seek to either balance individual school deficits within four financial years or to ensure that the accumulated deficits were frozen or slowed as much as possible. Officers continue to monitor and challenge those schools in deficit before allowing any additional financial commitments, both staffing and other expenditure. For each school in deficit, the Council has identified a monitoring officer to provide an independent challenge to the school. This is in addition to the LFM Officer currently supporting that school. Annual audit of budget impact on individual schools undertaken during the Summer Term, the results of which feed into discussions regarding the medium term financial plan A working group has been established to examine the medium term financial planning processes used by the LA and schools The 2020/21 delegated budget allocations were issued to schools in early March 2020 and monitoring arrangements put in place for those schools showing financial concern. Officers from Education and Financial Services work with individual schools through Headteachers and Governing Bodies to formulate Medium Term Financial Plans (MTFP) to seek to either balance individual school deficits within four financial years or to ensure that the accumulated deficits were frozen or slowed as much as possible. Officers continue to monitor and challenge those schools in deficit before allowing any additional financial commitments, both staffing and other expenditure. For each school in deficit, the Council has identified a monitoring officer to provide an independent challenge to the school. This is in addition to the LFM Officer currently supporting that school. Annual audit of budget impact on individual schools undertaken during the Summer Term, the results of which feed into discussions regarding the medium term financial plan A working group has been established to examine the medium term financial planning processes used by the LA and schools For the 2020/21 financial year, seven schools have deficit budgets, representing a reduction on the figure for the previous year. Of those seven, four had deficit budgets in 2019/20. Of note is the fact that three high schools emerged from longstanding deficit positions, setting balanced budgets in 2020/21. As at 31st March 2020, 18 schools had a deficit balance, compared to 10 schools who applied for a deficit budget at the start of the financial year. However, a number of these deficit balances were not material and do not necessarily present a cause for concern. In addition, some schools that brought forward large deficit balances into 2019/20 have demonstrated significant progress in reducing the level of deficit held at the end of the financial year. 			<p style="text-align: center;">What we plan to do to meet target</p> <ul style="list-style-type: none"> Officers exercise the statutory powers of intervention on a school or schools in deficit who are unable to provide a medium term financial plan. This may involve removing delegation from a Governing Body. Officers explore through the School Organisation Planning process how different organisational arrangements for schools would affect the supply of pupils to schools thus affecting their delegated budgets. This will include an understanding of the long term impact of any unused school supply places on the funding formula. Working with CSC to ensure that maximising value from constituent parts of Education Improvement Grant is secured and that there is clarity of allocation mechanism for 2019/20 and beyond Improve individual school risk assessment processes in order to provide an early indication of those schools who may be at risk of entering a deficit position 									
<p style="text-align: center;">Potential Impact(s)</p> <ul style="list-style-type: none"> An overall deficit arising from schools budgets would count against the funding available for the Council Schools with deficit budgets may struggle to adequately fund the resources required to achieve the desired levels of educational attainment Schools with deficit budgets may struggle to adequately fund maintenance of school buildings creating an issue for other budgets, eg Capital/SOP Band B Schools that continually fail to address deficit budgets may ultimately require LA intervention, with a corresponding increase required in centralised resources 	<p style="text-align: center;">Linked Risks</p> <p>Linked risk to Covid 19 issues particularly with regard to decrease in income, impact on grants and inability to manage staffing changes.</p>			<p style="text-align: center;">Key Indicators / Measures used to monitor the risk</p> <ul style="list-style-type: none"> School budget monitoring position Number of schools setting deficit budgets Final budget balances 									
<p style="text-align: center;">Type(s) of Impact</p> <ul style="list-style-type: none"> Reputational Legal Financial 													

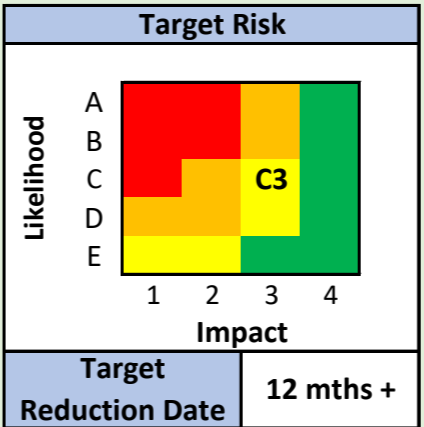
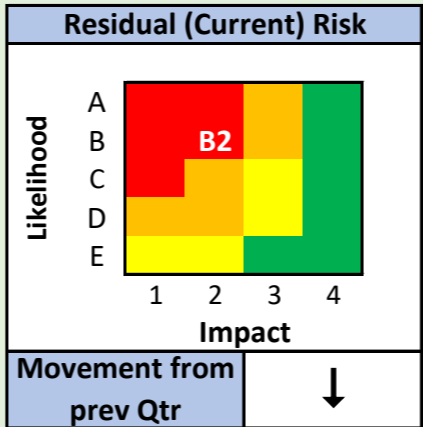
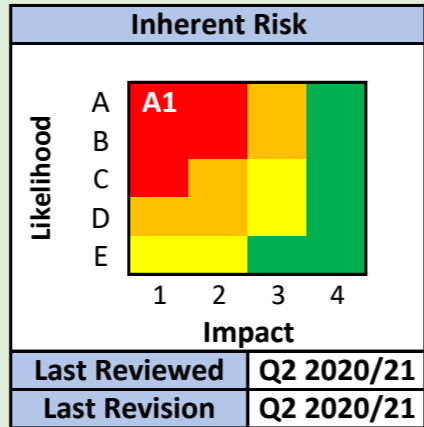
Education Consortium & Attainment

Description	Inherent Risk	Residual (Current) Risk	Target Risk	Risk Owner(s)									
<p>The Central South Consortium does not deliver effective services that challenge and support Cardiff schools to improve - the CSC model will need to be adapted to meet the emerging needs of education reform in Wales, including the new curriculum and accountability and assessment changes.</p>	 <p>Inherent Risk</p>	 <p>Residual (Current) Risk</p>	 <p>Target Risk</p>	<p>Nick Batchelar</p>	<p>Councillor Sarah Merry Deputy Leader & Education, Employment & Skills</p>								
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	What we've done/are currently doing to achieve the Residual Risk Rating			What we plan to do to meet target									
	<ul style="list-style-type: none"> The performance of Cardiff schools has shown notable improvement over the past five years and reflects a focus on education as a key component of Capital Ambition. Results for the academic year 2018/19 show that Cardiff schools performed well across a wide range of key performance indicators at all key stages. This includes strong performance in Key Stage 4 when compared to the Central South Consortium and Welsh averages. Given the decision to cancel examinations this summer as a result of the pandemic, the WJEC have developed a process which allows grades to be based on Centre Assessment Grades and Rank Orders which have been submitted by teachers/ lecturers. On the 17th August, the Minister for Education in Wales confirmed that A-Level, AS, GCSE, Skills Challenge Certificate and Welsh Baccalaureate grades in Wales will be awarded on the basis of Centre Assessment Grades. Schools opened full time to all pupils from September 14th. CSC Continuity of Learning guidance including isolating groups scenarios published 9th October 2020. Webinars to facilitate sharing of good practice across schools. 			<ul style="list-style-type: none"> The Joint Committee of CSC will determine what follow up actions will be taken in light of any recommendations from the report. Given the decision to cancel examinations this summer as a result of the pandemic, the WJEC have developed a process which allows grades to be based on Centre Assessment Grades and Rank Orders which have been submitted by teachers/ lecturers. On the 17th August, the Minister for Education in Wales confirmed that A-Level, AS, GCSE, Skills Challenge Certificate and Welsh Baccalaureate grades in Wales will be awarded on the basis of Centre Assessment Grades. 28th August: WG commissioned an independent review of the arrangements for awarding grades for the 2020 summer exam series, and considerations for 2021. Report and recommendations due December 2020. WJEC November 2020 and January 2021 examinations currently due to go ahead as planned WJEC have published GCSE and AS/A Level subject adaptations booklets for assessments in summer 2021. In addition, the Summer 2021 provisional exam timetable has been published including a contingency period starting from end of June 2020. CSC Improvement Partners are supporting schools in their development of Teaching and Learning (including Blended learning) for their own contexts. Timelines for Curriculum for Wales 2022 are currently unchanged. 									
Potential Impact(s)													
<ul style="list-style-type: none"> Learners do not reach their full potential Schools are not supported to improve Schools are not able to deliver the new curriculum <p>Educational performance does not improve Impact on Estyn judgements Value for money - CSC Budget implications Intervention from WG</p>													
Type(s) of Impact	Linked Risks			Key Indicators / Measures used to monitor the risk									
<ul style="list-style-type: none"> Reputational Legal Financial 				<p>KS4 2018/19 School Performance, Outcomes from Estyn Inspections up to 2020.</p>									

Air Quality & Clean Air Strategy

Description

Air quality in Cardiff does not meet statutory requirements set by legislation and continues to have a detrimental impact on health for residents and visitors to Cardiff.



Risk Owner(s)

Andrew Gregory
(Jason Bale)

Councillor Caro Wild
Strategic Planning & Transport

What we've done/are currently doing to achieve the Residual Risk Rating

Monitoring – Update 2020, increased the non-automatic monitoring sites in Cardiff which monitor levels of nitrogen dioxide (NO2) to 111 locations. Included in this data are 15 schools across the City, plus TRO projects at schools to monitor impact of pilot projects on air quality around schools.

There are two live monitoring stations:

- Cardiff Frederick Street: Monitors 24/7 measuring levels of NO2, PM10 & PM2.5, SO2, CO and O3
- Richard’s Terrace, Newport Road: Monitors 24/7 measuring levels of NO2 & PM10

The primary source of the pollution is road transport emissions, particularly diesel vehicle emissions. Although improvements are being seen, non-compliance of the NO2 limit values is projected beyond 2020. Cardiff has 4 existing declared Air Quality Management Areas (AQMA’s) all as a result of elevated NO2 concentrations resulting from road traffic emissions. Local modelling indicates that Castle Street will not be compliant with the NO2 limit value beyond 2020 if no additional interventions are implemented to reduce pollution levels. Air Quality has seen a significant improvement as a direct impact from COVID 19 and the strict lock down measures in the early part of the outbreak, Ongoing recovery measures such as the closure of Castle Street has enabled the maintenance of the reduced air quality concentrations. In other areas levels have increased, but still remain below pre COVID concentrations. However it must be noted that there are numerous factors which will influence the results especially meteorological conditions.

- State Aid issues around Bus Retrofit Scheme completed and scheme was approved by Commission in August. Following completion of all application and terms and conditions scheme will launch 1st October 2020
- Ph1 City Centre West scheme (Wood St & Central Square) commenced.
- Phase 2 Castle Street Tender has been suspended owing to the on going internal discussions with Cabinet on whether to further enhance this scheme. Any change to the final Castle St design will require formal approval from Welsh Gov and the clean air plan would require further modification and re submission including additional modelling both transportation and air quality dispersion.
- Real-time monitor installed and connected to electrical supply on Castle Street in late august. Commission of connection and meter age means station will be operational from Mid October. purchased and awaiting installation availability due to COVID restrictions.
- 5 indicative real time monitors installed on Castle Street (temporary), Westgate Street, Lower Cathedral Rd, Tudor Street and North Rd. Data is recorded every 15 minutes. Working with web team to develop public visual display for Council website.
- Awaiting decision on revised Taxi Scheme prior to launch.

What we plan to do to meet target

- 'Implement Clean Air Plan - Implement package of measures detailed in Final Plan, as per agreed plan and programme, following successful WG funding award.
- Submit proposals to WG on the requirements of assessing modifications to the Castle Street Scheme as approved by cabinet. Will require further modelling and assessment of the scheme and a revised Clean Air Plan produced. Will require ongoing dialogue with WG, and their expert panel.
- Working with consultants to develop evaluation plan of air quality improvements to show impact of measures and that compliance will be achieved.
- Work with Public Health Wales to quantify future health benefits and improvements from reduced emissions/ NO2 concentrations
- Clean Air Strategy and Action Plan - In developing the Clean Air Plan the Council has further developed a wider Clean Air Strategy and Action Plan to satisfy the requirements of LAQM. The strategy includes measures that will likely provide further AQ improvements including AQMAs. The roll out of these measures have been delayed by COVID and are dependent on additional funding sources being available through any appropriate grant bidding etc.
- Pilot project for implementation of Non Idling Zones, targeted around schools.
- Living Walls and other Green Infrastructure
- Progression of EV Infrastructure and Council Fleet working with CTS.
- Air Quality Planning Guidance
- Schools Active Travel
- Behavioural Change Promotion, Car Free Day, Clean Air Day etc.
- Expansion of Real-time monitoring network & display/sharing of data linked to SMART Corridors Project

Potential Impact(s)

Health & Safety

- No improvement to health
- Increased burden on health care
- Further deterioration of related health conditions

Legal & Regulatory / Financial

- Breach of legal / statutory requirements
- Potential significant financial penalty

Type(s) of Impact

- Health
- Regulatory
- Financial
- Strategic
- Reputational

Linked Risks

Further delays to City Centre Schemes and further impacts from further outbreaks/ waves from COVID.

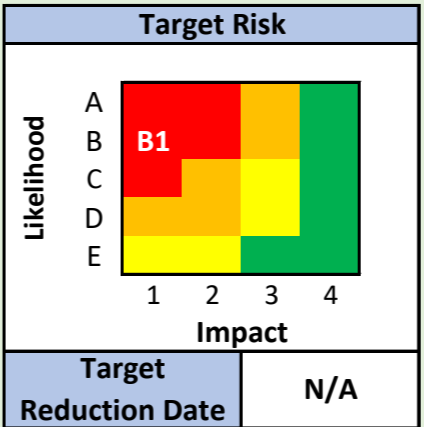
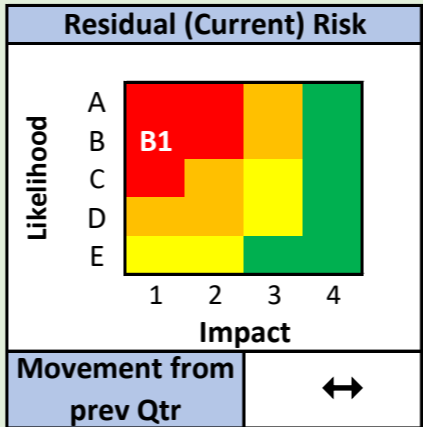
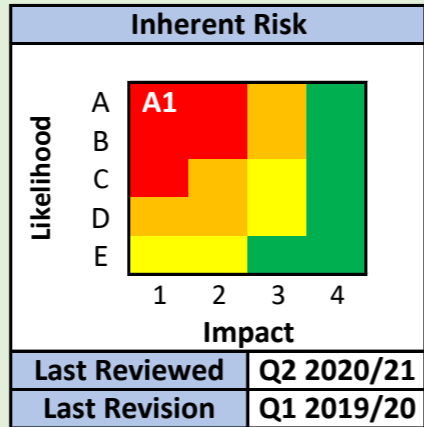
Key Indicators / Measures used to monitor the risk

- Implementation Plan for measures (funding dependent)
- Monitoring and Evaluation Plan for Clean Air Plan
- Ongoing monitoring and reporting under LAQM

City Security

Description

Major security-related incident in 'crowded places' as a result of international or domestic terrorism.



Risk Owner(s)

Chris Lee
(Isabelle Bignall)

Andrew Gregory

Councillor Huw Thomas
Leader

What we've done/are currently doing to achieve the Residual Risk Rating

- All existing identified high-risk, crowded places have been formally assessed
- Some crowded places have an extremely limited and in some cases 'third party managed' access control process to operate them; providing little/no challenge
- CONTEST Protect/Prepare Task & Finish Group maintains the City Gateways Public Realm Enhancement Scheme, with agreed options for suitable PAS 68/69 mitigation for appropriate boundary locations; referred to as 'gateways'
- The work done in the city to address security concerns has been predominantly focused on the provision of physical assets to mitigate against the threat of hostile vehicles
- Protected as at Q1 2019/20**
- Principality Stadium, St Mary Street, Queen Street, St David's Dewi Sant, Cardiff Bay
- The Cardiff City Centre Access Control Protocol is currently operating at the heightened response level, reflecting the UK National Threat Level; permitting vehicles onto the pedestrianised areas within Cardiff City Centre using strict parameters
- Wales Extremism and Counter Terrorism Unit (WECTU) Counter Terrorist Security Advisor's (CTSA's), the Emergency Services & Cardiff Council provide Project Argus and EVAC/Griffin training across the city to raise awareness for likely impacts associated with major incidents and in particular, terrorist attacks. The sessions also cover the support likely to be immediately available from the emergency services and Cardiff Council, the practical and simple preparations people/organisations can make prior to an incident occurring to help themselves manage and recover from its impacts.

What we plan to do to meet target

- The CONTEST Protect/Prepare Group will continue to monitor and review the city's Hostile Vehicle Mitigation scheme to ensure it is fit for purpose
- The CONTEST Protect/Prepare Group will give a status report to the Cardiff CONTEST Board
- The CONTEST Board will continue to try to identify external funding sources/opportunities from Welsh Government and UK Central Government to conclude scheme and appropriately mitigate the risk
- A holistic security strategy for the city is being developed through the city's CONTEST partnership mechanisms. This strategy will extend the perspective of the city's security beyond hostile vehicle mitigation to incorporate a range of security measures, including the continuing development and agglomeration of the city's CCTV and the deployment of new technological solutions.
- The security strategy will allow partners to be more responsive to emerging funding opportunities
- Identify any potential routes for further funding to enable us to continue the Hostile Vehicle Mitigation (HVM) programme of delivery. Cost estimate to complete City Centre and Bay is £2.5-£3.0M. This will complete the recommended improvements indicated as high risk identified by CONTEST Protect/Prepare group.

Potential Impact(s)

Immediate / Short-Term

- Large numbers of fatalities, injuries to public
- Extensive structural damage and/or collapse of buildings
- Closure of roads having impact on transport network and access to businesses and properties.
- Damage/disruption to utilities (gas, electricity, water etc.)
- Immediate impact to core business, retail and sporting district in the centre of Cardiff

Ongoing / Longer Term

- Reputational risk due to a public perception Cardiff is an unsafe place
- Area viewed as a risk for potential future business investment.
- Inability to attract major future national and international events (political, sporting etc.)
- Increase in demand for Council services/support for all affected.
- Current economic climate to reduce the effectiveness of any recovery/regeneration of the area.

Type(s) of Impact

<ul style="list-style-type: none"> Service Delivery Reputational Legal Financial 	<ul style="list-style-type: none"> Health & Safety Partnership Community & Environment Stakeholder
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Linked Risks

Key Indicators / Measures used to monitor the risk

- National Threat Level and period at level (*increased to Severe as at November 2020*)
- No of 'Crowded Places' not protected to PAS 68/69 level

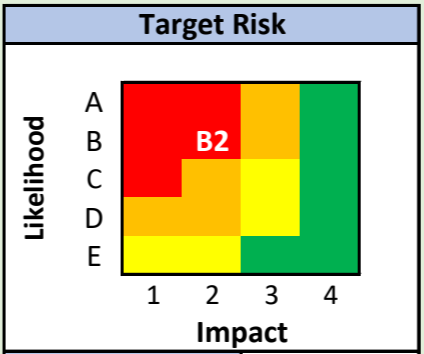
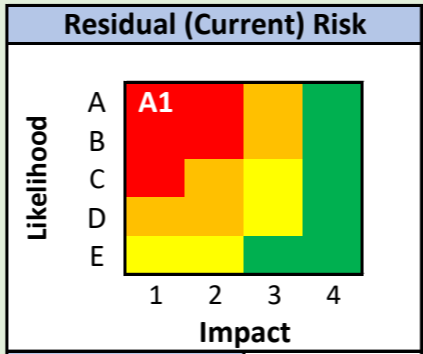
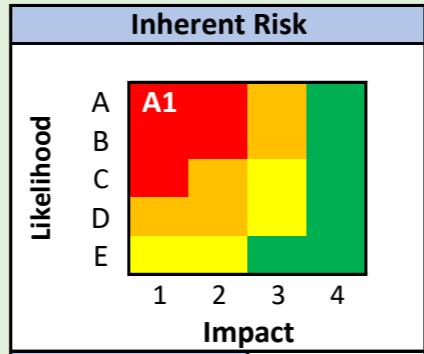
Climate Change & Energy Security

Description
Cardiff is not able to manage the effects of climate change and energy security due to lack of future proofing for key (social and civil) infrastructure and business development.

Potential Impact(s)

- Flood & Storm**
- Loss of life and risk to life
 - Direct damage to property, utilities and critical infrastructure
 - Blight of Land and Development
 - Disruption to service delivery
 - Contamination and disease from flood and sewer water and flood on contaminated land
 - Increase in health issues
 - Break up of community and social cohesion
 - Increase cost of insurance
 - Migration of ecosystems
 - Inconsistent energy supply
 - Increased costs
 - Inability to deliver public services
 - Decrease in economic output
 - Disruption to the supply of utilities
 - Increased fuel poverty

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Last Reviewed Q2 2020/21
Last Revision Q1 2020/21

Movement from prev Qtr ↔

Target Reduction Date 12 mths +

Risk Owner(s)

Andrew Gregory

Councillor Michael Michael
Clean Streets, Recycling and Environment

What we've done/are currently doing to achieve the Residual Risk Rating

The Council has declared a Climate Emergency.

The following specific risk areas have been identified:

- COASTAL EROSION (see separate tab for details)
- FLOODING
- EXTREME WEATHER
- ENERGY SECURITY & DECARBONISATION
- BIODIVERSITY

What we plan to do to meet target

- Develop strategic response to the Climate Emergency Declaration to incorporate carbon neutral target. First draft of One Planet Cardiff in partnership with Cabinet Office is being drafted for presentation to Cabinet in September 2020.
- COASTAL EROSION (see separate tab for details)
- FLOODING
- EXTREME WEATHER
- ENERGY SECURITY & DECARBONISATION
- BIODIVERSITY

- Type(s) of Impact**
- Service Delivery
 - Reputational
 - Legal
 - Financial
 - Health & Safety
 - Partnership
 - Community & Environment
 - Stakeholder

- Linked Risks**
- Coastal Erosion
 - Air Quality
 - Business Continuity

- Linked Documents**
- <https://www.evaccardiff.co.uk/>
 - <https://www.cdp.net/en>

- Key Indicators / Measures used to monitor the risk**
- Storm Events that meet silver & gold emergency intervention
 - Annual number of flooded properties and severity (statutory reporting)
 - Energy use / renewable energy production of Cardiff Council

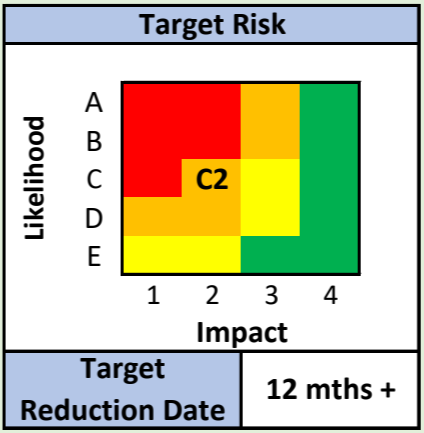
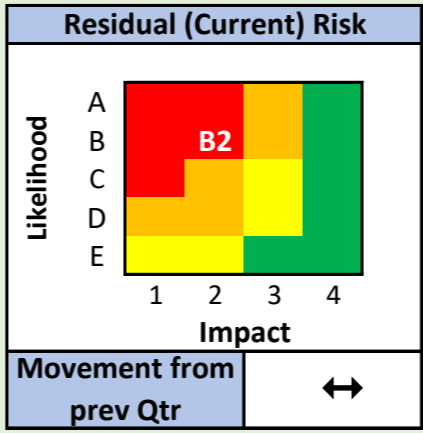
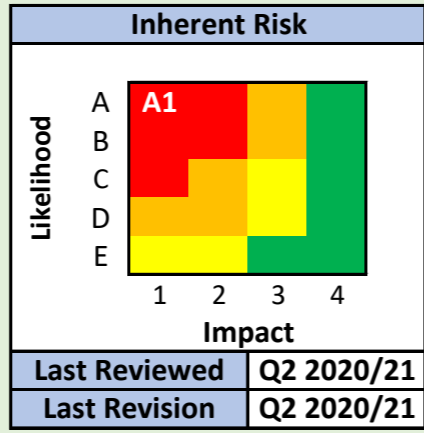
Climate Change - Biodiversity

Description
Cardiff is not able to manage the effects of climate change and energy security due to lack of future proofing for key (social and civil) infrastructure and business development.

Potential Impact(s)

- Loss of biodiversity leads to reduction in ecosystem resilience, and reduction in ecosystem resilience will compromise the provision of ecosystem services. These are the services or benefits which we gain from the natural environment.
- Ecosystem services include climate change mitigation and adaptation.
- Climate change mitigation includes the sequestration and storage of carbon by plants, especially long-lived species such as trees. Reduction of this ecosystem service makes it harder to reduce net carbon emissions. Annually Cardiff's trees (not including other aspects of green infrastructure) provide ecosystem services worth £3.31 million, of which £1.9 million is in carbon storage and sequestration (iTree Study, Sept 2018).
- Climate change adaptation services include storm water attenuation by vegetation and reduction of surface water volume through evapotranspiration
- Trees, green walls and green roofs allow cooling and shading, thereby mitigating the urban heat island effect which may become more prevalent with a warmer climate.
- Hotter summers also increase risk of aerial pollution through air stagnation, and green infrastructure can remove certain pollutants from the air as well as having a cooling effect.
- The National Priorities of the WG Natural Resources Policy include 'Delivering Nature-based Solutions'. Failure to ensure protection of biodiversity and ecosystem resilience risks failure to deliver these nature-based solutions, which include climate change mitigation and adaptation.

- Type(s) of Impact**
- | | |
|--|--|
| <ul style="list-style-type: none"> Service Delivery Reputational Legal Financial | <ul style="list-style-type: none"> Health & Safety Partnership Community & Environment Stakeholder |
|--|--|



Risk Owner(s)

<p>Andrew Gregory (James Clemence/ Simon Gilbert/ Matthew Harris/ Jon Maidment)</p>	<p>Councillor Michael Michael Clean Streets, Recycling and Environment</p>
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What we've done/are currently doing to achieve the Residual Risk Rating

- Developed a Biodiversity and Resilience of Ecosystems Duty Forward Plan, to implement the statutory duty to seek to maintain and enhance biodiversity and in doing so to promote ecosystem resilience.
- Undertaken an 'iTree-Eco' study to look at the value of trees in terms of the ecosystem services that they provide.
- Working with neighbouring Local Authorities through the Local Nature Partnership Cymru project to share ideas and best practise for enhancing biodiversity across the City and identifying opportunities for cross-boundary projects to improve habitat and species connectivity and increase ecosystem resilience.
- Contributed to the Central South Wales Area Statement recently published by Natural Resources Wales.

What we plan to do to meet target

- Develop Coed Caerdydd Strategy to maximise tree canopy cover within Cardiff
- Report every three years on the Biodiversity and Resilience of Ecosystems Duty Forward Plan, and continue to improve the plan as necessary
- Seek opportunities for partnership working under the 5 main themes of the South Wales Area Statement (building resilient ecosystems, working with water, connecting people with nature, improving our health, improving our air quality).

- Linked Risks**
- Coastal Erosion
 - Air Quality
 - Business Continuity
 - Energy decarbonisation

- Linked Documents**
- <https://www.evaccardiff.co.uk/>
 - <https://www.cdp.net/en>

Key Indicators / Measures used to monitor the risk

Extent of Green Infrastructure in the City.

Climate Change - Energy Security & Decarbonisation

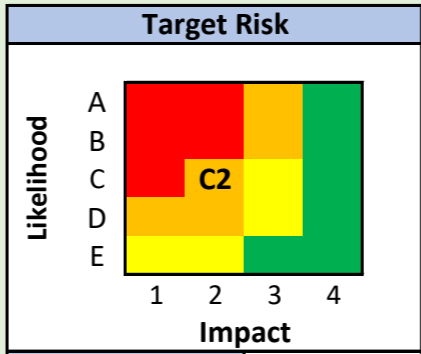
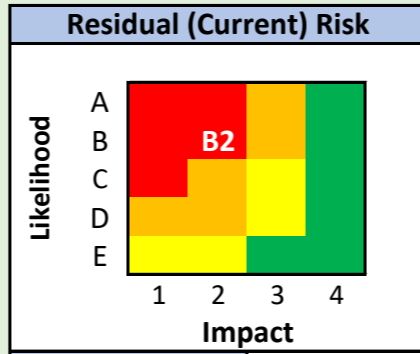
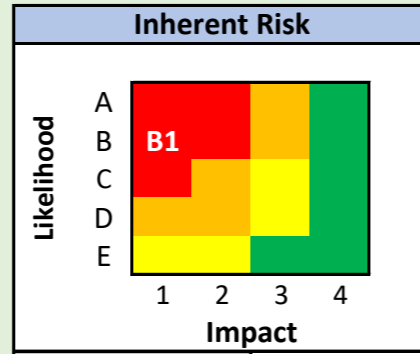
Description
Cardiff is not able to manage the effects of climate change and energy security due to lack of future proofing for key (social and civil) infrastructure and business development.

Potential Impact(s)

Energy security (energy efficiency & decarbonisation of supply)

- Inconsistent energy supply
- Increased costs
- Inability to deliver public services
- Decrease in economic output
- Disruption to the supply of utilities
- Increased transport costs
- Increased costs for heating / providing services to buildings
- Increased fuel poverty

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Last Reviewed Q2 2020/21
Last Revision Q2 2020/21

Movement from prev Qtr ↔

Target Reduction Date 12 mths +

What we've done/are currently doing to achieve the Residual Risk Rating

Energy security (energy efficiency & decarbonisation of supply)

- Climate Emergency Declared by Council
- Council approved "One Planet Cardiff" Strategy on October 15th 2020 which addresses the Climate emergency and sets a pathway to a carbon neutral Council by 2030 and consultation launched.
- Energy efficiency measures being installed through Re-Fit and Salix projects
- Phase 2 of Re-Fit project finalised and going through due diligence with Salix funding organisations
- NPS Consortium approach to purchasing energy to secure best prices - continuing by Economic Development
- Lamby Way solar farm final business plan approved by Cabinet following planning consent, and construction underway
- District Heat Network proposals - Cabinet authority to proceed, subject to financial business case approval - Grant and Loan funding package now secured
- Engaging with WG on compliance with WG target for public sector to be carbon neutral by 2030
- Scoping additional carbon reduction projects for future action
- Delivering Low Emission Transport Strategy - approved April 2018 and implementation of action plan underway
- Scope out and implement additional energy efficiency schemes in residential properties in the city
- Supporting enhancement of public's own resilience through advice and guidance available from EVAC Cardiff Website, to help them work to reduce their carbon outputs and support carbon capture initiatives
- Reporting on citywide and Council (scope 1 and 2) carbon emissions via the Carbon Disclosure Project to fulfil our Compact of Mayors commitment

Risk Owner(s)

Andrew Gregory
(Gareth Harcombe/ Liz Lambert)

Councillor Michael Michael
Clean Streets, Recycling and Environment

What we plan to do to meet target

Energy security (energy efficiency & decarbonisation of supply)

- Consult on council approved draft "One Planet Cardiff" Strategy, setting specific decarbonisation and renewable energy generation targets, by Spring 2021 - including Carbon Neutral Public Sector by 2030
- Lamby Way solar farm is complete and awaiting connection to the grid which should be complete before the end of October. We are in contract negotiations on the private wire connection to Welsh Water and this should be complete before the Spring of next year. Construction of this is constrained by NRW ecology embargos on over-winter works which we are trying to work around.
- Procurement exercise for Heat Network is mid-way through, with December Cabinet targeted for final decisions to proceed. Subject to cabinet approval of the Final Business Case contracts will be signed in Feb/March 2020.
- Work with WG Energy Services advisors to assess future renewable generation and carbon reduction schemes - ongoing and with an additional bid for funding support made to Welsh Government.
- Seek ways to accelerate housing energy efficiency and retrofit schemes across the city - cabinet considering report on some acceleration plans in October. Also submitting funding bids to BEIS and WG.
- Electric Vehicle strategy - first tranche of residential chargers delivered and proposals to convert council fleet to electric being finalised but now subject to funding issue due to Covid-19 (was to be CPE funded) - funding bids to be submitted and discussion with Central Finance on options
- Work with other LA's and partners in both Wales and the wider city region to take effective action to reduce carbon outputs and capture carbon through "nature by design" options. This will support Cardiff Council's One Planet Cardiff strategy.

Type(s) of Impact

- Service Delivery
- Reputational
- Legal
- Financial
- Health & Safety
- Partnership
- Community & Environment
- Stakeholder

Linked Risks

- Coastal Erosion
- Air Quality
- Business Continuity

Linked Documents

- <https://www.evaccardiff.co.uk/>
- <https://www.cdp.net/en>

Key Indicators / Measures used to monitor the risk

Energy use / renewable energy production of Cardiff Council

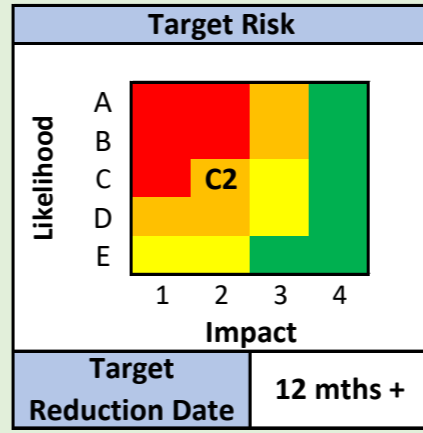
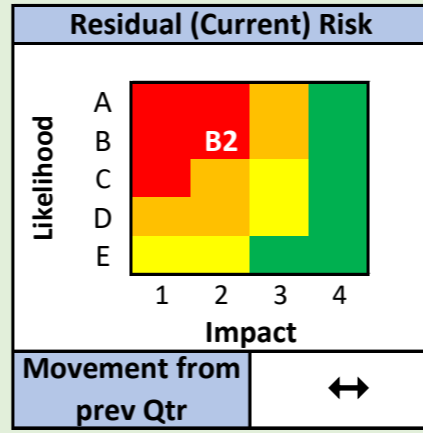
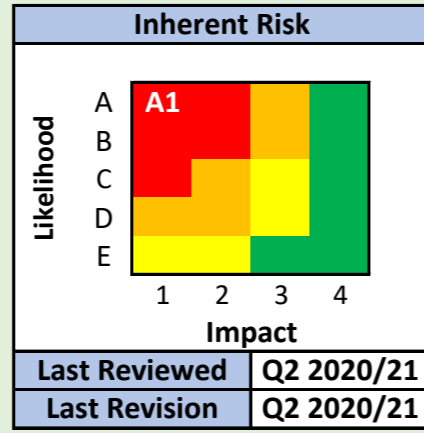
Climate Change - Extreme Weather

Description
Cardiff is not able to manage the effects of climate change and energy security due to lack of future proofing for key (social and civil) infrastructure and business development.

- Potential Impact(s)**
- Loss of life and risk to life
 - Damage to infrastructure & utilities
 - Service delivery
 - Increase in health related issues including air quality
 - Blight of development
 - Migration of ecosystems

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- Type(s) of Impact**
- | | |
|--|--|
| <ul style="list-style-type: none"> • Service Delivery • Reputational • Legal • Financial | <ul style="list-style-type: none"> • Health & Safety • Partnership • Community & Environment • Stakeholder |
|--|--|



Risk Owner(s)

<p>Andrew Gregory (EMU/Gary Brown)</p>	<p>Councillor Michael Michael Clean Streets, Recycling and Environment</p>
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What we've done/are currently doing to achieve the Residual Risk Rating

The Council has declared a Climate Emergency

Extreme Heat

- Working with Partners in the LRF to warn them of anticipated heatwave impacts upon vulnerable groups and support response to such a risk
- Supporting the enhancement of the public's own resilience through advice and guidance available from the EVAC Cardiff Website

Extreme Cold/ Snow

- Implementation of Council's Cold Weather Response Plans
- Winter Service review undertaken to consider the potential impact of Covid-19

What we plan to do to meet target

Extreme Heat

- Develop a 20 year heat mitigation strategy for the city. Working with partner agencies and commercial stakeholders to support development of heat reduction programmes.
- Engage with Welsh Government within WLGA, and PSB to ensure consistent support in managing this risk ensuring the planning process works for all stakeholders to ensure we develop sustainable planning strategies for future developments, planning the management of this risk

Extreme Cold/ Snow

- Due to the challenges of Covid 19, the concentration has been on building resilience into the Winter Service. Covid 19 represents a high risk to staff resource due to illness and the requirements of isolation. Although the required training and staff rotas have been put in place, further work is ongoing to provide resilience should resources be severely hit by the pandemic. However, it must be recognised that there is a limited available resource with the required skillsets within the authority and although investigations as to whether external assistance can be utilised/is available is ongoing, the potential for service disruption cannot be ruled out.

Linked Risks

- Coastal Erosion
- Air Quality
- Business Continuity

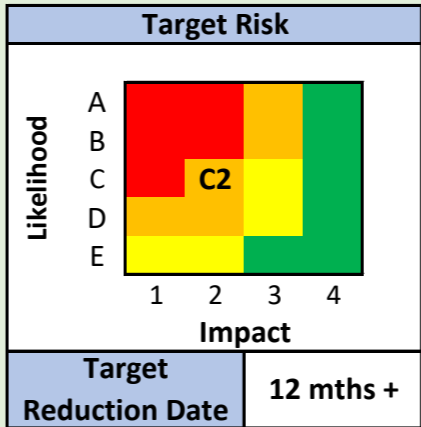
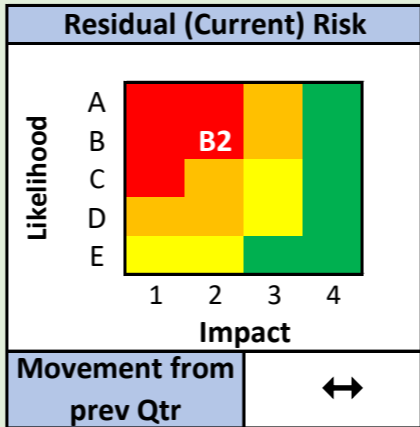
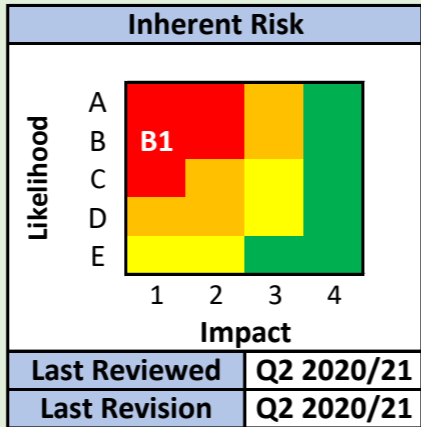
Linked Documents

- <https://www.evaccardiff.co.uk/>
- <https://www.cdp.net/en>

Key Indicators / Measures used to monitor the risk

Climate Change - Flooding

Description
Cardiff is not able to manage the effects of climate change and energy security due to lack of future proofing for key (social and civil) infrastructure and business development.



Risk Owner(s)

Andrew Gregory
(Gary Brown/ David Brain
James Clemence/ Stuart
Williams)

Councillor Michael Michael
Clean Streets, Recycling and
Environment

Potential Impact(s)

Flood & Storm

- Loss of life and risk to life
- Direct damage to property, utilities and critical infrastructure
- Blight of Land and Development
- Disruption to service delivery
- Contamination and disease from flood and sewer water and flood on contaminated land
- Increase in health issues
- Break up of community and social cohesion
- Increase cost of insurance
- Migration of ecosystems

What we've done/are currently doing to achieve the Residual Risk Rating

The Council has declared a Climate Emergency

Flood & Storm

- Working with partners within the Local Resilience Forum (LRF) to support the management of this risk including supporting the emergency response to this risk
- Supporting the enhancement of the public's own resilience through advice and guidance available from the EVAC Cardiff Website
- Implementation of Schedule 3 of the Flood and Water Management Act 2010 requires all new development over 100m2 to implement sustainable drainage, resilient to flooding
- Development of Flood Risk Management Strategy
- Currently introducing Flood Incident Management software to provide better understanding of spatial distribution of flood events filtered by source, and determine priority areas for future flood alleviation schemes to be implemented (subject to WG funding bid opportunities). Funding bids have been submitted and grant funding now awarded for 20/21 for Business Justification Cases for a number of these schemes.

What we plan to do to meet target

Flood & Storm

The following actions are ongoing:

- Develop new iteration of the Local Flood Management Strategy
- Develop new iteration of the Flood Risk Management Plan
- Develop enhanced engagement programme with partners supporting the public in enhancing their own resilience
- Improve communication on what to do in a flood and raise awareness of risk
- Improve the service provided by the SuDS Approval Body (SAB)
- Deliver guidance to increase standards and ease of development
- Asset management - Delivery of Flood Management and Coastal Improvement Schemes and rationalise/ prioritise gully maintenance schedule based on the outputs of the Flood Incident Management software. Ongoing CCTV and asset capture work taking place in drainage networks to review high risk areas.
- Apply for further grant funding to support studies and implementation of localised flood preventions schemes.

Type(s) of Impact

- Service Delivery
- Reputational
- Legal
- Financial
- Health & Safety
- Partnership
- Community & Environment
- Stakeholder

Linked Risks

- Coastal Erosion
- Air Quality
- Business Continuity

Linked Documents

- <https://www.evaccardiff.co.uk/>
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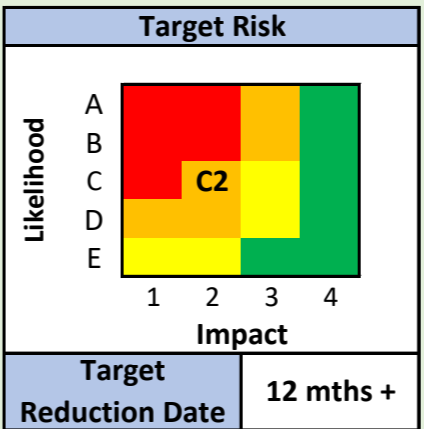
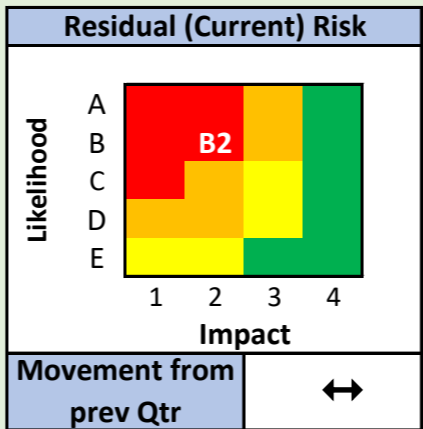
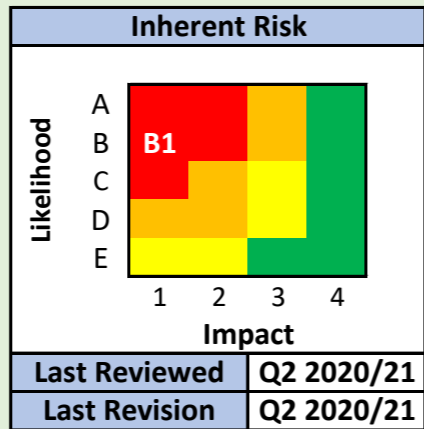
Key Indicators / Measures used to monitor the risk

- Storm Events that meet silver & gold emergency intervention
- Annual number of flooded properties and severity (statutory reporting)
- Energy use / renewable energy production of Cardiff Council

Coastal Erosion

Description

Breach of current defences resulting in widespread flooding (current defences are ad hoc and are in a very poor condition)



Risk Owner(s)

Andrew Gregory
(Gary Brown/ David Brain)

Councillor Michael Michael
Clean Streets, Recycling and Environment

What we've done/are currently doing to achieve the Residual Risk Rating

- Incident management arrangements are in place, which whilst not preventative, represent a level of emergency management for a flood and coastal erosion risk event occurring in a significant storm event.

Coastal Defence Scheme:

- The Flood Risk Management Team are undertaking detailed design for the coastal defence scheme.
- The necessary works are holistic and cannot be phased. Therefore the residual risk rating cannot be lowered until the completed construction of the coastal defence scheme in its entirety.
- The inundation risk will be improved by implementing the coastal defence scheme. The scheme will provide defence for a 1 in 200 year severe weather event, plus an allowance for climate change influence of 40%.
- The total costs associated with the Design, Early Contractor Engagement and Construction phases have been estimated at £10.9m (Welsh Government 75% funding = £8.2m and CCC 25% funding = £2.7m)
- Formal application has been submitted to Welsh Government (WG) under the WG Coastal Risk Management Programme and development of the Detailed Design and Full Business Case (FBC) for the coastal defence scheme was programmed for completion in May 2020, however this has been impacted by Covid-19.
- Ground Investigation commenced February 2020. Due to Covid 19 restrictions, ground investigations were postponed during March 2020.
- Work ongoing with Emergency Management to formulate interim measures.

What we plan to do to meet target

We will be designing & delivering an effective coastal flood protection scheme as a matter of priority.

Detailed design and full business case ongoing

Keysteps:

- Completion date for detailed design and Full Business Case (FBC) anticipated late 2020 (TBC following review of the Ground Investigation and the delays related to Covid 19).
- Full Business Case to be submitted to Welsh Government for approval & funding confirmation. Detailed design has commenced following completion of the GI.
- Tender scheme promptly following support from Welsh Government. Contract will be developed as part of detailed design process to support tender process.
- Anticipated construction starting Autumn 2021, subject to the above, with completion 2023.

Potential Impact(s)

- Continued coastal erosion along the coast threatening the Rover Way Traveller site and critical infrastructure including Rover Way and the Rover Way/Lamby Way roundabout
- Erosion to two decommissioned landfill sites, with risk of releasing landfill material into the Severn Estuary and having significant environmental impacts
- Flood risk to 1,116 residential and 72 non-residential properties over 100 years, including risk to life, property, infrastructure and services
- N.B. the predicted rates of erosion threaten the Rover Way Travellers Site and the adjacent electrical substation within 5 years, and further release of large volumes of unknown tip material from the Frag Tip into the Severn Estuary.

Type(s) of Impact

<ul style="list-style-type: none"> Health & Safety Health Reputational Financial 	<ul style="list-style-type: none"> Strategic Service Delivery
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Linked Risks

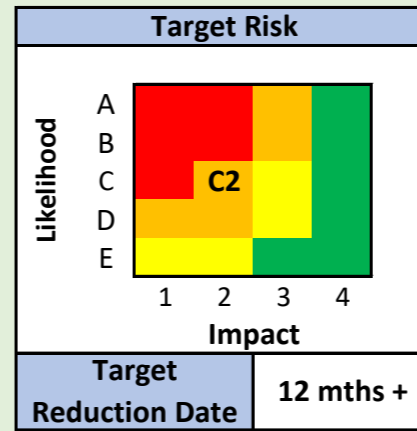
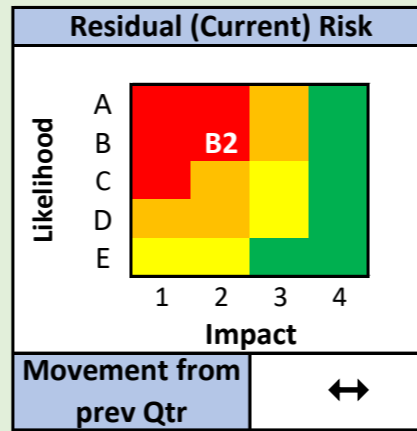
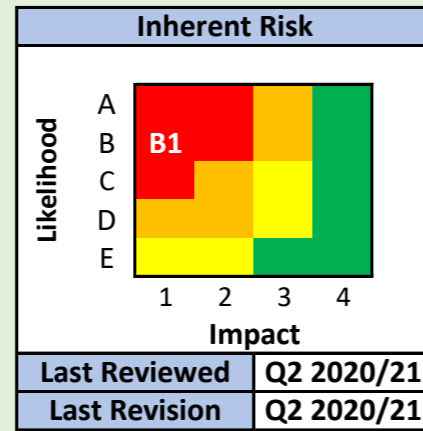
Climate Change risks

Key Indicators / Measures used to monitor the risk

- Award of contract for detailed design and Full Business Case - achieved
- Completion of detailed design and Full Business Case by May 2020 & submitted to WG
- Delivery programme of coastal protection scheme

Waste Management

Description
 Failure to deliver cost effective compliance with waste legislation including statutory recycling targets.



Risk Owner(s)

Sarah McGill (Matt Wakelam)

Councillor Michael Michael
 Clean Streets, Recycling and Environment

What we've done/are currently doing to achieve the Residual Risk Rating

Progress discussions with Welsh Government on operational programme of improvements and recycling in Cardiff to demonstrate how Cardiff will be proceeding to meet statutory targets.

Wider Governance & Compliance

- Targeted internal audits identifying and improving governance and control across the service area (ongoing)
- Introduction of improvements in weighbridge and data systems holding data on waste movements, to improve data management and ease collation of data (ongoing)
- Cardiff Council has commenced a programme working in partnership with Welsh Government to develop a new Recycling Service Strategy and Implementation Plan (ongoing)

Development of recycling plan for optimising resources including considerations of statutory fines.

- Reviewing and benchmarking tonnages / recycling levels / costs of disposal for Cardiff compared to Welsh Authorities and United Kingdom, to identify areas requiring further review to support the opportunity to improve recycling levels (ongoing)
- Media and communications taking place across Cardiff with focus on key areas for recycling improvement (ongoing)
- Improving use of In-Cab system to improve service delivery through real time technology, optimisation of routes and identification of waste contamination (complete)
- Commencement of new education and enforcement programme to reduce contamination in recycling and garden waste (ongoing)
- Cabinet Report prepared for Cabinet on 23rd January 2020 'Education campaign to support improving recycling performance' to implement a strategy of education in Cardiff relating to contamination of recycling (the pink sticker campaign) and segregation of recycling at Household waste Recycling Centres (ongoing)

Recycling Development

- The Council's Recycling Strategy is the subject of regular review. A new strategy is currently under development for implementation by March 2021.
- Robust analysis and review of business cases relating to the following waste collection & disposal operations:
 - Bottle and Glass expansion across the City (complete and supplemented by modelling work with WG)
 - Hygiene (Absorbent Hygiene Products) from Municipal Solid Waste to Recycling (ongoing project with WG)
 - Trade Waste (ongoing)

Covid-19 Lockdown meant between 30th March 2020 and 31st May 2020 waste collections were collected as a single stream where residual, recycling and food waste was collected weekly and sent to Energy from Waste. The reason for the decision was to limit exposure to both residents and workforce to the impacts of Covid-19. However, the approach has impacted Qtr1 recycling performance to 42.51% compared to 62.57% the previous year. Overall recycling performance for 20/21 is highly unlikely to recover.

- Recycling Centres are being managed via a booking system, and the replacement of residual waste and recycling waste skips with a non-recycling skip, supported by new procedures, has meant recycling performance at centres has increased from 70% to 90%.

What we plan to do to meet target

- City wide glass roll-out to be reviewed as part of the Recycling Services Strategy and Implementation Plan. (complete)
- Targeted and tailored intervention to deal with contamination in hot spot areas across the City (ongoing)
- Further develop the new Recycling Strategy for Cardiff. This will set out the Council's long-term objectives over the next 10 years and consider economic, social and environmental aspirations, in order to ensure Cardiff is one of the leading cities in the world for recycling. (ongoing)
- Pink Sticker Campaign roll-out across Cardiff to commence Qtr 2 (on hold due to Covid 19)

Wider Governance & Compliance

- Senior Management to have ongoing regular engagement and discussions with WG on Cardiff's Recycling Strategy and compliance with the WG Blueprint. Work is now progressing on looking at models for Cardiff - to be completed in May 2020 (complete - modelling showed only a 1.2% increase in recycling performance with a kerbside model rising to 2.7% with a move to 3 weekly residual collections.)
- A further phase of work is required working with Welsh Government to look at the impacts on recycling performance in relation to:
 - Trade waste and new legislation
 - Flats
 - Recycling Centres
- Outcome will be to deliver a road map supported by Welsh Government on improving Cardiff's recycling performance

Potential Impact(s)

Financial

- Penalties and loss of grant support
- Continuing financial costs to service

Legal & Regulatory

- Failure to comply with EU recycling waste directive, leading to sanctions, penalties or interventions

Strategic/ Reputational

- Reputational consequence with citizens and key stakeholders

Type(s) of Impact

- Reputational
- Legal & Regulatory
- Financial

Linked Risks

Key Indicators / Measures used to monitor the risk

- Monthly monitoring recycling % from waste data flow
- Monthly tonnage monitoring
- Monthly financial monitoring in each area of waste

Brexit

Description

On 31 January 2020, the UK legally ceased to be a member of the EU. There will now be an 11 month transition period up until the end of December 2020, by which time both sides have stated they hope to have agreed a trade deal. Throughout the transition, whilst the UK will no longer be represented in the EU's political institutions, the UK will continue to be subject to EU rules and remain a member of the single market and customs union.

Following the 30 June 2020 deadline, the UK did not exercise an option to extend the transition period. If a UK-EU free trade deal has not been agreed by 31 December 2020, the risk remains that we could once again be facing the prospect of a 'no-deal' exit of sorts.

Whilst the Withdrawal Agreement has been ratified, in such a 'no-deal' scenario, the UK would have to trade with the EU on World Trade Organisation terms, with most UK goods subject to tariffs. There would also be a range of other implications of the UK leaving the EU without a deal, which the Council has already undertaken research into and taken steps to prepare for.

Potential Impact(s)

Immediate Issues Identified:

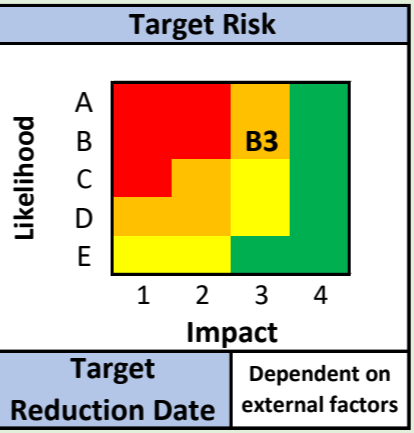
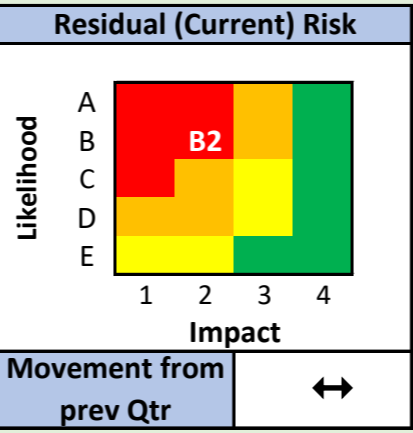
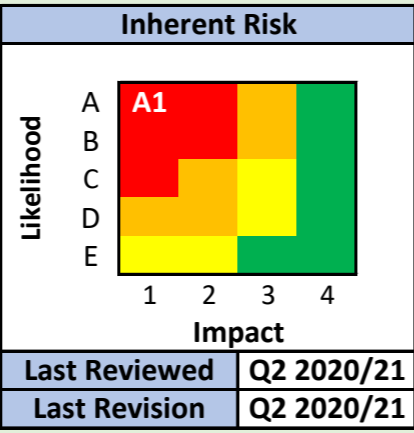
- Impact on Council supply chain
- Citizens and Community Cohesion
- 137 - Implementing the EU Settlement Scheme
- 137 - Increases of tension/ hate crime
- Emergency Management
 - Responding to civil contingencies/ major disruption (potential for protests, food shortages, disruption to water supply (infrastructure) and fuel shortages)
 - Shortage/ loss of key supplies
- Short-term economic contraction
- Preparedness of local businesses for a no-deal Brexit.

Medium to Long-term Issues Identified:

- Labour Market and Council Staff
- Impact on Public Finances – Central Government and Welsh Government Analysis suggests that Brexit will have a larger impact than economic downturn of 2008, with close to a 8% drop in GDP.
- The future of regional funding (the future UK Shared Prosperity Fund)
- Investment, Trade and Industrial Strategies (including regulations)

Type(s) of Impact

<ul style="list-style-type: none"> Service Delivery Reputational Legal Financial 	<ul style="list-style-type: none"> Health & Safety Partnership Community & Environment Stakeholder
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Risk Owner(s)

Paul Orders (Senior Management Team)	Councillor Huw Thomas Leader (Brexit)
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What we've done/are currently doing to achieve the Residual Risk Rating

On 23 July 2020, the Council's Resilience Unit coordinated a Council-wide exercise to update the Council's Brexit Issues Register. Each Directorate Reviewed its wider Brexit preparedness, noting the impact of COVID-19, along with refreshed mitigative actions, considered and noted any additional risks not already identified, along with the appropriate mitigation and focused on supply chains and ensuring continuity of supply

The Resilience Unit concluded the work represented a balanced and fair assessment but that the Council has to be alert and ready to respond, particularly if/ when 'no-deal' becomes a definitive position.

Mitigative actions have been identified by Directorates for each issue, with a continued focus on protecting the community, especially the most vulnerable.

What we plan to do to meet target

Should 'no-deal' become a definitive position, nominated Brexit Liaison Officers will be asked to undertake preparatory activity ahead of the end of the transition period. This will include a further review of their Directorate's Business Continuity Plans in the face of the challenges ahead, as well monitoring and regularly updating the Brexit Issues Register.

Should a deal be confirmed, work will be undertaken to understand its implications, before putting in place appropriate preparations. For instance, irrespective of the outcome of negotiations between the UK and EU, traders will face new customs controls and processes.

To report real-time Brexit disruption requiring an immediate response, which is most likely following the end of the transition period on 31 December 2020, Duty Silver Officers will be asked to use the command and control system already in place, as outlined in the Council's Major Incident Plan. The Council will continue to monitor the major developments and focus on areas where local action is required:

Citizens and Community Cohesion
The Council will continue to promote the EU Settlement Scheme in communities with high levels of EU migrants. Information on the scheme is being provided to community groups in relevant community languages. Engagement is ongoing with Welsh and UK Governments to ensure an alignment of messaging and of advice on support pathways available.

Short-term Economic Contraction
The Council's Economic Development Service have considered the local economic implications of a no-deal Brexit and have developed clear asks of Government to support the economy in the event of a severe economic contraction (estimated at around 8% of per head GDP by Welsh Government Analysis). This will be re-considered in light of COVID-19 and the Council's Restart, Recovery and Renew response framework.

Linked Risks

Business Continuity

Key Indicators / Measures used to monitor the risk

- High level economic indicators - GDP, GVA
- Unemployment levels, particularly in key services/sectors
- Hate Crime statistics
- Numbers enrolled in settlement scheme

Performance Management

Description

Performance Management arrangements are essential for discharging statutory requirements, delivering the administration's priorities and ensuring Council core business is delivered effectively. Weak corporate performance management arrangements heighten the risk of poor performance, service failure, financial overspend or legal non-compliance going unidentified, unchallenged and unresolved.

The Council must therefore maintain a focus on the Key Performance Indicators it has identified within the Corporate Plan as a pointer to overall organisational success. The Council must also ensure that more granular indicators of performance- the Council's Core Data which is managed by individual Directorates- are established and monitored to provide more detailed insight into the drivers of corporate performance.

Changes to the Statutory Performance Requirements likely to emerge via the Local Government Bill must also be reflected within the Council's performance regime.

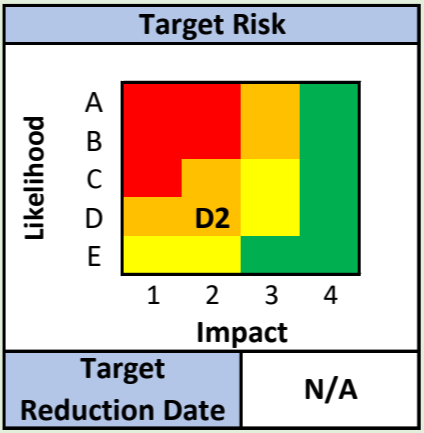
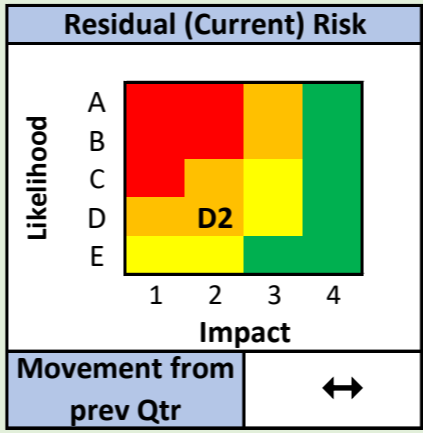
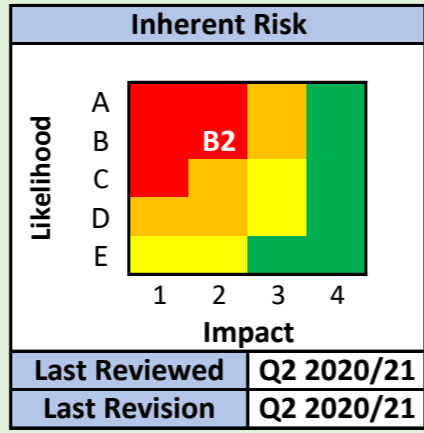
Potential Impact(s)

- The strategic and corporate level changes do not have the intended impact because they are not fully embedded in operational practices

Council unable to accelerate performance improvement as planned/desired

Type(s) of Impact

- Service Delivery
- Reputational
- Stakeholder



Risk Owner(s)

Sarah McGill
(Gareth Newell)

Councillor Chris Weaver
Finance, Modernisation and Performance

What we've done/are currently doing to achieve the Residual Risk Rating

The annual Wellbeing Report for 2019/20 has been published and this includes a comprehensive account of the Council's response to the Covid-19 pandemic.

Further Strengthening of the Performance Regime

The Council has reviewed its performance monitoring and reporting arrangements to streamline the information gathering process, produce fewer but more strategic performance assessments and strengthen the involvement of scrutiny. A recent internal audit of performance management also concluded that 2 areas of assessment were green and one area of assessment was amber green.

- The corporate performance management framework supports the effective management of corporate priorities and plans (Amber/Green)
- Performance is measured and monitored using required statutory and suitable local indicators and targets (Green)
- Performance reporting and oversight is timely, effective and meaningful (Green).

A response to the Audit recommendations has been agreed and these will be embedded in the forthcoming revisions to the performance management framework.

What we plan to do to meet target

Develop an updated Planning and Delivery Framework that responds to the new requirements set out in the Local Government and Elections Bill and the recommendations of the internal audit work.

Linked Risks

Key Indicators / Measures used to monitor the risk

Quarterly monitoring of corporate plan indicators (108) provide a pointer to organisational health and corporate performance. Corporate Plan indicators are also risk assessed as part of the performance monitoring process.

Budget Monitoring (Control)

Description

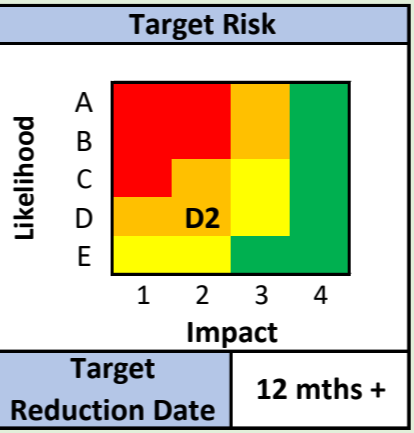
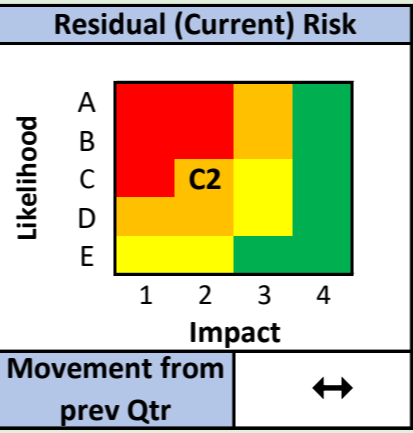
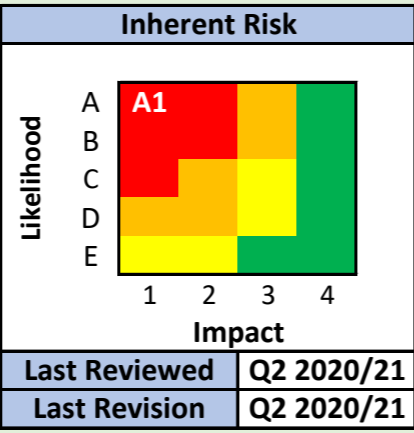
Failure to achieve the budget set, inclusive of budgeted spend and savings across Directorates, with increased use of emergency finance measures and the unplanned drawdown of reserves.

Potential Impact(s)

- Inability to balance spend against budget, for the financial year
- Requirement to implement emergency measures to reduce spending during the financial year thus adversely impacting on ability to meet corporate plan objectives
- Requirement to drawdown from General Reserves at the year end

Type(s) of Impact

<ul style="list-style-type: none"> • Service Delivery • Reputational • Legal • Financial 	<ul style="list-style-type: none"> • Stakeholder
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Risk Owner(s)

<p>Chris Lee (Ian Allwood)</p>	<p>Councillor Chris Weaver Finance, Modernisation and Performance</p>
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What we've done/are currently doing to achieve the Residual Risk Rating

- Clear financial procedure rules setting out roles and responsibilities for budget management are in place.
- The impact of the pandemic has led to significant financial support from Welsh Government in the form of Local Authority Hardship Claims.
- Hardship support in the form of compensating for additional expenditure incurred as a result of the pandemic response and compensation for loss of income expected from activities.
- Claim Process on a quarterly basis and is subject to review and potential audit post event.
- Claims for loss of income are adjusted for those costs that can be avoided. Range of forecasts amidst the uncertainty of the timescale for recovery in those activities for the rest of the financial year and beyond.
- The 2020/21 Directorate Month 4 report reported a directorate overspend of £5.076 million with an overall deficit position of £1.976 million.
- The Corporate Director of Resources, Chief Executive and Cabinet Members hold challenge meetings and these will continue throughout 2020/21.
- Full financial monitoring process is in place for month 3 to 11 of the financial year including achievement of budget savings with months 3 to 6 completed.

What we plan to do to meet target

2021/22 and the Medium Term

- Regular challenge session meetings held with directors, corporate directors and Chief Executive in order to ensure there is a response to both individual directorate positions and the overall Council position. Focus on areas of lost income or additional expenditure and understanding the potential impact on future periods.

Linked Risks

Financial Resilience

Key Indicators / Measures used to monitor the risk

Monthly Directorate Monitoring reports detailing likely outturn position and performance against savings accepted

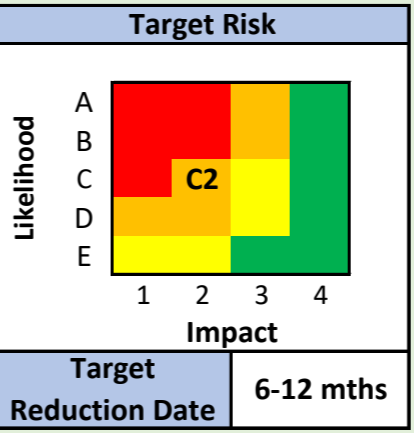
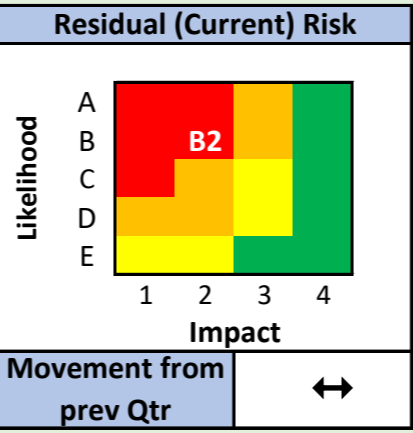
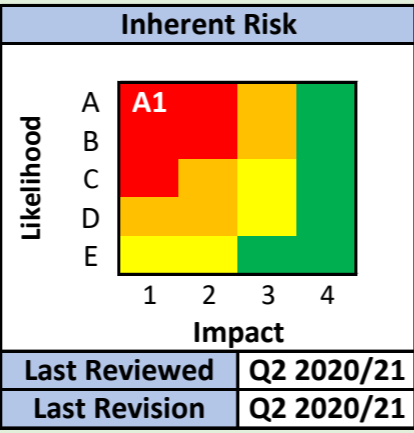
- Review of use of earmarked reserves and balances - Half Yearly
- Amount of Hardship Support claimed successfully

Financial Resilience

Description

Failure to deliver a balanced annual budget and a fully informed Medium Term Financial Plan which would significantly weaken the financial resilience of the Council.

The current outlook is that there is a Budget Gap of £73 million for the period 2021/22 to 2024/25.



Risk Owner(s)

Chris Lee
(Ian Allwood)

Councillor Chris Weaver
Finance, Modernisation and Performance

What we've done/are currently doing to achieve the Residual Risk Rating

2020/21 and Medium Term

- Final Settlement received 25 February 2020 - two days before council approval of budget.
- The 2020/21 Budget monitoring position of Month 4 highlights a significant overspend on Directorate budgets.
- Monitoring of the budget realignment of services to provide assurance of delivery of services within budgets allocated. This is in partnership with directorates.
- The Council regularly reports in relation to its financial performance and monitoring
- The Wales Audit Office identified that the Council has a transparent and effective savings approach which supports financial resilience being achieved
- A financial snapshot is used to report the financial resilience of the Council and is reviewed 3 times a year and reported at Budget Report (Feb), Budget Strategy (Jul) and to Audit Committee.

What we plan to do to meet target

2021/22 and the Medium Term

- Continue work on establishing the financial implications to services both in the short, medium and long term as a result of the impact of the Covid 19 crisis.
- Work in partnership with Directorates to ensure that budgets allocated for key services remain appropriate and sustainable. Key focus on those areas where overspends being reported in 2019/20
- Continue to maintain close alignment with objectives of the Corporate Plan in order to ensure resources are allocated appropriately and that longer term financial savings are developed in enough time to be realised in the medium term.
- Continue to refresh assumptions at key stages as relevant information becomes available.

Potential Impact(s)

- Risk of failing to meet statutory obligations and that service delivery impacted due to uncertainty in the budget planning process.
- Risk that settlement figures will not be as anticipated giving an element of uncertainty to any proposals from Cabinet during public consultation and beyond.
- Risk that savings identified as part of business as usual and efficiencies have not been robustly reviewed for achievability and will not deliver as planned.
- Risk that financial constraints and budget proposals result in unintended consequences such as increased instances of non-compliance and financial impropriety.
- Risk that annual budget settlement frustrates medium / longer-term planning and that the cycle does not integrate with other business cycles and vice versa.
- Risk that Medium Term Savings are not identified in a coherent, strategic way which impacts on service delivery.
- The risk that the Council will not be able to react to adverse situations through a combination of poor imprudent planning and significant challenges such as increasing demands for services such as social services, education, roads etc.

Linked Risks

Budget Monitoring (Control)

Key Indicators / Measures used to monitor the risk

Financial Snapshot which highlights historical and current performance on performance against budget, performance against savings against budget, level of borrowing, financial ratios Work being undertaken with SMT to consider the savings opportunities over the medium term 2020/21 - 2023/24.

- Outturn vs Budget: Main budget lines under or overspend as a % of budgeted expenditure.
- Delivery of planned savings: Total (£) unachieved planned savings as a % of total (£) planned savings.
- Use of reserves: 1) Ratio of useable reserves to Net Revenue Budget (NRB), 2) Amount of useable reserves used to balance budget as % of NRB.
- Council tax: 1) Council tax and other income as % of NRB, 2) Council tax collection rates (in-year actual).
- Borrowing: 1) Total commercial investment income as % of total net general fund budget, 2) Total (£) commercial investments and (£ plus%) amount funded from borrowing, 3) Borrowing related to commercial investments as % of General Fund total borrowing, 4) Capital interest costs and MRP as a proportion of NRB.
- Performance against Budget Timetable.
- Frequency / timeliness of engagement with SMT/Cabinet.
- Proportion of Savings Proposals in Realised or at Delivering stage.

Type(s) of Impact

- Service Delivery
- Reputational
- Legal
- Financial
- Stakeholder

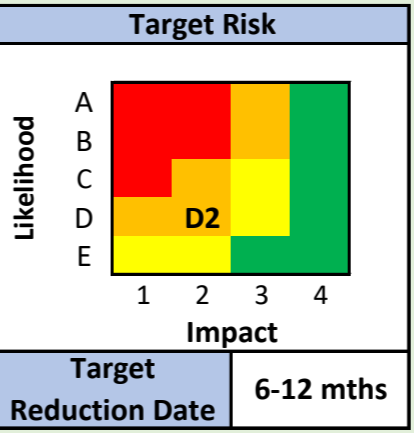
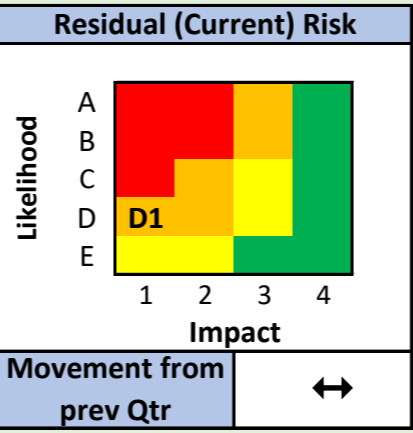
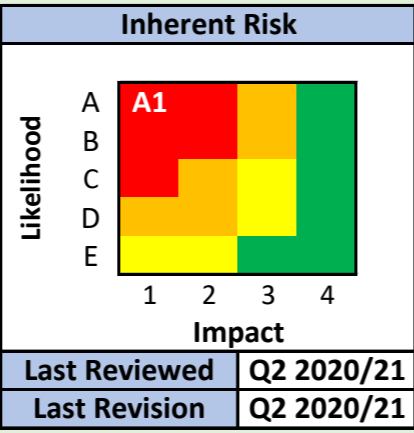
Fraud, Bribery & Corruption

Description	Inherent Risk	Residual (Current) Risk	Target Risk	Risk Owner(s)									
<p>Fraud, financial impropriety or improper business practices increase as internal controls are weakened as resources become severely stretched.</p>	<p>Inherent Risk</p> <p>Matrix: Likelihood (A-E) vs Impact (1-4). Risk rating B2.</p>	<p>Residual (Current) Risk</p> <p>Matrix: Likelihood (A-E) vs Impact (1-4). Risk rating D2.</p>	<p>Target Risk</p> <p>Matrix: Likelihood (A-E) vs Impact (1-4). Risk rating D3.</p>	<p>Chris Lee (Ian Allwood)</p>	<p>Councillor Chris Weaver Finance, Modernisation and Performance</p>								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Last Reviewed</td> <td>Q2 2020/21</td> </tr> <tr> <td>Last Revision</td> <td>Q2 2020/21</td> </tr> </table>	Last Reviewed	Q2 2020/21	Last Revision	Q2 2020/21	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Movement from prev Qtr</td> <td style="text-align: center;">↔</td> </tr> </table>	Movement from prev Qtr	↔	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Target Reduction Date</td> <td>12 mths +</td> </tr> </table>	Target Reduction Date	12 mths +		
Last Reviewed	Q2 2020/21												
Last Revision	Q2 2020/21												
Movement from prev Qtr	↔												
Target Reduction Date	12 mths +												
	What we've done/are currently doing to achieve the Residual Risk Rating			What we plan to do to meet target									
	<ul style="list-style-type: none"> The Council communicates a zero tolerance approach to fraud, bribery and corruption. Regular review of relevant policies and procedures e.g. the Fraud, Bribery and Corruption Policy, Money Laundering Policy and Disciplinary Policy. Financial Procedure Rules and Contract Standing Orders and Procurement Rules and training. National Fraud Initiative data matching exercises in collaboration with the Cabinet Office and Wales Audit Office. Receipt and dissemination of fraud intelligence alerts from law enforcement agencies. Regular reports to the Section 151 Officer and Audit Committee and the Chief Executive. Audit Committee review of the risk management, internal control and corporate governance arrangements of the authority. Independent assurance from Internal and External Audit on the effectiveness of governance, risk and control. Briefings developed and disseminated to Schools on fraud and control risks. Cardiff Manager Programme includes session on risk management and compliance / control. Provision of disciplinary management information on DigiGOV. Mandatory disciplinary e-learning module for all managers to complete and a programme of mandatory e-learning modules and training for Disciplinary Hearing Chairs, Investigating Officers and Presenting Officers. A Fraud Publicity Strategy is in place, to publicise the Council's approach to counter fraud work / sanction activity and explain the roles and responsibilities of key parties. Counter-Fraud and Corruption Strategy approved by Cabinet in July, and associated Fraud Awareness eLearning was rolled out to all pc users commencing July 2019. Face-to-Face Fraud Awareness training delivered to officers and headteachers in quarter 3 and school governors in quarter 4 2019/20. Participation in International Fraud Awareness week commenced in November 2019, and annual commitment to participate going forward. Investigation Team participation in SMAS triangulation exercise, commenced in quarter 3 2019/20. Investigation Team provision of investigation and counter-fraud advice, guidance and support to Directorates as required. SMT participation in fraud tracker and assessment commenced January 2020, with commitment to full exercise at least annually. 			<ul style="list-style-type: none"> Monitoring employees at work policy and process for undertaking online investigations being reviewed. Policy updates underway in respect of money laundering, to include a provision of targeted training. Monitoring and reporting completion rates of mandatory fraud awareness training. 									
	What we've done/are currently doing to achieve the Residual Risk Rating			What we plan to do to meet target									
<p>Potential Impact(s)</p> <ul style="list-style-type: none"> Increase in frauds and losses to the Council Reputational risk as more frauds are reported Increased time investigating suspected fraud cases impacting on capacity 													
	Key Indicators / Measures used to monitor the risk												
	<ul style="list-style-type: none"> Adherence to the NFI Security Policy and annual completion of compliance forms Mandatory Fraud Awareness eLearning completion and face-to-face attendance rates Delivery of Fraud Awareness week campaign Delivery of Policy updates Delivery of mandatory investigating officer training and the note taker training Criminal investigations conducted on behalf of Directorates Provision of timely investigation and counter-fraud advice, guidance and support to Directorates as required 												
	Type(s) of Impact			Linked Risks									
<ul style="list-style-type: none"> Service Delivery Reputational Legal Financial 	<ul style="list-style-type: none"> Stakeholder 												

Information Governance

Description

Information handled inappropriately leaves the Council exposed to intervention and financial penalties issued by the Information Commissioner (ICO). This includes information held by Cardiff Schools.



Risk Owner(s)

Chris Lee
(Dean Thomas)

Councillor Chris Weaver
Finance, Modernisation and Performance

What we've done/are currently doing to achieve the Residual Risk Rating

- Suite of Information Governance Processes, Policies and Strategies in place and annually updated.
- Gold level of assurance as part of Cyber Security Plus ISAME Accreditation process in March 2019.
- Information Governance Training Strategy in place and training provided to staff with access to electronic personal data
- Processes established through procurement and ICT acquisition processes for ensuring Data Protection Impact Assessments are completed if personal data is being processed, including Data Processing Agreement with third party contractors.
- A corporate Information Asset Register is held which details personal data assets held by each Council directorate.
- Service Level Agreements in place where Cardiff Council is the Data Controller for regional services
- Advice, guidance and support is provided to all Cardiff Schools.
- Corporate Retention schedule in place and updated annually in line with any legislative changes.
- Information Governance Maturity Model established to monitor risks against areas of information governance to feed into corporate risk status.
- The Digitalisation of Paper Records Strategy and associated business process changes is in place.
- Data Protection e-learning training released with an extended period for completion during 2020. Compliance is monitored and reported to Directors.
- An Information Governance Report is provided to Information Governance & Security Board on a quarterly basis. This sets out performance information in respect of data protection and information request compliance for each directorate.
- National and Regional Information Governance Agreements in place in respect of Covid-19 data processes

What we plan to do to meet target

- Changes will be introduced in respect of managing data breach investigations, which will require services to provide information and evidence within set deadlines. This will help ensure that the Council meets targets for completing investigation reports and put support to Insurance in the event of any compensation claims being submitted
- Monitoring the position in relation to International Transfers as a result of a potential no deal Brexit continues. Data flows have been established to enable any additional measures which may be required in line with any adequacy decision.
- Staff awareness of Information Governance to be provided to energise the importance of staff and managers' responsibilities for ensuring the services comply with corporate policies.
- Information Governance Champions Group to be established to provide support to directorate champions with ensuring compliance procedures and policies and maintaining directorate Information Asset Registers.

Potential Impact(s)

Leads to the Information Commissioner issuing notices of non-compliance

These could consist of:

- A "Stop Now" Order which would mean that no personal data could be processed by the Council in its entirety
- An Information Notice which would mean that a service would have to provide information in a very limited period thereby impacting on service delivery
- Undertaking which requires an Action Plan of Remedial Measures which would be subject to ICO Audit
- Enforcement Notice requires immediate improvement action to be put in place
- Financial Penalty up to £17.5 million for Higher Level Tier and £8 million for Lower Level Tier breaches of the Data Protection Act.
- Compensation unlimited liability claims for damages as a result of a data breach from individuals.

Type(s) of Impact

- Service Delivery
- Reputational
- Legal
- Financial

• Stakeholder

Linked Risks

Key Indicators / Measures used to monitor the risk

- Suite of IG Indicators
- No. of ICO correspondence
- No. of FOI / SAR Requests
- No. of individuals trained on GDPR modules

Cyber Security

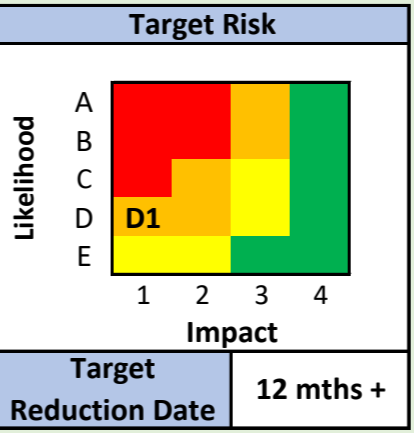
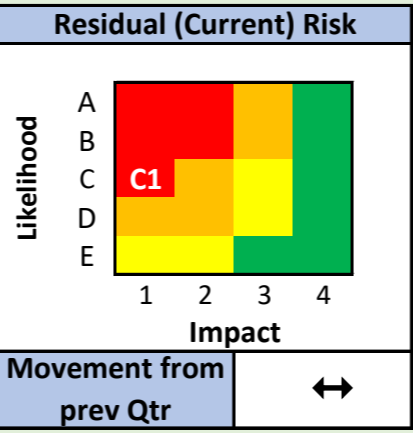
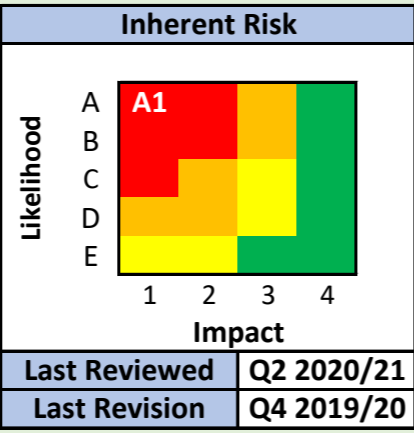
Description

There are 11 areas of potential risk within the National Cyber Security Centre cyber risk model. Of these, nine are assessed as well controlled within the Council

Two of the eleven areas of a Cyber Security assessment underpinning the corporate risk have been identified as high risk as follows:

Monitoring - the volumes of systems, applications and audit logs do not lend themselves to easily assess how and when systems are being used, leading to an ineffective response to deliberate attacks or accidental user activity

Corporate Cloud Security - 2018 Internal Audit identified contract, SLA and service management weaknesses in externally hosted services



Risk Owner(s)

Chris Lee (Phil Bear)

Councillor Chris Weaver
Finance, Modernisation and Performance

What we've done/are currently doing to achieve the Residual Risk Rating

The principal controls for the high risk areas are as follows:

- Monitoring** - Log analysis is undertaken on a prioritised basis with incident reporting to ISB and discussed with IAO - risk of vulnerabilities could be further mitigated with additional resourcing for log monitoring - this is under continual review
- Corporate Cloud Security** - Maturing PIA & CIA process used to assess risks to data and technology solutions
- Independent assessment and certification of the council's IT security posture via the National Cyber Security Centre (NCSC) Cyber Essentials Plus scheme
- Independent assessment and certification of the Council's Information Governance (GDPR/Data Protection) posture via the ISAME Governance scheme, awarded at the highest level of Gold
- Staff Cyber Security training programme rolled out to all staff to give guidance on threats and how to spot

What we plan to do to meet target

- ICT and Information Governance (IG) Teams to continue to liaise with FM for physical security assurances and to promote an incident reporting culture.
- To ensure strong ICT security, monitoring and cloud security controls:
 - ICT lifecycle and notification targets are being monitored and managed through the 'ICT Platforms' risk actions
 - Collaboration between ICT and IG to develop and map current ICT system providers in phased development of an Information Asset Register
 - Privacy Impact Assessment / Cloud Impact Assessments to be reviewed to ensure compliance with the requirements of the General Data Protection Regulation (GDPR) Action Plan being managed by the Information Governance Team
 - Governance and management requirements to be formalised for periodic and systematic review of all ICT systems.
- SIRO to review / consider Cloud Infrastructure to ensure:
 - Assurance of effective governance and management
 - Resource, risk appetite and outcomes required
 - Education of business systems owners in risk and management of cloud based services.

Potential Impact(s)

The intent of cyber attackers includes, but is not limited to:

- financial fraud;
- information theft or misuse,
- activist causes to render computer systems intolerable and to disrupt critical infrastructure and vital services.

The impact of a cyber-attack / incident has the potential to involve the realisation of the risks associated with:

- An information governance breach (i.e. Stop Now Order, Information Notice, Enforcement Notice, Financial Penalty etc.)
- A business continuity incident – with a potential for major loss of service and legal, health and safety and financial implications.
- A financial / fraud related attack.

A malicious attack could result in loss of confidence from those transacting with the Council (reputation), as well as legal, asset, system, operational and financial implications.

Linked Risks

Information Governance

Key Indicators / Measures used to monitor the risk

- Threat intelligence from National Cyber Security Centre (NCSC), including national posture and guidance via the National Cyber Security Strategy/Programme
- Threats and risks highlighted by NCSC Cyber Security Information Sharing Partnership (CiSP), Cymru WARP (Warning, Advice and Reporting Point) and Welsh Government/WLGA
- General UK posture and issues raised in national and local media
- Number of compromises - breaches are monitored, investigated and reported back via Information Security Board and where applicable the ICO
- Monthly reporting of number of virus attacks via email blocked

Type(s) of Impact

<ul style="list-style-type: none"> Service Delivery Reputational Legal Financial 	<ul style="list-style-type: none"> Health & Safety Stakeholder
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ICT Platforms Unsuitable / Outdated

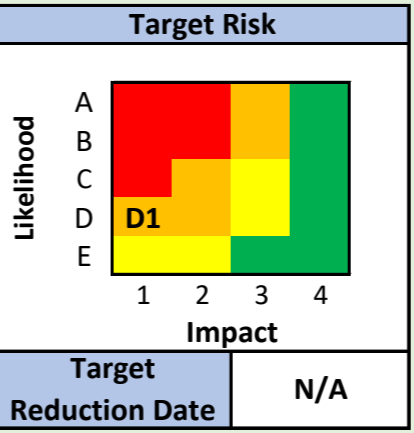
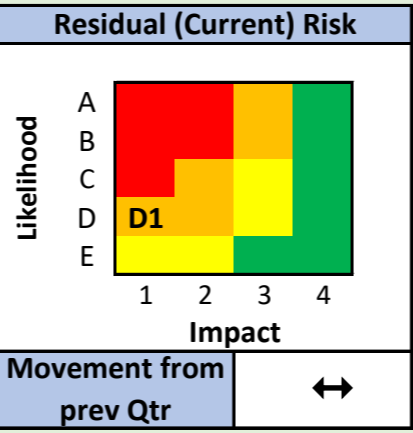
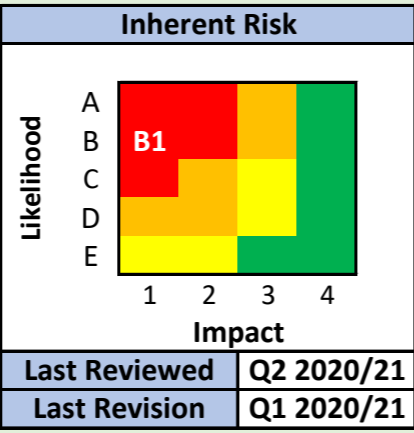
Description	Inherent Risk	Residual (Current) Risk	Target Risk	Risk Owner(s)									
<p>The ICT platforms (desktop, software, network, servers, and telephones) will not be able to support the technologies required by the corporate change programme and deliver effective service to the council, or will not provide a reliable service due to age and condition of equipment and systems.</p>	<p>A2</p>	<p>C2</p>	<p>D3</p>	<p>Chris Lee (Phil Bear)</p>	<p>Councillor Chris Weaver Finance, Modernisation and Performance</p>								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Last Reviewed</td> <td>Q2 2020/21</td> </tr> <tr> <td>Last Revision</td> <td>Q4 2019/20</td> </tr> </table>	Last Reviewed	Q2 2020/21	Last Revision	Q4 2019/20	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Movement from prev Qtr</td> <td style="text-align: center;">↔</td> </tr> </table>	Movement from prev Qtr	↔	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Target Reduction Date</td> <td>12 mths +</td> </tr> </table>	Target Reduction Date	12 mths +		
Last Reviewed	Q2 2020/21												
Last Revision	Q4 2019/20												
Movement from prev Qtr	↔												
Target Reduction Date	12 mths +												
	What we've done/are currently doing to achieve the Residual Risk Rating			What we plan to do to meet target									
	<ul style="list-style-type: none"> Spending for renewal/upgrade of highest risk items, in particular firewalls, core servers/switches and external bandwidth is continually reviewed and reprioritised Migration of data to SharePoint online providing a cloud resilient and agile service Purchase of Extended Support to help keep legacy services covered for an additional year (2008) 10 year hardware replacement programme created with costs estimates profiled annually Continued assessment of priorities for replacement – applications infrastructure and servers are the next priority Assessment of equipment required replacing to maintain PSN compliance 			<ul style="list-style-type: none"> Development of lifecycle monitoring for operating systems and software platforms, and clearer customer engagement of upcoming deadlines Pilot leasing scheme within schools to be considered for corporate desktop estate 									
<p>Potential Impact(s)</p> <ul style="list-style-type: none"> Loss of PSN services. Service delivery impacts from unreliable/unavailable ICT systems Cardiff seen as unable to deliver on aspirations Poor morale from frustrations with inability to deliver services. Potential for income losses from revenue collection impacts. Unable to meet delivery deadlines on both business as usual and transformation projects. 													
<p>Type(s) of Impact</p> <ul style="list-style-type: none"> Service Delivery Reputational Financial Stakeholder 	Linked Risks			Key Indicators / Measures used to monitor the risk									
				<ul style="list-style-type: none"> Annual independent testing of external and internal infrastructure via Information Technology Health Check (ITHC) for PSN compliance. 									

Business Continuity

Description

Large scale incident/loss affecting the delivery of services.

The potential risk is that our most time sensitive activities are not sufficiently resilient and fail, following an incident which impacts on their delivery and that our incident management structure, used in response to internal incidents and external emergencies, also fails in response to an incident.



Risk Owner(s)

Chris Lee

Councillor Huw Thomas
Leader

What we've done/are currently doing to achieve the Residual Risk Rating

- The Council has a BCM Champion who sponsors BCM at a strategic level
- We have an approved Business Continuity Policy which is aligned to ISO22301
- BCM toolkit is now available on CIS
- The Council employs a Business Continuity Officer who is a qualified ISO22301 lead auditor
- The Emergency Management Unit has developed an Incident Management Plan (Cardiff Council's Emergency Management Plan) to ensure alignment with ISO22301. This was fully updated in March 2019.
- The Council has a 24 hour Incident Management structure for Gold and Silver Officers.
- Cardiff Council is a member of the Core Cities Business Continuity Group
- Internal Audit completed an audit of the Business Continuity Risk in September 2018 and the assurance statement was "Effective with opportunity for improvement"
- Q4 of 2019/2020 saw the council undertake a full review and update of the activities delivered across the council allowing us to focus on the resilient delivery of key functions as we planned and responded to the COVID19 threat. This review was delivered at the Strategic Level.
- Each Directorate was tasked with reviewing and updating their key business continuity plans in preparation for the emerging COVID19 threat. Each Director/Corporate Director was responsible for ensuring this work was undertaken fully and properly. The existing Business Continuity work provided a solid foundation to our response to the COVID19 threat.
- The full corporate incident management team was activated in early March.
- The Council worked positively at a Local Resilience Forum(LRF) level with partners supporting a wider Wales response to the COVID19 threat. This included daily reporting and escalation of key issues to the LRF.
- Areas were forced to change to a far more agile way of operating with our core ICT requirements changing to support far more agile/home working. The mode of delivery worked exceptionally well and provides the potential for longer-term resilient agile working in response to the ongoing COVID19 risk, in addition to positively supporting other aims and corporate risks.
- Staff across the council adapted at speed and have worked incredibly hard to deliver key services in new ways, in addition many staff changed roles to support the resilient delivery of key services and new asks on the council to keep the public safe.
- Officers are continuing to plan and prepare for the potential impacts of Brexit and a resurgence in the pandemic going into the autumn and winter of 2020 and spring of 2021.

What we plan to do to meet target

- Work with ICT to ensure our core infrastructure is as resilient as possible and able to support additional agile working capacity.
- Work with the teams involved with looking at the potential of using alternative delivery models for council services. Identifying risks associated with alternative delivery models for specific services and recommend potential risk management solutions for implementation, to protect the delivery of our most critical services.
- The Business Continuity Officer is working to develop and enhance individual Directorate response capability to ensure Directorates are in a stronger position to respond to incidents which could impact on the Council and our most time sensitive activities
- The BC officer is continuing a review of 4x4 resources across the council to support our response capability to deal with the potential of winter storms.
- The BC officer along with the Resilience Unit are continuing to ensure that corporately we are able to respond to the COVID19 threat and the ongoing risk including of second and third waves until the threat of the pandemic has fully dissipated.

Potential Impact(s)

- Health and Safety** – potential impact on staff and on the public relying on our most, time sensitive, critical services
- Legal action** -Failure of key services could lead to Legal action against the council
- Financial** - Failure of key services could led to significant financial cost both in terms of Ombudsman action and Enforcement action from regulatory bodies, as well as individual legal action against the corporate body where service failure leads to legal action against us from private claimants
- Reputational** - Impact on key services to the public could lead to significant reputational damage to the organisation
- Stakeholder** – Impact on key stakeholders as result of failure
- Service delivery** – Potential significant impact on service delivery to the public, impact of key services could lead to significant impacts to the public and the corporate body un delivering its services

Type(s) of Impact

- Service Delivery
- Reputational
- Legal
- Financial
- Health & Safety
- Stakeholder

Linked Risks

Brexit Risk

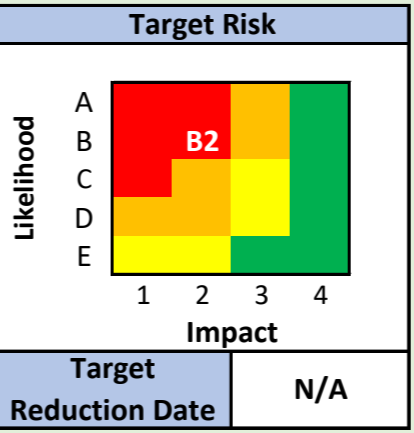
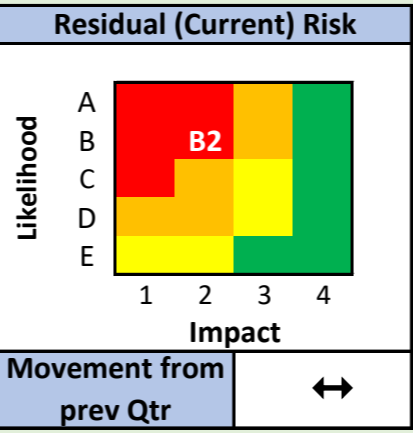
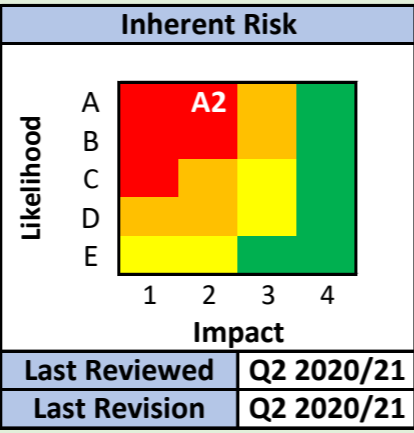
Key Indicators / Measures used to monitor the risk

The Red activity BC plan status is reviewed on a quarterly basis via a report to SMT after the CRR submission. Additionally the risk is managed as part of the Corporate Risk Management process via the CRR returns and the BC risk is also audited by Internal Audit . The last Internal Audit of the Business Continuity Risk was in in 2018.

Welfare Reform

Description

That the Council cannot meet its statutory obligations with the increased demands and reduced budgets placed upon it by the Welfare Reform including: Universal Credit, further reduction in Benefit Cap and size restrictions for social tenants. The potential impact of these changes on rent arrears, homelessness and child poverty make these changes a significant risk. The removal of the DWP funding that paid for digital and budgeting support across the city will potentially increase the problem, although currently council reserves are being used to mitigate this.



Risk Owner(s)

Sarah McGill
(Jane Thomas)

Councillor Lynda Thorne
Housing & Communities

What we've done/are currently doing to achieve the Residual Risk Rating

- Communities staff continue to work closely with private landlords and advice agencies to mitigate wherever possible the reduction in benefit and prevent eviction. The new Landlord portal will be operational
- Discretionary Housing payments are being used to top up the benefit claims of those most affected by the changes and to pay rent in advance and bonds to help tenants to move accommodation where necessary.
- Housing Options service have developed additional support to help move families and vulnerable adults into private sector housing with a guarantor agreement to help mitigate the risk of financial loss that landlords fear.
- Housing Options service have created additional help for those on low incomes but not on benefits to access an interest free loan to pay for bond, rent in advance and moving costs. This also helps with financial inclusion as the clients will open up a savings account with the credit union and have a lump sum saved by the time the loan is repaid.
- Housing Options service are working with third sector partners to help clients move into settled accommodation in the private rented sector, primarily for single people who have lived in supported accommodation.
- Digital and budgeting Support is being given to claimants to help them respond to the changes, although funding has been stopped for this, so the Council is using its reserves to provide this service, the sustainability of this is therefore in question.
- A streamlined process is in place for re-housing tenants who need to downsize as a result of the social housing size restrictions. DHP is being used to pay removal costs and to cover shortfall while tenants are waiting to move.

Welfare Liaison team within the housing service is in place to assist tenants affected by the changes. Work has been carried out to identify those affected by the Benefit Cap and to advise them accordingly and to identify the most vulnerable families and award DHP.

- DHP process has been reviewed to ensure that all those who request a DHP are given budgeting, income maximisation and debt advice
- Universal Credit full service has commenced in Cardiff. Despite additional resources put in place rent arrears for council tenants have risen significantly since the change was implemented. The Welfare Liaison team work closely with tenants to mitigate the impact of the change.
- The Money Advice Team is providing comprehensive advice services for those affected by Welfare Reform and this has been rolled out across the city in Community Hubs and foodbanks.
- The Inclusive Growth Board and subgroups are coordinating multi-agency activity and developing appropriate interventions during a difficult transition period for many people affected.
- Briefings continue to be provided to Members on Welfare Reform and further information is sent as appropriate.
- Digital inclusion training and Universal Credit Support has been rolled out across all the new Community Wellbeing Hubs.
- Into Work Services are providing one to one mentoring support as well as light touch help across the city to help people get back to work or to upskill in their current roles.

What we plan to do to meet target

- Further additional resource has been agreed for supporting council tenants following the implementation of Universal Credit Full Service as rent arrears have increased significantly, staff have been recruited to assist with this and the new team is working well. Rent arrears procedure has been reviewed to include a more preventative and flexible approach and more assistance for more vulnerable tenants. After an initial sharp increase in rent arrears, the rate of increase has stabilised. This will be monitored over the coming months.
- Work has being undertaken to cost the potential risks of Universal Credit to the HRA and this will continue to be updated as more information is known.
- Regular meetings are held with social housing providers to monitor and improve processes.
- DHP spend is being monitored carefully. Expenditure for 19/20 will continue focusing on the most vulnerable individuals, helping people with the transition into work and mitigating the risk of homelessness.
- Services for private landlords are being further developed to help prevent them withdrawing from the market.
- Increase in Prevention staff to work with clients at risk of homelessness. Service can be provided from a partner building or in a client's home to increase engagement.
- In depth assessments to be completed at point of presentation to include a financial statement which will allow discussion to be had around possible expenditure concerns
- Attendance at monthly meetings to discuss clients affected by Welfare Reform in order that early support can be offered.
- Increase in Private Rented Sector Housing Solutions Team to obtain affordable private rented sector accommodation in order to assist clients to move quickly to avoid accruing higher rent arrears.
- Expansion of the Private Rented Sector Housing Solutions Team to include a dedicated person of contact for landlords. This will mean that any issues can be raised at the earliest stage and support provided to try to prevent any issues which may lead to homelessness.
- Dedicated phone line for landlords will mean easier contact with above team.
- a new Advice Team is now in place within the Housing Options Service to assist clients and landlords and to ensure that help available is promoted. This will include an online messaging service making the Service accessible to a wider range of clients.
- Digital and budgeting support available from Into Work and Money Advice on a Saturday for the first time for those who are claiming UC and in work
- Introduction of landlord portal so that HA's and in the future, private landlords can access information quickly about amount of and dates of payments due online

Potential Impact(s)

- Benefit claimants are priced out of the private rented sector market
- Private landlords stop renting to benefit claimants
- Private landlords leaving the rental housing market
- Social housing rents become unaffordable to some claimants, in particular those with large families
- Increased homelessness and demand for temporary accommodation – increased numbers seeking help with homelessness due to loss of private sector accommodation has already been seen.
- Increased rough sleeping
- Increased rent arrears, increased evictions - The impact on Council tenant rent arrears has already been considerable and is having an on the HRA, this will continue to increase as more tenants move to Universal Credit.
- Redeployment / Severance for housing benefits staff
- Changing demands on Council stock resulting in increased voids and/or undersupply of smaller properties
- Increased council rent arrears could impact on HRA and lead to barriers to building additional affordable housing
- LA less likely to pre-empt those who are going to be affected by changes and therefore unable to put mitigation steps in- This has already had a negative impact on the number of families where contact can be initiated by advice teams to families who have been affected by the benefit cap.
- Increase in poverty and child poverty, potentially an increase on demand of social services

Type(s) of Impact

Linked Risks

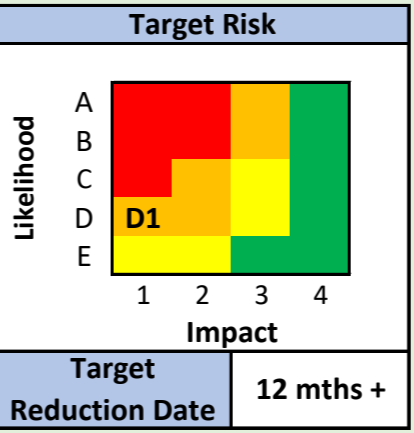
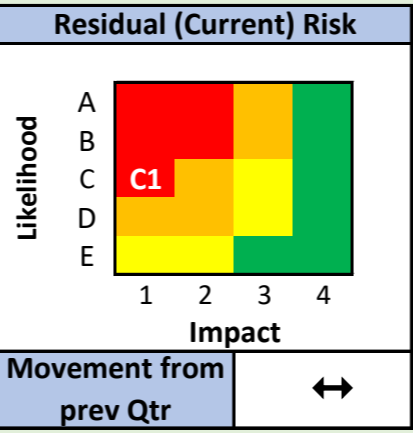
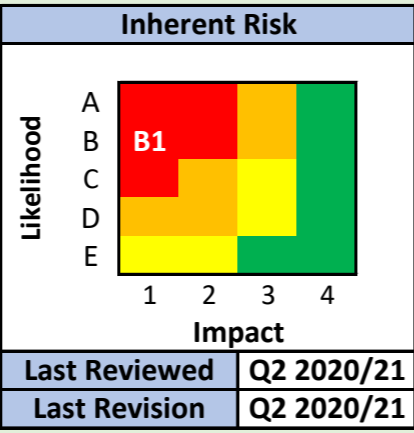
Key Indicators / Measures used to monitor the risk

Number of customers supported and assisted with their claims for Universal Credit
Additional weekly benefit identified for clients of the city centre advise team

Increase in Demand (Children's Services)

Description

Failure to effectively manage demand resulting in increase in number of children looked after and the service and financial pressures this presents.



Risk Owner(s)

Sarah McGill
(Deborah Driffield)

Councillor Graham Hinchey
Children & Families

- What we've done/are currently doing to achieve the Residual Risk Rating**
- Early Help Strategy
 - Cardiff Family Advice and Support Service
 - Information, Advice and Assistance functions (including Dewis Cymru)
 - Locality working
 - Interface Protocol for Children's Services with Children's Team Around Family (TAF) and Disability Team Around the Family (DTAF)
 - Flying Start
 - Rapid Response Service
 - Adolescent Resource Centre
 - Legal tracker
 - Decision making panels
 - Direct Payments
 - Young Carers Action Plan
 - Families First Services recommissioned
 - Signs of Safety implementation plan
 - "Delivering Excellent Outcomes" Children's Services Strategy
 - Recruitment and retention strategy in place to address children's workforce issues.
 - Flexible approach to the deployment of staff utilising people's skills and capacity to solve problems / take projects forward and reduce "silo" working.
 - Focussed on what ONLY social workers can do and identified what tasks can be completed by other workers – further work on skill mix is ongoing.
 - Working hours flexible to meet service and personal needs.
 - Referrals to Safe Families.
 - Referrals to Ymbarel.
 - Provision and analysis of performance information being tailored to meet arising issues (e.g. monitoring domestic violence).
 - Managed Team resource secured - graduated exit plan in place.
 - Care & Support staff resources secured until 31st March 2021.
 - Work to develop a Reunification Framework has restarted.
 - Family Group Conferencing

- What we plan to do to meet target**
- (Relevant DDP 2019/20 actions noted in brackets.)
- Improving Outcomes for Children Programme Board and project groups beneath it
 - Children's Commissioning Strategy and Market Position Statement being developed to address placement quality and sufficiency (CP 12 - CS)
 - Fostering project and residential care projects supporting delivery of the emerging needs from the Commissioning Strategy (CP 12 - CS)
 - Partnership arrangements for delivery of Child and Adolescent Mental Health Service (CAMHS) to be reviewed (CP 5 - CS)
 - Transformation and ICF proposals developed to enhance services at the edge of care and support proactive improvement (DP 21 - SS)
 - Deliver a three year plan that combines service and financial planning for Adult and Children's Social Services (CP 24 - SS)
 - Implement new senior management arrangements to ensure that we are able to meet the current and future challenges (DP 22 - SS)
 - Following initial dip in demand in the post lock down period, demand has started to rise again; ongoing monitoring due to potential for impact of COVID-19 crisis to increase demand for services.
 - Potential for backlog of private law cases noted.

- Potential Impact(s)**
- Family breakdown leading to children becoming looked after
 - Growth in the number of children entering the looked after system and associated costs for the Authority
 - Insufficient placements to meet need
 - Children are less likely to achieve their potential and to be fully participating citizens
 - Life chances for children are reduced
 - Delays in issuing care proceedings because of existing capacity in both Children's and Legal Services
 - Challenges in improving outcomes for children
 - Challenges in effectively managing service and financial pressures
 - Significant increase in demand for residential and foster care placements for children looked after resulting in increase in numbers living outside Cardiff

- Linked Risks**
- Workforce Planning (Social Services)
 - Safeguarding

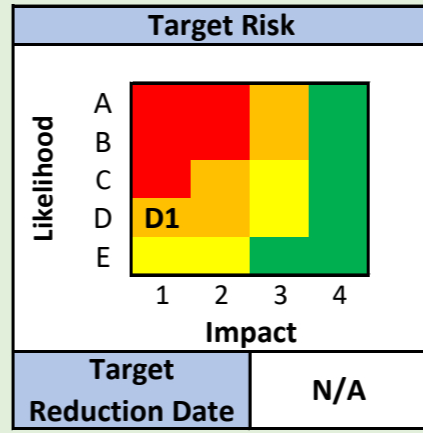
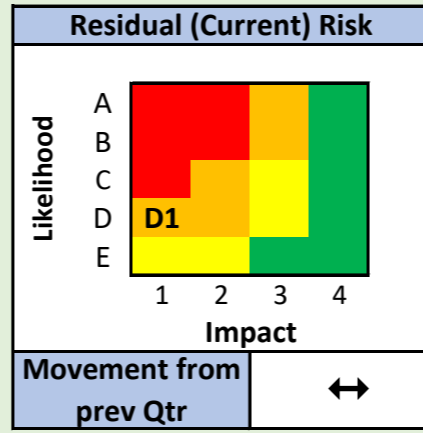
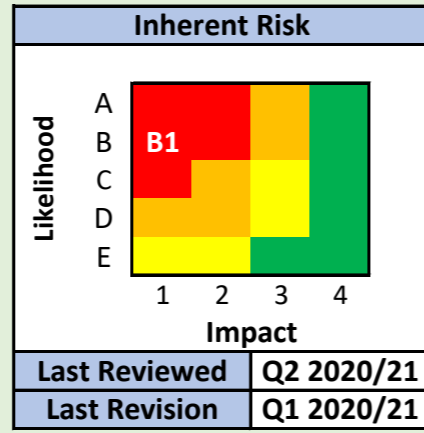
- Key Indicators / Measures used to monitor the risk**
- Children's Services:
- Early Help 1 - Number of people supported through the Family Gateway
 - Early Help 2 - Number of people supported by the Family Help Team
 - Early Help 3 - Number of people supported by the Family Support Team
 - Contacts 1 - Number of Contacts / Referrals Received
 - SSWB 24 - Percentage of assessments completed for children within statutory timescales
 - CS LAC 3e - Number of children looked after

- Type(s) of Impact**
- Service Delivery
 - Reputational
 - Legal
 - Financial
 - Community & Environment
 - Stakeholder

Safeguarding

Description
Systemic failure in the effectiveness of the Council's safeguarding arrangements together with other statutory safeguarding partners.

- Potential Impact(s)**
- A child(ren) or adult(s) suffer(s) avoidable significant harm or death
 - Reputation of Council and partners
 - Severe adverse publicity
 - Potential regulator intervention
 - Loss of confidence by community in safety of children and adults
 - Loss of confidence of staff in the overall "safety" of the service, impacting on morale, recruitment and retention
 - Potential litigation with associated financial penalties
 - Significant financial implications of formal intervention



Risk Owner(s)

Sarah McGill

Councillor Huw Thomas
Leader
Councillor Susan Elsmore
Social Care, Health & Well-being
Councillor Graham Hinchey
Children & Families
Councillor Chris Weaver
Finance, Modernisation and Performance

- Type(s) of Impact**
- | | |
|--|---|
| <ul style="list-style-type: none"> • Service Delivery • Reputational • Legal • Financial | <ul style="list-style-type: none"> • Partnership • Community & Environment • Stakeholder |
|--|---|

- Linked Risks**
- Increase in Demand (Children's Services)
 - Workforce - Social Services

- What we plan to do to meet target**
- (Relevant DDP 2019/20 actions noted in brackets.)
- Implementation of revised Corporate Safeguarding Policy and action plan arising from internal audit of corporate safeguarding (CP 19 - SS).
 - Additional investment in corporate safeguarding to address recommendations from internal audit report.
 - Exploitation Strategy being developed to cover wider exploitation issues, including adults, in a multi agency way (CP 20 - SS).
 - Ensure children and adults are protected from risk of harm and abuse by raising awareness among public and professionals for the duration of the plan (DP 18 - SS).
 - Embed the Quality Assurance Framework in Adult and Children's Services (DP 19 - SS).
 - Process and escalation procedures agreed for children's work, to be agreed with adults (DP 30 - AS).
 - Implement new arrangements within the Multi Agency Safeguarding Hub (MASH) to take account of the new Early Help Service (CP 21 - CS).

What we've done/are currently doing to achieve the Residual Risk Rating

- Regional Adults / Children's Safeguarding Board.
- Cardiff Local Operational Safeguarding Group established to support effective multi-agency safeguarding arrangements across the city, reporting to the Regional Safeguarding Board.
- Corporate Safeguarding Board chaired at Director level with each Directorate completing a self assessment in relation to safeguarding.
- Safeguarding issues included in Senior Management Assurance Statement from 2019/20.
- Delivering Excellence for Children Steering Group chaired by Chief Executive established to oversee performance to improve outcomes for Cardiff's most vulnerable children.
- Operational Manager Safeguarding Forum meets quarterly.
- Systems in place to learn lessons from and address recommendations from Child Practice Reviews, Adult Practice Reviews and multi agency practitioner forums.
- Monthly quality and performance review across all areas of Social Services.
- SBAR system implementation to understand and address significant risks, including safeguarding risks, in Social Services.
- Recruitment and retention strategy in place to address children's workforce issues.
- Action plan being delivered to address high caseloads in Children's Services.
- Refreshed Signs of Safety action plan in place.
- Ongoing implementation of the Exploitation Strategy.
- Raising profile of Adult Sexual Exploitation (ASE) in Adult Services in line with Child Exploitation.
- Embedding Social Services and Well-being (Wales) Act 2014 in relation to strengthening of adult safeguarding.
- Review of adult safeguarding undertaken and management strengthened - adult safeguarding improvement plan developed.
- Safeguarding Self Assessment reviews completed.
- Regular performance monitoring meetings with Children's and Adult Social Services.
- Overarching Quality Assurance Framework under development.
- All Wales Safeguarding Procedures launched.
- WAO review of corporate safeguarding.
- Communication with partners and public to ensure they are aware of how to contact Children's Services during the crisis.
- Risk rated all cases and included contingency plans on file.
- Face to face visits reintroduced on the basis of risk assessment - all statutory visits are now face to face where it is safe to do so.
- Face to face contact with all children and families reinstated on the basis of risk assessment.
- High risk panel Terms of Reference reviewed with partners.
- Priority safeguarding activity continues with partners – joint management and response to risks - agile decision making through Bronze & Silver.
- OMs have oversight of all high risk cases and share decision making responsibility.
- Regular communication with staff.
- Procedures updated and shared in response to COVID-19 crisis.
- Education provision secured for high risk children throughout the COVID-19 crisis.
- Working hours flexible to meet service and personal needs.
- Surveys undertaken with staff, children and families / carers to determine what has / has not worked well during the crisis and how we can use this experience to shape services going forward, e.g. use of technology.
- Practice development group set up with leads allocated to workstreams to shape good practice going forward.
- MISPER Strategy under development.

Key Indicators / Measures used to monitor the risk

- Adult Services: SSWB 18 Percentage of adult protection enquiries completed within 7 working days
- Children's Services: SSWB 24 Percentage of assessments completed for children within statutory timescales
- SCC.014 Percentage of initial child protection conferences carried out within statutory timescales during the year
- SCC.034 Percentage of child protection reviews carried out within statutory timescales during the year
- SSWB 27 Percentage of re-registrations of children on local authority Child Protection Registers
- SSWB 28 Average length of time for all children who were on the CPR during the year
- Res 15 - Percentage of Council staff completing Safeguarding Awareness Training
- Under development - Part IV Referrals
- Under development - Professional concerns
- Under development - Escalating concerns

Legal Compliance

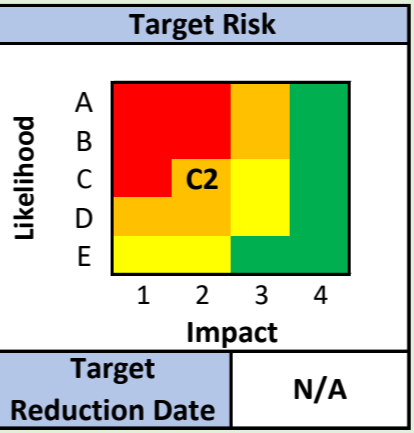
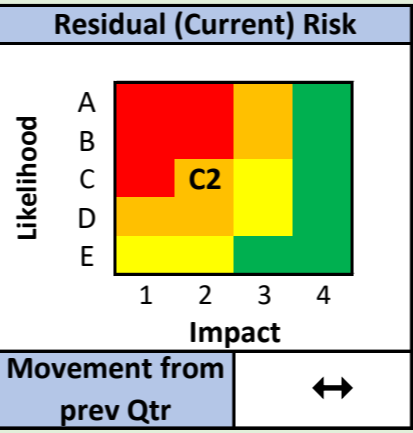
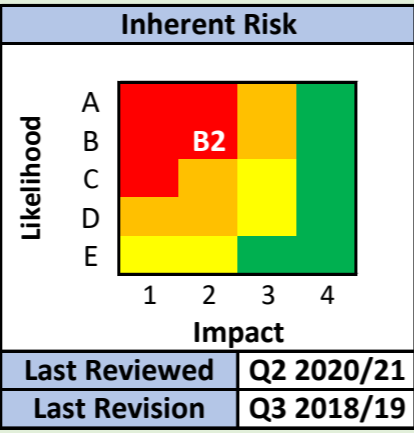
Description

Changes in services and staff roles across the Council resulting in:

- gaps in Council wide knowledge of the local authority framework of responsibilities and duties within which we have to operate;
- inability to deliver the services in accordance with all duties and responsibilities due to lack of resource:

In each case leading to increased risk of challenges.

Reduction and changes in front-line services, discretionary and statutory, will lead to increased risks of challenge from users and other stakeholders affected.



Risk Owner(s)

Davina Fiore

Councillor Huw Thomas
Leader

What we've done/are currently doing to achieve the Residual Risk Rating

- Professional internal legal and financial advice provided to a high standard
- Maintaining robust decision making process with legal implications on all Council, Cabinet and Committee reports and Officer Decision Reports at Director level
- Appropriate use of NPS Legal Services by Solicitors Framework to increase resilience
- Dedicated teams in specialist areas e.g. equalities, FOI / DPA
- Sharing training/publications received

What we plan to do to meet target

- Further development of standard precedents with guidance for use in cases of low value/low risk/repetitive matters
- Provide legal training to Directorates to develop knowledge within Directorates of specific statutory functions.
- Encourage Directorates to ensure reports are discussed at preliminary stage in development to ensure all legal issues are addressed early

Potential Impact(s)

- Increase in number of challenges and complaints with consequences in terms of already stretched resources and impact of adverse decisions
- Implementation of decisions delayed due to challenges and potentially fatally disrupted
- Impact on projects if reputation for sound management and implementation of projects is damaged
- Major incident
- Adverse press/media reaction
- Involvement from Welsh Government in terms of performance standards or measures
- Increased costs
- Impact on capacity to deal with proactive legal work

Type(s) of Impact

- Service Delivery
- Reputational
- Legal
- Financial

Linked Risks

Key Indicators / Measures used to monitor the risk

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AUDIT COMMITTEE: 17 November 2020**INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT
REPORT OF THE AUDIT MANAGER** **AGENDA ITEM: 7.1**

Appendices D and E in Annex 1 of the report are not for publication as they contain 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 Terms of Reference requires that Members:
 - Consider reports from the Audit Manager on Internal Audit's performance during the year;
 - Review the assessment of fraud risks and potential harm to the council from fraud and corruption;
 - Monitor the Counter-fraud strategy, actions and resources.
2. A progress report has been prepared to provide Audit Committee Members with an update on the work and performance of the Internal Audit and Investigation Teams as at 30 September 2020.

Background

3. The Audit Committee formally approved the Internal Audit Plan 2020/21 on 28 July 2020, following a process of consultation and agreement between 23 March and 3 April 2020. The planned activity of the Investigation Team was also provided for Audit Committee consideration and information on 28 July 2020.
4. The Internal Audit Progress Report (**Annex 1**) sets out performance in relation to the Internal Audit Plan. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings across the Council for the assurance of the Audit Committee. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.
5. The Investigation Team Progress Report (**Annex 2**) focuses on proactive and reactive fraud awareness, detection and investigation activities, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises.
6. As part of progress updates, there is an opportunity to consider emerging risks, issues and sources of assurance, and to potentially refocus priorities. Prior to presenting to Audit Committee, progress reports are discussed with the Corporate Director Resources.
7. The Internal Audit Section reports to the Audit Manager. To meet the provisions of PSIAS 1100 (Organisational Independence), the Audit Manager is not responsible for

managing any functions beyond the Internal Audit and Investigation teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

Issues

a) Audit

8. **Annex 1** outlines how the audit activities in quarter two have continued to adapt and respond to the current environment in which the Council is operating. In the context of the ongoing pandemic, whilst management focus on critical and priority matters, the team has continued to tailor its consultancy and assurance activities to provide support and attention where it is most required.
9. There has been a continuation of COVID-19 related audit consultancy services during quarter two, with the majority of support provided in respect of the administration of Welsh Government funds for a range of grant and relief payment schemes. As administration responsibilities are allocated to the Council for further schemes, audit colleagues will continue to be available to provide advice and guidance on the design and application of robust controls. Details of the nature and focus of the COVID-19 consultancy activities are outlined within section 2.1. 'Current Activities'.
10. As Committee was advised in the quarter one update, the initial focus of assurance work this year was to conclude ongoing audits with a low impact on the capacity of audit clients where possible. Towards the end of quarter one, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan 2020/21, at a time when Council services were moving to a documented and managed 'restart'. Delivery of assurance audit engagements has continued throughout quarter two, but has been affected by staff sickness, for which further details are provided within section 2.2. 'Resources'.
11. **Appendix A** shows a list of audits and their reporting status in the current year, as at 30 September 2020, whereby 27 new audit engagements have been completed, of which 12 audits have been finalised and 15 audits are at draft output stage. A further 11 draft audits from last year have been finalised in the year to date. Audit opinions of 'effective' or 'effective with opportunity for improvement' have been assigned for 77% of the assurance audit outputs issued in the year to date.
12. Audit Committee was advised when considering and approving the Audit Plan, in March and July 2020 respectively, that due to a range of factors linked with the COVID-19 crisis delivery would be significantly lower than usual. Members were advised that the Audit Plan would be delivered in a targeted way to maximise assurance and prioritise high-risk areas. As part of this targeted approach, approval is sought to defer 32 audit engagements (24% of the original audit plan) that would not be subject to audit consideration in 2020/21. Audit resources would target the three core categories of assurance from the Audit Plan, namely 'fundamental', 'corporate governance' and 'other assurance' audits. These audit areas are considered essential to providing the annual audit opinion on the Council's control environment, and would be prioritised.
13. **Appendix B** shows the current position against the full Audit Plan 2020/21, and identifies the audits that are proposed to be deferred, of which the majority of audits fall within 'service specific' audit categories. It is proposed that:

- **All 'Fundamental' and 'corporate governance' audits are prioritised** for delivery, and that the only audit included in the 'other assurance' category of audits to be deferred is 'value for money on digital initiatives';
 - **Three thematic audits across directorates are deferred**, namely performance management, information management and pre-contract assurance. It is considered that these audits can be deferred, as corporate audits of performance management and information governance were completed in 2019/20, with each receiving an assurance rating of effective with opportunity for improvement. The audit of pre-contract assurance, is proposed for deferral as commissioning and procurement thematic audits are being delivered this year, as well as individual contract audit work;
 - **A number of service specific audits are deferred**, which have been considered and agreed with directorate management as part of recent Relationship Management meetings.
14. Two new audits have been added with the Audit Plan, which due to their size have been agreed within the delegation of the Audit Manager, to approve individual audit engagements of no more than ten audit days. One audit is of a consultancy nature, to provide advice and guidance on the development of effective controls in a private rental leasing scheme, and the second audit is to certify the use of the education improvement grant 2019/20.
 15. In quarter two 2020/21, two audit outputs were issued with draft audit opinions of 'insufficient with major improvement needed'. The audit outputs covered 'Bereavement Services' and 'Social Services - Commissioning and Procurement', and the findings of these audits are outlined within Annex 1, section 2.4 'Critical Findings or Emerging Trends'.
 16. Performance information and statistics are provided within section 3.2 'Performance'. The delivery of the Audit Plan at the end of quarter two was 20%, against an annual target of 60%, for which targeted improvement remains a priority. The audit team have been working with management to finalise a number of audits, and pursuing updates and evidence of the completion of agreed recommendations. After the audit team stood down from seeking management updates and finalising audits in quarter one, over quarter two the position has improved, but the finalisation of draft reports, and reinforcing the importance of the timely delivery of audit recommendations, are priority actions for quarter three.
 17. School audits have been the last area in the Audit Plan to recommence. An updated Control Risk Self-Assessment (CRSA) has been developed, to which all schools will be asked to respond in quarter three. A number of CRSA style school audits are planned, through which there will be direct testing on the assertions made in the self-assessed responses, and a number of full school audit engagements will also be delivered. An approach has been developed to deliver audit fieldwork remotely and on a desktop basis, in order to safeguard schools and audit staff during the pandemic.
 18. The status of audit recommendations is summarised in **Appendix C** to provide an overview of management progress. The detailed position against each red and red/amber recommendation is provided for open recommendations in **Appendix D**, and for recommendations closed since last considered by Committee in **Appendix E**.

a) Investigations

19. **Annex 2** outlines the activities of the Investigation Team as at the end of quarter two. For the year as a whole there are four hundred and ninety four chargeable days available based on current resources (2.5 fte), indicatively split between strategic (80 days) and operational activities (414 days). Two hundred and fifty one days have been applied as at the end of September 2020 as detailed in the progress report.
20. The progress report provides details of the processes applied to mitigate the risk of fraud and error in the administration of £68.142 million of business grants on behalf of Welsh Government to date, through a process of up front and post payment verification exercises. Extensive work has taken place, including the use of two separate data matching exercises, one of which was a pilot National Fraud Initiative (NFI) data matching exercise, working with Audit Wales and the Cabinet Office prior to a proposed national roll out. To date thirty-six grants have been identified as paid in error with a total value of £495,000, of which, £220,000 has been recovered and work continues to recover the remainder.
21. Excluding the one off business grants work, in respect of all other casework as at the end of quarter two:
 - One hundred and eighty cases were identified for investigation so far this year, compared to one hundred and fourteen for the same period last year;
 - One hundred and seventy four investigations are ongoing, compared to one hundred and thirty seven for the same period last year;
 - One hundred and seventy nine investigations have concluded, compared to ninety three over the same period last year;
 - £349,505 has been attributed concluded investigations, compared to £294,497 for the same period last year.
22. The Investigation Team has worked with the Communications Team to prepare a series of articles to be communicated in the week commencing 16 November 2020, as part of the internal campaign publicising the International Fraud Awareness Week. Particular areas of focus are money laundering, impersonation fraud, and raising awareness of different fraud risks and fraud red flags. Mandatory Fraud Awareness training also continues to be delivered, and as at the 30 September, more than three thousand eight hundred employees had completed the eLearning or attended a face-to-face session.
23. The summary report in Annex 2 provides further details in respect of the above.

National Fraud Initiative Self-Appraisal

24. Audit Committee will be familiar with the National Fraud Initiative work that the Council participates in, and through which a significant proportion of the cases identified for investigation, are generated. The National Fraud Initiative (NFI) is a UK-wide counter-fraud exercise. In Wales, the exercise is undertaken by the Auditor General for Wales (Auditor General) under his statutory data-matching powers in Part 3A of the Public Audit (Wales) Act 2004.
25. In July 2020, Audit Wales published a two-part National Fraud Initiative self-appraisal checklist, which all participating bodies were encouraged to use to self-appraise their involvement in the NFI prior to and during the NFI exercises.

- **Part A is designed to assist audit committee members** when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI.
- **Part B is for officers** involved in planning and managing the NFI exercise.

26. Within **Annex 2 - Appendix A**, Cardiff Council management commentary has been provided against the nine questions in Part A and the 20 questions in Part B, for the information and consideration of the Audit Committee.

Audit Recommendations

27. The recommendations and progress at the reporting date are provided in the following appendices.

Appendix C	Recommendations Summary
Appendix D	Contains the red & red / amber open recommendations
Appendix E	Contains the red and red / amber recommendations completed since last considered by Audit Committee in July 2020.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

30. That the Audit Committee:

- Considers and reviews the content of the Internal Audit and Investigation Team Progress Reports.
- Approve the proposed deferral of 32 audit engagements from the Audit Plan 2020/21.

Chris Pyke
Audit Manager

The following are attached:

Annex 1 - Internal Audit Progress - Summary Report

Appendix A Report Status as at 30 September 2020

- Appendix B** Audit Plan
- Appendix C** Recommendations Summary
- Appendix D** Red & Red / Amber Open Recommendations
- Appendix E** Red & Red / Amber Recommendations Completed since last Committee

Annex 2 - Investigation Team Progress – Summary Report

- Appendix A** National Fraud Initiative Checklist - Completed



Resources Directorate Internal Audit Section



Internal Audit Progress Report (as at 30 September 2020)

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Appendix C	Recommendations Summary
Appendix D	Red & red / amber open recommendations
Appendix E	Red & red / amber recommendations completed since last considered by Committee

Prepared by: **Chris Pyke, Audit Manager**

INTERNAL AUDIT PROGRESS REPORT

1. INTRODUCTION

1.1 Background

The Internal Audit Progress Report sets out performance in relation to the Internal Audit Plan. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings.

The Audit plan 2020/21 was accepted by the Audit Committee through a period of consultation between 23 March – 3 April 2020, and received formal approval on 28 July 2020. This progress report provides a summary account of audit activities, findings and progress against the Audit Plan in quarter two 2020/21. The quarter one position was reported to Audit Committee on 28 July 2020.

The Internal Audit Plan provides the framework for audit work each year and is aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year.

1.2 Independence and objectivity

The Internal Audit Section reports to the Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained, as the Audit Manager is not responsible for managing any functions beyond the Internal Audit and Investigation teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

1.3 Continuing professional development

Auditors completed their year-end personal reviews in line with corporate direction, have been formalising their objectives for 2020/21 in accordance with corporate timescales. Prior to discussing performance, auditors updated their skills assessment in application of the IIA Professional Competencies Framework.

The results of personal reviews and skills assessments informed the year-end Audit Manager's review against the Quality Assurance and Improvement Programme (Standard 1300), from which a generally strong baseline of knowledge and skills were recognised across the audit team. Areas of the IIA Professional Competencies Framework where auditors scored themselves comparatively lower are being targeted through in-house team training sessions, which commenced in May 2020.

2. SUMMARY OF WORK PERFORMED

The following summary covers the work programme for 2020/21, and the associated activities, resources, findings and measures of performance as at quarter two 2020/21. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.

2.1 Current activities

COVID-19 related consultancy services

As Audit Committee was advised in the quarter one progress update, significant audit attention has been given to providing critical advice and support to management as the Council adapted services and established new systems in response to the crisis. Consultation and engagement was provided in cases where there was a need for fundamental process change, a risk to resilience, the need to respond to a significant obligation or challenge as a result of the crisis, or a particular fraud or control risk.

Audit consultancy services continued in quarter two, with the majority of support provided in respect of the administration of Welsh Government funds for a range of grant and relief payment schemes. As administration responsibilities are allocated to the Council for further schemes, audit colleagues will continue to be available to provide advice and guidance on the design and application of robust controls.

COVID-19 consultancy is recognised as three separate areas of audit work within the Audit Plan 2020/21, contained within the 100 days of bulk audit time available. The following table contains details of the COVID-19 consultancy work completed in the year to date.

Figure 1. COVID-19 consultancy work completed.

Scope	Area	Scope
1. New system checks. compliance, internal controls and counter-fraud	Start-up grants	Supporting a multidisciplinary team with advice and guidance on design of the system through which grants were administered and paid.
	Business grant administration	
	Supplier relief	Discussion and engagement with commissioning and procurement and schools
	Coronavirus childcare assistance scheme	Advice and guidance on processes and controls in the system for processing and administering payments.
	Childcare provider grant	
	Care workers £500 payment scheme	
	Wales culture recovery fund – freelancer support	
2. Resilience, continuity & control. Consultancy	Procure to pay	Advice and guidance in procurement systems and managed use of procurement cards.
	Procurement cards	
3. Counter-fraud prevention & post assurance checks.	Business grant administration	Active company checks, and validation of eligibility and fraud vulnerabilities for fraud prevention and detection.

Assurance audit engagements

As Audit Committee was advised in the quarter one progress update, at the outset of the financial year initial focus was given to the conclusion of audits which were already underway. Audits were progressed on a low impact on the capacity of the client, through an increased use of desktop testing, data and system interrogation, and a reduction in the level of management engagement during audit fieldwork where appropriate and feasible. Towards the end of quarter one, when Council services were moving to a documented and managed ‘restart’ across directorates, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan.

Auditors have continued to complete their work while working remotely from home and, although it is noted that it can take longer than usual to receive all of the information and

documents necessary to complete an audit, the process is generally working well. This year any site visits will be considered on the basis of business necessity only, and will be supported by authorised risk assessments and control processes.

The table below shows the list of audits completed and their reporting status in the current year to 30 September 2020. There have been 27 new audit engagements completed this year, of which 12 audits have been finalised and 15 audits are at draft output stage. A further 11 draft audits from last year have been finalised in the year to date. A summary of the audit outputs and opinions in the year to date is shown below.

Figure 2. Audit outputs and opinions (at 30 September 2020)

Status	Number of completed audits	Opinion				
		Effective	Effective with opportunity for improvement	Insufficient (major improvement needed)	Unsatisfactory	No opinion given
Draft	15	1	12	2	0	0
Final	23	4	6	5	0	8
TOTAL	38	5	18	7	0	8
	27	<i>New Audit Engagements completed</i>				
	11	<i>Finalised Audit Engagements from 2019/20</i>				

Since the last reporting period, two draft audit outputs have been issued with opinions of insufficient with major improvement needed. Information on the findings of these audits is provided within Section 2.4 (Critical Findings or Emerging Trends).

Figure 3. Breakdown of audit outputs and opinions (at 30 September 2020)

No.	Assurance Audit Engagement	Audit Opinion
<i>Delivery of Audit Plan 2020/21</i>		
1.	Governance and Legal Services – Commissioning & Procurement	Effective
2.	Codes of Conduct	
3.	Digital Services - Hybrid Mail	Effective with opportunity for improvement
4.	Health and Safety - Resources	
5.	Programme and Project Risk Management	
6.	Directorate Risk Management	
7.	Complaints and Compliments	

8.	City Deal 2019/20		
9.	PTE - Trolleys		
10.	Pensions and Investment In-year testing		
11.	Resources – Commissioning & Procurement		
12.	PTE – Commissioning & Procurement		
13.	People & Communities – Asset Management		
14.	Recruit		
15.	Economic Development – Commissioning & Procurement		
16.	PTE - Asset Management		Insufficient with major improvement needed
17.	Street Scene (Waste Management) - Asset Management		
18.	Social Services – Commissioning & Procurement		
19.	Bereavement Services		
<i>Audit Work with 'No Opinion'</i>			
20.	Joint Committees - Prosiect Gwyrdd	Consultancy, certification, advice and guidance	
21.	Joint Committees - Port Health Authority		
22.	Joint Committees - Glamorgan Archives		
23.	New system checks - compliance, internal controls and counter-fraud		
24.	Resilience, continuity & control - Consultancy		
25.	Counter-fraud prevention & post assurance checks		
26.	Payroll CRSA		
27.	Creditor payments CRSA		
<i>Concluded Reports from the prior year</i>			
28.	Health and Safety - People and Communities	Effective	
29.	Major Projects Governance		
30.	Creditors - mid year testing 2019/20		
31.	Health and Safety - Economic Development	Effective with opportunity for improvement	
32.	Income collection - Cardiff High School		
33.	Governance Arrangements		
34.	Audit of performance management		
35.	Safeguarding - follow up		
36.	Econ Dev - Asset Management	Insufficient with major improvement	
37.	IT inventory and asset management		
38.	Cardiff Film Office		

Further to the table above, the outputs that were not been given an assurance opinion and the reasons for this were as follows:

Figure 4. Completed audits without an assurance opinion (at 30 September 2020)

Audit	Comments
Joint Committees - Prosiect Gwyrdd	Work to support completion of Statement of Accounts, 2019/20
Joint Committees - Port Health Authority	
Joint Committees - Glamorgan Archives	
New system checks - compliance, internal controls and counter-fraud	COVID-19 advice and guidance on establishing new systems and processes.
Resilience, continuity & control - Consultancy	COVID-19 advice and guidance in procurement systems and managed use of procurement cards.
Counter-fraud prevention & post assurance checks	Participation in data analytics and follow up checks to identify ineligible / fraudulent business grant cases.
Payroll CRSA	Control Risk Self-Assessment (CRSA) responses received. The assertions made in the management responses will be followed up with detailed audit testing during the year, at which time an audit opinion will be allocated.
Creditor payments CRSA	

The report status for the year to date is shown in **Appendix A**.

2.2 Resources

Throughout the first financial quarter in particular, the COVID-19 crisis significantly affected the activities and capacity of audit clients, and it also had a material impact on the capacity of the audit team and the audit resources. The audit team has followed corporate guidance, whereby officers received special leave for periods that they have needed to care for dependants and have been unable to work. However, the team has shown significant personal flexibility in their commitment to limiting the use of special leave as far as possible.

In the previous audit progress report, Audit Committee was advised that available staff resources have also been impacted by an increased level of sickness and bereavement leave. One member of the team was also temporarily deployed for a number of weeks to support their personal development and assist the finance team in preparation of the Statement of Accounts 2019/20, which also affected the staff resource.

Two members of the audit team were off with cases of long-term sickness during quarter two, both of whom resumed normal duties by the end of the quarter in full following an initial phased return. Given the relatively small team size, the cases of long-term sickness affected the level of progress that could be made against the plan over the quarter.

As all operational auditors and the audit assistant record all actual time worked, there is useful management information available for planning, monitoring and reporting purposes. Timesheet data contained 688.6 chargeable days as at the end of quarter two, against a pro-rata plan of 955.8 days, showing that the team has been operating at a chargeable capacity of circa 72% of planned. The audit targets for delivery of the Audit Plan 2020/21, as set out in section '3.3 - Performance', are based on delivery at 75% of the level targeted under normal conditions, given the current environment.

Two members of the team continue to be supported through a CIA qualification with the IIA. One auditor is working towards their third and final exam, and one auditor is working towards their second exam. Both auditors needed to delay their exam sittings due to COVID-19 related restrictions by the IIA. The auditors have continued with their studies and will take their next exams in due course. The audit team will receive a new CIPFA trainee placement from the beginning of quarter two, as CIPFA placements operate on an annual rotation across finance teams. As part of the trainee rotation there is a continuity of CIPFA placement resource for the audit team.

2.3 Annual plan

In considering the Audit Plan in March 2020, and in giving formal approval on 28 July 2020, the Audit Committee was advised that due to a range of factors linked with the COVID-19 crisis, delivery would be significantly lower than usual. The Plan was built on auditor and client availability and capacity in a normal operating environment, but targeted delivery of the Plan was set at 60% for the year, for which the typical target is 80%.

Audit Committee has been advised that the Audit Plan would be delivered in a targeted way to maximise assurance and prioritise high-risk areas, for which further details are now provided as follows. It is proposed to defer 32 audit engagements (24% of the original audit plan) which would not be subject to audit consideration in 2020/21. Audit resources could then target the

delivery of the three core categories of assurance from the Audit Plan, namely 'fundamental', 'corporate governance' and 'other assurance' audits. These audit areas are considered essential to providing the annual audit opinion on the Council's control environment, and would be prioritised.

Appendix B identifies the audits in the original plan which are proposed to be deferred, of which the majority of audits fall within 'service specific' audit categories. It is proposed that:

- All 'fundamental' and 'corporate governance' audits are prioritised for delivery, and that the only audit included in the 'other assurance' category of audits to be deferred is 'value for money on digital initiatives';
- Three thematic audits across directorates are deferred, namely performance management, information management and pre-contract assurance. It is considered that these audits can be deferred, as corporate audits of performance management and information governance were completed in 2019/20, with each receiving an assurance rating of effective with opportunity for improvement. The audit of pre-contract assurance, is proposed for deferral as commissioning and procurement thematic audits are being delivered this year, as well as individual contract audit work;
- A number of service specific audits are deferred, which have been considered and agreed with directorate management as part of recent Relationship Management meetings.

Two new audits have been added with the Audit Plan, which due to their size have been agreed within the delegation of the Audit Manager, to approve individual audit engagements which are of no more than ten audit days. One audit is of a consultancy nature, to provide advice and guidance on the development of effective controls in a private rental leasing scheme, and the second audit is to certify the use of the education improvement grant 2019/20.

Whilst set on an annual basis, the Audit Plan is adaptable and responsive and will be subject to ongoing risk assessment, prioritisation and review throughout the year to maximise assurance and management support. In-year changes may be introduced where appropriate, to respond to emerging risks and issues as the year progresses.

2.4 Critical findings or emerging trends

Over the reporting period, two audit reports were issued with adverse audit opinions for which further details are provided in the paragraph below. At the reporting date, the audits referred to below were at a draft status, for which the findings were being discussed with management, and once finalised, the final opinion and recommendations will be reported to Audit Committee.

The audit of 'Bereavement Services' recognised the high levels of accreditation held with the Institute of Crematorium Management (ICCM), and effective professional procedures, business continuity and pandemic planning arrangements were in place. However, it was considered that management need to prioritise necessary improvements to certain governance processes, and financial systems, and an opinion of insufficient with major improvement needed was assigned. It was considered that a clear cycle of maintenance and oversight of officer accommodation was required, as this was not formally set out, and systematic processes were needed to receive declaration of interest disclosures, as these had not been formally returned. At a transactional level, there was a need for increased attention to detail from those overseeing and approving procurement, payments and claims. For instance, single tender and off contract spend was noted, procurement card use was significant and not limited to the designated cardholder, and some claim discrepancies were noted (overtime, mileage and subsistence). Further recommendations have been raised to support management to resolve ongoing stock discrepancies and a particular Welsh language translation issue.

The audit of 'Social Services – Commissioning and Procurement', recognised that the commissioned service environment is complex, and appreciated that, in providing essential services to adults and children, direct awards can be considered a necessity in some circumstances. However, it was noted that a significant proportion of contracts had lapsed in Childrens Services (8 of 23 (35%)) and Adult Services (15 of the 37 (41%)), and an overall opinion of insufficient with major improvement needed was assigned.

It was considered that a targeted strategic approach is required to recover from the current position, whereby a number of contracts are out of date or subject to extension and direct award, on a managed and targeted basis. Early engagement with the Commissioning and Procurement Team in identifying and progressing commissioning and procurement activities is considered as essential to delivering sustained improvement and compliance.

2.5 Value for money findings

There were no value for money themed audits undertaken within the reporting period.

The vast majority of audits undertaken by the Internal Audit Team have objectives which cover value for money assurances, from which a general satisfactory level of assurance can be provided for the reporting period. However, within the audits of a lower assurance opinion, there were control gaps, which need to be addressed to provide assurance that the objectives of these services are being run with proper attention to a combination of economy, efficiency and effectiveness.

3. AUDIT PERFORMANCE AND ADDED VALUE

3.1 Added value

Relationship Management meetings have continued to be held on a quarterly basis with senior officers in each directorate. Particular focus has been given to understanding the priorities and risks within each management team, and the changes to systems or processes planned or underway, in order to direct audit advice and inform the planning of audit engagements. Attention has also been given to discussing progress against the delivery of audit recommendations and the finalisation of audit reports.

Feedback from audit clients has been positive in the year to date. Ten questionnaire responses have been received in which across all areas auditors were assessed as either 'excellent' or 'good'. In all responses received clients advised that the audit 'added value'.

In the audit outputs issued to date (as at 30 September 2020), there have been 143 recommendations made, 80 recommendations have been agreed, and the remaining 63 are being considered by audit clients through draft audit outputs. These are summarised below:

Figure 5. Recommendations raised and agreed

Rating	Recommendations made	Recommendations agreed	Recommendations being considered
Red	9	7	2
Red / amber	59	33	26
Amber / green	63	34	29
Green	12	6	6
TOTAL	143	80	63

3.2 Performance

As outlined in section 2.1 ('Current Activities'), the focus of audit work at the start of the financial year was to provide audit consultancy and support to areas where Council services needed to change and adapt to the crisis. This was followed by a more formal commencement of assurance audit engagements and a managed return to business as usual in June 2020, at the time when services has commenced a formal 'restart' phase.

As outlined in 2.2 ('Resources'), there are various reasons why the audit service has been operating at a lower capacity, and in some cases efficiency, than usual. In recognition of the current environment which can impact on the capacity and availability of both auditors and clients, performance targets were lowered from their usual levels, and set at stretching but more realistic levels for the year, and discussed with Audit Committee in July and shown in Figure 6. The average number of audit productive days to date is in line with expectations in the current environment.

Audit Committee was advised on 28 July 2020 that, during quarter one, the audit team stood down from seeking management responses and progress against recommendations raised, and finalising audits. This action was taken to give management the space to address crisis management matters. The normal regime resumed in quarter two, and the audit team have been working with management to finalise a number of audits, and pursuing updates and evidence of the completion of agreed recommendations. The position is improving, but the finalisation of draft reports, and reinforcing the importance of the timely delivery of audit recommendations, are priority actions for quarter three.

It is positive to report that draft audit outputs are being delivered promptly after the conclusion of audit fieldwork, and performance against the Audit Plan is improving. However, delivery of the Audit Plan needs to accelerate over the remaining two financial quarters in order to meet the target set. Each auditor has been assigned a basket of audits that they are responsible for delivering over the remainder of the year. Audits have been allocated and prioritisation in order to maximise assurance with the resources available, as set out in section 2.3 ('Annual Plan').

The last area of the Audit Plan to recommence relates to school audits. An updated Control Risk Self-Assessment (CRSA) has been developed, for which an overview is due to be provided to the

School Budget Forum by Audit Management at the end of November 2020, following which all schools will be asked to respond. A number of CRSA style school audits are planned, through which there will be direct testing on the assertions made in the self-assessed responses, and a number of full school audit engagements are also planned, to commence from quarter three. An approach has been developed to deliver audit fieldwork remotely and on a desktop basis, in order to safeguard schools and audit staff during the pandemic.

Figure 6. Performance against targets for 2020-2021 (to date)

Performance Indicator	2019/20 Outcome	2020/21 Target	Q1 Outcome	Q2 Outcome
The percentage of the Audit Plan completed	70%	60%	9%	20%
The average number of audit productive days per FTE	169	130	33	67
The average number of finalised audits per FTE	11	9	*0.54	2.48
The percentage of draft audit outputs delivered within six weeks	86%	85%	100%	100%
The percentage of audit recommendations implemented within the agreed timescale	60%	80%	**0%	50%

* Draft reports not chased up to be finalised in Q1, to allow for attention on COVID-19 priorities.

** Implementation of recommendations not chased up in Q1, to allow for attention on COVID-19 priorities.

3.3 Recommendations

A summary of the open audit actions is included within **Appendix C**, to support the Audit Committee to monitor and review the management response to recommendations raised.

Included within **Appendix D** are the red and red/amber open recommendations including the current management response for the information and monitoring of the Audit Committee. **Appendix E** contains the red and red/amber recommendations, which have been completed since they were last considered by Audit Committee. Amber / green and green recommendations are provided to Committee via a separate route.

The position against recommendations is reported, to monitor progress and target discussions on the effective management of risk management, in relationship management meetings each quarter.

The table below shows the instances where implementation dates have been revised, typically by audit clients on SharePoint (as at 30.09.20). However, as Audit Committee was advised in July, the target dates for all 'open' school recommendations which were due / shortly due, were automatically extended (revised) until 31 October 2020. This decision was made to allow schools to focus their attention on the safe return of pupils in the autumn term. All schools with outstanding recommendations were written to reminding them that the normal regime for monitoring and delivery of recommendations would resume in quarter three.

Figure 7. Revised recommendation implementation dates and status

Directorate / Audit Category	Number of recommendations with revised dates	Actions now implemented	Actions still open
Education and Lifelong Learning	38	10	28
Social Services	14	11	3
Resources	5	4	1
Housing and Communities	2	2	0
Planning Transport and Environment	5	3	2
Waste Management	45	25	20
Central Transport Services	9	0	9
Economic Development	19	11	8
External and grants	0	0	0
Fundamental	8	6	2
Corporate Governance	8	1	7
Governance and Legal Services	1	0	1
Other assurance	18	2	16
	172	75	97
Schools	191	50	141
TOTAL	363	125	238

4. **CONCLUSION**

4.1 Summary

Quarter two has seen a continued, albeit lower need to deploy audit resources for advice, guidance and support services to management as systems and processes have responded to the crisis. The majority of COVID-19 related consultancy services now relate to the provision of advice and guidance on the application of effective controls in administration of a range of Welsh Government funds.

Following the 'restart' of Council services towards the end of quarter one 2020/21, assurance audit engagements progressed, and are a focus of priority for the remainder of the year.

The Audit Plan has been refocussed for Audit Committee consideration and approval to ensure resources are deployed in order to provide assurance in core areas, and with sufficient breadth to limit any potential impairment to the annual opinion on the Council's control environment for 2020/21. The delivery of the audit plan needs to ramp up over the remainder of the year, and each auditor has been allocated a basket of audits for targeted delivery.

The regime of chasing up management responses to recommendations and finalising audits recommenced over the quarter, after the team had stood down from this work initially to allow management the space they needed to respond to more immediate challenges associated with COVID-19.

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Report Status (as at 30 September 2020)

Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
<i>Fundamental / High</i>				
Effective	Governance and Legal Services – Commissioning & Procurement			Draft Issued
	Recruit			
	People and Communities - Health and Safety			
	Creditor Payments – in-year testing 2019/20			
	Codes of Conduct			
Effective with opportunity for improvement	Governance & Legal Services – Health and Safety			Drafts Issued
	Ethics and Values - Business and Personal Interests			
	NNDR in-year testing			
	Social Services – Health and Safety			
	PTE - Health and Safety			
	Health and Safety – Resources			
	Programme and Project Risk Management			
	Directorate Risk Management			
	Complaints and Compliments			
	Pensions and Investment In-year testing			
	Resources – Commissioning & Procurement			
	PTE – Commissioning & Procurement			
	People and Communities – Asset Management			
	Economic Development – Health and Safety			
	Governance Arrangements			
	Economic Development – Commissioning & Procurement			
	Performance management			
Insufficient with major improvement needed	Safeguarding - follow up			Drafts Issued
	Direct Payments	2		
	Waste Management – Health and Safety	1		
	Education – Asset Management	1		

Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
	Resources – Asset Management	1		
	Social Services - Asset Management	1		
	Social Services – Commissioning & Procurement	1		
	Econ Development - Asset Management	1	1	
	PTE - Asset Management	1	1	
	Street Scene (Waste Management) - Asset Management	1	1	
Medium				
Effective	Counter-fraud arrangements - Willows			Draft Issued
	Digital Services - Virtual Agent			
	Major Projects Governance			
Effective with opportunity for improvement	Digital Services - Hybrid Mail			Draft Issued
	Ysgol Plasmawr – ICT Governance			
	Audit of Scrutiny Functions			
	Learning Disabilities			
	Kitchener Primary - Counter-fraud arrangements			
	Pentyrch Primary School			
	Lamby Way stores - follow up			
	Foster Carers			
	Trolleys			
	Income collection in schools – Cardiff High			
Insufficient with major improvement needed	Domiciliary Care	1		
	Fleet Management (pool cars, grey fleet, etc.)	1		
	Music Service - follow up	2		
	Bereavement	2		
	IT inventory and asset management	1	1	
	Film Unit	1	1	
Grants / Accounts / External Bodies				
No assurance opinion given	Norwegian Church	Statement of Accounts Reviews / Certification / Support		Draft Issued
	Joint Committees - Prosiect Gwyrdd			
	Joint Committees - Port Health Authority			

Audit Opinion	Audit Area	High Risk Recommendations		Status (If not Final)
		Proposed	Agreed	
	Joint Committees - Glamorgan Archives			
Effective with opportunity for improvement	City Deal 2019/20			Draft Issued
<i>Other assignments</i>				
No assurance opinion given	New system checks - compliance, internal controls and counter-fraud	COVID-19 Consultancy		
	Resilience, continuity & control- Consultancy			
	New system checks - compliance, internal controls and counter-fraud			
	Payroll CRSA	Control Risk Self Assessment		
	Creditor payments CRSA			

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Area	Risk	Assurance	Count	Risk Based Verification		Description	Status	Outcome
				Count	Days			
Economic Development (Waste Management)	High	Assurance	100	Risk Based Verification	10	Delivery of service objectives with effective compliance and control.		
				Libraries	10			
	Medium	Assurance	Private Rental Leasing Scheme	5				
			Asset Management cf	0	Effective Directorate recording, monitoring, management and control of physical assets		Final Issued	Insufficient with major improvement needed
			Health and Safety (carried forward from 2019/20)	0	Directorate health and safety compliance and risk management.		Draft Issued	Insufficient with major improvement needed
			Waste Management Consultancy	15	Advice, guidance and support			
FOLLOW UP - Fly Tipping	15	Follow up Audit						
Medium	Assurance	Gatehouse	15	Compliance and control in gatehouse / weighbridge systems.				
		Commercial Waste	15	Effective systems, compliance and control				
Economic Development	High	Medium	105	Recycling in HWRCs	20	Effective systems, compliance and control		
				FOLLOW UP - Contracts in Waste Management	10	Follow up Audit		
	Medium	Medium	Trolleys	10	Effective systems, compliance and control			
			Income and Debtors	15	Operation of appropriate arrangements to record, monitor and recover sundry debts.			
			Performance Management	15	Performance management arrangements are effective, and operated consistently.			
			Information Management	15	Controlled, effective and compliant information management practices.			
Pre-Contract Assurance	15	Relevant compliance and due diligence checks are undertaken						
Commissioning and Procurement	15	Commissioning and Procurement compliance and control						
Education and Lifelong Learning	High	Assurance	245	Corporate Landlord	15	Effective and compliant corporate landlord practices.		
				Disposal of Land & Buildings	15	Delivery of objectives with effective compliance and control.		
	Medium	Assurance	Asset Management (carried forward from 2019/20)	0	Effective Directorate recording, monitoring, management and control of physical assets			
			Health and Safety (carried forward from 2019/20)	0	Directorate health and safety compliance and risk management.			
			Major Projects Governance (carried forward from 2019/20)	0	Operation of appropriate arrangements for Major Projects			
			Film Unit (carried forward from 2019/20)	0	Delivery of service objectives with effective compliance and control.			
Medium	Assurance	Income and Debtors	10	Operation of appropriate arrangements to record, monitor and recover sundry debts.				
		Performance Management	15	Performance management arrangements are effective, and operated consistently.				
Governance and Legal Services	High	Assurance	60	Information Management	15	Controlled, effective and compliant information management practices.		
				Pre-Contract Assurance	15	Relevant compliance and due diligence checks are undertaken		
				Commissioning and Procurement	15	Commissioning and Procurement compliance and control		
				Health and Safety	15	Directorate health and safety compliance and risk management.		
				Asset Management (carried forward from 2019/20)	0	Effective Directorate recording, monitoring, management and control of physical assets		
				British Council Grants	20	Effective compliance and control in administering British Council Grants.		
	Medium	Assurance	245	<i>Work in individual schools:</i>				
				School 1 - Cardiff West	45	Audits of systems of governance and internal control within individual schools		
				School 2 - Ysgol Bro Edern				
				School 3 - Llangedyfn Primary				
				School 4 - Mary Immaculate				
				School 5 - Marlborough Primary				
School 6 - St. Cuthbert's								
School 7 - Cantonian								
Schools CRSA	20	Effective compliance and control						
Schools CRSA - Individual School Audits		Undertake CRSA exercise with all schools.						
CRSA - School 1	20	CRSA audits of systems of governance and internal control within individual schools						
CRSA - School 2								
CRSA - School 3								
CRSA - School 4								
Catering in Opted out schools	15	Delivery of objectives, with effective compliance and control						
FOLLOW UP - Pontprennau Primary	7	Follow up Audit						
FOLLOW UP - St Peters R.C Primary	8	Follow up Audit						
FOLLOW UP - Income Procedures in School Kitchens cf	0	Follow up Audit						
School Admissions	15	Effective and well governed arrangements for school admissions						
Counter-fraud arrangements - Willows High School (carried forward from 2019/20)	0	Counter-fraud assurance in school governance, transactional, procurement and recruitment activities						
Counter-fraud arrangements - Kitchener Primary School (carried forward from 2019/20)	0	Counter-fraud assurance in school governance, transactional, procurement and recruitment activities						
Income collection in schools – Cardiff High	0	Effective compliance and control						
Cashless catering in secondary schools	10	Effective and controlled arrangements to receive, record and monitor income						
ICT governance for schools - Ysgol Plasmawr (carried forward from 2019/20)	0	Effective ICT governance mechanisms for compliance, business continuity and control						
Pentyrch Primary School (carried forward from 2019/20)	0	Full audits of systems of governance and internal control						
Music Service - Follow up (carried forward from 2019/20)	0	Follow up Audit						
Resources	High	Assurance	80	Income and Debtors	10	Operation of appropriate arrangements to record, monitor and recover sundry debts.		
				Performance Management	15	Performance management arrangements are effective, and operated consistently.		
	Medium	Assurance	Information Management	15	Controlled, effective and compliant information management practices.			
			Pre-Contract Assurance	10	Relevant compliance and due diligence checks are undertaken			
			Resources Health and Safety	10	Directorate health and safety compliance and risk management.			
			Asset Management (carried forward from 2019/20)	0	Effective Directorate recording, monitoring, management and control of physical assets			
Social Services	High	Assurance	205	Alarm Receiving Centre	10	Delivery of service objectives with effective compliance and control.		
				Resources (CTS)	10	Delivery of service objectives with effective compliance and control.		
	Medium	Assurance	Commissioning and Procurement	15	Commissioning and Procurement compliance and control			
			Income and Debtors	15	Operation of appropriate arrangements to record, monitor and recover sundry debts.			
			Performance Management	15	Performance management arrangements are effective, and operated consistently.			
			Information Management	15	Controlled, effective and compliant information management practices.			
Pre-Contract Assurance	15	Relevant compliance and due diligence checks are undertaken						
Health and Safety (carried forward from 2019/20)	0	Directorate health and safety compliance and risk management.						
Direct Payments (carried forward from 2019/20)	0	Effective control, management and monitoring of Direct Payments						
Asset Management (carried forward from 2019/20)	0	Effective Directorate recording, monitoring, management and control of physical assets						
Safeguarding - Follow up (carried forward from 2019/20)	0	Follow up Audit						
Early help scheme (impact of FPOC)	15	Delivery of service objective with effective compliance and control						
Social Services - CHAD	15	Delivery of service objective with effective compliance and control						
Mental Health Day Services	15	Delivery of service objective with effective compliance and control						
Emergency Duty Team	15	Delivery of service objective with effective compliance and control						
Payments to Care Leavers	20	Delivery of service objective with effective compliance and control						
Children's Placements (including out of county)	20	Delivery of service objective with effective compliance and control						
Residential Care	15	Delivery of service objective with effective compliance and control						
Workforce Development - TBC	15	Delivery of service objective with effective compliance and control						
Learning Disabilities (carried forward from 2019/20)	0	Delivery of service objective with effective compliance and control						
Foster Carers (carried forward from 2019/20)	0	Delivery of service objective with effective compliance and control						
Domiciliary Care (carried forward from 2019/20)	0	Delivery of service objective with effective compliance and control						
Total			1,135		1,135			
External			Original audit plan	Assignment	Days			
External clients	High	Assurance	20	City Deal 2019/20 cf	0	Scope as per rolling SLA		y
				City Deal 2020/21	5	Scope as per rolling SLA		y
	Medium	Assurance	Cardiff Further Education Trust Fund - TBC	2				
			Norwegian Church Preservation Trust - TBC	2				
			Joint Committees	6	Grant certification / statement of accounts work			
			Education Improvement Grant	5				
Norwegian Church Preservation Trust - 2018/19 (carried forward from 2019/20)	0							
Grants		Assurance	10	General Audit (provision)	10			
Total			30	Assignment	30			
Contingencies			Original audit plan	Assignment	Days			

General Audit			30	General Audit (provision for carried forward audits)	30	
Total			30		30	
Management			Original audit plan	Assignment	Days	
Corporate work – Audit Committee, WAO etc.	Medium	Management	50	Corporate work – Audit Committee, WAO etc.	50	Internal Audit management, planning, guidance and support activities.
Assurance mapping		Management	10	Assurance mapping	10	
CRSA development		Management	0	CRSA development	0	
Process development		Management	20	Process development	20	
Work for Audit Manager		Management	30	Work for Audit Manager	30	
Planning, monitoring & reporting		Management	30	Planning, monitoring & reporting	30	
Review of financial rules etc.		Management	20	Review of financial rules etc.	20	
General advice and guidance		Management	20	General advice and guidance	20	
Total			180		180	
Total chargeable days			1,912		1,912	

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Recommendation Summary - ('Red' and 'Red / Amber' open recommendations)

7.1 Appendix C

Directorate / Area	No. of Audits	No. of Red Recs	No. of Red/ Amber Recs	'open recommendations' - by audit assurance rating					'open recommendation' by status		
				No. of Recs Effective	No. of Recs Effective with Opportunity for Improvement	No. of Recs Insufficient with major improvement needed	No. of Recs Unsatisfactory	No. of Recs Limited	No. of Recs with Amended Action Date	No. of Recs where action date has passed	Current target date not yet due
City Operations	1	0	1					1	1	0	1
Corporate Governance	3	0	3		3				2	1	2
Economic Development	3	1	8		2	7			3	4	5
Economic Development (Waste Management)	5	5	15			3	17		19	7	13
Education & Lifelong Learning - Schools	16	9	63		16	37	19		71	*65	7
Education & Lifelong Learning	5	3	12		4		11		15	13	2
External and Grants	2	0	7		7				1	2	5
Governance & Legal Services	1	0	1		1				1	0	1
Planning, Transport & Environment	2	1	3		1	3			1	1	3
Fundamental											
Other Assurance	2	0	3		3				2	0	3
Housing and Communities	2	1	5		2	4			1	3	3
Resources	3	0	4		4				1	1	3
Resources (CTS)	1	1	4			5			5	1	4
Social Services	3	1	5		1	5			3	0	6
TOTALS	49	22	134	0	44	64	47	1	126	98	58

* extended dates for school recommendations recently passed (31.10.2020), and updated targets / evidence of implementation is being actively sought.

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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Resources Directorate Internal Audit Section



Investigation Team Progress Report

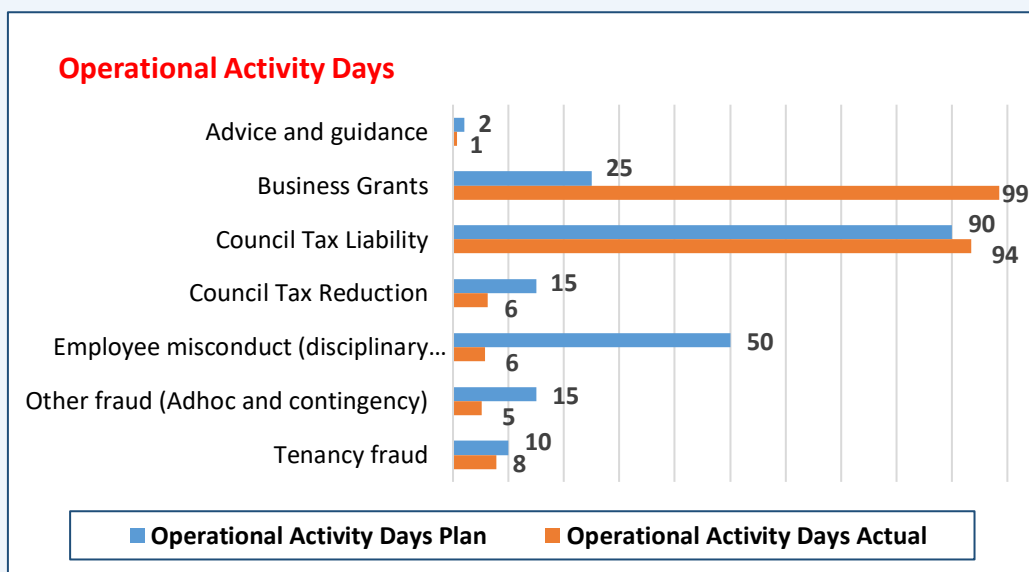
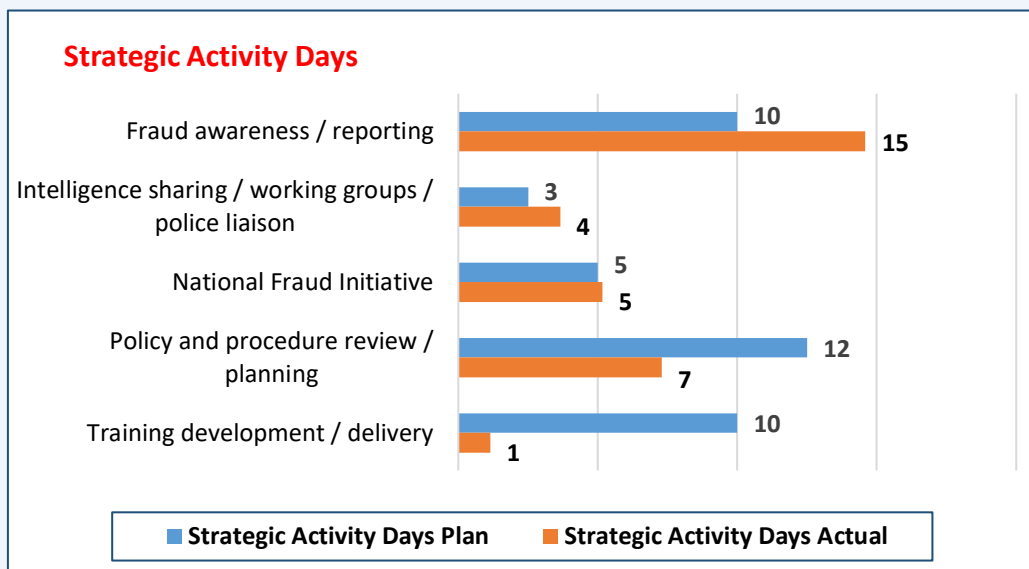
(as at 30 September 2020)

2020/21

Resources & Activities

For the year as a whole there are four hundred and ninety four chargeable days available based on current resources (2.5 fte), indicatively split between strategic (80 days) and operational activities (414 days). A temporary increase in the hours of the Investigation Assistant has recently been agreed of 6 hours per week, for 12 weeks initially, to further progress National Fraud Initiative work.

In the financial year to 30 September 2020, the team have applied 251 days as follows:



Fraud Awareness

The Investigation Team has worked with the Communications Team to prepare a series of articles to be communicated, week commencing 16 November 2020, as part of the internal campaign publicising International Fraud Awareness Week. Particular areas of focus are money laundering, impersonation fraud, and raising awareness of different fraud risks and fraud red flags.

Mandatory Fraud Awareness training continues to be delivered, and as at the 30th September, more than three thousand eight hundred employees had completed the eLearning or attended a face-to-face session.

Business Grants. Activities and cases

As referred to in the quarter one update, Audit and Investigation Team staff supported a multi-disciplinary team of Council officers to administer business grants on behalf of Welsh Government, linked to non-domestic properties.

Applications were open from 26 March until 30 June 2020, and as at 30 September 2020:

- Five thousand and fifty two applications were processed with a total value of £68.142 million;
- One thousand and sixty five applications (17%), had either been refused due to ineligibility, or were subject to further necessary checks in order to verify eligibility before the payment could be released.

Verification & Assurance

Guidance from Welsh Government to local authorities administering the grants was to implement low friction up front controls where possible, supplemented by post assurance checks. A system of verification checks was set up, and triggers were built into processes, whereby red flags for potential fraud or error were raised based on the application details and credentials input, and necessary verification was required before payments were issued, to prevent public money from being allocated inappropriately.

Post payment verification and assurance has included:

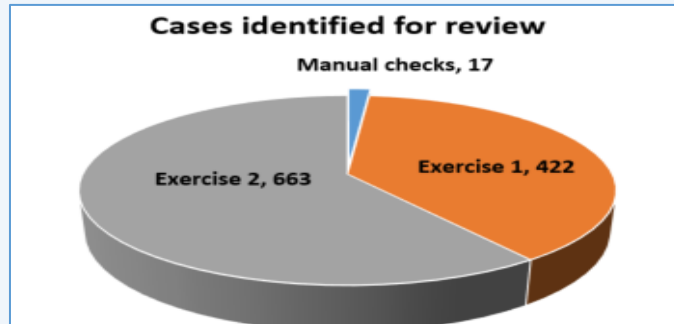
- Audit and Investigation Team staff undertaking manual checks of entitlement / eligibility, using information submitted on the payment file, and open source information to confirm businesses were trading;
- Participation in two data matching exercises for wider verification.

The first data matching exercise commenced in June 2020, and compared grant applicant information to Experian's commercial database (including data from - Companies House / Shareholder, London and Edinburgh Gazettes –CCJ, FCA). The checks involved 'bank account verification' and an 'Active Company Check'. The aim was to identify frauds such as impersonation, misuse of unrelated bank accounts/use of high-risk accounts, brand-new accounts being set up fraudulently/misused, and ineligible companies (e.g. ceased trading or commenced trading after qualifying date).

The second data matching exercise involved participation in a pilot NFI data matching exercise, working with Audit Wales and the Cabinet Office prior to a proposed national roll out. The Council's data was matched with datasets including Experian, Equifax, Dun and Bradstreet, Food Standards Agency and Companies House. In addition to automated matches, an analyst generated further matches through a review of Experian and Equifax matches.

The exercise flagged cases where there was a particular risk of fraud or ineligibility, such as bank accounts that had been recently opened prior to the payment of grant funds, anomalies relating to company name / number / consumer record, and where a registered business may be closed/closing.

One thousand one hundred and two priority matches were identified for review through the above activities. Investigation Team staff have worked with the Business Rates Team, to review the matches generated.



In respect of the above matches:

- Four hundred and sixteen cases have been concluded
- Six hundred and thirty matches have ongoing enquiries;
- Fifty six matches are yet to be reviewed;
- Nineteen payments have been identified as paid in error.

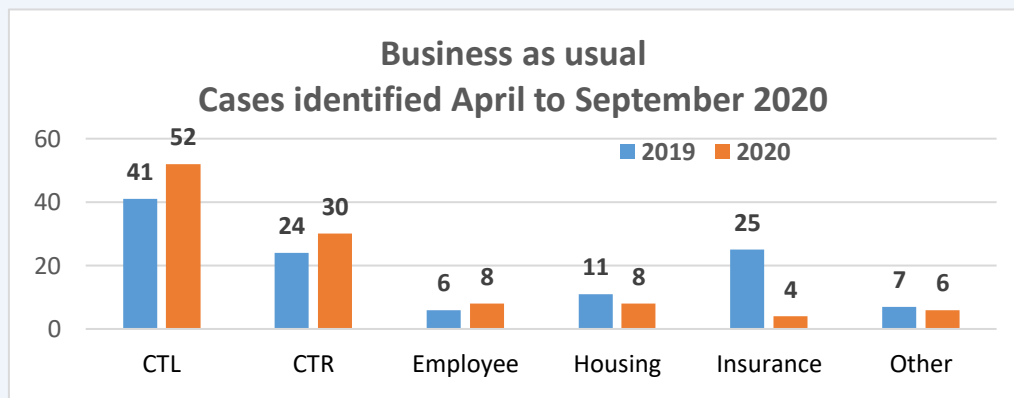
Current Outcomes

As a result of Audit, Investigation and Business Rate colleagues interrogating systems, records, and data matching output, overall thirty-six grants have been identified as paid in error with a total value of £495,000. Of this, £220,000 has been recovered and work continues to recover the remainder.

Local Authorities were required to administer grant payments where applicants were on the NNDR billing system at the eligible date. The majority of ineligible payments identified by the Business Rates Team directly, related to subsequent information or intelligence received by the team.

'General' Cases Identified for Investigation

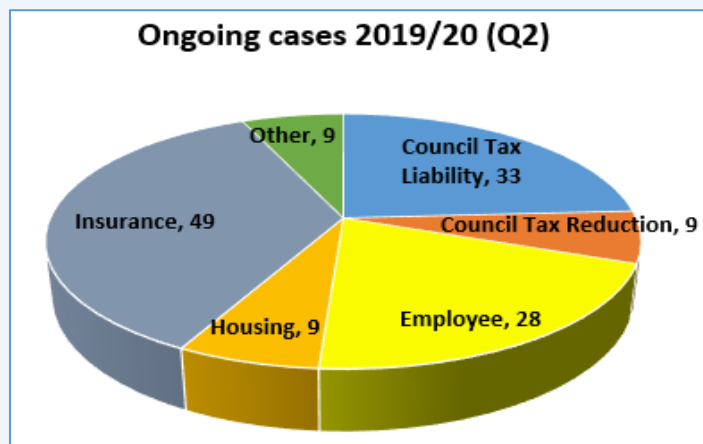
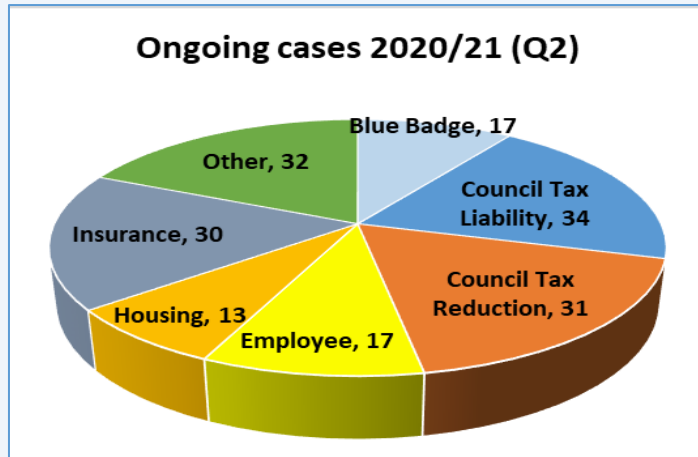
Excluding the stand alone Business Grants work, as detailed above, one hundred and eight cases have been identified for investigation so far this year, compared to one hundred and fourteen for the same period last year:



The cases designated as Other in 2020 related to CTAX exemptions, Phishing, Planning and Special Education Needs.

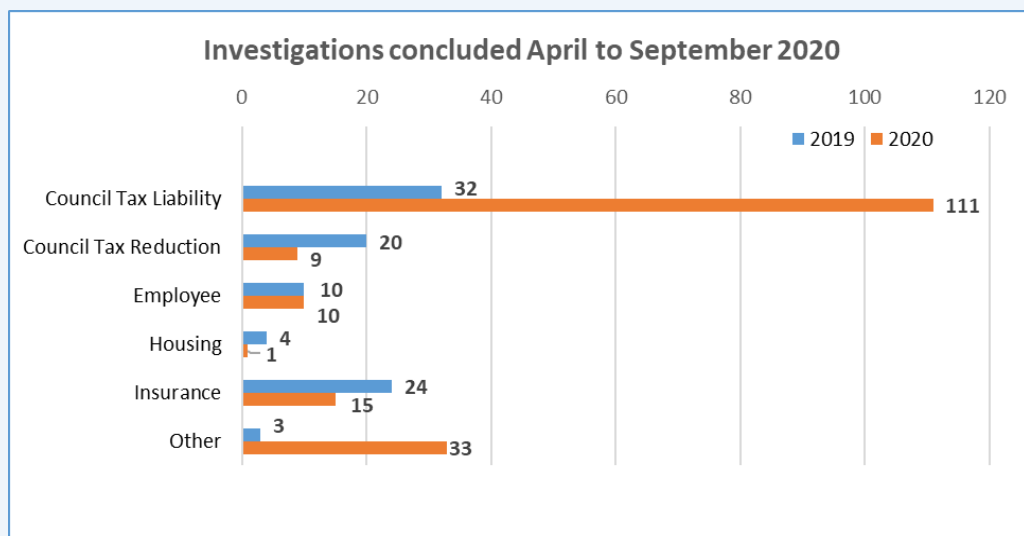
**'General'
Ongoing
Cases**

Excluding the stand alone Business Grants work, there are currently one hundred and seventy four investigations ongoing, compared to one hundred and thirty seven, for the same period last year:



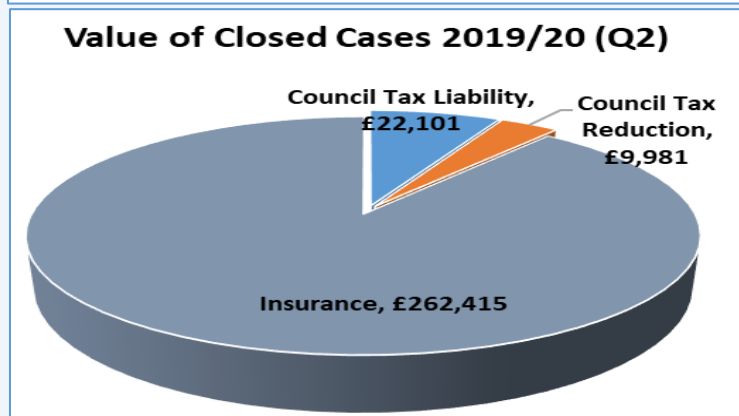
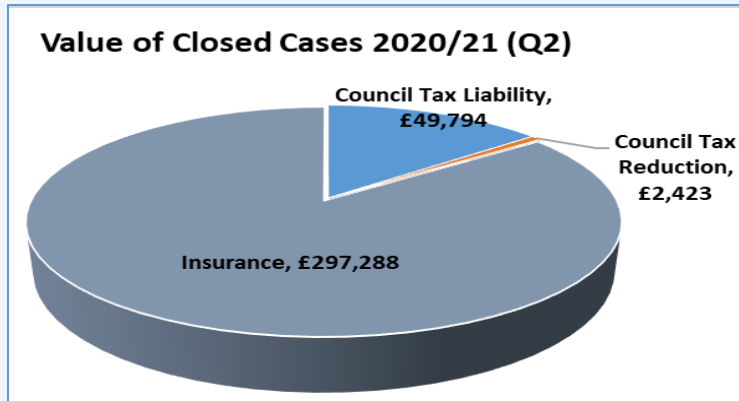
**'General'
Concluded
Cases**

Excluding the stand alone Business Grants work, as detailed separately, one hundred and seventy nine investigations have been concluded so far this year, compared to ninety three over the same period last year:



Financial Value

Excluding the stand alone Business Grants work, £349,505 has been attributed to concluded cases in the 2020/21 year to date, compared to £294,497 for the same period last year:



* Court imposed Blue Badge fines and costs, and any notional values are excluded from the above.

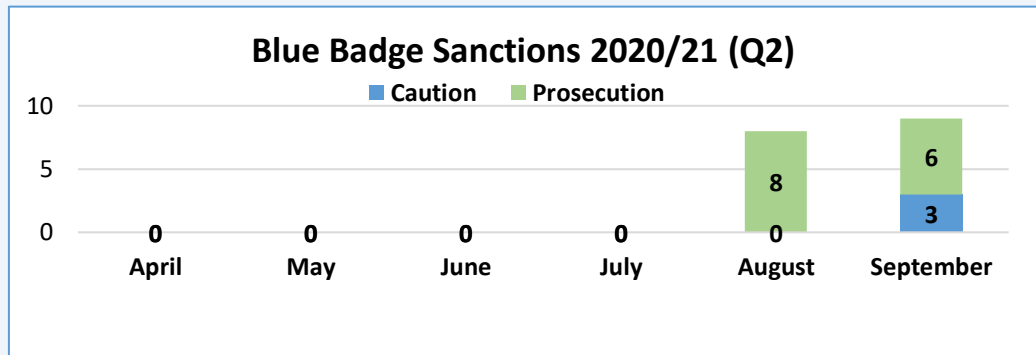
- Insurance cases relate to contrived, exaggerated, fictitious misrepresented, and staged claims.
- Council Tax Liability investigations typically relate to cases of false information provided to receive a discount, or a failure to declare the occupation of a second adult, when in receipt of a single person discount.
- Council Tax Reduction investigations typically relate to those on low income, in receipt of a discount, failing to declare their income properly.

Blue Badge Update



Due to COVID-19 restrictions, on-street enforcement activity has been suspended, however, with the resumption of hearings at the Magistrates Court, the backlog of cases has started to clear, with seventeen cases ongoing which are being prepared for / due to go to Court.

Between April and the 30 September 2020 seventeen sanctions were administered:



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Part A: For those charged with governance	Yes/No/ Partly	Management Commentary	Is action required?	Who by and when?
Leadership, commitment and communication				
1. Are we aware of emerging fraud risks, e.g. due to COVID-19, and have we taken appropriate preventative and detective action?	Yes	Activities and actions in place: <ul style="list-style-type: none"> Monitoring and response to fraud alerts (NAFN, wider networks, peers etc.) Membership and active participation in professional networks and groups Engagement from counter-fraud officers to incorporate preventative and detective controls in the administration of a range of Welsh Government grants and schemes Internal Audit consultation on the design of new systems and processes to maintain effective internal controls Internal Audit engagements in areas where there are key fraud risks as a result of COVID-19 (e.g. procurement, income processes, temporary PPE stores facility, business grants) 	Ongoing assessment of risk and review of audit plan	Audit Manager (in place and ongoing)
2. Are we committed to the NFI? Have the Council/board, audit committee and senior management expressed support for the exercise and has this been communicated to relevant staff?	Yes	Activities and actions in place: <ul style="list-style-type: none"> Active participation in NFI exercises, coordinated by central Investigation Team, with participation and engagement from a range of Council Teams (Social Services, Housing, Council Tax, Business Rates etc.) Participation in NFI business grants pilot Progress and outcomes reported as part of fraud tracker exercise with the portfolio Cabinet Member and SMT, and as part of progress reports to Audit Committee Counter-Fraud Annual Report considered by Audit Committee and published 	None	n/a
3. Is the NFI an integral part of our corporate policies and strategies for preventing and detecting fraud and error?	Yes	NFI is a core element of the proactive work, as outlined in the Counter-Fraud and Corruption Strategy	None	n/a
4. Have we considered using the point of application data matching service offered by the NFI team, to enhance assurances over internal controls and improve our approach to risk management?	Yes	Activities and actions in place: <ul style="list-style-type: none"> Audit and Investigation Team officers commend the use of data matching at the point of application The Acting Chief HR Officer has agreed to consider the use of data matching software as part of recruitment processes, in response to a recent audit report. 	None	n/a

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Part A: For those charged with governance	Yes/No/ Partly	Management Commentary	Is action required?	Who by and when?
5. Are NFI progress and outcomes reported regularly to senior management and elected/board members (e.g., the audit committee or equivalent)?	Yes	<p>Activities and actions in place:</p> <ul style="list-style-type: none"> In place – reported to Audit Committee as part of Investigation Team progress reports, and to the portfolio Cabinet Member and SMT as part of the Fraud and Corruption Tracker. 	None	n/a
6. Where we have not submitted data or used the matches returned to us, e.g. council tax single person discounts, are we satisfied that alternative fraud detection arrangements are in place and that we know how successful they are?	Yes	N/A, the Council participates in data matching across all data matching categories	None	n/a
7. Does internal audit, or equivalent, monitor our approach to NFI and our main outcomes, ensuring that any weaknesses are addressed in relevant cases?	Yes	<p>Activities and actions in place:</p> <ul style="list-style-type: none"> The Audit Manager monitors and reports on the NFI data matching exercise The NFI key contact and coordinator leads the Investigation Team, and escalates findings, which may expose control weaknesses to the Audit Manager, as intelligence for audit planning and assurance. 	None	n/a
8. Do we review how instances of fraud and error arise and use this information to improve our internal controls?	Yes	<p>Activities and actions in place:</p> <ul style="list-style-type: none"> The volumes and values of fraud are reported to SMT against the respective fraud types, with comparisons shown to prior periods, for monitoring and review, by SMT and respective Directors The Audit Plan is informed by a consideration of the cases of fraud and error, for assurance on controls in place. 	None	n/a
9. Do we publish, as a deterrent, internally and externally the achievements of our fraud investigators (eg, successful prosecutions)?	Yes	<p>Activities and actions in place:</p> <ul style="list-style-type: none"> Information is included within progress reports and the counter-fraud annual report There are prosecution and fraud publicity policies in place 	None	n/a

Part B: For NFI SROs and Key Contacts	Yes/No/Partly	Management Commentary	Is action required?	Who by and when?
Planning and preparation				
1. Are we aware of emerging fraud risks, eg due to COVID-19, and have we taken appropriate preventative and detective action?	Yes	Activities and actions in place: <ul style="list-style-type: none"> Monitoring and response to fraud alerts (NAFN, wider networks, peers etc.) Membership and active participation in professional networks and groups Engagement from counter-fraud officers to incorporate preventative and detective controls in the administration of a range of Welsh Government grants and schemes Internal Audit consultation on the design of new systems and processes to maintain effective internal controls Internal Audit engagements in areas where there are key fraud risk as a result of COVID-19 (e.g. procurement, income processes, temporary PPE stores facility, business grants) 	Ongoing assessment of risk and review of audit plan	Audit Manager (in place and ongoing)
2. Are we investing sufficient resources in the NFI exercise?	Yes	There is limited central resource available for the investigation of NFI data matches within the central corporate Investigation Team. In order to sufficiently participate in the exercise, a number of data matches are disseminated to lead officers for investigation within Directorates. The process is coordinated and overseen by the central Investigation Team.	None	n/a
3. Do we plan properly for NFI exercises, both before submitting data and prior to matches becoming available? This includes considering the quality of data.	Yes	Key officers support the process to extract, validate and upload data for each NFI exercise, and prior to the release of each dataset, key officers are advised of the nature and timescale of matches. When the data matches are received checks are undertaken to review the quality of the data, and this continues through the investigation of each dataset.	None	n/a
4. Is our NFI Key Contact (KC) the appropriate officer for that role and do they oversee the exercise properly?	Yes	Yes - the key contact leads and manages the corporate Investigation Team, and coordinates counter-fraud reporting across the Council.	None	n/a
5. Do KCs have the time to devote to the exercise and sufficient authority to seek action across the organisation?	Yes	Yes - The key contacts acts under the direction of the Audit Manager, and ultimately under the authority of the Section 151 Officer. The key contact has sufficient time to coordinate the exercise, with the cooperation of lead officers across directorates.	None	n/a

Part B: For NFI SROs and Key Contacts	Yes/No/Partly	Management Commentary	Is action required?	Who by and when?
6. Where NFI outcomes have been low in the past, do we recognise that this may not be the case the next time, that NFI can deter fraud and that there is value in the assurances that we can take from low outcomes?	Yes	Yes, agreed.	None	n/a
7. Do we confirm promptly (using the online facility on the secure website) that we have met the fair processing notice requirements?	Yes	In place.	None	n/a
Leadership, commitment and communication				
8. Do we plan to provide all NFI data on time using the secure data file upload facility properly?	Yes	In place.	None	n/a
9. Have we considered using the point of application data matching service offered by the NFI team to enhance assurances over internal controls and improve our approach to risk management?	Yes	Activities and actions in place: <ul style="list-style-type: none"> Audit and investigation team officers commend the use of data matching at the point of application The Acting Chief HR Officer has agreed to consider the use of data matching software as part of recruitment processes, in response to a recent audit report. 	None	n/a
Effective follow-up of matches				
10. Do all departments involved in NFI start the follow up of matches promptly after they become available?	Partly	In general, this is in place, but there is not always prompt progress against the NFI matches as soon as they are available. Whilst attention is given to making sufficient progress overall as part of the NFI exercise, a process has been recently introduced for the key contact to flag any progress delays to the Audit Manager on regular basis for escalation, where required.	Yes	Audit Manager (introduced in Q3 2020/21 and ongoing)
11. Do we give priority to following up high-risk matches, those that become quickly out of date and those that could cause reputational damage if a fraud is not stopped quickly?	Yes	In place, and the approach to disseminating matches to services ensures a range of different cases can be investigated at the same time.	None	n/a
12. Are we investigating the circumstances of matches adequately before reaching a 'no issue' outcome, in particular?	Yes	All matches that are reviewed are properly considered. The central Investigation Team train up relevant managers and officers to support a consistent approach across the Council e.g. Social Services (Care Homes and Personal Budgets), Housing (Tenants, Right to buy and Waiting list), Transport (Blue Badge).	None	n/a

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Part B: For NFI SROs and Key Contacts	Yes/No/Partly	Management Commentary	Is action required?	Who by and when?
13. (In health bodies) Are we drawing appropriately on the help and expertise available from NHS Counter Fraud Service Wales?		n/a – health bodies		
14. Are we taking appropriate action in cases where fraud is alleged (whether disciplinary action, penalties/cautions or reporting to the Police or NHS Counter Fraud Service Wales)? Are we recovering funds effectively?	Yes	<p>Activities and actions in place:</p> <ul style="list-style-type: none"> Where fraud is suspected, cases are escalated for investigation and appropriate sanction, in accordance with the Council's Prosecution Policy All funds identified for recovery, are required to follow the relevant corporate / directorate recovery process. 	None	n/a
15. Do we avoid deploying excessive resources on match reports where early work (e.g., on high-risk matches) has not found any fraud or error?	Yes	Care is taken not to abandon match reports prematurely, but if no fraud or error is being identified in high risk matches, or if the quality of the matches or data is poor, other matches are prioritised with the resources available.	None	n/a
16. Where the number of high-risk matches is very low, are we adequately considering the medium and low-risk matches before we cease our follow-up work?	Yes	In place.	None	n/a
17. Overall, are we deploying appropriate resources in managing the NFI exercise?	Yes	There is limited resource in the central Investigation Team, but the approach to participating effectively in the NFI exercise involves the deployment of lead officers in relevant teams across the Council. The use of wider officers as outlined above provides sufficient resources to support the exercise.	None	n/a
18. Are we recording outcomes properly in the secure website and keeping it up to date?	Yes	In place. Some reviews are undertaken and documented in spreadsheets outside of the NFI system, for which there can be a level of delay in receiving and updating the activity and outcomes. Monitoring the timely updating of the NFI system will continue to be a priority for the key contact.	In place and ongoing	Key Contact
19. Do staff use the online training modules and guidance on the secure website, and do they consult the NFI team if they are unsure about how to record outcomes (to be encouraged)?	Yes	In place. The central Investigation Team provide ongoing support to users of the NFI Web tool, complex queries are directed to the key contact and the key contact liaises with the help desk and the NFI development team.	None	n/a
20. If, out of preference, we record some or all outcomes outside the secure website, have we made arrangements to inform the NFI team about these outcomes?	n/a	The key contact supports a process to record outcomes within the NFI system.	None	n/a

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**AUDIT COMMITTEE: 17 November 2020**

DRAFT ANTI-MONEY LAUNDERING POLICY**REPORT OF THE CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 7.2**

Reason for this Report

1. The Audit Committee's Terms of Reference requires Members to:
 - Monitor the Counter-fraud strategy, actions and resources;
 - Review the assessment of fraud risks and potential harm to the council from fraud and corruption.
2. This report has been prepared to provide Audit Committee with an opportunity to comment on and consider an updated Council policy on money laundering, prior to a request for Cabinet approval on 10 December 2020.

Background

3. Money laundering is the process of making money generated by a criminal activity, such as drug dealing or theft appear to have come from a legitimate source, through a process of cleansing criminal proceeds to disguise their illicit origins. The National Crime Agency reports that money laundering costs the UK more than £100 billion pounds a year.
4. The draft Anti-Money Laundering Policy is aligned to the aspirations of the Counter-Fraud and Corruption Strategy, and to the Council's Risk Management Strategy and Policy. It provides adequate safeguards and reporting arrangements, to prevent the Council from being used by third parties for money laundering, and to prevent terrorist financing.
5. The policy is designed to replace and update the existing Money Laundering Policy and Procedure, as approved by Cabinet on 5 June 2015, and it incorporates the requirements of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and the Money Laundering and Terrorist Financing (amendment) Regulations 2019, as well as other relevant legislation. The main changes to the policy, relate to a strengthening of both the processes for client verification checks, and to the mechanisms for internal referral. The policy is intended to be supported by targeted training for those working in high-risk areas.
6. The draft policy has been subject to consideration and comment from the portfolio Cabinet Member, Senior Management Team, and the Equalities Team. Comments received have been incorporated into the current attached draft policy in Appendix A. A presentation has been prepared for Trade Union consideration, through a meeting scheduled to take place on 16 November 2020.

Issues

7. The policy sets out background information, including an overview and definition of the process of money laundering, the obligations on the Council to mitigate the risk and, it provides information about relevant legislation and offences. The contact details of the Council's Money Laundering Reporting Officer and the Data Protection Officer are provided for further support, guidance and referral, as appropriate.
8. A primary focus of the policy is on setting out the responsibilities of Officers and Members. All staff are already required to complete fraud awareness training, and the policy proposes that all staff have a reporting responsibility in the event of any concerns, and that at a minimum, all staff who receive cash, monitor cash receipts or who manage staff in these areas, and all solicitors must complete further eLearning on anti-money laundering. This includes Operational Managers in these areas, who are responsible for customer verification, due diligence checks and internal referrals.
9. A number of high-risk areas are highlighted within the policy for which particular vigilance is required, including the receipt of cash payments, the entering of new business relationships, the sale of land and properties, grants and loans to third parties, and a pattern of overpayments and requests for refunds. The Council has set a cash payment limit of £10,000 at which point a higher level of due diligence checks are necessary. A series of smaller, linked cash transactions also require a higher level of checks, as this could be an attempt for funds from illegal activities to go unnoticed.
10. The policy contains a 'Due Diligence and Know Your Customer Procedure', which represents an appraisal of an individual or organisation that should be undertaken before entering into a business transaction. Criminals often seek to mask their identity by using complex and opaque ownership structures, and the purpose of customer due diligence is to know and understand a client's identity and business activities so that any money laundering risks can be properly managed. Effective customer due diligence is therefore, a key part of anti-money laundering defences. By knowing the identity of a client, including matters of business ownership and control, the Council not only fulfils its legal and regulatory requirements, it equips itself to make informed decisions about the client's standing and acceptability.
11. The process for customer due diligence must be completed for all cases where there is a high risk of money laundering in accordance with section 8 of this policy, which is to be documented on the respective form as appended to the policy for a private individual (Appendix A) or a business (Appendix B). In order to proceed with such transactions, documented Operational Manager approval is required on the respective form, and in the event of any concerns, or if further advice or guidance is required, a referral is to be made to the Money Laundering Reporting Officer before proceeding.

Legal Implications

12. The Council has a duty under the Terrorism Act 2000, the Proceeds of Crime Act 2002 and The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 to take all reasonable steps to minimise the risk of money laundering occurring through safeguards and reporting arrangements in order to detect and avoid involvement in money laundering.
13. Reference to the Committee's Terms of Reference in paragraph 1 establishes the Committee's requirement to consider the Anti-Money Laundering Policy.

14. The contents of this Report contains all relevant information on the subject of anti-money laundering so as to enable the Committee to make an informed decision on the draft policy.
15. In considering this matter, the Council must have regard to its public sector equality duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The Protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity, marriage and civil partnership, sexual orientation, religion or belief – including lack of belief. An Equalities Impact Assessment has been carried out to identify the equalities implications and due regard should be given to the outcomes of the Equalities Impact Assessment.

Financial Implications

16. This Policy sets out the expectations of all officers and members and provides a detailed toolkit in order for those roles and responsibilities to be carried out and reduce the risk of being unwittingly complicit in money laundering activities. It is not anticipated that additional financial resources are required in order to undertake these duties but where additional interventions may be required then there is a need to identify financial resources prior to proceeding.

HR Implications

17. There are HR implications for this policy with regards to employee training and management actions and responsibilities, these are all set out in the policy. These will be communicated to employees should the policy be adopted.

RECOMMENDATIONS

18. That the Committee notes and considers the draft Anti-Money Laundering Policy, prior to a request for Cabinet approval on 10 December 2020.

Christopher Lee
Corporate Director Resources

The following appendices are attached:

Appendix A: Draft Anti Money Laundering Policy
Appendix B: Equality Impact Assessment

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Anti-Money Laundering Policy

Cardiff Council



Gweithio dros Gaerdydd, gweithio drosoch chi.
Working for Cardiff, working for you.



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1. Introduction

- 1.1 The Council's reputation is underpinned by ethical behaviour, financial probity and honesty. In carrying out its functions and responsibilities, the Council seeks to promote a culture of openness and fairness. Any cases of fraud, bribery, corruption or other dishonesty could adversely affect the Council's reputation, and put its ability to achieve its policies and objectives at risk.
- 1.2 Money laundering is the process by which criminal proceeds are cleansed to disguise their illicit origins. The National Crime Agency reports that money laundering costs the UK more than £100 billion pounds a year. Criminals will attempt to distance themselves from their crimes by finding safe havens for their profits, where they can avoid confiscation orders, and where those proceeds can be made to appear legitimate.
- 1.3 This policy enables the Council to meet the legal requirements associated with the Money Laundering Regulations, in a way that is proportionate, in accordance with the Council's Risk Management Strategy and Policy, whilst ensuring that there are adequate safeguards and reporting arrangements in place, to prevent the Council from being used by third parties for the purpose of money laundering.
- 1.4 The Regulations apply to a number of different business sectors, including accountants, financial service businesses, estate agents and solicitors. Every business covered by the Regulations must be monitored by a supervisory authority, (for example, the Financial Conduct Authority) or belong to a professional body like the Law Society.
- 1.5 The Treasury is responsible for appointing supervisors and for the Money Laundering Regulations, which sets out the role of supervisors and gives them powers to effectively monitor their respective sectors.
- 1.6 The following business sectors are supervised by HMRC:

Money service businesses (guidance link)	Those which are not supervised by the Financial Conduct Authority (FCA)
High value dealers (guidance link)	E.g., for this policy, any business that accepts or makes high value cash payments of £10,000 or more in exchange for goods (or equivalent in any currency).
Trust or company service providers (guidance link)	E.g., any company whose business is to form companies, or other legal persons, act as a director or secretary of a company. Trust or company service provider services can be provided by anyone including accountants and solicitors.
Accountancy service providers (guidance link)	Those which are not supervised by a professional body (give tax advice or accountancy services on a commercial basis), (e.g. auditors who carry out statutory audit work, accountants who provide accountancy services to clients, tax advisers and consultants who provide advice to clients about their tax affairs, payroll agents that provide accountancy services and/or tax advice).

Estate agency businesses (guidance link)	Who on instructions from a customer who wants to buy or sell an interest in land, in the UK or abroad, and introduce your customer to a third party who wants to buy or sell an interest in land. Who act after such an introduction to secure the sale or purchase of the interest in land.
Bill payment service providers	Those which are not supervised by the FCA
Telecommunications, digital and IT payment service providers	Those which are not supervised by the FCA
Businesses trading in art and high value letting agents	These two groups were added in 2019 amendment legislation

- 1.7 The Council is committed to maintaining robust arrangements to prevent money laundering. Local Authorities can be subject to the provision of the Money Laundering Regulations, and must be vigilant in any transactions that may have money laundering implications. Particular care must be exercised when undertaking work on a commercial basis on behalf of a client.

2. Legal Background

- 2.1 The relevant legislation and regulations relating to money laundering are:
- Terrorism Act 2000
 - Anti-terrorism, Crime and Security Act 2001
 - Proceeds of Crime Act 2002
 - The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
 - Criminal Finances Act 2017
 - The Money Laundering and Terrorist Financing (amendment) Regulations 2019
- 2.2 An obligation is placed on the Council and its employees, to establish internal procedures, to prevent the use of our services for money laundering and to prevent terrorist financing. The Council has a Money Laundering Reporting Officer (MLRO) to receive disclosures from employees of suspicions of money laundering activity.
- 2.3 There are three principal offences under the Proceeds of Crime Act 2002 (POCA) in respect of money laundering (Maximum: 14 years custody):

1. Concealing - Section 327 Proceeds of Crime Act 2002

A person commits an offence -

If they conceal, disguise, convert, transfer, or remove from the UK, any criminal property

2. Arrangements - Section 328 Proceeds of Crime Act 2002

A person commits an offence -

If they enter into or become concerned in an arrangement which they know or suspect facilitates (by whatever means) the acquisition, retention, use or control of criminal property by or on behalf of another person.

3. Acquisition, use and possession - Section 329 Proceeds of Crime Act 2002

A person commits an offence -

If they acquire, use, have possession of criminal property.

But a person does not commit such an offence -

If they make an authorised disclosure; intended to make a disclosure but had a reasonable excuse for not doing so; acquired or used or had possession of the property for adequate consideration. They know, or believe, that the criminal conduct occurred outside the UK, and the criminal conduct was not unlawful in that country.

2.4 There are additional Proceeds of Crime Act 2002 (POCA) offences in respect of money laundering:

Failure to disclose - Section 332 Proceeds of Crime Act 2002 (Max: 5 years custody)

A person nominated to receive disclosures commits an offence -

If they know or suspect that another person is engaged in money laundering, the person or the whereabouts of any of the laundered property can be identified and the knowledge came to them in a disclosure, or they believe that the information will or may assist in identifying that person or the whereabouts of the laundered property. They do not make the required disclosure as soon as is practicable after the information comes to them.

But a person does not commit such an offence –

If they have a reasonable excuse for not making the required disclosure, they know, or believe, that the criminal conduct occurred outside the UK, and the criminal conduct was not unlawful in that country.

Tipping off - Section 333 Proceeds of Crime Act 2002 (Maximum: 2 years custody)

A person commits an offence:

If they know or suspect that a disclosure has been made, and they say or do something which is likely to prejudice any investigation which might be conducted

But a person does not commit such an offence:

If they did not know or suspect that the disclosure was likely to be prejudicial; is a professional legal adviser providing legal advice (not with the intention of furthering a criminal purpose).

Offences of prejudicing investigation- Section 342 Proceeds of Crime Act 2002 (Maximum: 2 years custody)

A person commits an offence:

If they make a disclosure which is likely to prejudice the investigation, or falsify, conceal, destroy or otherwise dispose of documents which are relevant to the investigation.

But a person does not commit such an offence -

If they do not know or suspect that the disclosure is likely to prejudice the investigation, or they are a professional legal adviser providing legal advice (not with the intention of furthering a criminal purpose).

Important, please note, the tables include summary information, refer to the [Proceeds of Crime Act 2002](#) for the full wording.

All persons identified in 'section 6 – Responsibilities' must be aware of their legal responsibilities, as serious criminal sanctions may be imposed.

- 2.5 Money laundering and terrorist financing guidance is available from professional bodies, the Institute of Chartered Accountants in England and Wales is a supervisory body recognised by HM Treasury for the Money Laundering Regulations 2017. The Institute of Internal Auditors, the Chartered Institute of Public Finance & Accountancy, and the Law Society provide money laundering guidance.

3. Data Protection

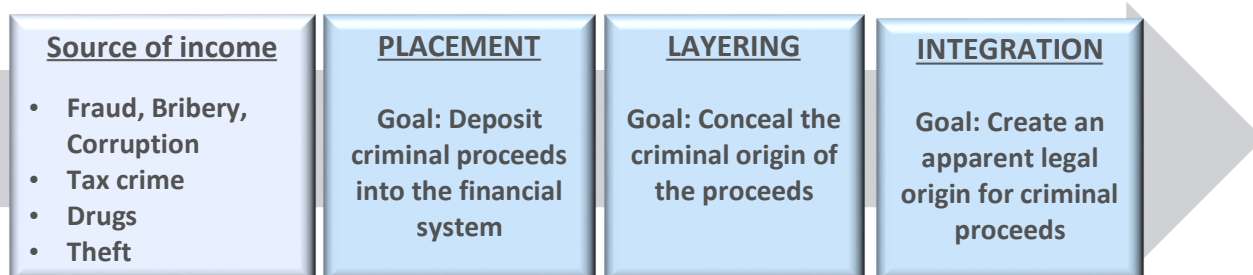
- 3.1 In accordance with the Data Protection Act 2018 the Council does not have to comply with data subject access requests that are likely to prejudice the prevention or detection of crime, or the capture or conviction of offenders.
- 3.2 Similarly, personal data that relates to knowledge or suspicion of money laundering (i.e. data that has been processed to help prevent or detect crime) need not be disclosed under a subject access request, if to do so could constitute *tipping off*. Both of these exceptions apply to the personal data likely to be contained in records relating to internal money laundering reports.
- 3.3 If you have any concerns, or require any advice in this area, contact the Money Laundering Reporting Officer (David Hexter, 029 2087 2284) or the Data Protection Officer (Katie Weaver, 029 2087 3332) promptly.

4. Scope of the Policy

- 4.1 This Policy sets out the procedures which must be followed, and this section should be read in conjunction with the Due Diligence and Know Your Customer Procedure, the Counter-Fraud and Corruption Strategy ([1.CM.120b](#)) and the Whistle Blowing Policy ([1.C.015](#)).
- 4.2 This policy applies to:
- All Council employees (permanent, temporary or casual) and agency staff
 - Elected Members
 - Consultants undertaking Council work, Contractors working for the Council, and Partners
 - Suppliers and those providing services under contract with the Council
 - Volunteers
 - Anyone carrying out work for, or on behalf of, the Council
- 4.3 Failure to comply with these procedures may lead to disciplinary action being taken.

5. What is Money Laundering?

- 5.1 Money laundering is the process of making money generated by a criminal activity, such as drug dealing or theft appear to have come from a legitimate source.
- 5.2 The money from the criminal activity is considered dirty, and the process "launders" it to make it look clean. Money laundering is itself a crime.



6. Responsibilities

- 6.1 Cardiff Council has put in place appropriate and proportionate anti-money laundering safeguards and reporting arrangements. The following persons must be aware of their responsibilities, as serious criminal sanctions may be imposed for breaches of legislation, such as failure to report suspicion of money laundering.

Roles	Primary Responsibilities
Elected Members	<ul style="list-style-type: none"> • Raise concerns promptly
Employees / consultants / volunteers	<ul style="list-style-type: none"> • Complete Fraud Awareness Training • At a minimum, all staff who receive cash, monitor cash receipts or who manage staff in these areas, and all solicitors must complete eLearning on anti-money laundering • Apply customer due diligence / maintain client identification procedures as appropriate • Maintain robust record keeping procedures • Raise concerns promptly
<i>Those in the following roles have all responsibilities as above, with further role specific responsibilities as below</i>	
Managers	<ul style="list-style-type: none"> • Appropriately risk assess and mitigate money laundering risks within areas of responsibility • Retain sufficient evidence for monitoring and review of the identification and management of money laundering risks • Ensure that all relevant persons are aware of the requirements and obligations placed on Cardiff Council, and on themselves as individuals
Operational Managers	<p>Further to Manager Responsibilities:</p> <ul style="list-style-type: none"> • Complete anti-money laundering eLearning where responsible for verifying customer due diligence evidence, for approval, or disclosure to the MLRO • Ensure annual training needs are considered as part of the Personal Review process and that officers considered to be in relevant roles of increased money laundering risk complete the money laundering, eLearning module every 2 years.

Money Laundering Reporting Officer	<ul style="list-style-type: none"> • Provide anti-money laundering advice, guidance and training • Investigate reports and disclosures of money laundering • Promptly report suspicions of money laundering to the National Crime Agency.
Section 151 Officer & Monitoring Officer	<ul style="list-style-type: none"> • Ensure the Council has a Money Laundering Reporting Officer • Champion internal procedures and systems to identify report and mitigate suspicions of money laundering

6.2 David Hexter, Group Auditor (Investigations) is the nominated Money Laundering Reporting Officer and should be notified of any activity or suspicion of money laundering:

✉ d.hexter@cardiff.gov.uk cc fraud@cardiff.gov.uk

☎ 029 2087 2284

7. Training

- 7.1 All staff are required to undertake mandatory fraud awareness training, which includes an overview of money laundering.
- 7.2 At a minimum, all staff who receive cash, monitor cash receipts or who manage staff in these areas, and all solicitors must complete eLearning on anti-money laundering. This includes Operational Managers in these areas, who are responsible for verifying customer due diligence evidence, and making disclosures to the MLRO. The eLearning should be completed at least every 2 years for refresher purposes.
- 7.3 Each Directorate should carry out annual training needs assessments as part of the Personal Review process and officers considered to be in relevant roles of increased money laundering risk will complete a money laundering eLearning module.
- 7.4 Additional specific training may be delivered upon request, to the MLRO.

8. Due Diligence

- 8.1 The terms 'Due Diligence' and 'Know Your Customer', refer to an appraisal, of an individual or organisation, that the Council should undertake before entering into a business transaction to verify the identity of parties and assess the potential risks of illegal intentions.
- 8.2 It is important that the Council is aware of whom it is transacting with, including the structure relevant entities, so all beneficiaries are appropriately disclosed/identified. The approach should be risk-based and proportionate; the high-risk money laundering activities are identified within Section 9 of this policy.
- 8.3 The 'Due Diligence and Know Your Customer Procedure' set out the process that must be followed, and the circumstances in which 'Customer Due Diligence Forms' must be completed, and disclosures are to be made.
- 8.4 Since the 30th June 2016, companies have been required to declare who owns or controls them to Companies House. There is a requirement to notify Companies House of discrepancies identified as part of the "know your customer" checks before establishing a business relationship with another entity. Companies House must then investigate and, if necessary, take action to resolve the discrepancy.

8.5 If there are any doubts about the identity of a customer / business partner, the Council must obtain further verification immediately. Should you have concerns about potential money laundering, following a money laundering disclosure, you will need to consider if and how you should change the way you interact with your client to avoid committing the offences of:

- **Tipping off**
- **Prejudicing an investigation**

8.6 Making a Disclosure does not necessarily mean that all work on a client’s file must stop. However, if you do not have a defence against money laundering from the National Crime Agency, you are prohibited from carrying out any act that would amount to a principal money laundering offence (see [paragraph 2.3](#)).

8.7 Before establishing a *client* relationship or accepting an engagement, the Council must have controls in place to address the risks arising from it.

Land or Property Sale	When you establish a business relationship, with a customer or another party in a land or property sale. There are obligations for solicitors in this area.
New business relationship	When you establish a new business relationship (formal or informal) you need to obtain information on: <ul style="list-style-type: none"> • the purpose of the relationship • the intended nature of the relationship - for example where funds will come from, the purpose of transactions, and so on
Changing circumstances	We are required to keep up-to-date information on our customers and to: <ul style="list-style-type: none"> • amend our risk assessment of a particular customer if their circumstances change • carry out further due diligence measures if necessary <p>Changes of circumstance may include:</p> <ul style="list-style-type: none"> • a big change in the level or type of business activity • a change in the ownership structure of a business
Occasional transactions	The Council should carry out customer due diligence measures when occasional transactions are carried out. These are transactions that are not carried out within an ongoing business relationship where the value is £10,000 or more. This applies whether it is a single transaction or linked transactions.
Linked Transactions	Linked transactions are individual transactions of less than £10,000 that have been deliberately broken down into separate, smaller transactions to avoid customer due diligence checks. Some issues to consider are: <ul style="list-style-type: none"> • a number of payments have been made by the same customer in a short period of time • It is possible that a number of customers have carried out transactions on behalf of the same person.

Ø Money Laundering Risks

- 8.8 Remember, the aim of the money launderer is to convert their cash from crimes, into legitimate sources of income. Everyone who receives cash or monitors cash receipts or manages staff in these areas, and all solicitors need to be alert to the risk.
- 8.9 When dealing with the Council, they could attempt to purchase or lease assets (land, property, buildings), good or services etc. They could sell on, or sublet these assets and place payments into a bank account.
- 8.10 Receiving a refund from the Council could appear to be a legitimate source of a payment into their bank account; similarly, if a money launderer is able to sell goods at significantly inflated prices, the income could appear to be legitimate.
- 8.11 The following areas are examples of those most susceptible to money laundering:
- Sale of properties and land
 - Receipt of high value cash sums
 - Overpayments and requests for refunds (mainly linked to Revenue Accounts)
 - Grant and loans to third parties
- 8.12 Possible indicators of money laundering activity:
- Unusually large cash transactions (£10,000 or more)
 - Numerous small transactions which appear to be linked and combined exceed £10,000
 - Where a transaction appears to be unusual in nature
 - The absence of an obvious legitimate source of funds, for example, a property purchase without a mortgage
 - Repeated cancelling of transactions
 - Where a customer pays funds to the Council but then ends the transaction for no apparent reason, or unexpectedly asks for money to be refunded or forwarded to a third party
 - An overpayment or duplicate payment where the refund is later requested (large sum)
 - Individuals or companies that are insolvent but have funds
 - Excessively secretive or obstructive clients
 - Where the customer informs us that funds are coming from one source and at the last minute the funding source changes.
- 8.13 In considering risk, we need to consider factors relating to:
- a) the customers of who we are transacting with
 - b) the countries or geographic areas in which it operates
 - c) the products or services
 - d) the nature of transactions
 - e) the delivery channels
- 8.14 The 'Due Diligence and Know Your Customer Procedure' set out the process that must be followed to ensure we appropriately address areas of risk.

⊘ High Risk Areas

- 8.15 Particular care should be exercised in cases where a significant cash amount is involved. The Council has set a cash payment limit of £10,000 at which point additional due diligence checks are necessary.
- 8.16 Vigilance must also be maintained where there are a series of smaller, linked cash transactions, which could be seeking to circumvent due diligence checks.
- 8.17 There are a number of circumstances in which prompt advice must be sought from the MLRO. Advice is required from the MLRO prior to engaging in any:
- Arrangement in which the Council may be operating as a credit or financial institution.
 - Transaction or business relationship with a person established in a 'high risk third country'. The European Commission identifies 'high risk third countries' with strategic deficiencies in their national anti-money laundering and counter financing of terrorism regimes that pose significant threats to the financial system of the European Union. [High risk third countries link](#)
 - Transaction or business relationship with a politically exposed person (PEP). A PEP is a person who has been entrusted within the last year by either a state other than the UK, a community institution, or an international body and who fulfils one of the following public roles:
 - *heads of state, heads of government, ministers and deputy or assistant ministers*
 - *Members of Parliament*
 - *members of supreme courts, or constitutional courts or of other high-level judicial bodies whose decisions are not generally subject to further appeal, except in exceptional circumstances*
 - *members of courts of auditors or of the boards of central banks*
 - *ambassadors, chargés d'affaires and high ranking officers in the armed forces*
 - *members of the administrative, management or supervisory bodies of state-owned enterprises.*
- 8.18 Formal professional advice will be required **before** entering into a business relationship.

9. Record keeping

- 9.1 The appropriate 'Customer Due Diligence' (Appendix A / Appendix B) must be completed for all cases, which are at high risk of money laundering in accordance with section 8 of this policy.
- 9.2 The completed 'Customer Due Diligence Form' will either be approved in receipt of satisfactory evidence of identity and business activities by a Directorate Operational Manager (OM), or it will be referred to the MLRO, in accordance with the 'Due diligence and know your customer procedure'.
- 9.3 Whenever a 'Customer Due Diligence Form' is completed, a copy must be provided to the MLRO, for monitoring and review purposes, and to respond to disclosures via Fraud@cardiff.gov.uk.

- 9.4 All completed Customer Due Diligence Forms must be retained including all customer due diligence measures that are carried out, namely:
- customer identification documents that have been obtained
 - customer correspondence
 - receipts / paying in books
 - further checks carried out
 - risk assessments
 - the rationale for the OM decision
- 9.5 By keeping comprehensive records, you will be able to show that you have complied with the Money Laundering Regulations. This is crucial to protect the Council, if there is an investigation, into one of our customers.
- 9.6 Records must be kept for five years beginning from:
- the date a business relationship ends
 - the date a transaction is completed

10. Reporting

- 10.1 Where any person specified in section 6 knows or suspects that money laundering activity has taken place or becomes concerned about their involvement in potential money laundering practices, they must contact the Money Laundering Reporting Officer immediately to discuss those concerns. **Failure to report concerns could constitute a criminal offence.**
- ✉ d.hexter@cardiff.gov.uk cc. Fraud@cardiff.gov.uk ☎ 029 2087 2284
- 10.2 The Audit Manager, Chris Pyke, can alternatively receive money laundering concerns and can be contacted by email or telephone:
- ✉ CPyke@cardiff.gov.uk cc. Fraud@cardiff.gov.uk ☎ 029 2087 3455
- 10.3 Please also send a courtesy copy of the email to fraud@cardiff.gov.uk.
- 10.4 The Money Laundering Reporting Officer will consider and investigate the facts of the case and if appropriate, make a report to the National Crime Agency. The person who referred the concerns may be required to complete the money laundering disclosure form (Appendix C).
- 10.5 Someone seeking reassurance that their conclusions are reasonable, can discuss them with their line manager, however, reporting to a line manager or colleague alone, is not enough to comply with the legislation.
- 10.6 There should be no discussions with wider colleagues as confidentiality is paramount and the person that is suspected of being involved with money laundering must not be 'tipped off'.
- 10.7 At no time and under no circumstances should any suspicions be voiced to the person(s) suspected of money laundering.

11. Definitions

Criminal Conduct	Conduct which constitutes an offence in any part of the United Kingdom, or would constitute an offence in any part of the United Kingdom if it occurred there (S 340 POCA).
Criminal Property	The property constitutes a person's benefit from criminal conduct or it represents such a benefit (in whole or part and whether directly or indirectly), and the alleged offender knows or suspects that it constitutes or represents such a benefit. (S 340 POCA).
Property	Property is all property wherever situated and includes; money, all forms of property, real or personal, heritable or moveable, things in action and other intangible or incorporeal property (S 340 POCA).
Disclosure	A formal report made to the MLRO when there are suspicions of money laundering activity
MLRO	Money Laundering Reporting Officer, the person in the Council who has been designated to receive Disclosures
Money Laundering Legislation	UK legislation and regulations behind the UK anti-money laundering regime: <ul style="list-style-type: none"> • Terrorism Act 2000 • Anti-terrorism, Crime and Security Act 2001 • Proceeds of Crime Act 2002 • The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 • Criminal Finances Act 2017 • The Money Laundering and Terrorist Financing (amendment) Regulations 2019
<u>NCA</u>	National Crime Agency - leads the UK's fight to cut serious and organised crime, protecting the public by targeting and pursuing those criminals who pose the greatest risk to the UK.
Principal Offences	The three main money laundering offences, as stated in the Proceeds of Crime Act 2002 (S327, 328, 329): Concealing; Arranging; Acquisition, use and possession.
PSC register	UK companies (except listed companies and limited liability partnerships) need to declare this information when issuing their annual confirmation statement to Companies House. This information will form a central public register of people with significant control, which is free to access.
Person of Significant Control (PSC register)	Someone that holds more than 25% of shares or voting rights in a company, has the right to appoint or remove the majority of the board of directors or otherwise exercises significant influence or control.

Customer Due Diligence Form – Private individual

To be completed in accordance with the 'Due Diligence and Know your Customer Procedure'

Name of person reviewing customer:	
Telephone number:	
Customer name:	
Customer address:	
Customer contact details:	
Type of customer:	

Evidence of Identity Obtained (verified photocopies attached) and Summary of Due Diligence Checks Undertaken (refer to Customer Due Diligence and Know Your Customer Procedure):

refer to Customer Due Diligence and Know Your Customer Procedure

Summary of transactions:

Purpose, nature, value etc.

Operational Manager – Consideration to Proceed

Can the Council proceed with the transaction? Yes / No

Signed: _____ Date: _____

If you have concerns about the customer verification, you must make a disclosure to the MLRO.

OM Approved		OR	OM Referred to MLRO	
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Date referred to MLRO:

OM approval /disclosure comments required.

A copy of this form must be submitted to the MLRO in every case - OM approval or MLRO disclosure.

✉ d.hexter@cardiff.gov.uk cc. Fraud@cardiff.gov.uk ☎ 029 2087 2284

Money Laundering Reporting Officer (MLRO) - Consideration to proceed

To be completed by the Money Laundering Reporting Officer

Consideration of Due Diligence Checks Undertaken and Determination:

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Can the Council proceed with the transaction? Yes / No

Signed: _____ Date: _____

Actions taken by
the MLRO:

Customer Due Diligence Form – Business

To be completed in accordance with the ‘Due Diligence and Know your Customer Procedure’

Name of person reviewing customer:	
Telephone number:	
Business name:	
Registered address:	
Company contact details:	
Companies House Registration Number	
Type of business:	

Who are the company Directors? – are there any beneficial owners? (I.e. any person/company who owns more than 25% of the company in question)

Date of first contact with Company: _____

Nature of Transaction: _____

Summary of Due Diligence checks undertaken:

refer to Customer Due Diligence and Know Your Customer Procedure

Operational Manager – Consideration to Proceed

Can the Council proceed with the transaction? Yes / No

Signed: _____ Date: _____

If you have concerns about the customer verification, you must make a disclosure to the MLRO.

OM Approved		<u>OR</u>	OM Referred to MLRO	
--------------------	--	------------------	----------------------------	--

Date referred to MLRO:

OM approval / disclosure comments required.

A copy of this form must be submitted to the MLRO in every case - OM approval or MLRO disclosure.

✉ d.hexter@cardiff.gov.uk cc. Fraud@cardiff.gov.uk ☎ 029 2087 2284

Money Laundering Reporting Officer (MLRO) - Consideration to proceed

To be completed by the Money Laundering Reporting Officer

Consideration of Due Diligence Checks Undertaken and Determination:

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Can the Council proceed with the transaction? Yes / No

Signed: _____ Date: _____

Actions taken by
the MLRO:

Money Laundering Disclosure Form

This form should be used to report **suspicious activity**. Certain information will be required in order for a report to be accepted by the National Crime Agency.

Person making the disclosure: _____

Contact details: _____

Main subject of suspicious activity

Please provide the following information as appropriate / available:

- Full name, address, date of birth, employer/employment, bank details of the individual
- Full name, address, company number, vat number, bank details, type of business for all companies thought to be involved
- If identification has been sighted, state the type and relevant reference numbers (e.g. passport number)
- Any further information to identify persons involved

- Information as above in respect of relevant associates* of the individual
- Details of the connection between the main subject and the associate subject (reason for association)

* an associate person or company is one that is linked to the main person/company in some direct way and is involved in the suspicious activity.

- Details of your involvement/transactions with the individual / business (date, amount, debit or credit, cash etc.)

- Why are you suspicious about this activity?

Have you discussed your concerns with anyone else? Yes / No If yes, elaborate:

Have you taken any action or done any further Due Diligence? Yes / No If yes, elaborate:

Please email the completed form to Fraud@cardiff.gov.uk

Due Diligence and Know Your Customer Procedure

1. Introduction

- 1.1 This procedure aims to protect the Council from fraud and money laundering activities and enables the Council to meet the legal requirements associated with the Money Laundering Regulations, in a way that is proportionate to the Council's risk of contravening the legislation.
- 1.2 Obtaining the Due Diligence and Know Your Customer information is only the first step. You must ensure that you review the information and ask appropriate questions or request additional information if necessary. If there are any doubts about the legitimacy of the identity or business relationship being established, then appropriate advice should be sought from your Line Manager or the MLRO as appropriate. If you have concerns about money laundering or fraud, need to make the appropriate disclosure under the Anti-Money Laundering Policy, the Counter-Fraud and Corruption Strategy and the Fraud, Bribery and Corruption Policy.

2. Scope of the Procedure

- 2.1 This procedure applies to:
 - All Council employees (permanent, temporary or casual) and Agency Staff
 - Elected Members
 - Consultants undertaking Council work, Contractors working for the Council, and Partners
 - Suppliers and those providing services under contract with the Council
 - Volunteers
 - Anyone carrying out work for, or on behalf of, the Council
- 2.2 Failure by any member of staff to comply with this procedure may lead to disciplinary action being taken against them.

3. What is Due Diligence and Know Your Customer?

- 3.1 Criminals often seek to mask their true identity by using complex and opaque ownership structures. The purpose of customer due diligence is to know and understand a client's identity and business activities so that any money laundering risks can be properly managed. Effective customer due diligence is therefore, a key part of anti-money laundering defences.
- 3.2 By knowing the identity of a client, including matters of business ownership and control, the Council not only fulfils its legal and regulatory requirements, it equips itself to make informed decisions about the client's standing and acceptability.
- 3.3 The required components are:
 - a) **Identifying the client** (i.e., knowing who the client is) and then verifying their identity (i.e., demonstrating that they are who they claim to be) by obtaining documents or other information from independent and reliable sources;
 - b) **Identifying beneficial owner(s)** so that the ownership and control structure can be understood and the identities of any individuals who are the owners or controllers can be

known and, on a risk sensitive basis, reasonable measures should be taken to verify their identity; and

c) **Gathering information on the intended purpose and nature of the business relationship.**

3.4 If you have doubts about a customer's identity, you must stop dealing with them until you are sure.

4. When to apply Customer Due Diligence measures

4.1 Before establishing a *client* relationship or accepting an engagement, the Council must have controls in place to address the risks arising from it.

Land or property sale

4.2 When you establish a business relationship, with a customer or another party in a land or property sale.

New business relationship

4.3 When you establish a new business relationship (formal or informal) you need to obtain information on:

- the purpose of the relationship
- the intended nature of the relationship - for example where funds will come from, the purpose of transactions, and so on

The type of information that you need to obtain may include:

- details of your customer's business or employment
- the source and origin of funds that your customer will be using in the relationship
- copies of recent and current financial statements
- details of the relationships between signatories and any underlying beneficial owners
- the expected level and type of activity that will take place in your relationship

Changing circumstances

4.4 We are required to keep up-to-date information on our customers so that we can:

- amend our risk assessment of a particular customer if their circumstances change
- carry out further due diligence measures if necessary

Changes of circumstance may include:

- a big change in the level or type of business activity
- a change in the ownership structure of a business

Occasional transactions

4.5 The Council should carry out customer due diligence measures when occasional transactions are carried out. These are transactions that are not carried out within an ongoing business relationship where the value is £10,000 or more. This applies whether it is a single transaction or linked transactions.

4.6 Linked transactions are individual transactions of less than £10,000 that have been deliberately broken down into separate, smaller transactions to avoid customer due diligence checks. Some issues to consider are:

- a number of payments have been made by the same customer in a short period of time
- It is possible that a number of customers have carried out transactions on behalf of the same person.

5. Record keeping requirements

5.1 All records created as part of the Customer Due Diligence process, including any non-engagement documents relating to the *client* relationship and ongoing monitoring of it, must be retained for five years after the relationship ends.

5.2 All records related to an *occasional transaction* must be retained for five years after the transaction is completed. A disengagement letter could provide documentary evidence that a business relationship has terminated, as could other forms of communication such as an unambiguous email making it clear that the *business* does not wish to engage or is ceasing to act.

5.3 Whenever a 'Customer Due Diligence Form' is completed, a copy must be provided to the MLRO, for monitoring purposes, and to respond to disclosures via Fraud@cardiff.gov.uk.

5.4 All completed Customer Due Diligence Forms must be retained including all customer due diligence measures that are carried out.

6. Reporting

6.1 David Hexter, Group Auditor (Investigations) is the nominated Money Laundering Reporting Officer and should be notified of any activity or suspicion of money laundering.

✉ d.hexter@cardiff.gov.uk cc. fraud@cardiff.gov.uk ☎ 029 2087 2284

Individual Verification

Entity type	Evidence required	Notes
<p>Individual (UK or EU resident)</p>	<p><i>Proof of name and identity</i> The original (or if that is not available, a certified copy) of one of:</p> <ul style="list-style-type: none"> • Signed passport. • National identity card with photograph. • UK or EU driving licence (with photograph) • A verifiable government document containing a photograph of the client. <p>AND</p> <p><i>Proof of address</i> The original (or if that is not available a certified copy) of one of:</p> <ul style="list-style-type: none"> • Current council tax or utility bill. • Current bank or building society statement containing current address. • Current mortgage statement or rent book. • Driving licence (if not used to confirm identity). 	<p>In the event any of the original documents cannot be obtained, other original documentation, not listed here or an entry on the electoral register may be acceptable, but you will need the consent of the MRLO to accept any documents not listed in this table.</p>
<p>Individual (non-UK resident)</p>	<p><i>Proof of name and identity</i> The original (or if that is not available a certified copy) of one of:</p> <ul style="list-style-type: none"> • Signed passport • National identity card (with photograph). <p>AND</p> <p><i>Proof of address</i> The original (or if that is not available a certified copy) of one of:</p> <ul style="list-style-type: none"> • Current utility or tax bill confirming home address. • Current rent or mortgage statement confirming the home address. • Address confirmation from an official overseas source. • A reputable directory confirming home or work address. 	

Business Verification

Entity type	Evidence required	Notes
<p>Individual professionals</p>	<p>You must verify the identity of the individual professional in the same way as other individuals.</p>	<p>If an individual is acting in the course of his/her business and is registered in the appropriate professional directory (such as an English solicitor on the Solicitors Regulation Authority roll who can be found on the Law Society’s website) with a current business address you do not need to confirm the home address of the individual.</p>
<p>All UK government and public authorities <i>(including Local Authorities)</i></p>	<p>All that is required is confirmation that the Agency or Public Authority exists from an official government website.</p>	<p>If the person we are dealing with is not listed as a director or officer of the Agency or Authority then you must satisfy yourself that the person does work within the department of which the relevant executive officer is listed. Confirmation on official headed notepaper/letterhead is sufficient.</p>
<p>Arm’s Length Management Organisations (ALMO’s)</p>	<p>Obtain name, company name, registered office, or if different, principle place of business.</p> <p>Obtain copies of:</p> <ul style="list-style-type: none"> • Certificate of Incorporation. • Articles of Association showing sole ownership of the company by the Council. <p>You must also verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of an individual.</p>	<p>You must take all reasonable steps to identify the law to which the entity and its constitution is subject, full names of the board of directors, or if there is no board the senior management and the senior person responsible for the operation of the entity.</p>

Entity type	Evidence required	Notes
<p>UK registered providers (RPs)</p>	<p>Obtain name, company name, registered office, or if different, principle place of business.</p> <p>You must obtain copies of:</p> <ul style="list-style-type: none"> • The registration entry at Companies House or the FCA. • The audited accounts listing the directors and chief officers. <p>You must also verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of individual.</p> <p>Any discrepancies should be reported to Companies House.</p>	<p>Please note that if the entity is a Registered Provider (RP) and a registered charity, you should follow the RP requirements.</p>
<p>Pre-registration RPs</p>	<p>Obtain name, company name, registered office, or if different, principle place of business.</p> <p>You must obtain copies of:</p> <ul style="list-style-type: none"> • The company formation documents or a copy of the RPs HCA, Companies House or FCA registration. <p>You must also verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of an individual.</p> <p>Any discrepancies should be reported to Companies House.</p>	<p>Please note that if the entity is a pre-registration RP and a registered charity, you should follow the RP requirements AND the charity requirements.</p>

Entity type	Evidence required	Notes
<p>Small charities</p> <p><i>(with an annual income of less than £500,000)</i></p>	<p>Obtain name, company name, registered office, or if different, principle place of business.</p> <p>You must obtain copies of:</p> <ul style="list-style-type: none"> • Certificate of Incorporation. • The constitutional documents. • The latest accounts. <p>You must also verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of an individual.</p>	<p>Please note that if the entity is a Registered Provider and a registered charity, you should follow the RP requirements.</p>
<p>Large charities</p> <p><i>(with an annual income of £500,000 or more)</i></p>	<p>Obtain name, company name, registered office, or if different, principle place of business.</p> <p>You must obtain copies of:</p> <ul style="list-style-type: none"> • Extract from the Charity Commission website showing the charity registration number and place of business. • The latest accounts (summary is acceptable). <p>You must also verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of an individual.</p>	<p>Please note that if the entity is Registered Provider and a registered charity, you should follow the RP requirements.</p>
<p>Partnerships</p>	<p>You must verify:</p> <ul style="list-style-type: none"> • the identity of the partner with whom you are dealing in relation to the transaction plus one other partner plus any other partner who owns or controls 25% more of the partnership in terms of capital, voting rights or profits. <p>You should do this in the same way as verifying the identity of individual.</p>	<p>If the partnership is made up of regulated professionals (solicitors, accountants, estate agents, tax advisors and insolvency practitioners) confirmation of its existence and current business address from the relevant professional directory or reputable professional directory is sufficient.</p>

Entity type	Evidence required	Notes
<p>Trusts</p>	<p>You must verify the identity of at least two of the trustees, including one with whom you are dealing in relation to the transaction. The identification requirements you need will depend on the nature of the trustee, so for example if the trustee is a UK private company, follow the requirements in this table for UK private companies, and if the trustee is an individual, follow the requirements in this table for individuals.</p> <p>You must check and understand the documents establishing the Trust. This is likely to involve a request for a Trust structure chart, and a certified copy of the Trust deed.</p> <p>As well as verifying the identity of two trustees in the same way you would verify the identity of an individual (you must also verify the identity of the beneficiaries of the trust, its settlor and any individual having control over it (e.g. a protector) again, in the same way that you would verify the identity of an individual.</p> <p>Any discrepancies should be reported to Companies House.</p>	
<p>Companies listed on a recognised UK stock exchange</p> <p><i>(in practice is any company listed on the Main List of the London Stock Exchange (LSE))</i></p>	<p>Obtain name, company name, registered office, or if different, principle place of business.</p> <p>You must obtain copies of:</p> <ul style="list-style-type: none"> • Certificate of Incorporation. <p>Evidence of the UK listing which can be found in most UK newspapers or on the relevant exchange website.</p>	

Entity type	Evidence required	Notes
<p>Majority owned subsidiaries of companies listed on a regulated market in the UK</p> <p><i>(i.e. listed on the Main List of the LSE)</i></p>	<ul style="list-style-type: none"> • Obtain the name, company number, registered office, or if different, principle place of business. • Identify the parent company listed in the UK (see above requirements): Companies registered on a recognised UK Stock Exchange. • Obtain confirmation of the parent/subsidiary relationship such as the last filed annual report or a note from the parent’s last audited accounts. <p>Any discrepancies should be reported to Companies House.</p>	<p>If the company structure is complex, ask to see a corporate structure chart (you need to ask applicant to provide this).</p> <p>Once you receive the structure chart you should check it against publicly available information at Companies House (you can do this by searching the company names at Companies House Online) and / or using an Online Check. If it is not possible to identify any of the group entities using these sources then this must be discussed with the MLRO.</p>
<p>Private and unlisted public UK companies – FCA authorised</p>	<ul style="list-style-type: none"> • Obtain the name, company number, registered office, or if different, principle place of business. • A copy of the FCA on-line register showing the company and relevant directors are FCA authorised. <p>You must also:</p> <ul style="list-style-type: none"> • Verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of individual. • Take all reasonable steps to identify the law to which the entity and its constitution is subject , full names of the board of directors, or if there is no board the senior management and the senior person responsible for the operation of the entity. 	

Entity type	Evidence required	Notes
<p>Private and unlisted public UK companies – non FCA authorised</p>	<p>You must obtain:</p> <ul style="list-style-type: none"> • Certificate of Incorporation • A current Companies House search <p>You must also:</p> <ul style="list-style-type: none"> • Verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of an individual. • Identify any ultimate beneficial owner, being a living individual who owns 25% or more of the shares in the company or otherwise controls 25% or more of the company. You should do this in the same way as verifying the identity of an individual. <p>Any discrepancies should be reported to Companies House.</p>	<p>If the company structure is complex, ask to see a corporate structure chart and check it to publicly available information on Companies House.</p>
<p>AIM companies</p> <p><i>(AIM is the UK Alternative Investment Market and is a sub-market of the London Stock Exchange. AIM companies are generally smaller than FTSE or LSE companies)</i></p>	<p>Obtain the name, company number, registered office, or if different, principle place of business.</p> <p>You must obtain:</p> <ul style="list-style-type: none"> • Certificate of Incorporation. • A current Companies House search. To do this you need to search the company name at Companies House Online to confirm the company remains active and registered. <p>You must also:</p> <ul style="list-style-type: none"> • Verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of an individual. • Identify any ultimate beneficial owner (UBO) being a living individual who owns 25% or more of the shares in the company or otherwise controls 25% or more of the company. • Take all reasonable steps to identify the law to which the entity and its constitution is subject, full names of the board of directors, or if there is no board the senior management and the senior person responsible for the operation of the entity. <p>Any discrepancies should be reported to Companies House.</p>	<p>If the company structure is complex, ask to see a corporate structure chart (you need to ask the applicant to provide this).</p> <p>Once you receive the structure chart you should check it against publicly available information at Companies House (you can do this by searching the company names at Companies House Online) and /or using an Online Check. If it is not possible to identify any of the group entities using these sources then this must be discussed with the MLRO.</p> <p>Once you have checked the structure chart, you need to verify the identity of all of the UBOs – i.e. the bottom of the ownership chain.</p>

Entity type	Evidence required	Notes
<p>Companies listed overseas – outside the European Economic Area (EEA)</p>	<p>Obtain the name, company number, registered office, or if different, principle place of business.</p> <p>You must obtain:</p> <ul style="list-style-type: none"> • A company search of the local registry or reputable listing (to include the listing of directors). • Certificate of ‘good standing’ from a lawyer. This needs to state that the company exists as a legal entity and has complied with all administrative requirements relating to its registration (including the payment of any government dues). • Confirmation from the company that the director we are dealing with is authorised on behalf of the company. This should be written confirmation on company letterhead or a suitable board minute. <p>You must also</p> <ul style="list-style-type: none"> • Verify the identity of the officer with whom you are dealing in relation to the transaction. You should do this in the same way as verifying the identity of individual. • Take all reasonable steps to identify the law to which the entity and its constitution is subject, full names of the board of directors, or if there is no board of directors the senior managements and the senior person responsible for the operation of the entity. 	<p>If the company structure is complex, ask to see a corporate structure chart (you need to ask the applicant to provide this).</p> <p>Once you receive the structure chart, you should check it using an Online Check. If it is not possible to identify any of the group entities using these sources then this must be discussed with the MLRO.</p> <p>Once you have checked the structure chart, you need to verify the identity of all of the UBOs – i.e. the bottom of the ownership chain.</p>

Entity type	Evidence required	Notes
	<p>Obtain the name, company number, registered office, or if different, principle place of business.</p> <p>You must obtain:</p> <ul style="list-style-type: none"> • Official evidence of a registered address. • Copy of documents required by law to form the company (and details of any change of name). • Certificate of 'good standing' from a lawyer. This needs to state that the company exists as a legal entity and has complied with all administrative requirements relating to its registration (including the payment of any government dues). • Copy of the register of shareholders/members and directors. • Confirmation from the company that the director we are dealing with is authorised on behalf of the company. This should be a written confirmation on company letterhead or a suitable board minute. <p>You must also</p> <ul style="list-style-type: none"> • verify the identity of the officer with whom you are dealing in relation to the transaction. • identify any ultimate beneficial owner being a living individual who owns 25% or more of the shares in the company or otherwise controls 25% or more of the company • take all reasonable steps to identify the law to which the entity and its constitution is subject, full names of the board of directors, or if there is no board the senior management and the senior person responsible for the operation of the entity. 	

Equality Impact Assessment
Corporate Assessment Template



Policy/Strategy/Project/Procedure/Service/Function Title: Anti-Money Laundering Policy
New/Existing/Updating/Amending: Update to replace the Money Laundering Policy and Procedure

Who is responsible for developing and implementing the Policy/Strategy/Project/Procedure/Service/Function?	
Name: Chris Pyke	Job Title: Audit Manager, Operational Manager
Service Team: Internal Audit	Service Area: Resources
Assessment Date: 05/02/2020	

1. What are the objectives of the Policy/Strategy/Project/ Procedure/ Service/Function?

The policy aims to protect the Council from fraud and money laundering activities and enables the Council to meet the legal requirements associated with Money Laundering Regulations, in a way that is proportionate to the Council’s risk of contravening the legislation.

The Council’s reputation is underpinned by ethical behaviour, financial probity and honesty. In carrying out its functions and responsibilities, the Council seeks to promote a culture of openness and fairness. Any cases of fraud, bribery, corruption or other dishonesty could adversely affect the Council’s reputation, and put its ability to achieve its policies and objectives at risk.

This policy is designed to ensure adequate safeguards and reporting arrangements, to prevent the Council from being used by third parties for money laundering.

2. Please provide background information on the Policy/Strategy/Project/Procedure/Service/Function and any research done [e.g. service users data against demographic statistics, similar EIAs done etc.]

Money laundering is the process of making money generated by a criminal activity, such as drug dealing or theft appear to have come from a legitimate source. The policy has been developed in line with associated legislation and regulations, namely:

- Terrorism Act 2000
- Anti-terrorism, Crime and Security Act 2001
- Proceeds of Crime Act 2002

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Equality Impact Assessment Corporate Assessment Template

- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
- The Money Laundering and Terrorist Financing (amendment) Regulations 2019

Criminals often seek to mask their identity by using complex and opaque ownership structures. The policy includes customer due diligence requirements to support the Council to know and understand a client's identity and business activities so that any money laundering risks can be properly managed. Effective customer due diligence is therefore, a key part of anti-money laundering defenses.

The level of due diligence required in the policy for money laundering purposes is to be achieved through a risk-based approach, through which the Council will be satisfied that we sufficiently identify:

- the identity of the client
- the beneficial owner
- Information on the intended purpose of the business relationship.

The customer verification requirements are included within the policy for individuals and businesses. Any impact on particular service users will be proportionate the level of risk associated in transacting with them, as defined in the due diligence and know your customer procedure included within the policy.

3 Assess Impact on the Protected Characteristics

3.1 Age

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative/]** on younger/older people?

	Yes	No	N/A
Up to 18 years			X
18 - 65 years			X
Over 65 years			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on age, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

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3.2 Disability

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on disabled people?

	Yes	No	N/A
Hearing Impairment			X
Physical Impairment			X
Visual Impairment			X
Learning Disability			X
Long-Standing Illness or Health Condition			X
Mental Health			X
Substance Misuse			X
Other			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on disability, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

3.3 Gender Reassignment

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on transgender people?

	Yes	No	N/A
Transgender People (People who are proposing to undergo, are undergoing, or have undergone a process [or part of a process] to reassign their sex by changing physiological or other attributes of sex)			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on gender reassignment, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

3.4. Marriage and Civil Partnership

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on marriage and civil partnership?

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**Equality Impact Assessment
Corporate Assessment Template**

	Yes	No	N/A
Marriage			X
Civil Partnership			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on marriage and civil partnership, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

3.5 Pregnancy and Maternity

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on pregnancy and maternity?

	Yes	No	N/A
Pregnancy			X
Maternity			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on pregnancy and maternity, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

3.6 Race

Will this Policy/Strategy/Project//Procedure/Service/Function have a **differential impact [positive/negative]** on the following groups?

	Yes	No	N/A
White			X
Mixed / Multiple Ethnic Groups			X
Asian / Asian British			X
Black / African / Caribbean / Black British			X
Other Ethnic Groups			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on race, but general actions have been set out to mitigate potential associated risks.

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Corporate Assessment Template**

What action(s) can you take to address the differential impact?
Please see general actions within section 5 - comments.

3.7 Religion, Belief or Non-Belief

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on people with different religions, beliefs or non-beliefs?

	Yes	No	N/A
Buddhist			X
Christian			X
Hindu			X
Humanist			X
Jewish			X
Muslim			X
Sikh			X
Other			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.
It is not anticipated that the policy will have a differential impact on religion, belief or non-belief, but general actions have been set out to mitigate potential associated risks.
What action(s) can you take to address the differential impact?
Please see general actions within section 5 - comments.

3.8 Sex

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on men and/or women?

	Yes	No	N/A
Men			X
Women			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.
It is not anticipated that the policy will have a differential impact on sex, but general actions have been set out to mitigate potential associated risks.
What action(s) can you take to address the differential impact?
Please see general actions within section 5 - comments.

3.9 Sexual Orientation

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on the following groups?

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	Yes	No	N/A
Bisexual			X
Gay Men			X
Gay Women/Lesbians			X
Heterosexual/Straight			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on sexual orientation, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

3.10 Welsh Language

Will this Policy/Strategy/Project/Procedure/Service/Function have a **differential impact [positive/negative]** on Welsh Language?

	Yes	No	N/A
Welsh Language			X

Please give details/consequences of the differential impact, and provide supporting evidence, if any.

It is not anticipated that the policy will have a differential impact on welsh language, but general actions have been set out to mitigate potential associated risks.

What action(s) can you take to address the differential impact?

Please see general actions within section 5 - comments.

4. Consultation and Engagement

What arrangements have been made to consult/engage with the various Equalities Groups?

A copy of the Anti-Money Laundering Policy and Equality Impact Assessment (EIA) was shared with the Equality Team.

A process of consultation and engagement will take place with Trade Unions.

5. Summary of Actions [Listed in the Sections above]

Groups	Actions
Age	Not applicable
Disability	Not applicable
Gender Reassignment	Not applicable
Marriage & Civil Partnership	Not applicable
Pregnancy & Maternity	Not applicable

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Race	Not applicable
Religion/Belief	Not applicable
Sex	Not applicable
Sexual Orientation	Not applicable
Welsh Language	Not applicable
Generic Over-Arching [applicable to all the above groups]	Not applicable

Comment	<p>This policy refresh relates to financial processes and addresses legislative changes in respect of money laundering / terrorist financing.</p> <p>There will be no adverse impact on any equality groups or protected characteristics, as the Anti-Money Laundering Policy supports the Council in its duty to protect public funds from illegal activity and to comply with legislation. In fact, deterrence of fraud can be of general benefit to all groups. Robust processes on deterring fraud will reinforce the integrity of the Council.</p> <p>An anti-money laundering eLearning module will be produced to provide training to key staff within the Council. Advice will be sought from the Equality Team, so that suitable guidance in respect reducing any potential negative impact on any of the equality groups is incorporated.</p>
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6. Further Action

Any recommendations for action that you plan to take as a result of this Equality Impact Assessment (listed in Summary of Actions) should be included as part of your Service Area's Business Plan to be monitored on a regular basis.

7. Authorisation

The Template should be completed by the Lead Officer of the identified Policy/Strategy/Project/Function and approved by the appropriate Manager in each Service Area.

Completed By : David Hexter	Date: 5 th February 2020
Designation: Group Auditor (Investigations)	
Approved By: Chris Pyke	
Designation: Audit Manager, Operational Manager	
Service Area:	Resources

7.1 On completion of this Assessment, please ensure that the Form is posted on your Directorate's Page on CIS - *Council Wide/Management Systems/Equality Impact Assessments* - so that there is a record of all assessments undertaken in the Council.

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**Equality Impact Assessment
Corporate Assessment Template**

For further information or assistance, please contact the Citizen Focus Team on 029 2087 2536 / 3262 or email equalityteam@cardiff.gov.uk

**CARDIFF COUNCIL
CYNGOR CAERDYDD****AUDIT COMMITTEE:****17 NOVEMBER 2020**

**TREASURY PERFORMANCE REPORT – POSITION AT 30
SEPTEMBER 2020****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 8.1**

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.

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for seeking assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.
2. This report has been prepared to provide Audit Committee Members with performance information and a position statement on Treasury Management as at 30 September 2020 – Appendix 1
3. Audit committee received a Treasury Management benchmarking report collated by officers in November 2019 which can support members in understanding the Council's investments and borrowing position.

Performance

4. At 30 September 2020, investments total £165.8 million. The investments arise as a result of timing of cash flows for the Council, but also include funds held on behalf of others primarily the Capital Cardiff Region City Deal. The level of cash balances at the start of the year diminish as the year progresses, however average cash balances are higher than normal in this period for a number of reasons as set out in the report to Audit Committee in September 2020 including those to mitigate against availability of funds at the start of the Covid 19 crisis.
5. The forecast level of interest receivable in 2020/21 from treasury investments as at Month 6 of the financial year is circa £380,000. This is based on current cash flow and interest rate assumptions and is lower than the initial estimate as a result of reduction in bank base rate since Covid 19 for new investments. The benchmark London Interbank Bid Rate (LIBID) for seven days is currently negative at minus 0.05%.

6. The level of borrowing is £828.2 million, with the average rate being 4.11%. The total interest forecast to be payable on borrowing at 31 July 2020 is £34.1 million and includes interest payable by the Housing Revenue Account.
7. The forecast level of internal borrowing at 31 March 2021 is £24 million, i.e. where temporary cash balances held by the Council are used to pay for capital expenditure. This is subject to the level of capital expenditure and funding of that expenditure at the end of the year as well as the quantum of external borrowing undertaken during the year.

Investments

8. Pages 2 and 3 of Appendix 1 considers 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.
9. The current investments list details each investment, the interest rate, the start date and maturity date. They also link this back to the credit criteria approved by Council in February 2020 by a colour coding which indicates the perceived strength of the organisation.
10. In order to support the treasury team to manage the level of funds and to mitigate against counterparty risk, the Council activated its use of the HM Treasury Debt Management Office (DMO) account at the end of March 2020. Opportunities continue to be considered to move away from retaining investment balances in the DMO and investing in deposits that result in a higher return, albeit at historically low levels.
11. 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.
12. 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.
 - **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 our approved criteria.
 - **Investments by Financial Sector.** The majority of investments are with the UK Government.

Borrowing

13. No new loans have been undertaken during the year to date. Loans for specific capital projects from Welsh Government and Salix are being considered subject to approval of these projects. This included loans for

energy efficiency and distribution projects as well as town centre loan schemes which may be received during the remainder of the year. Current assumptions are that the only loans that will be replaced are £20 million of short term maturing loans in January 2021, initially taken towards the acquisition of the Red Dragon Centre.

Reason for Report

14. To provide Audit Committee Members with a performance position statement at 30 September 2020.

Legal Implications

15. No direct legal implications arise from this report.

Financial Implications

16. Treasury management activities undertaken by the Council are governed by a range of policies, codes of practice and legislation. This report has no direct financial implications.

RECOMMENDATIONS

17. That the Treasury Performance Report for 30 September 2020 be noted.

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
9 November 2020

The following appendices are attached
Appendix 1 – Cardiff Council Treasury Management Performance Report – 30 September 2020

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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

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CARDIFF COUNCIL CYNGOR CAERDYDD

AUDIT COMMITTEE: 17 NOVEMBER 2020

TREASURY MANAGEMENT MID-YEAR REPORT 2020-21

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 8.2

Annexes B & C to Appendix 1 to this report are not for publication as they contain exempt information of the description in Paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To inform Audit Committee members of the Council's treasury management activities since 1 April 2020 and the position as at 30 September 2020.

Background

2. The Council's treasury management activities are governed by legislation and a Code of Practice developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) updated in 2017.

Issues

3. In the budget report of February 2010, Council adopted CIPFA's Treasury Management Code by formal acceptance of the Four Clauses of Treasury Management and Treasury Management Policy Statement as Council policy.
4. In accordance with these policies, this report provides members with a mid year update of Treasury Management activities as at 30 September 2020. This includes its borrowing and investments at a point in time.
5. 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.
6. The mid-year report and supporting Annexes are attached as Appendix 1 are to be considered by Council on 26 November 2020.

Reasons for Recommendations

7. Council policy requires the Treasury Management Mid-Year Report 2020-21 update to be submitted to Council.

Legal Implications

8. No direct legal implications arise from this report.

Financial Implications

9. The Council's treasury management activities are undertaken in accordance with the policies adopted by Council and under professional codes of conduct established by CIPFA, the Welsh Government and the Corporate Director Resources as part of Treasury Management Practices. This report is part of a suite of reports that members receive on the Council's treasury management activities during the course of a year. Whilst there are no direct financial implications arising from this report, the risks involved with treasury management are continuously reviewed in conjunction with the Council's treasury management advisors and forms part of the Council's Medium term Financial Plan.

RECOMMENDATIONS

That Audit Committee :-

Note the Treasury Management Mid-Year Report 2020-21 (Appendix 1)

CHRISTOPHER LEE
CORPORATE DIRECTOR RESOURCES
10 November 2020

The following Appendix is attached:-

Appendix 1: Treasury Management Mid-Year Report 2020-21
Annexe A – Treasury Management Policy Extract
Annexe B – Investments at 30 September 2020
Annexe C – Investment Charts at 30 September 2020
Annexe D – Maturity Analysis of borrowing as at 30 September 2020
Annexe E – Glossary of Treasury Management terms

Treasury Management Mid-Year Report

2020-21



Introduction

- 1.1 Treasury management activities are the management of an organisation's borrowing, 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.
- 1.2 The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice for public services, updated by CIPFA in 2017. This requires the Council to set out the policies and objectives of its treasury management activities and adopt four Clauses of Treasury Management (replicated in **Annexe A**).
- 1.3 Council received a report in February 2020 on the Council's Treasury Management and Capital Strategy for 2020/21. During 2020/21, Audit Committee has received periodic updates on the position and performance of treasury management and the issues included in the report below. In addition Council received in October 2020 the Annual Outturn Report for treasury management for 2019/20.
- 1.4 In accordance with Council policy, this report provides members with a mid-year update as at 30 September 2020 and covers:-
 - the economic background to treasury activities
 - investments
 - borrowing
 - debt rescheduling
 - compliance with treasury limits and prudential indicators
 - Treasury Strategy update for remainder of the year.
- 1.5 Annexe E includes a glossary which defines key terms used in this report.

Economic Background

- 2.1 The coronavirus outbreak has resulted in huge economic damage to the UK and economies around the world. As a result of Covid 19, the fall in UK growth for the first half of the year as measured by Gross Domestic Product (GDP) was 22%. Equity markets initially fell, but over the last few months have recovered some of those losses. Unemployment is expected to continue to increase as furlough ends, with inflation impacts currently projected to be minimal and only above its 2% target in 2023. Bank of England Base rate was reduced to 0.10 % and whilst the Bank initially quashed the idea of negative interest rates, this remains an option if deemed a useful tool to stimulate the economy. In the short term however the Bank has agreed to increase its quantitative easing programme from £745 billion, by a further £150 billion, but also acknowledged the difficulty in medium term forecasting as a result of the impact of second waves of the virus, longer term adjustments impacting on certain sectors of the economy, consumer caution in spending and also the uncertain impact of UK/EU trade

negotiations. Indications overall suggest the pace of recovery will not be a rapid V shape, but a more elongated and prolonged one.

- 2.2 With these factors in mind, the table below shows the Council’s treasury management advisors latest forecast for bank rate and Public Works Loan Board (PWLB) borrowing rates, based on their current lending policy. No increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

	Actual 30/09/2020	March 2021	March 2022	March 2023
Bank Rate	0.10%	0.10%	0.10%	0.10%
5yr PWLB rate	1.74%	2.00%	2.00%	2.10%
10yr PWLB rate	2.02%	2.10%	2.20%	2.30%
25yr PWLB rate	2.56%	2.50%	2.60%	2.70%
50yr PWLB rate	2.40%	2.30%	2.40%	2.50%

- 2.3 PWLB rates are based on gilt (UK Government bonds) yields, however HM Treasury determine a specified margin to add to gilt yields for any local authority borrowing. UK Government Bond yields were on a falling trend during 2019/20 and for periods up to 10 years have fallen to unprecedented lows with negative yields in the shorter periods.

- 2.4 From the local authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for borrowing in relation to housing on 11 March 2020, but not for mainstream General Fund capital schemes. It also announced and undertook a consultation, on possibly further amending these margins, which closed on 31 July 2020. Revised lending policies are expected to be announced by the end of the financial year, however what appears clear is that HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial investments if the aim is solely to generate an income stream (assets for yield).

- 2.5 Having met eligibility requirements of the PWLB, the Council is entitled to undertake borrowing at a ‘certainty rate’, i.e. a discount of 0.20% from PWLB ‘standard rates’. Following the changes on 11 March 2020 in margins over gilt yields, the current PWLB borrowing policy that would apply for Cardiff is as follows:

- PWLB Certainty Rate is gilt plus 180 basis points
- PWLB HRA Certainty Rate is gilt plus 80bps

- 2.6 The PWLB rate forecasts in the above table are based on the non HRA certainty rate (Gilts + 180 basis points) and shows that there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the

momentum they have lost in the sharp recession caused during the coronavirus shut down period. This is against a background of increasing national debt, which would normally result in increasing rates for borrowing.

Investment

- 3.1 The management of the Council's cash flows may involve temporary lending of surplus funds to low risk counterparties or temporary borrowing pending receipt of income.
- 3.2 The Council's investment priorities remain the security and then liquidity of its Treasury investments. The Council also aims to achieve the optimum return appropriate to these priorities.
- 3.3 The Council invests with financial institutions in accordance with criteria approved in its Treasury Strategy. The categories, names, periods and size limits on this list can be extended, varied or restricted at any time by the Corporate Director Resources under delegated powers. Based primarily on Fitch credit criteria and a number of other factors which the Council takes into account, lending to these institutions is subject to time and size limits and credit worthiness continues to be carefully monitored.
- 3.4 There have been no changes made or required to be made to the list of eligible counterparties included as part of the 2020/21 Treasury Management Strategy approved by Council, but these will continue to be reviewed using data from Treasury advisors and will be updated in the 2021/22 Strategy. Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks.
- 3.5 Following the introduction of The Markets in Financial Instruments Directive (MiFID) in January 2018, the Council opts to be classified as a professional client rather than a retail client by financial institutions.
- 3.6 Investments returns are likely to remain negligible during 2020 and in many cases market rates on deposits are currently negative for shorter periods. It is now impossible to earn the level of interest rates on deposits commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current 31 March 2023, investment returns are expected to remain low. The approach of deferring external borrowing by using temporary cash balances will continue to be used as part of the strategy.
- 3.7 At the 30 September 2020, investments stood at £165.8 million. These temporary funds fluctuate daily and arise for a number of reasons, including

the timing differences between the receipt of grant and other income and the utilisation of these funds on salaries and other operating costs. They also include the level of reserves, provisions, and other balances. It is also affected by the timing of borrowing and capital expenditure transactions. The annual Outturn report for 2019/20, set out some of the reasons for higher temporary cash balances in the first half of the year such as receipt of grant funding from central government in advance as a result of Covid 19. **Annexe B** shows with whom these investments were held as at 30 September 2020. All investments are deemed recoverable.

3.8 A selection of performance indicators and benchmarking charts, is included in **Annexe C** as follows:-

- **Counterparty exposure** displays actual investment against the maximum permitted directly with an organisation. This demonstrates that we are not exceeding any exposure limits. As a response to the Covid crises, the Council activated use of the HM Treasury's Debt Management Office account in order to support the treasury team to manage the level of funds and to mitigate against counterparty risk. Options for reducing the use of the account will continue to be considered in the latter half of the year particularly to avoid any negative rates.
- **Remaining maturity profile of investments.** This shows the duration of investments over time. The Council will take advantage of longer term rates where reasonable to do so.
- **Investments by institution.** This expresses the investments held with different institutions as a percentage of the total and shows diversification is sought where possible.
- **Geographic spread of investments** as determined by the country of origin of relevant organisations. All countries are rated AA and above as per our approved criteria and are licensed to take UK deposits. Investments are in Sterling only.
- **Investments by Financial Sector.** The majority of investments continue to be with banks.

3.9 Whilst a difficult figure to forecast due to the uncertainty of the markets, cash flows and the number of variables that impact on the figure, the forecast level of interest receivable from treasury investments for 2020/21 is £380,000. The return achieved since the start of the year is 0.27% compared to the average of the benchmark rate since the 1st April for the 7 day London Interbank Bid Rate (LIBID) of -0.05% and 3 month LIBID 0.11%. This positive performance is primarily as a result of deposits placed at higher rates prior to the reduction in investment deposit rates.

Borrowing

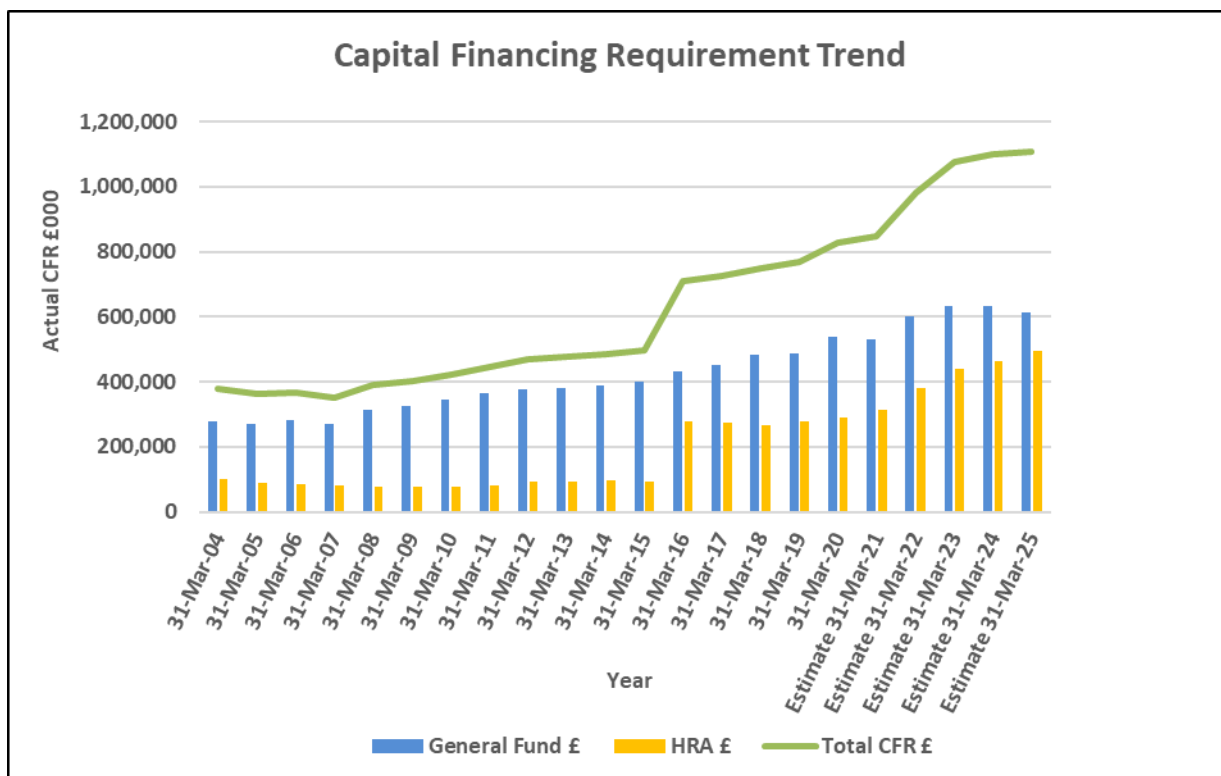
4.1 Long term borrowing is undertaken to finance the Council's Capital Programme and the main sources of borrowing currently are the PWLB and the Money Markets. The Council does not separate General Fund and

Housing Revenue Account borrowing as all borrowing is the liability of the Council i.e. borrowing is 'pooled'.

- 4.2 Where capital expenditure has been incurred without a resource to pay for it i.e. when proposed to be paid for by supported or unsupported borrowing, this will increase what is termed the Council's Capital Financing Requirement (CFR) which is the Council's underlying need to borrow. The Council is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed policy. This reduces the CFR and the policy in respect to provision in relation to supported borrowing was changed in the 2020/21 budget and applied retrospectively to the 2019/20 financial year. Calculation of the CFR is summarised in the table below and results in the need to borrow money.

Movement	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts used for capital expenditure
-	Prudent Minimum Revenue Provision and Voluntary Repayment
=	Closing Capital Financing Requirement (CFR)

- 4.3 The CFR forecast is subject to the timing of capital expenditure, capital receipts and new schemes that may be considered for approval in future years. It can be seen that the Council's underlying need to borrow is increasing and will need to be repaid from future revenue budgets either from savings, revenue income or Council Tax and Housing Rents.
- 4.4 The historic trend in the CFR is shown in the chart below, with the increase in 2015/16 reflecting the Housing Revenue Account subsidy buyout. Increases in the Capital Financing requirement for future years reflect assumptions made in the 2020/21 budget and to be updated in the budget report of February 2021 and include investment in the delivery of new affordable housing.



4.5 At 30 September 2020, the Council had £828.2 million of external borrowing predominantly made up of fixed interest rate borrowing payable on maturity.

31 March 2020			30 September 2020	
£m	Rate (%)		£m	Rate (%)
698.9		Public Works Loan Board	698.9	
51.0		Market (Lender Option Borrower Option)	51.0	
16.1		Welsh Government	16.1	
58.3		Local Authorities	58.3	
4.5		Other	3.9	
828.8	4.11	Total External Debt	828.2	4.11

The estimated total interest payable on borrowing for 2020/21 is £34.1 million which includes interest payable by the Housing Revenue Account.

New borrowing undertaken during the first half of the year

4.6 No new borrowing has been taken in the period to 30 September 2020.

Maturing Loans in year to date

- 4.7 **Annexe D** shows the maturity profile of the Council's borrowing as at 30 September 2020. Loans of £0.6 million have been repaid in the first half of this year, a further £20.7 million is due to be repaid by 31 March 2021.
- 4.8 (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 without penalty.
- 4.9 The Council has six such loans totalling £51 million. Apart from the option to increase rates, these loans are comparable to PWLB and have no other complications such as variation in interest rates or complex terms.
- 4.10 Interest rates on these loans range between 3.81% and 4.35% which are not unreasonable and are below the Council's average rate of interest payable. Details of the loans are shown in the table below.

£m	Rate	Potential Repayment Date	Option Frequency	Full Term Maturity
6	4.28%	21/11/2020	6 months	21/11/2041
6	4.35%	21/11/2020	6 months	21/11/2041
6	4.06%	21/11/2020	6 months	23/05/2067
6	4.08%	01/03/2020	6 months	23/05/2067
22	3.81%	21/11/2020	5 years	23/11/2065
5	4.10%	16/01/2023	5 years	17/01/2078

- 4.11 LOBO's to the value of £24 million are subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £22 million has an option during this financial year, which could trigger early repayment. This is deemed unlikely and any risk is a manageable refinancing risk as LOBOs in total, form a relatively low proportion of the Council's overall borrowing at 6.16%.

Borrowing Strategy

- 4.12 As shown in the interest rate forecasts set out earlier in this report, borrowing rates are higher than investment rates which means that the cost of undertaking new borrowing would have a negative impact on the revenue budget. External borrowing may be deferred in order to minimise short term costs by using temporary cash balances to meet the Capital Financing Requirement rather than placing in an investment. This is termed 'internal borrowing'. However deferring borrowing is only a short term measure and could expose the Council to higher borrowing rates and costs in the future. The Council has taken an approach of regularly undertaking external

borrowing for an element of any borrowing requirement to mitigate any such risk.

- 4.13 If no further borrowing is undertaken, the value of external loans at 31 March 2021 will be £808 million. At the same point, the Council's need to borrow for capital expenditure purposes, its Capital Financing Requirement (CFR), is currently forecast to be circa £852 million (General Fund £538 million and HRA £314 million). The Council will consider options in respect to any maturing loans in the last quarter of the financial year. Without any further borrowing this financial year internal borrowing would be £44 million.
- 4.14 The Council is also considering a number of projects that involve the Welsh Government providing interest free loans to the Council to undertake specified projects such as town centre loans and energy projects. Welsh Government take no risk in such projects and expect all loans to be repaid. Where the Council is taking on specific loans for the delivery of specified projects, robust business case processes and legal charges if appropriate should be in place to ensure any loans can be repaid following implementation of projects.

Debt Rescheduling

- 5.1 No debt rescheduling or early repayment of debt has been undertaken to date in 2020/21. The main obstacle remains the level of premium (penalty) that would be chargeable on early repayment by the PWLB. Of the existing PWLB loans of £699 million, £664 million are eligible for early repayment. However this would incur a premium of £625 million as at 30 September 2020. This premium is payable primarily because:
- Interest rates on loans of equivalent maturities compared to those held are currently lower
 - A penalty rate or lower early repayment rate was introduced by HM Treasury in November 2007, which increased the cost of premiums and reduced the flexibility of Local Authorities to make savings. This remains an obstacle in the ability of local authorities to manage debt more effectively.
- 5.2 Whilst the cost of Premiums can be spread over future years, options for restructuring that have been considered result in an adverse Net Present Value (NPV). Whilst there may have been short terms savings, these were outweighed by potentially longer term costs and not deemed cost effective.

Compliance with treasury limits and prudential indicators

- 6.1 During the financial year to date, the Council has operated within the treasury limits and prudential indicators set out in the annual Treasury Management Strategy in February 2020. The treasury and capital prudential indicators will be updated as part of the 2021/22 Capital and Treasury Strategies in the Budget Report to Council in February 2021. Affordability of

additional investment will need to be monitored closely as part of the Treasury Strategy and HRA Business Planning process.

Treasury strategy for the remainder of 2020/21

- 7.1 The Treasury Strategy approved in February 2020 remains valid despite the impact of Covid-19 and continued uncertainty in financial markets. The 7 day and 3 month LIBID investment rates are currently negative and the likelihood is they may remain so for a significant period. The use of temporary cash balances instead of borrowing to pay for capital expenditure continues will continue to result in short term savings, however with the outcome of the consultation on PWLB lending policy being unknown, consideration will need to be given to understanding the merits of alternative borrowing options such as bonds in meeting and diversifying the Council's borrowing requirement for the capital programme and major projects.
- 7.2 The Council will continue to look for good quality investment counterparties, where the focus remains security, liquidity and risk in that order, whilst trying avoid negative interest rates where possible. In addition, LIBOR which is used to derive LIBID will be phased out in 2021, so options will need to be considered to change the Investment Benchmark. These impact of these issues will be considered in the Treasury Management Strategy report to Council in February 2021.

Annexes

Annexe A – Treasury Management Policy and Four Clauses of Treasury Management

Annexe B – Investments at 30 September 2020

Annexe C – Investment Charts at 30 September 2020

Annexe D – Maturity Analysis of Borrowing as at 30 September 2020

Annexe E – Glossary of Treasury Management terms

Treasury Management Policy and Four Clauses of Treasury Management adopted by Council 25/02/2010

Council's treasury management Policy / Activities

1. This Council defines its treasury management activities as: the management of its 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.
2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications.
3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Four Clauses of Treasury Management

4. 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 (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
5. 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 the year's close, in the form prescribed in its TMPs.
6. 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 Executive, 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 Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

7. 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 Panel due to the technical nature of the documents.

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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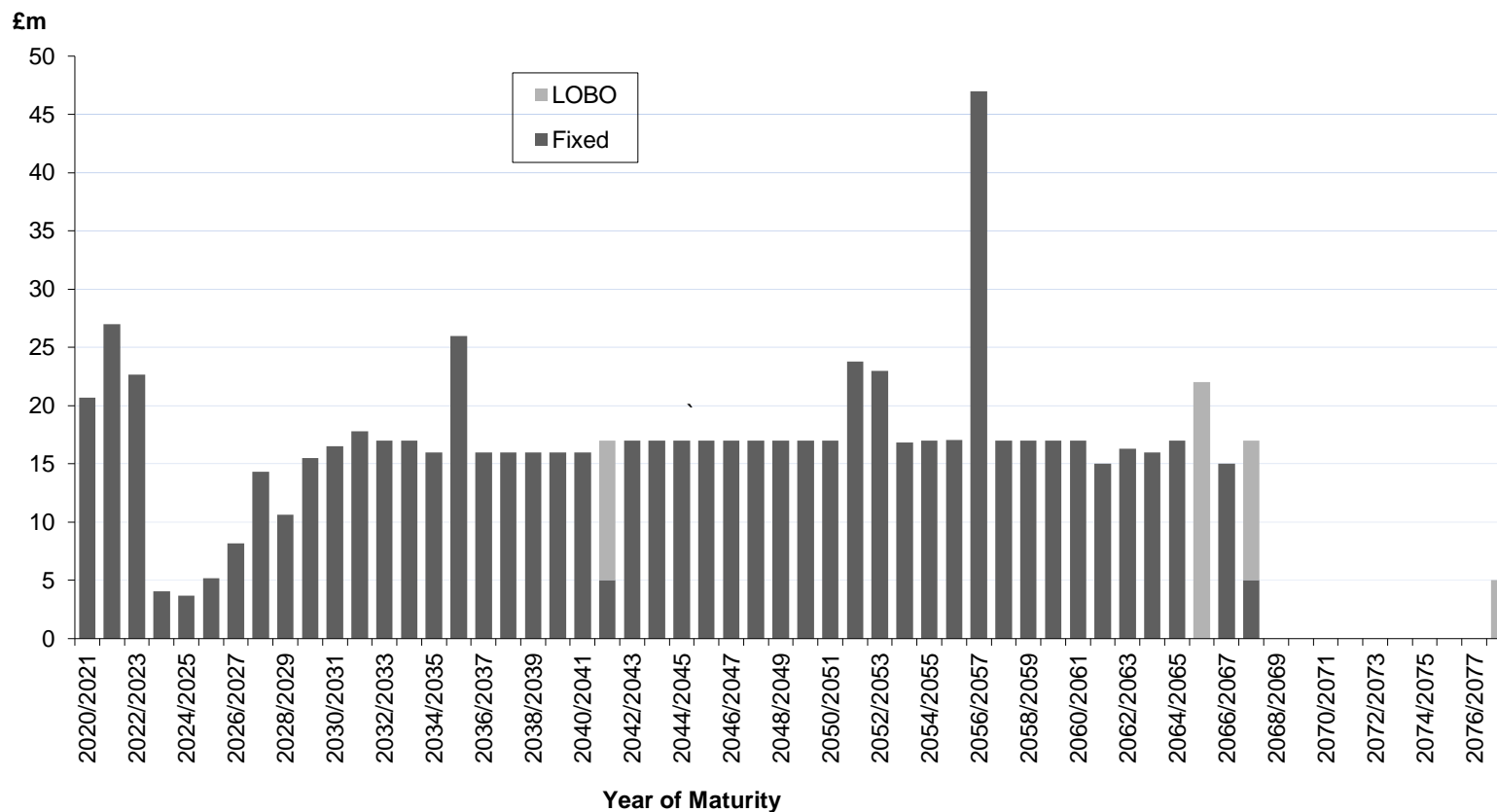
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By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

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Maturity Profile of Debt at 30 September 2020



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Glossary of Terms - Treasury

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)

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.

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).

Capital Programme

The Capital Programme sets out the Council's capital expenditure plans for the forthcoming financial year as well as for the medium term. It is approved annually at Council and identifies the estimated cost of those schemes, their

projected phasing over financial years as well as the method of funding such expenditure.

Certificates of Deposits (CDs)

A certificate issued for deposits made at a deposit-taking institution (generally a bank). The bank agrees to pay a fixed interest rate for the specified period of time, and repays the principal at maturity. CDs can be purchased directly from the banking institution or through a securities broker. An active interbank secondary market exists to buy and sell CDs.

Chartered Institute of Public Finance & Accountancy (CIPFA)

CIPFA is the professional body for accountants in public finance. As a specialised public services body, it provides information, guidance, and determines accounting standards and reporting standards to be followed by Local Government.

Collective Investment Scheme Structures

Schemes whereby monies from a number of investors are pooled and invested as one portfolio in accordance with pre-determined objectives.

Corporate Bonds

Bonds that are issued by a company or other non-government issuers. They represent a form of corporate debt finance and are an alternative means of raising new capital other than equity finance or bank lending.

Counterparty

One of the parties involved in a financial transaction with whom the Council may place investments.

Counterparty / Credit Risk

Risk that a counterparty fails to meet its contractual obligations to the Council to repay sums invested.

Credit Criteria

The parameters used as a starting point in considering with whom the Council may place investments, aimed at ensuring the security of the sums invested.

Credit Default Swaps

A financial transaction which the buyer transfers the credit risk related to a debt security to the seller, who receives a series of fees for assuming this risk. The levels of fees reflect the perceived level of risk.

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.

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.

Medium Term Financial Plan

Plan outlining the financial strategies and actions that are envisaged by the Council in the medium term regarding the budget.

Markets in Financial Instruments Directive (MiFID)

EU legislation that regulates firms who provide financial instrument services. MiFID was applied in the UK from November 2007, but was revised with changes taking effect from 3 January 2018 (MiFID II).

The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional'.

MiFID II requires all Local Authorities to be initially treated as "retail clients" unless they "opt up" to a "professional client". The assumption being that retail clients require a greater level of due diligence and support for investment decision making. Financial institutions will owe a greater duty of care to retail clients, however, they will have no greater financial protection than professional clients.

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 (CNAV) are those where the sum invested is the same on maturity, Low Volatility Net Asset Value (LVNAV) are those where any sum invested is likely to be the same on maturity. Funds with a Variable Net Asset Value (VNAV) 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 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.

Ring Fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

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

The management of the organisation's borrowing, 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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Audit Committee Action Plan(Updated following meetings held on 8 September & 20 October 2020)

Minute No. /Agenda No.	Actions	Timeline	Action Owner
Finance (Budget)			
20.10.20	Audit Committee to receive the main narrative and numerical presentation adjustments throughout the accounts as highlighted by Audit Wales in Appendix 3 of in the ISA 260 (Audit of Accounts Report 2019/20 – The County Council of the City and County of Cardiff)		AH
20.10.20	Following the 19/20 year end stock check, Audit Committee to receive a briefing on the stock held by Cardiff Harbour Authority and the process for recording and verifying stock.		AH
08.09.20	Finance Officers to review / clarify the wording used to categorise exit packages (compulsory, voluntary and other) in the table within section 8.4 of the Statement of Accounts	Completed (narrative updated in accounts)	AH
08.09.20	Audit Committee to receive the policy requirements for severance considerations and approval.		AH
08.09.20	The Committee agreed that the Chairperson, in consultation with officers, will decide whether the audited statements will, prior to being presented to Council, be presented at an special meeting of the Audit Committee or be sent electronically to the Committee in October along with the final audit reports for comment.	Completed (Special meeting held on 20 October 2020)	DHT
Governance & Risk Management			
21.01.20	Audit Committee to receive information on the process and timescale for developing any guidance in relation to the Local Government and Elections (Wales) Bill, if and when they emerge.		CP
21.01.20	The Head of Finance to provide an aggregated action plan of the future generation significant governance issue responses from directorates.		IA
28.07.20	A future risk management update, to provide more information on the operation of risk management practices in the current environment.	17.11.20	IA
Audit Wales (AW)			
28.07.20	Audit Wales to provide a breakdown of the budgeted staffing levels and costs, which make up their audit fee for the Committee meeting on 8 September 2020, and for this to be included in the Annual Audit Plan report going forward.	Completed 01.09.20	A-MH
Internal Audit			
25.06.19	Audit Manager to meet with Corporate Communications Officers, to consider opportunities to communicate the outcomes of Internal Audit, and its work more widely.	Ongoing Discussions ongoing	CP

Minute No. /Agenda No.	Actions	Timeline	Action Owner
28.07.20	The Audit Manager to check the core cities comparative 'chargeable' benchmarking value, and to correct in the event of a typo.	Completed 05.08.20	CP
Treasury Management			
25.06.19	The Operational Manager, Capital, Corporate & Treasury to: <ul style="list-style-type: none"> prepare a note for a future Audit Committee meeting on the nature of treasury management investments and risks, including the approach to ethical investments, and to; consider ways of providing wider information and context in relation to borrowing activities in future treasury performance management reports to the Audit Committee. 	Ongoing Point 1 Actioned via the TM Strategy for 2020/21, and in the Benchmarking report in November 2019. Point 2 Actioned and ongoing.	AH
Operational Items			
28.07.20	The recommendation raised in respect of coastal risk management to be closed; with no further follow up actions required at present.	Completed 28.07.20	
02.04.19	Once disciplinary procedures have concluded within the Waste Management Service, Audit Committee to be informed of the terms of reference and approach for delivering the associated Post Investigation Review.		
28.07.20	The report from the Director of PTE on the monitoring of particulate matter to be re-circulated, and Members to consider if any further information is required.	Completed 04.08.20	CP
28.07.20	Audit Committee to receive a confidential briefing in respect of 'fly tipping'.	Completed 03.9.20	CP
28.07.20	Audit Committee to engage with the Director of Education and Lifelong Learning as part of its work programme.		
Work Programme			
10.09.19	The Chair to consider the Audit Committee work programme with regards to receiving ongoing assurance in respect of Brexit.	Ongoing	DHT
AW Tracker/Other Studies			
12.11.19	Audit Manager to request that, subject to report and meeting timings, management responses accompany the presentation of AW assessments in future Committee meetings.	Completed (Noted and ongoing)	CP
Outstanding Actions			
Correspondence			
08.09.20	The Committee requested that at least annually, Audit Committee to receive a listing of forthcoming external assurance / regulatory / inspection reports, the assurance ratings of reports received, and an indication of progress in the delivery of improvement actions.		
Scrutiny Letters			

1. Current Work Programme 2020/21:

Area	Tuesday 28.07.20 at 2pm (Remote Meeting)	Tuesday 08.09.20 at 2pm (Remote Meeting)	Tuesday 20.10.20 Special Audit Committee Meeting	Tuesday 17.11.20 at 2pm (Remote Meeting)	Tuesday 26.01.21 at 2pm (Remote Meeting)	Tuesday 23.03.21 at 2pm (Remote Meeting)	Tuesday 08.06.21 at 2pm - TBC
Audit Wales (AW)		Draft Statement of Accounts 2019/20 for Cardiff Council including; Cardiff Harbour Authority and Trust Funds	Audit of Accounts Reports (ISA 260) For Financial Year 2019/20		Annual Audit Summary Report (formerly known as Annual Improvement Report)	Annual Audit Plan 2021	
		Draft Statement of Accounts 2019/20 for Cardiff & Vale of Glamorgan Pension Fund				Cardiff & Vale Pension Fund Audit Plan 2021	
	AW Activity/Report Progress Update	AW Activity/Report Progress Update			AW Activity/Report Progress Update	AW Activity/Report Progress Update	AW Activity/Report Progress Update
Treasury Management		Performance Report		Performance Report	Performance Report	Performance Report	Performance Report
		Annual Report		Half Year Report	Draft Strategy 2021/22	Treasury Management Practices	
Finance	Financial Update including Resilience Issues	Financial Update including Resilience Issues		Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues	Financial Update including Resilience Issues
		Draft Statement of Accounts 2019/20		Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic: AW Report & Cardiff Council Management Response		Statement of Accounts 2020/21: Accounting Policies and Timescales	Draft Statement of Accounts 2020/21 (including the AGS)
				Commercialisation in Local Government: AW Report & Cardiff Council Management Response			
Internal Audit	Audit and Investigation Team - Progress Update	Counter-Fraud Annual Report 2019/20		Audit and Investigation Team - Progress Update	Audit and Investigation Team - Progress Update	Audit and Investigation Team - Progress Update	Audit and Investigation Team - Progress Update
	Internal Audit Annual Report 2019/20	Counter-Fraud AW National Report: 'Raising Our Game - Tackling Fraud in Wales' – & Cardiff Council Management Response			Draft Audit Charter and Draft Summary Audit Plan 2021/22	Audit Charter and Audit Plan 2021/22	Internal Audit Annual Report 2020-21
Governance and Risk Management	Audit Committee Annual Report 2019/20						Audit Committee Annual Report 2020/21
	Draft Annual Governance Statement 2019/20					Draft Audit Committee Self-Assessment Feedback/Action Plan	
	Senior Management Assurance Statement Review 2019/20				Senior Management Assurance Statement and AGS Action Plan 20/21 (Mid-Year)	Draft Annual Governance Statement (AGS) 2020/21	Senior Management Assurance Statement Review 20/21
	Corporate Risk Management Year-End			Corporate Risk Management 2020/21 (Mid-Year)		Corporate Risk Management (Quarter 3)	Corporate Risk Management (Year-End)
Operational Matters / Key Risks / Other				Ian Arundale – Leave of Absence Request	TBC - Director – Update on Directorate Control Environment	TBC - Chief Executive – Update on the Council's Control Environment	TBC - Director – Update on Directorate Control Environment
				Audit Committee Meeting Times		TBC - Director – Update on Directorate Control Environment	

2. Matters to be addressed outside of formal Audit Committee meetings during 2020/21:

Audit Committee <ul style="list-style-type: none"> Annual self-assessment workshop (26.01.2021) Training and development sessions. 	General <ul style="list-style-type: none"> Correspondence, publications and reports for information purposes Time sensitive consultation. 	Director / Senior Officer Assurance <ul style="list-style-type: none"> Use of letters, correspondence, and video / telephone meetings as necessary.
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