



Dinas a Sir Abertawe

Hysbysiad o Gyfarfod

Fe'ch gwahoddir i gyfarfod

Pwyllgor Archwilio

Lleoliad: Ystafell Bwyllgor 5 - Neuadd y Ddinas, Abertawe

Dyddiad: Dydd Mawrth, 12 Rhagfyr 2017

Amser: 2.00 pm

Cadeirydd: Mr Alan M Thomas

Aelodaeth:

Cynghorwyr: C Anderson, T J Hennegan, P R Hood-Williams, B Hopkins,
O G James, L James, P Jones, J W Jones, M B Lewis, S Pritchard, W G Thomas,
L V Walton a/ac T M White

Agenda

Rhif y Dudalen.

- 1 Ymddiheuriadau am absenoldeb.**
- 2 Datgeliadau o fuddiannau personol a rhagfarnol.**
www.abertawe.gov.uk/DatgeliadauBuddiannau
- 3 Cofnodion.** **1 - 4**
Cymeradwyo a llofnodi, fel cofnod cywir, gofnodion y cyfarfod(ydd) blaenorol.
- 4 Swyddfa Archwilio Cymru - Llythyr Archwilio Blynyddol.** **5 - 7**
- 5 Adroddiad Diweddaraf Swyddfa Archwilio Cymru.** **8 - 12**
- 6 Swyddfa Archwilio Cymru - Llywodraethu Da wrth Benderfynu ar Newidiadau Sylweddol i Wasanaethau - Cyngor Dinas a Sir Abertawe.** **13 - 24**
- 7 Adolygiad o Adroddiad Refeniw Wrth Gefn 2016/17. (Er Gwybodaeth)** **25 - 51**
- 8 Adroddiad Blynyddol Rheoli'r Trysorlys 2016/17 a Diweddariad Rheoli'r Gyllideb. (Er Gwybodaeth)** **52 - 71**
- 9 Adroddiad Monitro Archwiliad Mewnol Ail Chwarter 2017/18.** **72 - 82**

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| 11 | Adroddiad Olrhain Camau Gweithredu'r Pwyllgor Archwilio. (Er Gwybodaeth) | 92 - 100 |
| 12 | Cynllun Gwaith y Pwyllgor Archwilio. (Er Gwybodaeth) | 101 - 104 |

Cyfarfod nesaf: Dydd Mawrth, 13 Chwefror 2018 ar 2.00 pm

Huw Evans

Huw Evans
Pennaeth Gwasanaethau Democrataidd
Dydd Mawrth, 5 Rhagfyr 2017

Cyswllt: Gwasanaethau Democrataidd: - 636923

Agenda Item 3



City and County of Swansea

Minutes of the **Audit Committee**

Committee Room 5, Guildhall, Swansea - Guildhall, Swansea

Thursday, 9 November 2017 at 10.00 am

Present: Councillor L James (Vice-Chair) presided

Councillor(s)

P R Hood-Williams
P Jones
S Pritchard

Councillor(s)

O G James
J W Jones
W G Thomas

Councillor(s)

M B Lewis
L V Walton

Officer(s)

Simon Cockings
Tal Davies
Jeremy Parkhouse
Sandie Richards
Richard Rowlands

Chief Auditor
Corporate Fraud Manager
Democratic Services Officer
Principal Lawyer
Strategic Delivery & Performance Manager.

Apologies for Absence

Councillor(s): B Hopkins and T M White
Independent Member(s): Mr A M Thomas

39 Disclosures of Personal and Prejudicial Interests.

In accordance with the Code of Conduct adopted by the City and County of Swansea, NO interests were declared.

40 Minutes.

Resolved that the Minutes of the previous meeting of the Audit Committee were approved as a correct record, subject to the following amendments: -

Add Geraint Norman and David Williams, Wales Audit Office to the list of attendees.

41 Scrutiny Annual Report - Chair of Scrutiny Programme Committee - Councillor Mary Jones.

Councillor M H Jones, Chair of the Scrutiny Programme Committee provided a report on the work of scrutiny for the Municipal year 2016-17 and highlighted scrutiny activities planned for 2017/18. The report was provided in order to share information that will help develop the relationship between Scrutiny and the Audit Committee.

She praised the work of Dave McKenna, Scrutiny Manager, who left the Authority in July 2017 and the work of the Scrutiny Team.

She highlighted the work of Scrutiny throughout the year, referring to the following: -

- The work carried out by Scrutiny;
- Show how Scrutiny had made a difference;
- Support continuous improvement for the Scrutiny function;
- Staff understanding of Scrutiny;
- Pre-decision Scrutiny undertaken, especially in relation to Commissioning Reviews and engagement with the public;
- The need for better communication and to improve engagement.

The Committee asked questions of the Chair of Scrutiny, who responded accordingly. The following was discussed: -

- Scrutiny recommendations that were fully or partially accepted;
- The drop in the number of staff who agreed that Scrutiny arrangements were working well;
- Involvement of the Wales Audit Office in monitoring Scrutiny reports;
- Loss of experienced staff and lack of resources for Scrutiny.

The Chair thanked the Chair of Scrutiny for providing the report.

Resolved that the contents of the report be noted.

42 Counter Fraud Training.

The Corporate Fraud Manager provided a detailed and informative training presentation on Counter Fraud. Details provided included: -

- Corporate responsibility - Statutory duty;
- Corporate Responsibility - Constitutional duty;
- Financial Procedure Rules (FPR);
 - FPR 1 - Role & scope of FPR's;
 - FPR 2 - Reasonable actions, training and awareness, compliance;
 - FPR 3 - Financial management responsibilities;
 - FPR 12 - Internal Audit;
- Corporate Fraud Team – background, Tackling Fraud Strategy, remit, aims, contact details.

The Committee asked questions in relation to the training presentation which were responded to by the Officer.

Resolved that the content of the training presentation be noted.

43 Status Update - Wales Audit Office Proposals for Improvement.

The Performance & Delivery Manager provided a report that presented an overview of the status of Swansea Council's response to proposals for improvement made by the Wales Audit Office to provide assurance to the Committee on progress.

Appendix A provided the Wales Audit Office Proposals for Improvement: Status update report.

The Committee asked questions regarding the following: -

- Improving service business planning;
- Ensuring timescales for the delivery of specific savings proposals were realistic and act to drive delivery;
- Ensuring responsibility for delivery of planned savings be assigned to specific managers' services;
- Ensuring that records of delegated decisions made by Officers were accurately recorded.

Resolved that the contents of the report be noted.

44 Overview of the Status of Corporate Risks.

The Performance & Delivery Manager provided a report that presented an overview of the status of Corporate Risks to provide assurance to the Committee on the effectiveness of the risk management policy and framework and its operation within the Council. The report provided a snapshot of the Council's Corporate Risk Register taken at 22/05/17 with another snapshot taken on 03/10/17.

It was added that a review of risk and the Council's risk registers was underway following the approval of a new risk policy and framework by Cabinet and the publication of the Corporate Plan 2017/22. As a result, subsequent reports would describe the wider and overall status of risk within the Council. The next report would cover Quarter 3 2017/18 and would appear every quarter thereafter.

The Committee discussed the following: -

- Financial risks including safeguarding, Sustainable Swansea and financial control;
- Budget control and monitoring;
- Matters beyond the control of the Authority and being aware of risks;
- Assessing impact against risk;
- Reputation of the Authority and financial risk;
- The delay in reviewing and Member access to the Risk Register.

Resolved that the contents of the report be noted.

45 Wales Audit Office Update Report.

Geraint Norman, Wales Audit Office presented Wales Audit Office Update Report – November 2017.

Details provided included Financial Audit Work and Pension Fund Audit Work 2016-17 – City & County of Swansea and Performance Audit work.

The Committee commented regarding fees paid by the Pension Fund and Wellbeing and Future Generations Act Year one commentary.

Resolved that the contents of the report be noted.

46 Audit Committee Performance Review Action Plan 2016/17 - Update.

The Chief Auditor presented a report that provided an update following the Audit Committee Performance Review 2016/17. A summary of the key findings that came out of the performance review was provided at Appendix 1.

Progress to date included periodic updates on risk management from the Business Performance Manager being added to the Committee Workplan; the Committee receiving Risk Management Training and an overview of the updated Risk Management Policy and Framework; periodic updates from the Business Performance Manager on the work of other regulators and tracking of recommendations.

In order to identify best practice, the Committee were requested to consider different suggestions. The following was discussed: -

- Members leading on certain areas, e.g. education, performance and risk;
- The possibility of Members attending other bodies Audit Committee meetings;
- Receiving feedback from other bodies regarding the performance of the Committee.

Resolved that: -

- 1) The content of the report be noted;
- 2) The item be included on the December Committee agenda.

47 Audit Committee Action Tracker Report. (For Information)

The Audit Committee Action Tracker Report was provided for information.

The Committee raised queries in relation to procurement support for schools, school procurement in other local authorities in Wales and adopting a more regional approach to the issue.

The Chief Auditor stated that the Peer Review would commence in December 2017 when Cardiff Council will inspect the Authority.

48 Audit Committee Work Plan. (For Information)

The Audit Committee Work Plan was reported for information.

The meeting ended at 11.33 am

Chair

Agenda Item 4



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Please contact us in Welsh or English.
Cysylltwch â ni'n Gymraeg neu'n Saesneg.

Councillor Rob Stewart
Leader
City & County of Swansea
Guildhall
Swansea
SA1 4PE

Reference: 509A2017

Date issued: 30 November 2017

Dear Councillor Stewart

Annual Audit Letter – City & County of Swansea and Pension Fund 2016-17

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare Financial Statements in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the financial statements;

- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the Financial Statements.

Local authorities in Wales prepare their financial statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards. On 29 September 2017 I issued an unqualified audit opinion on the Financial Statements confirming that they present a true and fair view of the Council's and Pension Fund's financial position and transactions. My report is contained within the financial statements. The key matters arising from the audit of the financial statements were reported to Members at the Council Meeting on 28 September 2017, in my Audit of Financial Statements reports. I issued a certificate confirming that the audit of the financial statements has been completed on 29 September 2017.

Overall the financial statements and associated working papers provided for audit were of a good standard. Your officers were helpful and supplied us with all the information we requested. I reported to you the more significant issues arising from our audit, which are summarised below:

- **C&CS financial statements** - during 2016-17, the Council has continued to make progress in improving its arrangements for capital accounting. However, there are a number of areas where further work is required in 2017-18.
- **C&CS Pension Fund financial statement** – our audit identified a number of amendments to the draft financial statements. These amendments had no impact on the Fund Account but the value of investments in the Net Assets Statement was increased by £2.3 million. We also identified that controls over year-end reconciliations between payroll and the pensions systems need to be improved.

The Council has made good progress in bringing forward the production of the financial statements. This year the financial statements were available for audit in mid-June. The Council is therefore making good progress towards achieving the 31 May deadline in 2020-21.

Since completion of the audit we have held a joint post project learning exercise with your Finance officers. We have identified areas where we can both learn from this year, and make improvements for the future. We have set up regular meetings to take these issues forward and to start preparations for the challenges that will be brought about by future requirements to bring forward the financial statements preparation and audit.

I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources but the financial outlook is very challenging

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009. The Auditor General will highlight areas where the effectiveness of these arrangements has yet to be demonstrated or where improvements could be made when he publishes his Annual Improvement Report.

In 2016-17, the Council underspent by some £2 million after the planned use of £3 million of reserves. Current forecasts for 2017-18 suggest that the Council will overspend by some £7 million at the year-end - mainly due to overspends in Social Services. The overspend is not helped by the fact that the Council does not generally have a good track record in identifying and delivering against financial savings plans.

The likely year-end overspend will therefore have an impact on the level of the Council's reserves. The Council held some £99 million in useable reserves at the end of 2016-17 (£110 million in 2015-16) with the majority of this being set aside to meet future spending commitments. The unallocated general fund balance is some £12 million.

The Council needs to ensure that it has a clear medium term financial plan including robust financial plans to deliver the financial savings in both current and future years. This plan needs to include the capital budget as the anticipated capital programme requires a significant level of borrowing which will increase long-term liabilities and have an impact on revenue expenditure. During 2017-18, and beyond, the Council will need to make some difficult decisions as the financial outlook is very challenging.

My work to date on certification of grant claims and returns has not identified significant issues that would impact on the 2016-17 financial statements or key financial systems

My ongoing work to date on certification of grant claims and returns has not identified significant issues that would impact on the financial statements or key financial systems. A more detailed report on my grant certification work will follow early in 2018 once this year's programme of certification work is complete.

The financial audit fees for 2016-17 are currently expected to be slightly less than those set out in the Annual Audit Plans and we will consider this as part of our planning for 2017-18 and will report the out-turn to you in the Audit Plan.

Yours sincerely



John Herniman
For and on behalf of the Auditor General for Wales

cc. Phil Roberts, Chief Executive

City & County of Swansea Audit Committee Update – November 2017

Financial audit work 2016-17 – City & County of Swansea Pension Fund

Activity	Scope	Status
Audit Plan	Plan of financial audit work for 2016-17.	Audit Committee March 2017.
Financial Statements/Annual Audit Letter	Audit of the Pension Fund's 2016-17 financial statements and Annual Audit Letter.	Audit Committee September 2017.

Financial audit work 2016-17 – City & County of Swansea

Activity	Scope	Status
Audit Plan	Plan of financial audit work for 2016-17.	Audit Committee March 2017.
Financial Statements 2016-17	Audit of the Council's 2016-17 financial statements.	Audit Committee and Council September 2017.
Certification of Grants and Returns 2016-17	Summary of grants and returns certification work 2016-17.	Planned Audit Committee January 2018.
Annual Audit Letter	Report summarising our 2016-17 financial audit work.	Planned Audit Committee January 2018.

Performance Audit work - City & County of Swansea

2016-17 Improvement Assessment	Scope	Status
Governance	This review will provide councils with a baseline from which to plan improvements to governance following the introduction of CIPFA's revised framework and the requirement for councils to adopt the sustainable development principle from April 2016	Completed June 2017
Annual Improvement Report (AIR)	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'	Completed August 2017.
2017-18 Improvement Assessment	Scope	Status
Corporate Improvement Plan Audit	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to set improvement objectives.	Certificate Published September 2017
Improvement Plan Audit	Checks Council compliance with Local Government Measure (Wales) 2009 requirement to publish a self-assessment of performance in the previous year by 31 October.	Certificate Published November 2017
Annual Improvement Report (AIR)	Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'	Planning
WFG Year one commentary	Year one commentary on WFG/Baseline Gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. There is no local report it is intended the baseline will inform a commentary to be published summer 2018.	Underway
Overview and Scrutiny – Fit for the Future	This review will examine the impact of the WFG Act on the work of scrutiny committees including PSB scrutiny, facilitating improvement and sharing of good practice.	Planning

2017-18 Improvement Assessment		
	Scope	Status
Service User Review	To gather evidence and insight into the extent to which services respond to the needs and expectations of service users both in their design and delivery.	Planning
Aligning Levers of change	The purpose of this review is to support the development of local action that will promote positive practice and help identify barriers to be addressed. The review will assist councils to: <ul style="list-style-type: none"> refine current arrangements in Councils by promoting what is working well, identifying any barriers and developing local improvement opportunities; and facilitate sharing of practice between Councils. 	Planning
Housing/WHQS Local Project	To determine whether the Council has effective arrangements in place to enable it to engage with residents in meeting the WHQS by 2022.	Planning. Fieldwork likely to take place February/March 2018.
Digital Risk	Diagnostic.	Planning
2016-17 Local Government Studies		
	Scope	Status
Improving wellbeing through housing adaptations	We will review how adaptations prevent access to and speed up discharge from hospitals. The work will look at how health use adaptations to underpin their activity as well as how efficient and effective organisations are at procuring and delivering adaptations work.	Report is in clearance. Swansea has not been selected to take part in the detailed fieldwork of this study
Strategic commissioning of learning disability services by local authorities	Fieldwork will focus on both the corporate approach to strategic commissioning but also use findings from the tracer area to understand how effective operational arrangements are. We are working with CSSIW and SSIA and will be building on recent national inspection and support work on learning disabilities.	Report is in clearance. Swansea has not been selected to take part in the detailed fieldwork of this study.

How local government manages demand - Homelessness services	The study will focus on homelessness in local authorities using the recent prevention duties placed on local authorities to judge how demand for services is managed.	Report clearance has finished and is scheduled for publication on 4 th January 2018. Swansea was a fieldwork site.
2017-18 Local Government Studies	Scope	Status
Integrated Care Fund	Scoping underway	Not yet started
Services to rural communities	The study will focus on whether local government uses its resources to deliver services that meet the needs of rural communities today and in the longer term.	In progress. Swansea has not been selected to take part in the detailed fieldwork of this study.
Using data effectively	<p>This study will seek to identify whether councils' corporate management arrangements for managing and using data are leading to better decision making in the use of resources.</p> <p>The study will collect information from all councils in Wales.</p> <p>A short survey has been issued to the following respondents across all councils in Wales</p> <ol style="list-style-type: none"> 1. corporate management teams 2. ICT Managers 3. Information Officers 4. Policy Officers 5. Operational Managers 6. and Elected Members <p>The survey closes on 15th December.</p>	In progress.

National Studies	Update and link to report
Welsh Government oversight of further education finances and delivery	Published Feb 2017 Welsh Government oversight of further education finances and delivery.
Public Procurement in Wales	Link to published report. Published Oct 2017
Savings Planning in Councils in Wales	Link to Published Report. Published June 2017
Good Governance when determining significant service change National summary Report	Link to published report. Published Oct 2017
The National Procurement Service	Link to published report. Published Oct 2017



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Auditor General for Wales

Good Governance when determining significant service changes – **City and County of Swansea Council**

Audit year: 2016-17

Date issued: August 2017

Document reference: 131A2017-18

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

info.officer@audit.wales.

The team who delivered the work comprised Steve Barry, Tim Buckle, Samantha Clements, and Non Jenkins under the direction of Jane Holownia.

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Summary report

Summary

- 1 'Governance is about how public bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which public bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities'.¹
- 2 Good governance is essential for the effective stewardship of public money and the continued delivery of efficient and trusted public services. The current financial climate and reduced settlements for local government as well as rising demand for some services mean that all councils are likely to continue to need to make decisions regarding the future configuration and level of service delivery. It is appropriate that public bodies continuously seek to improve. Small, incremental changes to service delivery are made at a managerial and operational level as part of normal, operational decision-making. However, good governance supported by effective planning and rigorous processes is critical when determining significant service changes. Such decisions are often controversial, generate considerable local interest and can have significant impacts on the individuals and groups affected.
- 3 Since April 2016, councils have been required to comply with the Well-being of Future Generations (Wales) Act and associated Statutory Guidance. The Statutory Guidance states that: 'Together, the seven well-being goals and five ways of working provided by the Act are designed to support and deliver a public service that meets the needs of the present without compromising the ability of future generations to meet their own needs'.² This legislation emphasises the importance of effective governance in achieving wellbeing goals.
- 4 The focus of this review is on the effectiveness of the City and County of Swansea Council's (the Council) governance arrangements for determining significant service changes. We define this as any significant change in delivering services and/or any significant change in how services are experienced by external service users. This could include, for example, significant changes to the way the service is delivered, the level of service provided, the availability of the service or the cost of the service. This meant that we did not consider the arrangements for the commissioning reviews the Council has undertaken of internal services.
- 5 Taking the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised framework for 'Delivering good governance in local government' as an appropriate standard, this review provides the Council with a baseline, from which to plan further improvement. In this assessment, undertaken in December 2016, to

¹ CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2007

² Welsh Government, **Shared Purpose: Shared Future, Statutory guidance on the Well-being of Future Generations (Wales) Act 2015**

inform our assessment of the Council’s overall arrangement for developing and determining service changes, we looked at aspects of decision-making arrangements in relation to a range of significant service change proposals. The examples we looked at were:

- Residential and Outdoor Centres Commissioning Review
- Culture and Leisure Commissioning Review
- Waste management Commissioning Review
- Adults Services Commissioning Review

- 6 The Council adopted a comprehensive strategy for change in 2014. This included detailed analysis of service provision by means of ‘Commissioning Reviews’ (CRs) which began in 2015. The examples we looked at were from Council activity in the first phase of the process and we recognise that the Council was actively learning from this phase, refining arrangements and developing a culture to support future change. Since 2017 the Council has been moving to reviews of cross-cutting activity and providing opportunities for community and other key stakeholder engagement in the co-production of reviews and options for future service delivery.
- 7 We did not look in detail at each of the individual service change decisions, but rather used them as examples to draw from and inform how the Council goes about making decisions in relation to service changes that affect the public. We also recognise that some of the practices adopted in the early reviews have subsequently been refined.
- 8 In this review we concluded that the Council has a clear governance framework for determining significant service change but needs to clarify how the impact of change for service users will be evaluated.

Proposals for improvement

Exhibit 1: proposals for improvement

Proposals for improvement	
P1	Improve public access to information about the Council’s Commissioning Review activity and outcomes by linking together all the website information about the overall programme and signposting its availability.
P2	Whilst potential financial savings are consistently identified the Council should ensure that the process for concluding a review consistently identifies the intended impact for service users and the means by which that impact will be evaluated in the future.

Detailed report

The Council has a clear governance framework for determining significant service change but needs to clarify how the impact of change for service users will be evaluated

The Council has a clear vision and framework to support decision making for significant service change

- 9 The Council has an overarching vision for 'a safer, greener, smarter, fairer, healthier, richer, Swansea' supported by clear priorities, values and principles. These are included within the Council's strategy for change, 'Sustainable Swansea – fit for the future'. The Council's Cabinet adopted the strategy and its delivery framework in July 2014. The framework takes account of four key elements, the Council's Core Purpose, its Policy Framework, its vision of the Future Council and its Medium Term Financial Plan.
- 10 Since 2015, the Council has implemented a three-year programme of CRs which explores the potential for new models of service delivery in 18 areas of council activity. Guidance for review teams, including the core questions to be asked is in place to support delivery of the CR programme. Over time the Council has learnt from its experience and introduced further guidance as well as modifying processes.
- 11 The Council expects the CR process to drive service transformation, ensure financial sustainability and deliver better outcomes for residents. The Council also expects that any change must safeguard the sustainability of services, while becoming more efficient and achieving savings targets. The process includes the following activities:
 - identifying community needs;
 - specifying outcomes;
 - presenting options that enable a decision about how best to deliver; and
 - monitoring future activity.
- 12 The Council adopted Sustainable Development (SD) principles as a key part of its policy framework in 2006. It approved a strategy for informing staff and sought to integrate SD considerations into all decision making. The Council also set up a dedicated SD Unit and built in SD as an expectation for consideration during the CR process.
- 13 Since 2012, one of the Council's Cabinet portfolios has included responsibility for oversight of SD activity, and in 2014 the Council established the role of Cabinet member dedicated to Next Generation Services. The Council has also recently established a Future Generations Board with member and officer representation to

act as a governance vehicle for the Well-being of Future Generations and Social Services and Well-being statutory obligations.

Roles and responsibilities for service change decisions are clear and understood by members and officers

- 14 Roles and responsibilities of members and officers are clearly set out in the Council's Constitution. The Commissioning Review Service Specification Workbook (the Workbook) also sets out specific roles and responsibilities in respect of the CR process. At interview, members and officers demonstrated a clear understanding of these expectations.
- 15 The Council has established a specific governance framework for managing the delivery of CRs and the decision making process. This framework encourages interaction with other key groups of officers and members who are collectively involved in the implementation of the Sustainable Swansea strategy. The framework includes:
 - the **Commissioning Review Programme**: enables a clear picture of progress, clarifies responsibility for key stages in each review and provides the opportunity for identifying when expected benefits of a review may be realised.
 - the **Commissioning Review Programme Board (CRPB)**, is the officers of the Corporate Management Team (CMT). The officers include the Chief Executive Officer, Corporate Directors and Chief Officers. This Board is informed by the Commissioning Strand Lead and facilitates overall programme delivery.
 - the **Budget Performance Review Group (BPRG)**, attended by the Leader, Monitoring Officer and relevant Chief Officers and Cabinet Members. It enables assessment of the contribution of the CRs to savings targets within the Medium Term Financial Plan.
 - the **Commissioning Review monthly dashboards and gateway reports** are presented to both the CRPB and the BPRG to inform of programme progress.
- 16 At Cabinet level, the portfolio member for Transformation and Performance has responsibility for maintaining oversight of the CR Programme as a whole. While other Cabinet portfolio members have responsibility for CRs conducted within their sphere of responsibility.
- 17 The Council approved a new Senior Management structure in April 2016. As part of this re-structure the Council created a new post, the Chief Officer for Transformation. This post is responsible for the delivery of the Sustainable Swansea Strategy and maintains a pivotal role in overseeing all CR activity and sits on the CRPB. This has helped improve co-ordination of support to those services undergoing reviews.

18 There are also informal fora in the governance framework such as Sustainable Swansea ‘members’ briefings’ that provide members with an update on CR progress. Also ‘Sustainable Swansea Delivery Watch’ which is a mechanism for linking CR progress with Medium Term Financial Plan targets. The Council makes information about proposals public when they are presented to Cabinet for decision.

The Council’s appraisal of service options is well supported by impact assessments and clear selection criteria

19 The Council has adopted criteria for evaluating options for service changes. Of the four reviews we looked at, the outcome of each review gave rise to officer recommendations and Cabinet decisions to transform and retain the existing Council run service.

20 The workbook expects officers and members to evaluate different delivery methods as part of each review. These are:

- transform in-house;
- establish or deliver via a new trust/not-for-profit body;
- commission an existing trust/not-for-profit body;
- commission a commercial operator;
- establish an arm’s-length company;
- new management relationships via community groups; and
- collaboration with others.

Exhibit 2 – criteria are in place to guide the option appraisal process

The Council has adopted the following criteria to assess each alternative service delivery option in each Commissioning Review:

Criteria	Scope
Outcome	<ul style="list-style-type: none"> • Meet the relevant Core Objectives of the City and County of Swansea • Meet the Commissioning Review’s future Service Vision, Mission and core outcomes
Fit with Priorities	<ul style="list-style-type: none"> • Deliver the City and County of Swansea’s Corporate priorities

Criteria	Scope
Financial Impact	<ul style="list-style-type: none"> • Achieve NNDR Savings • Achieve MTFP Savings/Target Savings for the next three or five years • Has limited or no set up costs or requires up-front investment • Achieves VAT Savings • Achieves a capital receipt
Sustainability/Viability	<ul style="list-style-type: none"> • Be implemented within the legal constraints (this could be covenants etc) • Maintain sustainability or make service improvement for the citizen
Deliverability	<ul style="list-style-type: none"> • Be implemented within the set timescales • Can be implemented within cost constraints • Can deliver the service area's expectations within the challenges

- 21 The Council is using a three band (green, amber or red) scoring system to assist its evaluation of alternative options against each of the criteria in Exhibit 1 to arrive at an overall 'score' for each option. In each of the four reviews we looked at, the Council's score supported it to make a decision to transform and retain the existing Council run service.
- 22 Equalities impact assessments provide assurance that service change proposals take account of statutory duties and corporate priorities. The Council's corporate team is available to provide advice about undertaking Equalities Impact Assessments (EIA) including potential consultation methods. The Council has improved the efficiency of assessing impact by using one assessment form to capture equalities considerations along with other council expectations such as, the use of the Welsh language, its anti-poverty strategy and promotion of community cohesion.
- 23 The Council uses standard screening forms to undertake initial evaluations of proposals to determine the need for a full assessment. This has enabled CR teams to undertake appropriate, well-scoped assessments at an early stage in their reviews. Although all CR reports to Cabinet indicate whether a full EIA is necessary or not, neither the screening form nor the EIA where applicable, had been included with the report to Cabinet prior to March 2017. Since March 2017 either the screening form or the full EIA has been included with the Cabinet reports, improving the transparency of decision making.

Commissioning reviews describe intended outcomes but have not consistently explained how the impact of change will be evaluated in the future

- 24 Commissioning Review have identified intended outcomes for a range of service users. The most recent reviews have engaged service users in the development of options and in identifying preferences for proposing to Cabinet. Earlier reviews set the context in which a service was being delivered, its contribution to delivering corporate priorities and utilised service user feedback as a means of informing reviews.
- 25 The Council monitors progress in the delivery of the overall programme by means of monthly 'commissioning dashboard' reports. These consistently include information about delivery against financial targets and the implementation of key actions but do not specify how changes will be evaluated in terms of the improvement sought. Whilst 'benefits' of action are recorded they are usually described in terms of staff reduction or financial savings made without reference to the impact for service users.
- 26 However, the Family Support Commissioning Review end of project report produced in March 2017 and the Cultural Services Service Plan scorecard provide examples of how the Council can use existing processes to strengthen the connection between the completion of a review and subsequent service performance reports.
- 27 For example, the end of project report includes for transfer of action to service teams describes the intended measures of success and commits to reporting outcomes to Cabinet. The service plan scorecard includes a range of measures for incorporation into existing service performance monitoring arrangements that should enable the impact of the review to be assessed across a range of criteria.

The Council has evaluated and refined the commissioning review process

- 28 The Council plans to complete this round of Commissioning Reviews process in three phases: phase one in 2015-16; phase two in 2016-17, and phase three in 2017-18.
- 29 From its inception the Council built in review stages to enable it to refine the CR process. This has included:
- cabinet away days on each anniversary of the reviews in October 2015 and September 2016 to evaluate what worked well, what did not work well, and to follow up on previous years' recommendations
 - review by the Scrutiny Programme Committee in February 2016 that led to an agreement that all CRs would undergo pre-decision scrutiny via the committee or relevant Panels as appropriate. A further review by the Committee on 10 April 2017 concluded that: 'The scrutiny of Commissioning

Reviews had been a positive step forward, but this would be further improved by having more time to scrutinise such important cabinet reports.’ The proposed dates of reporting CRs to Cabinet are included in the scrutiny programme.

- self-assessment by officer teams that reduced the number of stages in the CR process in order to speed up completion of the CR programme with a view to achieving the financial savings targets and meeting Medium Term Financial Plan requirements.

- 30 Information relating to each CR on the Council’s website is limited and not well signposted. It is not clear how the public and other external stakeholders would be able to find out the progress being made with the reviews in terms of improving outcomes for residents and securing the savings targets set out in Sustainable Swansea. Public access to CR documentation is triggered when CR progress is reported to Cabinet for decision, or to Scrutiny for pre-decision review and challenge. At this point the details of reports, minutes and agendas are publicly available as part of the usual committee papers.
- 31 One of the Council’s 10 key principles underpinning the delivery of the CRs approved by Cabinet in July 2014 focusses on engaging with a variety of stakeholders. The principle states that: ‘We will engage at an early stage with people in agreeing, designing and delivering outcomes eg workforce, trade unions, communities, schools/universities and partners.’
- 32 The Council’s workbook recommends taking into account the views of a range of stakeholders at specific stages of each review. For the early stages in the CR process, the Council’s workbook refers to collating information relating to the service’s knowledge of its customers, taking account of any needs assessment, the demand for the service and whether the service knows what customers, internal users and members think of the proposed service model. So, in the early stage of a CR, existing knowledge of stakeholders’ views is considered with subsequent decisions being made about the extent of stakeholder engagement dependent on the nature of any change being considered. For example, the waste management review provided views obtained from recent service user surveys about the existing service, whilst the adult care reviews sought views from individual service users about service delivery options.
- 33 The more recent reviews have developed stakeholder engagement further involving them as ‘co-producers’ of the options evolving from the process. For example, by the inclusion of a broader range of stakeholders in scoping the Family Support Commissioning Review and stakeholder co-production of the scope of the Children with Disabilities strand of the review. This theme of ‘co-production’ is a key element of the next stage of the CR process.
- 34 The Council forecasts completion of the programme during 2017-18 when it plans to introduce a new programme phase to focus on transformation; the digital agenda and the future Council.

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Agenda Item 7



Report of the Section 151 Officer

Audit Committee – 12 December 2017

Review of Revenue Reserves Report 2016/17

Purpose: To undertake a mid-year review of the Revenue Reserves position and to agree any suggested reclassification of reserves based on current requirements.

Report Author: Ben Smith

Finance Officer: Ben Smith

Legal Officer: Tracey Meredith

Access to Services Officer: Sherill Hopkins

For Information

1 Introduction and context

- 1.1 Local Authorities have a corporate responsibility to operate within available resources and to remain financially sound over the short, medium and longer term.
- 1.2 One of the key tools available to Authorities in managing its affairs is the creation and use of both General and Earmarked reserves to assist in delivering services over a period longer than one financial year.
- 1.3 In terms of guidance on the review and management of reserves, the Chartered Institute of Public Finance and Accountancy (CIPFA), via the Local Authority Accounting Panel, issued a bulletin in July 2014 (LAAP 99) intended to give guidance to Local Authorities on the management and review of reserves. This bulletin is considered best practice in terms of Local Authority financial administration and effectively must be followed. A copy of the bulletin is at Appendix A to this report.
- 1.4 Within the existing statutory and regulatory framework, it is the responsibility of Chief Financial Officers to advise Local Authorities about the level of

reserves that should be held and to ensure there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

- 1.5 It is the duty of the Chief Financial Officer to specifically report on the robustness of estimates and reserves when the Council considers its budget requirement, as such the Revenue Budget approved by Council in February 2017 made specific references to the adequacy of reserves at that time.
- 1.6 Notwithstanding that specific statutory requirement, it is the duty of the Chief Finance Officer to regularly review the position regarding available reserves of the Authority having specific regard to:
- The original and current need for each category of reserve held
 - An assessment of current and future risks (both operationally and financially) facing the Council
 - The impact of known and predicted funding levels likely to impact on the Council going forward.
- 1.7 Swansea Council's Chief Finance Officer (the Section 151 Officer) is the Head of Financial Services and the Service Centre.
- 1.8 This report considers the position regarding both General and Earmarked reserves as at 31st March 2017 and makes specific recommendations in respect of reclassification of elements of those specific reserves.

2. Position as at 31st March 2017

- 2.1 The draft Statement of Accounts 2016/17 presented to our external Auditors included the following entries in respect of reserves as at 31st March 2017:

Usable Reserves	£'000	Purpose
General Fund	12,360	Used as an overall contingency to cushion the impact of unexpected events or emergencies and as a means of smoothing out annual budgets where there is significant change
Earmarked Revenue Reserves	55,741	Consisting of sums set aside for specific purposes to support Corporate and Service needs
Usable Reserves	£'000	Purpose
Capital Receipts Reserve	6,092	Capital monies received by the Council set aside for funding ongoing Capital schemes per the Capital Programme. These sums are committed to current schemes and cannot be used to support Revenue expenditure

Capital Grants Unapplied Account	14,927	Relates to committed funding on Capital schemes and cannot be used to support Revenue expenditure
Housing Revenue Account	9,821	Exists to support expenditure for Housing Revenue Account purposes only and cannot be used to support General Fund Council Revenue or Capital expenditure
Total Usable Reserves	98,941	

- 2.2 In addition the Council holds a net £285.546m in unusable reserves arising purely from accounting technicalities. **These cannot be used to support revenue or capital expenditure of the Council in any form and as such are not part of this review.**
- 2.3 The HRA reserve and the Capital reserves detailed above are ring-fenced and are regularly reviewed as part of business planning. As such no further review is proposed at this time.
- 2.4 The General Fund Balance of the Council as detailed above takes account of decisions made by Cabinet based on the 2016/17 Revenue Outturn position considered on 20th July 2017.
- 2.5 Comparisons with other Welsh Councils show that, as a percentage of Gross Revenue Expenditure, the level of the General Fund reserve is slightly below the All Wales average (as at 31st March 2016) and as such no planned use of the balance is recommended.
- 2.6 The draft Statement of Accounts as presented to our external Auditors (Wales Audit Office) by 30th June included an analysis of earmarked reserves with the proviso that each reserve was subject to strategic review by the Section 151 Officer based on an analysis of current need and changing Council risks.
- 2.7 This report is the result of that strategic review.

3. Outcomes and recommendations

- 3.1 The Medium Term Financial Plan approved by Council on 23rd February 2017 forecast a cumulative deficit on General Fund Revenue Expenditure of some £61m by 2020/21 with an immediate savings requirement of £22m for 2018/19. This is in addition to the current year Directorate savings requirement of £18.7m. More recent forecasts indicate an even larger savings requirement will be likely, predominantly as a result of planned significant additional capital investment and the associated costs of increased borrowing.

- 3.2 However, there is clear and compelling evidence that savings planned in the areas of Social Services and Corporate Services are unlikely to be fully achieved in the current year, which puts future years in jeopardy.
- 3.3 To put it into context, if all planned savings for 2017/18 are achieved it still leaves a gap of £22m to be addressed for 2018/19.
- 3.4 The Council's strategy for dealing with ongoing budget reductions and Service reforms – Sustainable Swansea – is ongoing and it is clear that, whether as a result of commissioning reviews or emergency action being required to produce a balanced budget going forward, there is likely to be considerable cost in relation to change, together with potential significant investment in digital technology solutions.
- 3.5 Dealing with the cost of future structural change is a significant financial risk facing the given the scale and pace of budget reductions to be addressed by the Council.
- 3.6 Traditionally exit costs in relation to downsizing the organization has been dealt with through the use of the annual contingency fund, currently standing at an annual contribution of £5.4m. However, in 2016/17 the total exit costs exceeded the contingency fund, and similar can be expected in 2017/18. The first quarter monitoring report estimated £3.5m to be funded from the contingency fund, with a further £3.5m to be funded by the restructuring reserve if necessary. This would leave nearly £2m in the contingency fund to mitigate the effect of Directorate pressures.
- 3.7 In assessing both the level and use of Earmarked and General reserves, the LAAP bulletin sets out some of the factors that should be considered, including:-
- The treatment of demand led pressures
 - The treatment of planned efficiency savings/productivity gains
 - The financial risks inherent in any significant new funding partnerships or changes in service delivery
 - The general financial climate to which the Authority is subject.
- 3.8 Having considered the above, and in the context of a medium term financial plan that shows ongoing and sustained budget reductions, it is the opinion of the Section 151 Officer that the Council needs to continue to prepare for significant change in service delivery that will inevitably impact on direct employment levels going forward.
- 3.9 Indications from Local Authorities in England typically suggest a reduction in the directly employed workforce of around 30% based on experience of the austerity agenda, which includes transfers where appropriate to alternative service providers and/or job losses. Current indications are that to date Swansea Council has seen reductions of around 10% in terms of FTE staffing numbers.

- 3.10 Changes on such a scale will inevitably come with substantial up-front costs and it is important at this time that the Council plans operationally and financially to meet these changes. The 2017/18 Budget Report to Council in February 2017 stated that there was an underlying planning assumption that £2m of the existing restructuring reserve be provisionally committed towards meeting part of the cost of staffing reductions as they fall due in 2017/18. The first quarter monitoring report indicates that a further £1.5m could be required (as referred to in paragraph 3.6 above)
- 3.11 As such it is vitally important that the restructuring reserve is topped up and kept at a level that will enable the Council to carry out any necessary restructuring as it transforms under the Sustainable Swansea programme. Therefore it is recommended that elements of the Transformation and Efficiency Reserve are transferred into the Restructuring Reserve to make it clear that this is the intended use.
- 3.12 The Council set aside £2.5m in a Job Evaluation reserve last year to meet the cost of settling outstanding equal pay claims during 2016/17. The full amount was utilised last year, and although there are still a few outstanding, the majority of claims have now been settled.
- 3.13 As one of the shortlisted candidates for the prestigious City of Culture award it would be prudent to set aside funding in anticipation of the spend that may be required as part of this bid. As such it is recommended that £1m pa is set aside in a separate service earmarked reserve, with effect from 1st April 2018. This will be fully taken into account, as necessary, in the forthcoming budget round.
- 3.14 Similarly it is recommended that a capital equalisation reserve is created, again with effect from 1st April 2018, to help with any timing issues around the need to fund any City Deal projects in advance of receipt of funding from other bodies.
- 3.15 In addition, it would be prudent to set aside now the money for the Local Government Elections in 2022. As these costs don't occur every year there is no base budget for them, setting aside the money in reserves now will alleviate this pressure in future budget cycles. At the current time it is estimated that the costs in 2022 will be in the region of £300,000.

- 3.16 To this extent, and following a review of current earmarked reserves, the following re-classification of earmarked reserves is recommended:-

Category of Earmarked Reserve	Current Balance 31/03/17 £'000	Proposed Change £'000	Recommended Position £'000
Technical/third party	877	0	877
Insurance	15,695	0	15,695
Transformation and efficiency	3,335	-2,279	1,056
Schools delegated reserves	7,575	0	7,575
Equalisation reserves	0	0	0
Commutated sums	5,030	0	5,030
Repair and renewal funds	3,303	0	3,303
Profit share on disposals	1,217	0	1,217
Service earmarked reserves	4,650	300	4,950
Capital reserves	5,580	0	5,580
Restructuring costs reserve	8,479	1,979	10,458
Total Earmarked Reserves	55,741	0	55,741

4. Valuation of reserve requirements

- 4.1 A number of the reserves highlighted above have been set aside for specific purposes; these include the insurance reserve set aside to meet the potential cost of excess payments should a claim on external insurers materialise or should the Council have to meet claims from its own resources. Repair and renewal funds set aside to meet future major repair and renewal costs on strategic assets (The LC, Wales National Pool, Quadrant Bus Station), and reserves set aside for profit share on disposals of assets where reclamation has been funded by the WDA/Welsh Government.
- 4.2 It is essential that monies set aside for the above purposes are regularly reviewed in order to confirm their accuracy and relevance.
- 4.3 To that extent formal assurance will be sought on the adequacy of these reserve levels as part of the annual budget setting process.
- 4.4 As part of the budget setting process for 2017/18 a formal review of the Insurance reserve was completed and it was determined that a take from the reserve of £700k per annum for the next 3 years (starting with 2017/18) was acceptable. This has already been built into planning assumptions.
- 4.5 As part of the budget setting process for 2018/19 a formal review will be carried out again of all service earmarked reserves to test their continued relevance and value.

5. Legal implications

- 5.1 There are no direct legal implications arising from this report. However, Section 151 of the Local Government Act 1972 requires each Local Authority to make arrangements for the proper administration of its financial affairs and that the Chief Finance Officer (in our case the Head of Financial Services and the Service Centre) has responsibility for those affairs.
- 5.2 Under guidance detailed at Appendix A to this report the Chief Finance Officer is required at all times to monitor the purpose and use of reserves.

6 Access to Service implications

- 6.1 Having assessed the current planned use of earmarked reserves there are no significant equalities implications arising from these changes

Background Papers: None

Appendix A: LAAP Bulletin 99 – Local Authority Reserves and Balances

LAAP BULLETIN 99

Local Authority Reserves and Balances *July 2014*

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, SeRCOP and Prudential Code, and to provide advice on emerging or urgent accounting issues. Bulletins provide influential guidance that is intended to be best practice, but are not prescriptive and do not have the formal status of the Code, SeRCOP or Prudential Code.

Please address any queries to CIPFA Technical Enquiry Service for CIPFA members and students
technical.enquiry@cipfa.org.uk

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INTRODUCTION AND BACKGROUND

1. LAAP Bulletin 55 (Guidance note on local authority reserves and balances) was issued in February 2003. This was followed by its replacement in 2008 by LAAP Bulletin 77. LAAP Bulletin 77 included a number of events and changes that occurred including the publication of the Prudential Code and the beginnings of the financial downturn. Since the issue of LAAP Bulletin 77, the IFRS-based Code¹ has been published and this bulletin has been updated to reflect the new requirements of that Code. In addition, during a period of financial austerity for the public sector, the Local Authority Accounting Panel considers that it is necessary to update the guidance on local authority reserves and balances.
2. The "New Reporting Framework" described in LAAP Bulletin 55 has now largely been overtaken by statutory requirements, but is included in Appendix A for information.
3. The advice previously provided by LAAP Bulletin 77 which focussed on the financial impact of flooding is included in Appendix B.
4. Further resources and information are provided at Appendix C.
5. Relevant extracts from the IFRS-based Code are provided at Appendix D.

PURPOSE

6. This bulletin provides guidance to local authority chief finance officers in England, Northern Ireland, Scotland and Wales on the establishment and maintenance of local authority reserves and balances.

APPLICATION

7. In England, Scotland and Wales the guidance is applicable to local authorities, joint committees and joint boards of principal authorities.
8. In England and Wales the guidance is applicable to Police and Crime Commissioners, Chief Constables and fire and rescue authorities.
9. In Northern Ireland the guidance applies to all district councils.
10. The general principles set out in this guidance apply to an authority's General Fund, Council Fund, Police Fund and, where appropriate, to the Housing Revenue Account (HRA).
11. The advice in this bulletin relates to reserves, not provisions. The Code definitions of provisions and reserves are included in Appendix D to this bulletin for information.
12. This bulletin replaces LAAP Bulletin 77.

¹ *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

LEGISLATIVE / REGULATORY FRAMEWORK

13. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Section 93 of the 1992 Act requires Scottish authorities, in calculating council tax, to take into account 'any means by which those expenses may otherwise be met or provided for'. This includes reserves.
14. In Scotland there are explicit statutory powers under schedule 3 of the Local Government (Scotland) Act 1975 permitting certain local authorities to establish a renewal and repair fund, an insurance fund and a capital fund alongside a requirement, as in England and Wales, to maintain a General Fund (section 93 of Part VII of the Local Government (Scotland) Act 1973). LASAAC has published guidance on reserves which is available from the LASAAC website. In Northern Ireland, Section 9 of the Local Government Finance Act (Northern Ireland) 2011 enables councils to maintain other funds in addition to the General Fund. Local authorities may however ' earmark ' specific parts of the General Fund reserve. This earmarking of a proportion of the General Fund is referred to in this Bulletin as Earmarked Reserves.
15. There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
 - the balanced budget requirement:
 - England, sections 31A, 42A of the Local Government Finance Act 1992, as amended
 - Wales, sections 32 and 43 and Scotland, 93 of the Local Government Finance Act 1992 and
 - section 85 of the Greater London Authority Act 1999
 - chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)
 - chief finance officers' duty to report on the robustness of estimates and the adequacy of reserves (under sections 4 and 6 of the Local Government and Finance Act (Northern Ireland) 2011
 - the legislative requirement for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer / proper officer has responsibility for the administration of those affairs section 151 of the Local Government Act 1972, section 95 of the Local Government (Scotland) Act 1973 and section 1 of the Local Government and Finance Act (Northern Ireland) 2011
 - the requirements of the Prudential Code.
16. These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief finance officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the authority's full council must meet within 21 days to consider the s114 notice and

during that period the authority is prohibited from entering into new agreements involving the incurring of expenditure.

17. Whilst it is primarily the responsibility of the local authority and its chief financial officer to maintain a sound financial position, external auditors will confirm that there are no material uncertainties about going concern. Even where as part of their wider role auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.
18. CIPFA's Prudential Code requires chief finance officers in local authorities to have full regard to affordability when making recommendations about the local authority's future capital programme. Such consideration includes the level of long term revenue commitments. Indeed, in considering the affordability of its capital plans, the authority is required to consider all of the resources available to it/estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years.

ROLE OF THE CHIEF FINANCE OFFICER (PROPER OFFICER IN SCOTLAND)

19. Within the existing statutory and regulatory framework, it is the responsibility of chief finance officers (proper officer in Scotland) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
20. CIPFA and the Local Authority Accounting Panel consider that local authorities should establish reserves including the level of those reserves based on the advice of their chief finance officers. Authorities should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.
21. Section 26 of the Local Government Act 2003 gives Ministers in England and Wales a general power to set a minimum level of reserves for local authorities. However, the government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently, disregards the advice of its chief finance officer and is heading for serious financial difficulty. This accords with CIPFA's view that a generally applicable minimum level is inappropriate, as a minimum level of reserve will only be imposed where an authority is not following best financial practice (including the guidance in this bulletin).

TYPES OF RESERVE

22. When reviewing their medium term financial plans and preparing their annual budgets local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:
 - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;

- a means of building up funds, often referred to as earmarked reserves (or earmarked portion of the general fund in Scotland - see below), to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations	Where expenditure is planned in future accounting periods, it is prudent to set aside resources in advance.
Insurance reserves (note that the Insurance Fund is a statutory fund in Scotland)	Self-insurance is a mechanism used by a number of local authorities. In the absence of any statutory basis (other than in Scotland) sums held to meet potential and contingent liabilities are reported as earmarked reserves where these liabilities do not meet the definition of a provision under the requirements of the Code's adoption of IAS 37 <i>Provisions, Contingent Assets and Liabilities</i>).
Reserves of trading and business units	Surpluses arising from in-house trading may be retained to cover potential losses in future years, or to finance capital expenditure.
Reserves retained for service departmental use	Authorities may have internal protocols that permit year-end underspendings at departmental level to be carried forward.
Reserves for unspent revenue grants	Where revenue grants have no conditions or where the conditions are met and expenditure has yet to take place. The Code Guidance Notes recommend that these sums are held in earmarked reserves (see paragraph 29 below).
Schools balances	These are unspent balances of budgets delegated to individual schools.

FINANCIAL REPORTING FOR RESERVES

23. The IFRS-based *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) introduced the Movement in Reserves Statement to local authority financial statements in the 2010/11 financial year. This Statement presents the movement in the year of the reserves of the authority analysed into usable reserves, (eg General Fund, HRA Balances and earmarked reserves) and unusable reserves (see paragraph 24 below).
24. Unusable reserves arise out of the interaction of legislation and proper accounting practice either to store revaluation gains or as adjustment accounts to reconcile accounting requirements driven by reporting standards to statutory requirements.

These reserves², which are not resource-backed and cannot be used for any other purpose, are described below:

Revaluation Reserves

- The Revaluation Reserve - this is a reserve that records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or when assets are revalued downwards or disposed of. Local authorities might benefit from these gains in the future from the continued use of the assets or from their sale. The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.
- The Available-for-Sale Financial Instruments Reserve – this is a reserve that records unrealised revaluation gains arising from holding available-for-sale investments, plus any unrealised losses that have not arisen from impairment of the assets. Local authorities might benefit in the future from the gains when the investments mature or are sold or they might be lost in falls in value.

Adjustment Accounts

- The Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with those schemes' requirements and the net change in the authority's recognised liability under the Code's adoption of IAS 19 – *Employee Benefits*, for the same period. A transfer is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount required to be raised in taxation. For example, the debit balance on the Reserve shows that an authority has made commitments to fund pensions that the Government has permitted it to fund from contributions to be made in future years.
- The Capital Adjustment Account - this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. For example, the credit balance on the Account shows that an authority has generally financed capital investment in advance of receiving the benefits of that investment. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
- The Financial Instruments Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under proper accounting practice and are required by statute to be met from the General Fund. For example, the debit balance on the Account shows that an authority has incurred expenses on borrowings that the Government has permitted it to spread over future years.

² In addition to the Reserves included in this list authorities may hold the deferred capital receipts reserve and the accumulated absences account. Further details on these reserves are included in the

- The Unequal Pay Back Pay Account - this is a specific accounting mechanism used to reconcile the different rates at which payments in relation to compensation for previous unequal pay are recognised under proper accounting practice and are required by statute to be met from the General Fund. This account is not applicable to Scotland.
 - Collection Fund Adjustment Account – this is a specific accounting mechanism used to reconcile the differences arising from the recognition of council tax and non-domestic rates income (England)) in the Comprehensive Income and Expenditure Statement to those amounts required to be charged by statute to the General Fund. For example, the credit balance on the Account shows that more tax has been collected on behalf of the authority and the precepting bodies (and central government in England for non-domestic rates income) than an authority is permitted to transfer out of the Collection Fund by 31 March. This account is not applicable to Scotland.
25. Other such reserves may be created in future where developments in local authority accounting result in timing differences between the recognition of income and expenditure under proper accounting practice and under statute or regulation.
26. In addition authorities will hold the following two usable reserves:
- a Major Repairs Reserve (England and Wales), where relevant – in England this reserve records the unspent amount of HRA balances for capital financing purposes in accordance with statutory requirements for the Reserve. In Wales this represents the amounts unspent from the Major Repairs Allowance capital grant.
 - a Capital Receipts Reserve (Capital Fund in Scotland³) – this reserve holds the proceeds from the sale of assets, and can only be used for those purposes specified in the capital finance and accounting regulations⁴ in England, Northern Ireland and Wales and for capital purposes in Scotland.
27. The Code recommends that earmarked reserves are reported on the face of the Movement in Reserves Statement. Particularly significant movements might need to be reported individually on the face of the Statement to ensure key messages are presented clearly to users. However, effective reporting may either as an alternative or as a supplementary report necessitate similar disclosures in the notes to the financial statements (see paragraphs 3.4.2.41 and 3.4.2.42 of the Code which are also included in Appendix D for ease of reference).
28. When establishing reserves, local authorities need to ensure that they are complying with the Code and in particular the need to distinguish between reserves and provisions. Definitions of reserves and provisions are included in Appendix D of this Bulletin.
29. The introduction of the IFRS-based Code on 1 April 2010 has meant that grant income should be recognised in the Comprehensive Income and Expenditure Statement (and therefore against the General (Council) Fund or HRA Balances for

³ *The Statutory Basis for Accounting and Disclosing Reserves in Local Authorities in Scotland* [LASAAC, 2005] states "Useable capital receipts reserves are considered to be allowable under the power contained within Schedule 3, para 22 of the 1975 Act. Such a reserve effectively acts as a subset of the capital reserve specifically permitted by legislation."

⁴ The Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended,

The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, as amended and the Local Government (Capital Finance and Accounting) Regulations (Northern Ireland) 2011.

revenue grants) where grant payment is unconditional or grant conditions have been satisfied⁵. The Code Guidance Notes recommend⁶ that where these grants have been received prior to the expenditure having taken place authorities should consider establishing earmarked reserves. This will ensure that amounts are set aside from the General (or Council) Fund and HRA balances in earmarked reserves to provide financing to meet the requirements of the grant. The amounts set aside will be posted back from earmarked reserves to meet General Fund and HRA expenditure in future years. It is likely therefore that since the introduction of the IFRS-based Code there is an increased tendency to hold earmarked reserves.

30. The statutory reporting regime described earlier and effective financial management underpin the need for clear, transparent reporting arrangements for reserves and therefore in addition to the financial reporting requirements above, LAAP recommends that for each earmarked reserve (earmarked portion of the general fund in Scotland) held by a local authority there should be a clear protocol setting out:
- the reason for / purpose of the reserve;
 - how and when the reserve can be used;
 - procedures for the reserve's management and control; and
 - a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

PRINCIPLES TO ASSESS THE ADEQUACY OF RESERVES

31. In order to assess the adequacy of unallocated general reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority. Where authorities are being reorganised, this assessment should be conducted on the basis that the services will continue to be provided, and adequate reserves will therefore be required by successor authorities. The assessment of risks should include external risks, such as flooding, as well as internal risks, for example, the ability to deliver planned efficiency savings. In England and Wales, statutory provisions require authorities to review at least once in a year the effectiveness of their system of internal control, which will include risk management. The CIPFA/SOLACE framework *Delivering Good Governance in Local Government* details an approach to giving assurance that risk, control and governance matters are being addressed in accordance with best practice.
32. The Codes of Audit Practice in England, Wales, Scotland and Northern Ireland make it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks should be assessed in the context of the authority's overall approach to risk management.

Budget Assumptions	Financial standing and management assessment/impact
The treatment of inflation and interest rates	The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates)

⁵ See Code of Practice on Local Authority Accounting in the United Kingdom Section 2.3.

⁶ See *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners 2013/14 Accounts*, paragraphs C39 and C40.

	<p>etc.). Rises in the prices of some commodities, eg fuel, highlight the relevance of using a number of inflation rates in the budget and financial strategy, and considering whether general reserves are adequate to deal with unexpected increases. Volatility in the financial markets also points to the need to consider investment and borrowing risks and their impact on income.</p>
<p>Estimates of the level and timing of capital receipts</p>	<p>The authority's track record in budget and financial management including the robustness of the medium term plans. Authorities will also need to take into account changes in the property market, and adjust estimates and assumptions for reserves accordingly.</p>
<p>The treatment of demand led pressures</p>	<p>The authority's capacity to manage in-year budget pressures, and its strategy for managing both demand and service delivery in the longer term.</p>
<p>The treatment of planned efficiency savings/ productivity gains</p>	<p>The strength of the financial information and reporting arrangements. The authority should also be in a position to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed.</p>
<p>The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments</p>	<p>The authority's virement and end of year procedures in relation to budget under/overspends at authority and department/directorate level. Risk management measures in relation to partnerships, including consideration of risk allocation. Contract provisions designed to safeguard the authority's position in the event of problems arising from outsourcing arrangements.</p>
<p>The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions</p>	<p>The adequacy of the authority's insurance arrangements to cover major unforeseen risks. When considering insurance cover, the structure of the cover as well as the overall level of risk should be taken into account. Risk assessments should be used when balancing the levels of insurance premiums and reserves.</p>
<p>The general financial climate to which the authority is subject</p>	<p>External factors, such as future funding levels expected to be included in Spending Reviews and expected referenda principles and limits, will influence an authority's ability to replenish reserves once they have been used. Any plans for using reserves will</p>

	need to consider the need and ability of the authority to replenish the reserves, and the risks to which the authority will be exposed whilst replenishing the reserves.
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Whilst many of these factors relate to setting the annual budget, the level of risk and uncertainty associated with these factors will be relevant in determining an appropriate level of reserves.

33. Authorities have been faced by increasing financial pressures since 2008. This has been followed by a period of significant reduction in government funding which is anticipated to continue for some time, ie the spending review 2013 announced that the government will reduce total spending in 2015/16, 2016/17 and 2017/18 in real terms at the same rate as during the spending review 2010 period. Demands on local government services continue to increase. In addition to reduction in government funding other pressures include:
- councils striving to constrain council tax increases,
 - reductions of income,
 - new service demands and responsibilities such as:
 - the transfer of public health functions
 - the localisation of non-domestic rates retention, council tax freezes and council tax benefits/support
 - severe weather and floods.

Furthermore, events such as the losses in Icelandic banks and the problems in global financial markets are likely to mean that Councils will focus on cautious investment strategies. Council budgets and reserves have remained under pressure and are likely to continue to do so for some time.

34. The many factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. A considerable degree of professional judgement is required. The chief finance officer may choose to express advice on the level of balances in cash and/or as a percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the authority. The Audit Commission Report (December 2012) *Striking a Balance* makes a number of recommendations to both Chief Finance Officers and elected members to better assist councils in their decision making. Similarly the Accounts Commission in its report *An overview of local government in Scotland 2014*⁷ commented that more needs to be done to provide information on why reserves are held, how this fits with the councils financial strategy and how they will be used. The principles and financial reporting established in this and the previous LAAP bulletins on reserves will provide for the information requirements and an appropriate framework for this.
35. The advice should be set in the context of the authority's risk register and medium term plans and should not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be deployed

⁷ Issued by the Accounts Commission in March 2014

to finance recurrent expenditure. CIPFA has commented⁸ that Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as to how such expenditure will be funded in the medium to long term. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan, and should also take account of the expected need for reserves in the longer term.

36. Events such as the floods and severe weather that occurred earlier this year (2014) and previously in the floods during the summers of 2007 and 2008 have emphasised the need for authorities to be prepared for major unforeseen events. Adequate insurance cover combined with appropriate levels of reserves will enable authorities to manage the demands placed on them in such circumstances. However, these arrangements need to take account of all possible scenarios. An example quoted in the Audit Commission report *Staying Afloat* is that the total cost of the flooding was reduced where authorities had specifically considered the impact of a wide scale, serious event affecting many assets, and had taken appropriate action, for example, negotiating insurance policies that capped the total excesses linked to one event.
37. Part of the risk management process involves taking appropriate action to mitigate or remove risks, where this is possible. This in turn may lead to a lower level of reserves being required, and it would be appropriate to consider reducing the level of balances held where appropriate action to mitigate or remove risks has been successfully undertaken. A balance will need to be found between maintaining adequate levels of reserves and investing in risk reduction measures. This balance should form part of the risk management process and be considered as part of the annual budget process.
38. Emergency financial assistance from central government may be available to assist authorities in dealing with the immediate consequences of major unforeseen events, normally under the Emergency Financial Assistance to Local Authorities scheme (commonly known as the 'Bellwin' scheme). However, there is no automatic entitlement to financial assistance, and where financial assistance is given, it will not cover all of the costs even in exceptional circumstances. Further details of the scheme are available on the relevant government web sites (links can be found in Appendix C of this bulletin). Authorities should plan to have access to sufficient resources (through reserves, insurance or a combination of both) to cover the costs of recovering from events that are likely to be unavoidable.
39. When considering the level of reserves, it would be appropriate for authorities to take into account the likely level of Government support that would be available, and to consider how the balance would be funded in the event of an unforeseen event occurring.
40. Flooding, the effects of severe weather and the impact of the problems experienced by the global financial markets are examples of external risks which local authorities may need to take into account in setting levels of reserves and wider financial planning. An assessment of external risks should not be limited to those issues, but should range more widely, to take account of all significant external risks identified through the authority's risk management processes.

⁸ See comments by CIPFA Chief Executive *Building up council reserves to protect the public from future financial problems is good financial management* – CIPFA
<http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/building-up-council-reserves>

EXTRACT FROM LAAP BULLETIN 55

7 A New Reporting Framework

7.1 The finance director has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

7.2 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the finance director⁹. To enable the Council to reach its decision, the finance director should report the factors that influenced his or her judgement, and ensure that the advice given is recorded formally. Where the finance director's advice is not accepted this should be recorded formally in the minutes of the council meeting.

7.3 It is recommended that:

- the budget report to the Council should include a statement showing the estimated opening general reserve fund balance for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure
- this should be accompanied by a statement from the finance director on the adequacy of the general reserves and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy
- a statement reporting on the annual review of earmarked reserves (including schools' reserves) should also be made at the same time to the Council. The review itself should be undertaken as part of the budget preparation process. The statement should list the various earmarked reserves, the purposes for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balances.

⁹ LAAP Bulletin 99 normally refers to Chief Finance Officers – previous editions of this Bulletin referred to Finance Directors.

EXTRACT FROM LAAP BULLETIN 77

27. "...Alternative arrangements, for example mutual aid agreements, may help to reduce the reliance on reserves or insurance. The Pitt Review into the 2007 floods, although specifically focused on England, will be of relevance to all local authorities. This recommended that "Local authorities should continue to make arrangements to bear the cost of recovery for all but the most exceptional emergencies, and should revisit their reserves and insurance arrangements in light of last summer's floods." The Government's position remains that it is primarily the local authority's responsibility to bear such costs, and authorities should note this position when considering the appropriate level of reserves."

28 "... However, both the Pitt Review and Staying Afloat noted that most central government assistance provided to local authorities in relation to the 2007 floods was ad hoc in nature. The government has been keen to stress that they should not be seen as setting a precedent and should not be relied on in the future. Authorities will therefore need to make their own assessments of the likely level of support. "

FURTHER INFORMATION:

The Pitt Review can be downloaded from:

http://webarchive.nationalarchives.gov.uk/20100807034701/http://archive.cabinetoffice.gov.uk/pittreview/thepittreview/final_report.html

Staying Afloat can be downloaded from:

http://archive.audit-commission.gov.uk/auditcommission/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/StayingAfloat_REP14Dec07.pdf

Both reports provide additional advice to local authorities on planning for and managing the financial impacts of exceptional events.

LASAAC Guidance on Reserves in Scotland can be downloaded from:

<http://www.cipfa.org/regions/scotland/policy-and-technical/local-authority-scotland-accounts-advisory-committee/guidance-and-publications/accounting-for-interest-on-reserves>

Details of the Emergency Financial Assistance (Bellwin) Scheme can be downloaded from:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210953/The_Bellwin_Scheme_of_Emergency_Financial_Assistance_to_Local_Authorities.pdf

<http://www.scotland.gov.uk/Topics/Government/local-government/17999/Bellwin>

<http://wales.gov.uk/topics/localgovernment/finandfunding/emergency/publications/efas-guidance-notes-14-15/?lang=en>

The Audit Commission Report *Striking a Balance* can be downloaded from:

<http://www.audit-commission.gov.uk/2012/12/striking-a-balance-improving-councils-decision-making-on-reserves/>

Accounts Commission *An overview of local government in Scotland 2014* (March 2014) can be accessed at:

http://www.audit-scotland.gov.uk/docs/local/2014/nr_140327_local_government_overview.pdf

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM
DEFINITIONS (AND RELEVANT EXTRACTS OF) RESERVES AND PROVISIONS

CHAPTER TWO: CONCEPTS AND PRINCIPLES

2.1.2.25 Reserves – the residual interest in the assets of the authority after deducting all its liabilities. The Movement in Reserves Statement shows the true economic cost of providing the authority's services, represented by the line 'Surplus or (deficit) on the provision of services'. Some income and expenditure is required to be recognised on a different basis or in a different accounting period (ie in accordance with legislation) in the General Fund and Housing Revenue Account. These differences are shown in the line 'Adjustments between accounting basis and funding basis under regulations'. Voluntary transfers to or from the General Fund Balance and Housing Revenue Account Balance also affect the amount to be funded from council tax or council dwelling rents; these are shown in the line 'Transfers to or from reserves available to fund services'. The Movement in Reserves Statement also shows Other Comprehensive Income and Expenditure, for example revaluation gains.

CHAPTER THREE: FINANCIAL STATEMENTS

3.4.2.41 The classification of reserves presented in the Movement in Reserves Statement shall include the following items; authorities may choose to present additional items on the face of the statement:

- a) General Fund Balance (in Scotland, includes earmarked portion of General Fund Balance)
- b) Earmarked General Fund Reserves (not Scotland) (recommended but not mandatory)
- c) Housing Revenue Account Balance (in Scotland, includes earmarked portion of Housing Revenue Account Balance)
- d) Earmarked Housing Revenue Account Reserves (not Scotland) (recommended but not mandatory)
- e) Major Repairs Reserve (England and Wales)
- f) Revenue statutory funds (Scotland)
- g) Capital Receipts Reserve (England and Wales); Capital statutory funds (Scotland)
- h) Capital Grants Unapplied Account
- i) Total usable reserves
- j) Unusable reserves
- k) Total reserves of the authority
- l) Authority's share of the reserves of subsidiaries, associates and joint ventures (Group Accounts only)
- m) Total reserves (Group Accounts only).

3.4.2.42 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in each item of the classification of reserves required by paragraph 3.4.2.41. This analysis shall present amounts held for capital purposes separately from those held for revenue purposes, and shall separately identify the total reserves held by schools.

CHAPTER EIGHT: LIABILITIES

8.2.2.9 A **provision** is a liability of uncertain timing or amount.

8.2.2.12 A provision shall be recognised when:

- an authority has a present obligation (legal or constructive) as a result of a past event
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

8.2.2.13 If the above conditions are not met, no provision shall be recognised.

8.2.2.14 In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date. A past event that leads to a present obligation is called an obligating event.

Agenda Item 8



Report of the Section 151 Officer

Audit Committee - 12 December 2017

Treasury Management Annual Report 2016/17 & Budgetary Control Update

Purpose:	This report provides details of the Council's Treasury Management activities during 2016/17 and compares actual performance against the strategy laid down at the start of the year.
Report Author:	J. Dong
Finance Officer:	B Smith
Legal Officer:	D Smith
Access to Services Officer:	S. Hopkins
For Information	

1 Introduction

- 1.1 Under the CIPFA Code of Practice on Treasury Management in Public Services, there is a requirement: "...for the Council to receive reports on its treasury management policies, practices and activities".

This report summarises the activities for the year. The Prudential Code for Capital Finance in Local Authorities also requires the reporting of outturn Prudential Indicators for the year.

2 Executive Summary of Activities During The Year

- 2.1 The Capital Financing Requirement outlined an outstanding borrowing requirement of £68m. In order to mitigate against adverse interest rate movement following the EU Referendum £20m of long term PWLB borrowing was undertaken in June 2016 at an average rate of 2.26%. Temporary market borrowing of £27m was also taken during March 2016 at an average rate of 0.41%.
- 2.2 The average interest rate on outstanding Council borrowing was 4.89% down from 5.15%

2.3 Internally Managed investments achieved a return of 0.47%. This represents an outperformance of +0.27% from the average 7 day LIBID benchmark rate of 0.20%. returning £420k of investment income

2.4 The Council has operated within all of the determined treasury limits outlined in the appendix 1

3 Financial Implications

3.1 There are no financial implications arising directly from this report

4 Legal Implications

4.1 There are no legal implications arising directly from the report.

5 Equality Impact Assessment Implication

5.1 There are no equality impact assessment implications arising directly from the report

Background Papers:

- Treasury Management Strategy, Prudential Indicators, Investment Strategy & Minimum Revenue Provision Statement 2016/17 (Feb 2016)
- Treasury Management Strategy, Prudential Indicators, Investment Strategy & Minimum Revenue Provision Statement 2017/18 (Feb 2017)

Appendices:

Appendix A – Treasury Management Annual Report 2016/17

Treasury Management Annual Report

2016/17

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- 1. Executive Summary**
- 2. Introduction and Background**
- 3. Debt Portfolio**
- 4. Treasury Strategy 2016/17**
- 5. Actual Borrowing 2016/17**
- 6. Compliance with Treasury Limits**
- 7. Capital Financing Charges 2016/17**
- 8. Investment Strategy for 2016/17**
- 9. Actual Investments 2016/17**
- 10. Early Debt Repayment**

Appendices

1. Executive Summary

- 1.1 The Capital Financing Requirement outlined an outstanding borrowing requirement of £68m. In order to mitigate against adverse interest rate movement following the EU Referendum £20m of long term PWLB borrowing was undertaken in June 2016 at an average rate of 2.26%. Temporary market borrowing of £27m was also taken during March 2016 at an average rate of 0.41%
- 1.2 The average interest rate on outstanding Council borrowing was 4.89% down from 5.15%.
- 1.3 Internally Managed investments achieved a return of 0.47%. This represents an outperformance of +0.27% from the average 7 day LIBID benchmark rate of 0.20% returning £420k of investment income.
- 1.4 The Council has operated within all of the determined treasury limits outlined in the Appendix 1.

2. Introduction and Background

- 2.1 Treasury Management in local government is regulated by the CIPFA Code of Practice on Treasury Management in Public Services (the Code). The City and County of Swansea has adopted the Code and complies with its requirements. A glossary of terms used throughout this report is included at Appendix 2.
- 2.2 The primary requirements of the Code are the:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
 - Receipt by the Council of an annual Treasury Management strategy report for the year ahead , a mid term update report and an annual review report of the previous year
 - Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions
 - Treasury Management, in this context, is defined as:

“The management of the local authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance or return consistent with those risks.”
- 2.3 The Council has previously received in February 2016 the Treasury Strategy Statement and Investment Strategy for 2016/17.

- 2.4 The Prudential Code for Capital Finance in Local Authorities has been developed as a professional code of practice to support local authorities in determining their programmes for capital investment. Local authorities are required by Regulation under Part 1 of the Local Government Act 2003 to comply with the Prudential Code.
- 2.5 The objective of the Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:
- Capital expenditure plans are affordable
 - All borrowing and long term liabilities are within prudent and sustainable levels
 - Treasury Management decisions are taken in accordance with professional good practice
- 2.6 The Code includes a set of Prudential Indicators, which are designed to support and inform local decision-making. The 2016/17 Prudential Indicators are detailed in Appendix 1.

3. Debt Portfolio

- 3.1 The Council's external borrowing position at the beginning and end of the year was as follows:

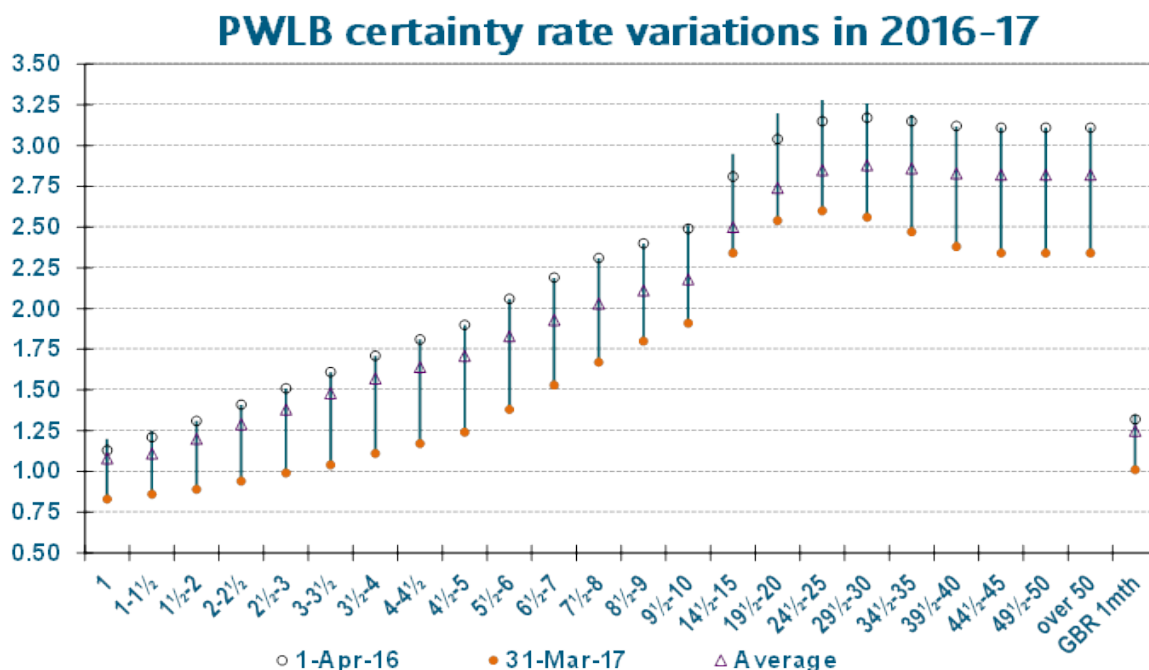
	1 April 2016		31 March 2017	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
Long Term Debt				
PWLB - fixed rate	303,372	5.54	323,085	5.16
Money Market (LOBO)	98,000	4.10	98,000	4.10
Local Bonds				
Short Term Debt				
Market	25	0.39	22,000	0.41
External Bodies	1,035	0.70	1,553	0.70
Total Debt	402,432	5.15	444,639	4.89

- 3.2 The average external debt portfolio interest rate was 4.89%.

4. Treasury Strategy 2016/17

- 4.1 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, starting in quarter 1 of 2017 and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 4.2 In this scenario, the long term treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk, whilst mindful of opportunities to undertake borrowing should they arise and to mitigate any arising risks.
- 4.3 During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.
- 4.4 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 4.5 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

4.6 **PWLB certainty maturity borrowing rates** - During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. The graphs and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



4.6 In this scenario, the treasury strategy was to postpone strategic borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk, whilst being open to tactical and/or risk mitigation borrowing opportunities outlined in 5.2

5. Actual Borrowing 2016/17

5.1 The Treasury Management strategy 2016/17 agreed by the Council in February 2017 outlined capacity to undertake £98m of its capital financing requirement.

5.2 As identified in 4.4 above, a potential risk to interest rate movements was the UK EU referendum. In mitigation of potential adverse movements in rates, it was determined to undertake £20m of long term PWLB borrowing at ahead of the EU Referendum in June 2016. A further £27m of temporary market borrowing was undertaken at various periods from February 2017- March 2017 for liquidity and cashflow purposes. The maturity dates of the long term borrowing were selected to complement the existing maturity profile and minimise interest burden. The loans taken out were :

Long term Borrowing			
Lender	Amount	Maturity	Interest Rate
PWLB	£5m	9years	2.0%
PWLB	£5m	10 years	2.1%
PWLB	£5m	46years	2.47%
PWLB	£5m	47 years	2.47%
Temporary Borrowing			

Lender	Amount	Maturity (av.)	Interest Rate (av)
Market	£27m	39 days	0.41%

6. Compliance with Treasury Limits

- 6.1 During the year, the Council operated within the limits set out in the Council's Treasury Management Strategy 2016/17 under the Prudential Code. The outturn for the prudential indicators are shown in Appendix 1.

7. Capital Financing Charges 2016/17

- 7.1 The capital financing charges made to the Council's accounts for 2016/17 including capital repayments net of discounts/premiums and interest receivable are detailed below.

	Actual 2015/16		Actual 2016/17	
	£'000	Net Interest Rate %		
Housing Revenue A/c	7,170	4.12	8,918	4.33
General Fund	27,422	4.01	27,051	4.32

- 7.2 The net capital financing rates charged differ from the average rate of interest for external debt due to the fact that part of the Council's borrowing for capital purposes is funded by the investment of internal reserves and the use of internal balances and amortisation of historical discounts/premia.applied.

8. Investment Strategy for 2016/17

- 8.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.
- 8.2 Overlaying the relatively poor investment returns were the continued counterparty concerns, most evident in the Euro zone.
- 8.3 As a result of the above, a cautious borrowing and investment strategy was implemented in 2016/17. The paramount consideration in making investments was the security of the investment. Given the low interest rates achievable on Council investments, it is a broad adopted principle to internally finance any new capital borrowing requirement. This results in a lower net interest charge to the Council and reduced risk in relation to security of investment without incurring cost of carry (i.e borrowing at a higher rate than is available for investment). This is notwithstanding the borrowing undertaken in June 2016 which sought to mitigate any adverse

impact of the EU Referendum outcome outlined in 4.4 above.

- 8.4 The Council's investment policy is governed by WAG guidance, which was implemented in the annual investment strategy approved by the Council on February 2016. This policy sets out the approach for choosing investment counterparties, and is based on our Treasury Advisors' investment colour matrix based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps information, bank share prices etc. New investments were restricted to UK based institutions only, which satisfied these criteria.

9. Actual Investments 2016/17

- 9.1 The Council manages its cashflow and core balance investments internally, having realised its cash balances held with its external cash fund manager previously. These balances were invested on the Money Market via brokers or directly with banks and building societies, other local authorities and the Debt Management Office (DMO) within the criteria set out in 8.4 above. The balances held during the year were as follows:

Balance 1 April 2016	Balance 31 March 2017	Average Value 2016/17	Interest	Rate of Return	Benchmark 7 day LIBID
£'000	£'000	£'000	£'000	%	%
49,229	70,751	88,629	420	0.47	0.20

- 9.2 The interest achieved on internally managed investments was £0.420m or 0.47%. This return outperformed the benchmark seven-day rate by +0.27%.
- 9.3 As a further measure to mitigate and control risk following the financial crisis, the Authority determined to restrict investments to UK domiciled only banks and financial institutions in October 2008 resulting in an even smaller number of available counterparties to invest with. This policy was maintained in light of continued sovereign debt crises throughout Europe. The list of investments as at 31st March 2017 is attached at Appendix 3.

10. Debt Repayment/Rescheduling

- 10.1 Market conditions are constantly monitored for opportunities to repay or reschedule debt in line with good Treasury Management practice. No such opportunities arose in 2016/17.

Prudential Indicators

Capital Prudential Indicators	2015/16	2016/17	2016/17
	Actual	Budget	Actual
	£'000	£'000	£'000
Capital Expenditure			
GF	47,679	63,523	49,783
HRA	114,997	54,368	51,953
TOTAL	162,679	117,891	101,736
Ratio of financing costs to net revenue stream	%	%	%
GF	6.69	6.73	6.71
HRA	13.33	13.46	13.44
Incremental Impact on Council Tax (Band D) or Council House Rent	£	£	£
GF	81.36	93.27	92.20
HRA	0.00	40.94	38.20
Capital Financing Requirement	£'000	£'000	£'000
GF	328,493	341,717	342,367
Credit Arrangements	1,656	1,451	620
HRA	135,158	153,724	155,755
TOTAL	465,307	496,892	498,742

Treasury Management Prudential Indicators			
	2015/16	2016/17	2016/17
	Actual	Budget	Actual
	£'000 or %	£'000 or %	£'000 or %
Authorised limit for external debt	402,432	603,564	444,639
Operational boundary for external debt	402,432	543,564	444,639
Upper limit for fixed interest rate exposure	75.65%/ £508,216	100%	77.96%/ £346,640
Upper limit for variable interest rate exposure	24.35%/ £98,000	40%	22.04%/ £98,000
Upper limit for total principal sums invested for over 364 days	0	40,000	0

Maturity Structure of Fixed Rate Borrowing in 2016/17			
	Upper Limit	Lower Limit	Actual
Under 12 months	50%	0%	6.36%
12 months and within 24 months	50%	0%	1.99%
24 months and within 5 years	50%	0%	0.6%
5 years and within 10 years	85%	0%	1.99%
10 years and above	95%	15%	89.06%

The Treasury Management Prudential Indicators identified above as:

- Upper limit for fixed interest rate exposure
- Upper limit for variable interest rate exposure
- Upper limit for total principal sums invested for over 364 days
- Maturity Structure of fixed rate borrowing in 2016/17

are shown as at balance sheet date 31st March 2017, however it can be reported that none of the above limits were breached during 2016/17. The level of outstanding debt throughout 2016/17 is shown in Appendix 2 and can be seen to be within the capital financing requirement, operational boundary and authorised limit for the whole of 2016/17.

Treasury Management – Glossary of Terms

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit <i>(can also be considered as the affordable borrowing limit)</i>	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected movement.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
Borrowing	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- <ul style="list-style-type: none"> • Borrowing repayable with a period in excess of 12months • Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.

Capital Financing Charges (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Rating	<p>This is a scoring system that lenders issue people with to determine how credit worthy they are.</p> <p>The Credit Rating components are as follows:</p> <ol style="list-style-type: none"> 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rated, C/D are the lowest. This Council does not invest with institutions lower than AA- for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.
Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be

	noted that the term borrowing used with the Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	The financing costs are an estimate of the aggregate of the following:- <ul style="list-style-type: none"> • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	Investments are the aggregate of:- <ul style="list-style-type: none"> • Long term investments • Short term investments (within current assets) • Cash and bank balances including overdrawn balances <p>From this should be subtracted any</p>

	investments that are held clearly and explicitly in the course of the provision of, and for the purposes of, operational services.
IMF	International Monetary Fund
LOBO (Lender's Option/ Borrower's Option)	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.
London Inter-Bank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Managed Funds	<p><u>In-House Fund Management</u> Surplus cash arising from unused capital receipts can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets for periods up to one year.</p> <p><u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.</p>
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two year time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government

	in maintaining high and stable levels of growth and employment.
Money Market	<p>Consists of financial institutions and deals in money and credit.</p> <p>The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.</p>
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can

	<p>charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.</p>
Prudential Code	<p>The Prudential Code is the largely self-regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.</p>
Public Works Loan Board (PWLB)	<p>A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.</p>
Range Trade Accrual	<p>A Callable Range Accrual is so called because it is callable or cancellable by the bank after the initial period, as above. However, where it differs, is that interest accrues only as long as Libor (London Interbank Offer Rate, or another independently derived and published benchmark rate) stays within a pre-agreed range. The lender can choose the range, the non-call period, the Libor they wish to use, the call periods and the potential return they wish to receive.. The bank has the right to cancel this trade after the first 3 months, and every 3 months thereafter. With a range trade, the lender is backing his judgement on interest rate movements and in exchange for that can achieve a significantly enhanced return. This is done as part of portfolio management. The risk of rates going above Libor on a small part of the portfolio (and therefore none, or little payment on a range accrual) will be offset by the fact that the rest of the portfolio will be returning more than expected. The key risk to a callable range accrual is obviously that the contractual Libor rate goes outside the specified range. It is possible to mitigate this risk by analysing the historical behaviour of any specified Libor</p>

	relative to base rate. By taking a view on expected base rate (which is done on all deposits), a lender can minimise exposure, and choose a range to match his risk appetite.
Risk	<p><u>Counterparty Credit Risk</u> The risk that a counterparty defaults on its obligations.</p> <p><u>Inflation Risk</u> The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure.</p> <p><u>Interest Rate Risk</u> The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances.</p> <p><u>Liquidity Risk</u> The risk that cash will not be available when it is needed.</p> <p><u>Operational Risk</u> The risk of loss through fraud, error, corruption, system failure or other eventualities in Treasury Management dealings, and failure to maintain effective contingency management arrangements.</p> <p><u>Refinancing Risk</u> The risk that the Authority is unable to replace its maturing funding arrangements on appropriate terms.</p>
Set Aside Capital Receipts	A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.
SORP	Statement of Recommended Practice, published by CIPFA (Local Authority Accounting Body). This sets out guidelines regarding the Council's financial matters.
Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days in line with statutory investment regulations. Non- specified investments are all other investments identified in line with statutory investment regulations.

Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	<p>Treasury Management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services.</p> <p>"The management of the organisation's 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."</p>
Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

Portfolio of Outstanding Investments as at 31 March 2017

	£
Bank of Scotland	13,150,651
Birmingham City Council	3,000,000
Blackburn with Darwen City Council	2,000,000
Blaenau Gwent	3,000,000
Coventry BS	3,000,000
Eastleigh BC	2,000,000
Fife Council	1,500,000
Glasgow City Council	2,000,000
Gloucester City Council	2,000,000
Goldman Sachs	12,500,000
Guildford Council	2,000,000
Leeds City Council	3,000,000
Nationwide Building Society	7,500,000
Nottingham City Council	1,000,000
Santander Bank	10,100,000
Telford & Wrekin Council	2,000,000
Thurrock Borough Council	1,000,000
<hr/>	
Total	70,750,651

Agenda Item 9



Report of the Chief Auditor

Audit Committee – 12 December 2017

Internal Audit Annual Monitoring Report Quarter 2 2017/18

Purpose:	This report shows the audits finalised and any other work undertaken by the Internal Audit Section during the period 1 July 2017 to 30 September 2017.
Policy Framework:	None.
Consultation:	Legal, Finance, Access to Services.
Recommendation(s):	It is recommended that Committee review and discuss the work of the Internal Audit Section and note the contents of the report.
Report Author:	Simon Cockings
Finance Officer:	Simon Cockings
Legal Officer:	Sandie Richards
Access to Services Officer:	Sherill Hopkins

1. Introduction

- 1.1 The Internal Audit Annual Plan 2017/18 was approved by the Audit Committee on 28th March 2017 and quarterly monitoring reports will be presented throughout the year to allow Committee to review and comment upon the progress of the Internal Audit Section in achieving the Annual Plan.
- 1.2 This report shows the audits which were finalised in the period 1st July 2017 to 30th September 2017.

2. Audits Finalised 1 July 2017 to 30 September 2017

- 2.1 Due to the Chief Auditor's retirement at the end of March, plans were put in place to allow the implementation of the Audit Section's restructure from April 2017. Competitive interviews took place resulting in the appointment of one of the Senior Auditors as the new Principal Auditor. This has resulted in the loss of one full time equivalent post from 2017/18 onwards.
- 2.2 The Internal Audit Section has continued to experience high levels of sickness in the 2nd Quarter of 2017/18 with a total of 63 days absence. Cumulative sickness absence to date stands at 109 days against a projected annual budget of 80 days. As previously reported, most of the sickness in the second quarter has been caused by two members of staff being off for extended periods of time.
- 2.3 A total of 21 audits were finalised during Quarter 2. The audits finalised are listed in Appendix 1 which also shows the level of assurance given at the end of the audit and the number of recommendations made and agreed.
- 2.4 An analysis of the audits finalised during the 2nd Quarter is shown in the following table.

Assurance Level	High	Substantial	Moderate	Limited
Number	7	12	2	0

- 2.5 A total of 249 audit recommendations were made and management agreed to implement 248 recommendations i.e. 99% against a target of 95%. The one recommendation that was not agreed, for practical operational reasons, was classed as low risk, and is agreed with the S151 Officer.
- 2.6 All recommendations made are classified as high risk, medium risk, low risk or good practice. An analysis of the recommendations agreed during Quarter 2 is shown in the following table

High Risk	Medium Risk	Low Risk	Good Practice	Total
0	24	158	66	248

- 2.7 In addition, the Internal Audit Section also certified the following grants in the quarter as required by the terms and conditions of the grant issued by the Welsh Government.

Grant	Amount £
Education Improvement Grant 2016/17	9,937,118

Live Kilometre Grant 2016/17	n/a
Supporting People Programme Grant 2016/17 – Outcomes	n/a
Supporting People Programme Grant 2016/17 – Regional Development Coordinator	42,374
School Uniform Grant 2014/15, 2015/16, 2016/17	51,392 45,976 61,037

2.8 It was found that in all cases, the grant had been spent in accordance with the agreed purpose and that only eligible expenditure was included.

2.9 The Audit Plan is a 'living' document which is likely to change during the course of the year due to e.g. emerging risks or new priorities. However it is important that the Audit Committee can monitor progress against the Plan approved at the start of the year. To achieve this, Appendix 2 shows each audit included in the Plan approved by Committee in March and identifies the position of each audit as at 30 September 2017.

2.10 The following table shows brief details of the significant issues which led to the two moderate ratings issued in the quarter.

Audit	Assurance Level	Reasons
Penyrheol Leisure Centre & Elba Sports Complex	Moderate	<ul style="list-style-type: none"> No evidence recorded on the Pool Fire Risk Assessment Action Plan to confirm required actions had been implemented. DBS database was incomplete. A number of club bookings sampled showed no evidence of public liability insurance being checked. The staff listing for the site showed two members of staff that were no longer employed on site were still being paid. Till cashing up records were not being signed by the cashier on duty.
Catering Services Headquarters	Moderate	<ul style="list-style-type: none"> The Purchase Card on site was being used by a number of members of staff. Mileage stated on mileage

		<p>claims was not being adequately checked prior to claims being approved and claims did not include enough information.</p> <ul style="list-style-type: none"> • VAT was not being reclaimed on petty cash purchases. • Written confirmations of function bookings were not available for review. • Instances of non-compliance with Contract Procedure Rules were noted for supplier purchases. • Inventory records were not being kept up to date and no Annual Inventory Certificate had been prepared as per AI9. • A number of these recommendations were repeated from the previous audit in 2013/14.
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2.11 An analysis of the details in Appendix 2 shows that by the end of September 2017, approximately 50% of the Audit Plan was either completed or in progress which is as expected at the end of the second quarter in the year.

2.12 The Internal Audit Section was also involved in the following work during Quarter 2:

- Bishop Vaughan Comprehensive School investigation in relation to administrative practices.
- Continuation of work on the National Fraud Initiative 2016.
- Production of the Annual Report of School Audits 2016/17.
- Sample testing of back pay calculations which resulted in a total reduction of £3,300 in the payments due.

3. Follow Ups Completed 1 July 2017 to 30 September 2017

3.1 The follow up procedures operated by the Internal Audit Section include visits to any non-fundamental audits which received a moderate or limited level of assurance to confirm and test that action has been taken by management to address the concerns raised during the original audit.

- 3.2 The follow up visit is usually within 6 months of the final report being issued and includes testing to ensure that any high or medium risk recommendations have been implemented. Where agreed recommendations have not been implemented, this will be reported to the appropriate Head of Service (or Chair of the Governing Body in the case of schools) and the Head of Financial Services and Service Centre (Section 151 Officer).
- 3.3 Follow-up audits were completed for Suresprung, Community Equipment Store and the Community Alarm Service all of which are based in Adult Services. The follow up visits confirmed that whilst progress had been made, some recommendations had not been implemented or were in the process of being completed. Due to the departure of the previous manager covering all three areas, and due to other resource issues within the service the implementation of some of the recommendations has been delayed. All three audits are due to be completed again in full as part of the three-yearly programme in 2018/19.
- 3.4 A follow-up audit was also completed of the Flexi Time System. Similarly, the follow-up confirmed that whilst some progress had been made in implementing the recommendations, some had not been completed. Again, the manager of the service has since retired, and a number of the recommendations are due to be implemented in conjunction with the introduction of amended policies and processes that are due to be completed by March 2018. This audit is also due to be undertaken in full in 2018/19.

4 Equality and Engagement Implications

- 4.1 There are no equality and engagement implications associated with this report

5. Financial Implications

- 5.1 There are no financial implications associated with this report.

6. Legal Implications

- 6.1 There are no legal implications associated with this report.

Background Papers: Internal Audit Plan 2017/18

Appendices: Appendix 1 Internal Audit – Monitoring Report Quarter 2 2017/18
Appendix 2 Internal Audit Plan 2017/18 – Progress to 30/09/17

INTERNAL AUDIT - MONITORING REPORT QUARTER 2 2017/18

Head of Service	Audit	Date Finalised	Assurance Level	Recommendations		
				Made	Agreed	Not Agreed
Child & Family Services	Safeguarding	14/08/17	High	4	4	0
Education Planning & Resources	Birchgrove Primary	08/09/17	High	2	2	0
Education Planning & Resources	Pentrehafod Comprehensive	03/07/17	High	7	7	0
Corporate Building Services	Heol-y-Gors Depot - Estimating	05/09/17	High	4	4	0
Financial Services & Service Centre	Swansea Bay Port Health Authority	06/07/17	High	9	8	1
Financial Services & Service Centre	Corporate Risk Register	12/09/17	High	0	0	0
Corporate Building Services	Tendering - CBS	23/08/17	High	0	0	0
Child & Family Services	Nant-y-Felin Children's Home	21/07/17	Substantial	24	24	0
Child & Family Services	Business Support Team - Child & Family	14/07/17	Substantial	10	10	0
Adult Services	Supporting People Team	08/09/17	Substantial	10	10	0
Financial Services & Service Centre	Debt Recovery (Social Services)	09/08/17	Substantial	10	10	0
Education Planning & Resources	Bishopston Comprehensive	21/09/17	Substantial	18	18	0
Highways & Transportation	Swansea Bus Station	19/07/17	Substantial	3	3	0
Financial Services & Service Centre	Accounts Receivable	06/07/17	Substantial	14	14	0
Human Resources & Organisational Development	Officers Expenses	18/08/17	Substantial	12	12	0
Cultural Services	Art Gallery	04/09/17	Substantial	28	28	0
Poverty & Prevention	Play Team	12/09/17	Substantial	7	7	0
Cultural Services	Archives	29/09/17	Substantial	15	15	0
Housing & Public Protection	Voids Team - HPU	09/08/17	Substantial	7	7	0
Education Learner Support Services	Catering HQ	15/08/17	Moderate	29	29	0
Cultural Services	Penyrheol Leisure Centre & Complex	22/08/17	Moderate	36	36	0
Total				249	248	1

INTERNAL AUDIT ANNUAL PLAN 2017/18

Head of Service	Risk Rating	Progress as at 30.09.17
Head of Education Planning & Resources		
Brynmill Primary School	Medium	Draft Issued
Casllwchwr Primary School	Medium	Final Issued
Craigcefnparc Primary School	Medium	In Progress
Glais Primary School	Medium	In Progress
Llangyfelach Primary School	Medium	Draft Issued
YGG Gellionnen	Medium	Final Issued
St Illtyds RC Primary School	Medium	In Progress
Clase Primary School	Medium	Draft Issued
Gendros Primary School	Medium	Draft Issued
Gorseinon Primary School	Medium	In Progress
Pentre'r Graig Primary School	Medium	In Progress
Craigfelen Primary School	Medium	In Progress
Cwmrhydyceirw Primary School	Medium	In Progress
Llanridian Primary School	Medium	In Progress
Oystermouth Primary School	Medium	In Progress
Parkland Primary School	Medium	In Progress
Penllergaer Primary School	Medium	In Progress
Tre Uchaf Primary School	Medium	In Progress
Whitestone Primary School	Medium	In Progress
Ynystawe Primary School	Medium	In Progress
Ysgol Cymraeg y Cwm	Medium	In Progress
YGG Llwynderw	Medium	In Progress
YGG Lon Las	Medium	In Progress
YGG Pontybrenin	Medium	Final Issued
YGG Tirdeunaw	Medium	In Progress
YGG Tan-y-Lan	Medium	In Progress
Bishopston Comprehensive School	Medium	Final Issued
Cefn Hengoed Comprehensive School	Medium	Planned
Pontardullais Comprehensive School	Medium	In Progress
Ysgol Gyfun Bryn Tawe	Medium	Planned
Ysgol Crug Glas	Medium	In Progress
School Funding & Information	Medium/High	Planned
Capital Planning & Delivery Unit	Medium/High	Planned
Head of Education Improvement		
Challenge Advisers	Medium	Planned
Head of Education Learner Support Service		
EOTAS Pathways	Medium	In Progress
Home Tuition Service	Medium	Planned
LAC Co-ordinator	New	Planned
Ethnic Minority Achievement Unit	Medium	Planned
School Kitchens	Medium	Planned
Catering Service Headquarters	Medium	Final Issued
Music Service	Medium	Planned

INTERNAL AUDIT ANNUAL PLAN 2017/18

Head of Service	Risk Rating	Progress as at 30.09.17
Education - Other		
School Uniform Grant	N/A	Final Issued
Education Improvement Grant	N/A	Final Issued
Pupil Deprivation Grant	N/A	In Progress
Schools Annual Report	N/A	Final Issued
Head of Child & Family Services		
Independent Agency Payments	Medium/High	Draft Issued
Nant-y-Felin Children's Home	Medium	Final Issued
Adoption Allowances	Medium	In Progress
Foster Swansea	Medium	Planned
Head of Adult Services		
Home Care	Medium/High	Planned
Supporting People Team	Medium	Final Issued
Supporting People Grant	N/A	In Progress
Live Kilometre Support Grant	N/A	Final Issued
Cyrenians - Lessons Learned	New	In Progress
Deprivation of Liberty Safeguards	New	Final Issued
Emergency Placements	New	Planned
CREST	Medium	Draft Issued
Directorate Services		
Client Property and Finance	Medium	In Progress
Staff Development and Training Section	Medium	Planned
Head of Poverty & Prevention		
Partnerships, Performance & Commissioning	New	Planned
Play Team	Medium	Final Issued
Head of Corporate Building & Property Services		
Heol y Gors - Estimating	Medium	Final Issued
Enjergy Management	Medium	In Progress
Head of Waste Management		
Waste Enforcement	New	Planned
Specilaist Parks Services	Medium	Planned
Parks Buildings	Medium	Planned
Head of Highways & Transportation		
Home to School Transport	Medium	Planned
Concessionary Bus Fares	N/A	Planned
Swansea Marina	Medium	Final Issued
Clydach Depot - Finance and Admin	Medium	Planned
Swansea Highways Partnership	New	Planned
Head of Housing & Public Protection		
Townhill District Housing Office	Medium	Final Issued
Sketty District Housing Office	Medium	Final Issued
Voids Team / Homes Preparation Unit	Medium	Final Issued
Renewal Areas	Medium	Draft Issued

INTERNAL AUDIT ANNUAL PLAN 2017/18

Head of Service	Risk Rating	Progress as at 30.09.17
Head of Cultural Services		
Morrison Leisure Centre	Medium	In Progress
Penlan Leisure Centre	Medium	In Progress
Penyrheol Leisure Centre	Medium/High	Final Issued
Penyrheol Theatre	Medium	Final Issued
Glynn Vivian Art Gallery	Medium	Final Issued
Archives	Medium	Final Issued
Spot Checks	Medium	In Progress
Brangwyn Hall and Guildhall Catering	Medium/High	Draft Issued
Head of Planning & City Regeneration		
Development Projects and Joint Ventures	Medium	Planned
Planning & Enforcement	New	Planned
Planning - AONB	New	In Progress
Head of Communications & Customer Engagement		
Scrutiny	New	In Progress
Head of Finance & Delivery		
Cashiers Office	Medium/High	Planned
Write-off Requests by Departments	N/A	Planned
Cashiers Write Offs	N/A	Planned
Car Loans	Medium	Final Issued
Risk Management	High	Planned
Private Residential Care Charges	Medium/High	Planned
Funded Nursing Care	Medium	Planned
Short Term Care	Medium	Planned
Abacus Income Collection	New	Final Issued
TSB Accounts	Medium/High	Planned
Learning Disability Recharges	New	Planned
Head of Legal & Democratic Services		
Freedom of Information	New	Planned
Debt Recovery Process	New	Final Issued
Head of Human Resources		
Officers Expenses	Medium	Final Issued
Emergency Planning and Civil Contingencies	Medium	Planned
Head of Information & Business Change		
Project Management Methodology	New	Planned
Strategic Projects - Administration	Medium	Final Issued
Head of Commercial Services		
No planned audits		

INTERNAL AUDIT ANNUAL PLAN 2017/18

Head of Service	Risk Rating	Progress as at 30.09.17
Fundamental Systems		
Payroll	High	Planned
Pensions Administration	High	Planned
Teachers Pensions	Medium	Planned
Accounts Receivable	High	Planned
Business Rates	Medium	Planned
Pension Fund Investments	High	Planned
Housing Rents	Medium	Planned
Housing & Council Tax Benefit	Medium	Planned
Capital Accounting	Medium	Planned
Contract Audits - Systems		
Legal		
Liquidations, Insurance Cover & Performance Bonds	Medium/High	Planned
Highways & Transportation		
Control of Contracts	Medium	Final Issued
Corporate Building Services		
Tendering	Medium	Final Issued
Housing Systems Overview	Medium	Planned
Housing Renewal Areas	Medium	Planned
Social Services		
Tendering, Letting & Monitoring	New	In Progress
Computer Audits		
File Controls	Medium	Planned
Data Storage	Medium	Planned
Network Controls - Corporate Network	Medium	Planned
Firewall Controls - Corporate Network	Medium	Planned
Payment Card Industry - Data Security Standard	Medium	Planned
e-Commerce Controls	Medium	Planned
Physical and Environmental Controls	Medium/High	Planned
Computer Operations	Medium/High	Planned
Application Controls - Flare System	Medium	Planned
Application Controls - Fostercare System	Medium	Planned
Application Controls - CRM System	N/A	Planned
Change Control - Oracle	High	Planned
Digital Strategy	High	Planned
Extraction of Data - Miscellaneous	N/A	Planned
Contract Audits		
Final Accounts	N/A	Planned
Financial Appraisal of Contractors for Tenders	N/A	Planned

INTERNAL AUDIT ANNUAL PLAN 2017/18

Head of Service	Risk Rating	Progress as at 30.09.17
Cross Cutting Audits		
Corporate Governance Review	New	Planned
Partnerships - Overview and Governance	New	Planned
Review of Corporate Risks	New	Final Issued
Added Value Work	New	Planned
Delegated Decision Making	New	Planned
Ethics & Values	New	Planned
Review of Senior Management Assurance Statements	New	Planned
Officer's Code of Conduct	New	Planned
Whistleblowing Policy	New	Planned
Miscellaneous Audits		
Swansea Bay Port Health Authority	New	Final Issued
Projects and Special Investigations		
Unpresented Cheques > £2,000	N/A	Planned
Galileo Audit Management System	N/A	Final Issued
Annual Plan & Annual Report	N/A	Planned
Health & Safety Group	N/A	Planned
Recommendations Tracker	N/A	In Progress
Follow Ups	N/A	Final Issued
Development of Audit Programmes	N/A	Final Issued
Compliance with Pay Policy	New	Planned
P Card Review of Purchases	N/A	Planned
PSIAS External Assessment	N/A	Planned



Report of the Chief Auditor

Audit Committee – 12 December 2017

Fundamental Audits 2016/17 – Recommendation Tracker

Purpose:	This report provides a summary of the recommendations made following the fundamental audits 2016/17 and identifies whether the agreed recommendations have been implemented
Policy Framework:	None
Consultation:	Legal, Finance, Access to Services
Recommendation(s):	It is recommended that Committee review and discuss the progress made in implementing the recommendations made following the fundamental audits 2016/17
Report Author:	Simon Cockings
Finance Officer:	Simon Cockings
Legal Officer:	Sandie Richards
Access to Services Officer:	Sherill Hopkins

1. Introduction

- 1.1 The Internal Audit Section has defined follow up procedures which are designed to provide assurance that agreed recommendations have been implemented by management within the agreed timescales. For fundamental audits, a Recommendations Tracker exercise is completed each year where the auditor will review the actions taken to implement the agreed recommendations.

- 1.2 The fundamental audits are the systems which are so significant to the achievement of the Council's objectives that they are audited either annually or every 2 years.
- 1.3 The Recommendations Tracker identifies the actions agreed by management at the end of each fundamental audit and tracks whether they have been implemented by the agreed date.
- 1.4 This report summarises the position as at 30 November 2017 on the implementation of the recommendations made following the 2016/17 fundamental audits.

2. Recommendations Tracker 2016/17

- 2.1 The following systems are considered to be fundamental and until 31 March 2014 were subject to an annual audit.
 - Main Accounting System (2)
 - Fixed Assets (2)
 - Housing and Council Tax Benefit (2)
 - Council Tax (2)
 - NNDR (2)
 - Cash (2)
 - Accounts Payable (2)
 - Accounts Receivable (1)
 - External Investments and Borrowing (2)
 - Pension Fund Investments (2)
 - Payroll (1)
 - Pensions Administration (1)
 - Teachers Pensions (1)
 - Housing Rents (2)
- 2.2 For the 2014/15 Annual Plan, a risk based approach was taken to fundamental audits and any audits which had received the highest level of assurance for 3 consecutive years were moved to a 2 year cycle of audits. The number of years between each audit is shown in brackets above and is subject to an annual review as part of the audit planning process.
- 2.3 Appendix 1 shows, for each fundamental audit, the number of recommendations made following the 2016/17 audits and whether they have been implemented, partly implemented, not implemented or are not yet due.
- 2.4 The latest position on the 40 recommendations made is summarised in the following table:

Recommendations	Number	%
Implemented	32	80
Partly Implemented	2	5.0
Not Implemented	3	7.5
Not Yet Due	3	7.5
Total	40	100.0

2.5 Ignoring the recommendations which are not yet due for implementation, the percentage of recommendations implemented by 30 November 2017 is 86%.

2.6 An analysis of the 5 recommendations, which have been partly or not implemented over the classification of audit recommendations used by the Internal Audit Section, is attached in Appendix 2. The Appendix shows that 1 recommendation which has not been implemented is classed as low risk and the other 2 are classed as good practice. Both partly implemented recommendations were classed as either low risk or good practice.

2.7 The recommendations which have been partly or not implemented are shown in Appendix 3.

3. Conclusion

3.1 The number of recommendations arising from the fundamental audits continues to decrease year on year. There were 40 recommendations made following the 2016/17 fundamental audits which is down by 6 on the previous year.

3.2 Overall the results of the Recommendations Tracker exercise to the end of November 2017 are positive with 32 (86%) of agreed recommendations due for implementation already implemented.

3.3 A small number of recommendations still require work to implement or are due for implementation prior to the end of the financial year. Progress on the implementation of these recommendations will be reviewed during the fundamental audits for 2017/18.

4. Equality and Engagement Implications

4.1 There are no equality and engagement implications associated with this report

5. Financial Implications

5.1 There are no financial implications associated with this report.

6. Legal Implications

6.1 There are no legal implications associated with this report.

Background Papers: Fundamental Audit Reports 2016/17

Appendices: Appendix 1 – Implementation of Recommendations

Appendix 2 – Classification of Recommendations

Appendix 3 – Not or Partly Implemented Recommendations

**Fundamental Audits 2016/17
Implementation of Recommendations**

Audit	Recommendations				Total No. of Recs.
	Implemented	Partly Implemented	Not Implemented	Not Yet Due	
Main Accounting	2	0	0	0	2
Cash	3	0	0	1	4
Council Tax	0	0	0	0	0
Accounts Receivable	10	1	1	2	14
Accounts Payable	3	0	2	0	5
Treasury Management	1	0	0	0	1
Employee Services (Payroll)	10	1	0	0	11
Pensions Admin	3	0	0	0	3
Teachers Pensions	0	0	0	0	0
Total	32	2	3	3	40

Fundamental Audits 2016/17 - Recommendations Tracker
Not or Partly Implemented Recommendations

Report Ref	Recommendation	Class	Agreed Action/Comments	Responsibility For Implementation	Implementation Date	Action Taken
Accounts Payable 2016/17						
Page 90 2.9.2 a) - c)	The review of the report showing unallocated supplier credits should be more thorough and each case should be reviewed in more detail to ensure that appropriate action is taken to recover credits on the system. Appropriate action should also be undertaken to ensure that the credits listed in 2.9.2 are recovered.	LR	Agreed	Neil Payne	01 June 2017	Not implemented: Staff in the process of drawing up guidance notes by Nov17
2.13.1	Communications should be distributed reminding Managers of their responsibility to inform Accounts Payable of any changes to Authorised Signatories in their responsible areas.	GP	Agreed	Neil Payne	01 June 2017	Not implemented: target Oct17. Comms will probably lead to additional work load for section.

**Fundamental Audits 2016/17 - Recommendations Tracker
Not or Partly Implemented Recommendations**

Report Ref	Recommendation	Class	Agreed Action/Comments	Responsibility For Implementation	Implementation Date	Action Taken
Employee Services (Payroll) 2016/17						
2.3.2 iv	It should be ensured that documents have been fully completed prior to being processed by Payroll.	LR	New SW forms will prevent this happening in future	SW/JJ	01 June 2017	Part Implemented: Complete for schools – working on new forms as part of HR Process review with a view to implement before end of 2017

**Fundamental Audits 2016/17 - Recommendations Tracker
Not or Partly Implemented Recommendations**

Report Ref	Recommendation	Class	Agreed Action/Comments	Responsibility For Implementation	Implementation Date	Action Taken
Accounts Receivable						
3.6.3	Training should be provided to other staff members in AR to enable them to carry out checks on "Arrangements".	GP	Agreed. Arrangement training notes been completed and training arranged for Aug17	Neil Payne	Aug. 2017	Part Implemented: Progressing
3.9.1	Management reports that are sent to PFM should include year on year statistics instead of September 2010.	GP	NP will need to speak to PFM team to see if PFM reports can be updated to 3 columns (2010 Base level, 1 year month comparison and recent month)	Neil Payne	Sept. 2017	Not Implemented

Agenda Item 11



Report of the Chief Auditor

Audit Committee – 12 December 2017

Audit Committee – Action Tracker

Purpose:	This report details the actions recorded by the Audit Committee and response to the actions.
Report Author:	Simon Cockings
Finance Officer:	Simon Cockings
Legal Officer:	Sandie Richards
Access to Services Officer:	Ann Williams

FOR INFORMATION

1. Introduction

- 1.1 During the course of Audit Committee meetings various actions may be decided which are recorded on the minutes of the meetings.
- 1.2 In the past, the Committee has had no transparency over the outcomes of the actions minuted by the Committee. As a result, an Action Tracker process was put in place in 2016/17.
- 1.3 An Action Tracker has been created which records the decisions taken by the Audit Committee and provides an outcome for each action.
- 1.4 The Action Tracker for the 2015/16, 2016/17 and 2017/18 municipal years are attached in Appendix 1, 2 and 3.
- 1.5 The Action Tracker will be regularly updated and any completed actions will be marked 'CLOSED' and coloured in grey.
- 1.6 The Action Tracker will be reported to each Audit Committee meeting for information.

2. Equality and Engagement Implications

2.1 There are no equality and engagement implications associated with this report.

3. Financial Implications

3.1 There are no financial implications associated with this report.

4. Legal Implications

4.1 There are no legal implications associated with this report

Background Papers: None

Appendix 1 – Action Tracker 2017/18

Appendix 2 – Action Tracker 2016/17

Appendix 3 – Action Tracker 2015/16

AUDIT COMMITTEE ACTION TRACKER 2017/18	
Action	Outcome
26/09/17 – Procurement in Schools	
A meeting to be arranged with Procurement and Education representatives do discuss procurement issues at schools as identified in the Annual Report of School Audits. An update from Procurement is to be provided in the February meeting. Initial meeting arranged for 13/12/17.	
11/07/17 – Performance Review Development of the Audit Committee	
In relation to the Audit Committee Performance Review findings, the Chair of the Audit Committee is to investigate the possibility of reinstating regional working groups for Chairs/Audit Committee Members to consider joint training and benchmarking possibilities.	
11/07/17 Min 16 – Draft Statement of Accounts	
The Section 151 Officer be requested to provide Committee with an update regarding the funding of reserves and overall good financial management.	Section 151 Officer is due to attend the December meeting to provide an update on the review of reserves and overall budget monitoring/control. - CLOSED
20/06/17 Min 5 – Work Programme	
A description to accompany items within the Work Programme be provided in future.	Standard agenda items have been highlighted in bold in the workplan. CLOSED

AUDIT COMMITTEE ACTION TRACKER 2016/17	
Action	Outcome
28/03/17 Min 77 – Chair of Scrutiny Committee	
The Chair of the Scrutiny Programme Committee be invited to a future meeting of the Committee in order to provide an update report.	The Chair of the Scrutiny Programme Committee is due to attend Audit Committee on the 10/10/17 - CLOSED
28/03/17 Min 78 – Procurement Processes	
Procurement procedures being linked to risk.	
14/02/17 Min 63 – Audit Committee – Action Tracker	
The outcome relating to Councillor access to the Section 106 database be reopened due to insufficient information being available.	The action has been reopened pending further information being received from Planning. See Min 41 of meeting on 25/10/16 below - CLOSED
03/01/17 Min 55 – Wales Audit Office Annual Audit Letter 2015/16	
The Wales Audit Office report regarding the key principles to a strategic approach to setting, increasing or introducing charges for local authority services be circulated to the Committee	The report was circulated on 04/01/17 - CLOSED
13/12/16 Min 45 – Training Presentation Risk Management	
An update on the progress of Risk Management be provided in March	Due to the number of items on the agendas for the meetings in March 2017, the Risk Management update has been included on the agenda for the June 2017 meeting - CLOSED
13/12/16 Min 45 – Training Presentation Risk Management	
The presentation be circulated to the Committee	The presentation was circulated on 21/12/16 - CLOSED
13/12/16 Min 46 – Training Presentation Counter Fraud	
The presentation be circulated to the Committee	The presentation was circulated on 21/12/16 - CLOSED
13/12/16 Min 47 – Commercialism Strategy	
Members of the Committee be invited to attend the forthcoming Headteacher Workshops	An e-mail was sent to the Head of Commercial Services on 11/01/17 to register the interest of members of the Committee in the Headteacher Workshops. When the Workshop date has been agreed, details will be circulated to the Committee. Reminder e-mail sent to CW 26/07/17.
13/12/16 Min 47 – Commercialism Strategy	
The presentation be circulated to the Committee	The presentation was circulated on 21/12/16 - CLOSED

13/12/16 Min 51 – Corporate Fraud Team Investigation Report	
The Chair writes to the Head of Waste Management to seek assurance that the lessons learned from this investigation have been adopted by the service,	A letter was sent to the Head of Waste Management on 13/01/17 - CLOSED
25/10/16 Min 39 – Annual Report of School Audits 2015/16	
The Head of Commercial Services be invited to the next scheduled meeting to discuss the Service Level Agreement	The Head of Commercial Services attended the meeting on 13/12/16 - CLOSED
25/10/16 Min 39 – Annual Report of School Audits 2015/16	
The Chief Education Officer be invited to the next scheduled meeting to discuss the influence the centre can exercise over compliance with procedures by schools	The Chief Education Officer attended the Audit Committee on 14/03/17 - CLOSED
25/10/16 Min 41 – Chair / Wales Audit Office Liaison Meeting	
Confirmation be provided regarding Member access to the Section 106 database	Feedback was provided by the Chief Auditor to the meeting on 03/01/17 and a note circulated to all members. A further request has been made to Planning identifying information members would like to receive regarding Section 106 agreements. The Chair will meet the Head of Planning and City Regeneration to discuss. - CLOSED
30/08/16 Min 25 – Internal Audit Monitoring Report Quarter 1 2016/17	
Self-assessment forms for schools be added to school governing body meeting agendas	Self-assessment questionnaire to be added to agenda of governing body clerks forum meeting to be held in January 2017. A reminder will also be circulated to all schools - CLOSED
30/08/16 Min 26 – Corporate Fraud Team Plan 2016/17	
An update be provided to the Committee in 6 months	Update included on agenda for Committee meeting on 28/03/17 - CLOSED
21/07/16 Min 18 – Internal Audit Monitoring Report Quarter 4 2015/16	
In future, any delays in receiving a response from a service to a draft internal audit report be reported to the Committee.	Any delay in receiving a response to a draft internal audit report will be included in the quarterly Internal Audit Monitoring Report - CLOSED
21/07/16 Min 18 – Internal Audit Monitoring Report Quarter 4 2015/16	
The Chief Auditor contacts the Head of Human Resources and Organisational Development in order to discuss the procedure regarding de-activating flexi-cards when an employee ends employment with the Authority	When an employee leaves, the line manager is required to complete an exit interview checklist. One of the items on the checklist is to re-cover the employee's flexi card and return it to HR for cancellation - CLOSED
21/07/16 Min 18 – Internal Audit Monitoring Report Quarter 4 2015/16	

The Chair writes to the Head of Service where an audit has received a moderate level of assurance for a second audit to express the Committee's concern that there has been no improvement in the controls in operation.	Letters sent 05/08/16 and copies reported to Audit Committee on 30/08/16 for information - CLOSED
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28/06/16 Min 8 – Corporate Governance Review Report	
The recommendations contained within the report be regularly monitored and where appropriate feedback be provided by the Deputy Head of Legal and Democratic Services	The recommendations included in the Corporate Governance report as well as those arising from the WAO's Corporate Assessment and the Peer Review are being monitored on a regular basis by the Corporate Management Team. Work is progressing to implement the recommendations and will continue to be monitored by the Head of Legal Democratic Services & Business Intelligence. Update to be provided at the November meeting - CLOSED
28/06/16 Min 9 - Certification of Grants and Returns 2013/14 and 2014/15	
All Responsible Officers be advised and reminded of the external auditors findings and the obligation to maintain at all times adequate and complete records to support future grant certification claims	E-mail sent to all Heads of Service by Chief Finance and Deputy Section 151 Officer on 30/06/16. The e-mail; highlighted the relevant issues and the external auditor's grants report was attached - CLOSED
28/06/16 Min 9 - Certification of Grants and Returns 2013/14 and 2014/15	
A letter be circulated to schools highlighting the need to retain relevant paperwork in relation to grants claimed in order to prove if the funding was used appropriately.	The Chair wrote to Chief Education Officer on 05/08/16 asking for the issues to be brought to the attention of schools and an e-mail was sent to all schools on 09/11/16 - CLOSED
28/06/16 Min 11 – YGG Lon Las Draft Response to Cabinet	
Additional comments be forwarded to the Chair/Chief Auditor	No further comments were received - CLOSED
28/06/16 Min 11 – YGG Lon Las Draft Response to Cabinet	
The updated report be forwarded to Cabinet	Report was presented to Cabinet on 19/01/17 - CLOSED
28/06/16 Min 12 – Final Audit Committee Annual Report 2015/16	
The Audit Committee Annual Report 2015/16 be approved and be presented to Council in July/August 2016	Report was presented to Council on 22/09/16 - CLOSED
14/06/16 Min 5 – Audit Committee Training	
The training presentations regarding risk management and counter fraud be deferred to a future Audit Committee meeting	Training presentations delivered at meeting on 13 December 2016 - CLOSED

AUDIT COMMITTEE ACTION TRACKER 2015/16	
Action	Outcome
19/04/16 Min 79 – Internal Audit Charter 2016/17	
The Chief Auditor investigates the success of Housing Benefit prosecutions since the service was transferred to the DWP	Response provided to Committee on 14/06/16 - CLOSED
22/03/16 Min 72 – New Build for YGG Lon Las – Referral from Cabinet	
The Chair/Chief Auditor draft a report summarising the key lessons to be learned for consideration by the Audit Committee prior to being submitted to Cabinet	Draft report presented to Committee on 28/06/16 - CLOSED
16/02/16 Min 63 - Risk Management Update	
The Chair and Head of Finance and Delivery draft a response to the Welsh Government regarding the late announcement of funding	Not pursued as the impact of the late announcement had been strongly made to the Welsh Government by the WLGA - CLOSED
16/02/16 Min 63 - Risk Management Update	
The Head of Legal and Democratic Services be requested to consider Councillor access to the risk register in the forthcoming Governance Review Report	Corporate Director (Resources) to prepare report on Councillor access to risk register for consideration by Corporate Management Team as part of the current review of the Risk Management Policy and Framework
16/02/16 Min 64 – Recommendations Tracker Report 2014/15	
An update report on the level of write offs be added to the Workplan	Update provided to Audit Committee on 25/10/16 - CLOSED
16/02/16 Min 65 – Internal Audit Monitoring Report Quarter 3 2015/16	
The impact of high sickness levels for Internal Audit compared to previous years be provided to the Committee	Included in Quarter 4 Monitoring Report to meeting on 21/07/06 - CLOSED
16/02/16 Min 67 – Audit Committee Self-Assessment of Good Practice Questionnaire	
The completed Questionnaire be used as the basis for the Audit Committee Annual Report 2015/16	Questionnaire was used for Annual Report 2015/16 presented to Committee on 28/06/16 - CLOSED
16/02/16 Min 70 – YGG Lon Las Lessons Learned – Referral from Cabinet	
Item be deferred to a Special Meeting of the Audit Committee	Report presented to Special Meeting held on 22 March 2016 - CLOSED
15/12/15 Min 52 – Briefing Cabinet Advisory Committee	
The Leader be invited to a future meeting in order to provide an update report	Update provided to the Audit Committee meeting on 03/01/17 - CLOSED

Action	Outcome
15/12/15 Min 53 – Chair Scrutiny Programme Committee	
The Chair of the Scrutiny Programme Committee be invited to a future meeting in order to provide an update report	The Chair of the Scrutiny Programme Committee is attending the meeting on 28/03/17 – CLOSED
15/12/15 Min 56 – Risk Management Update	
A more detailed report be presented to a future meeting	The Head of Finance and Delivery provided a more detailed report to the meeting on 16/02/16 - CLOSED
15/12/15 Min 56 – Risk Management Update	
The Chief Auditor circulates the link to access the risk procedure details on the Council website	See 16/02/16 Min 63 Risk Management Update below - CLOSED
17/11/15 Min 47 – Housing Benefit Investigation Team Annual Report 2014/15	
An interim report be provided in 6 months	Corporate Fraud Team Annual Report was presented to Audit Committee on 30/08/16 - CLOSED
17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16	
The Chair writes to the Chief Social Services Officer regarding the 4 moderate audit ratings in Adult Services	Letter sent 30/11/15 and Chair met Head of Adult Services on 16/12/15 - CLOSED
17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16	
The Chair writes to the Head of Transportation and Highways regarding the Streetworks audit which received a moderate level of assurance	Letter sent 30/11/15 and Chair met Head of transportation and highways on 22/12/15 - CLOSED
17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16	
The Chief Auditor circulates the details of the Section 106 Agreements follow up audit to the Committee	Details circulated 19/11/15 - CLOSED
17/11/15 Min 48 – Internal Audit Monitoring Report Quarter 2 2015/16	
The Chief Auditor circulates the link to the Section 106 Agreements database to the Committee	Link circulated 22/12/15 - CLOSED
20/10/15 Min 37 – Chair of Scrutiny Programme Committee	
The Chair of the Scrutiny Programme Committee be invited to the Audit Committee meeting scheduled for 15 December 2015	The Chair of the Scrutiny Programme Committee attended the Audit Committee meeting on 15 December 2015 - CLOSED
20/10/15 Min 38 – Corporate Governance Review – Update	
Rod Alcott be invited to attend the Special Audit Committee on 17 November 2015 in order to present the draft report	Report presented to Committee on 28/06/16 - CLOSED
20/10/15 Min 39 – Annual Report of School Audits 2014/15	
A review be undertaken to ensure that school audit reports are placed upon school governor meeting agendas	The review was reported to the Audit Committee on 25/10/16 - CLOSED

Action	Outcome
20/10/15 Min 40 – Audit Committee Annual Report 2014/15 Follow Up	
The Chief Auditor circulates the Audit Committee Knowledge and Skills Framework questionnaire to the Committee.	Framework circulated 19/11/15 - CLOSED
18/08/15 Min 17 - Presentation Corporate Fraud Team	
The Corporate Fraud Team Manager provides a future update report to the Committee	Corporate Fraud Team Annual report was presented to Audit Committee on 30/08/16 - CLOSED
18/08/15 Min 20 - WAO Audit of Financial Statements Progress Report	
A Special Audit Committee be scheduled between 17 and 24 September 2015 in order to discuss the Final Audit Report	Special meeting held on 21/09/15 - CLOSED
16/06/15 Min 9 - Internal Audit Monitoring Report Quarter 4 2014/15	
An update report regarding Section 106 Agreements be provided at the next scheduled meeting	Head of Economic Regeneration and Planning provided a report on 18/08/15 – CLOSED

Agenda Item 12



Report of the Chief Auditor

Audit Committee – 12 December 2017

Audit Committee – Workplan

Purpose:	This report details the Audit Committee Workplan to May 2018
Report Author:	Simon Cockings
Finance Officer:	Simon Cockings
Legal Officer:	Sandie Richards
Access to Services Officer:	Ann Williams

FOR INFORMATION

1. Introduction

- 1.1 The Audit Committee's Workplan to May 2018 is attached in Appendix 1 for information
- 1.2 The dates included for the meetings in 2017/18 are subject to approval by Council.

2. Equality and Engagement Implications

- 2.1 There are no equality and engagement implications associated with this report.

3. Financial Implications

- 3.1 There are no financial implications associated with this report.

4. Legal Implications

- 4.1 There are no legal implications associated with this report

Background Papers: None

Appendix 1 – Audit Committee Workplan 2017/18

AUDIT COMMITTEE WORKPLAN 2017/18

Date of Meeting	Reports
20 June 2017	Election of Chair and Vice Chair Audit Committee Initial Training Audit Committee Training Programme Wales Audit Office Update Report WAO Financial Resilience Final Report Internal Audit Monitoring Report Quarter 4 2016/17 Final Audit Committee Annual Report 2016/17 Audit Committee Performance Review 2016/17 - Action Plan Audit Committee Action Tracker Report
11 July 2017 – Special	Financial Management & Accounting Training Draft Statement of Accounts 2016/17 Draft Annual Governance Statement 2016/17 Risk Management Policy and Framework - Update Audit Committee Action Tracker Report
8 August 2017	Internal Audit Training Governance Training Wales Audit Office Update Report Internal Audit Annual Report 2016/17 Corporate Fraud Annual Report 2016/17 Internal Audit Monitoring Report Quarter 1 2017/18 Audit Committee Action Tracker Report
26 September 2017 - Special	External Audit Training Wales Audit Office ISA 260 Report 2016/17 – City and County of Swansea Wales Audit Office ISA 260 Report 2016/17 – Pension Fund Annual Report of School Audits 2016/17 Chief Education Officer Response to Annual Report of School Audits 2016/17 Audit Committee Action Tracker Report
9 November 2017 <i>(note changed from 10 October 2017)</i>	Counter Fraud Training Chair of Scrutiny Programme Committee Corporate Governance Review - Progress Update Risk Management Half-Yearly Review 2017/18 Risk/Performance/Governance Update Wales Audit Office Update Report Audit Committee Performance Review Action Plan 2016/17 - Update Audit Committee Action Tracker Report

Date of Meeting	Reports
12 December 2017	Wales Audit Office – Annual Audit Letter 2016/17 Wales Audit Office Update Report Internal Audit Monitoring Report Quarter 2 2017/18 Recommendations Tracker Report 2016/17 Review of Reserves Report Treasury Management & Budgetary Control Update Audit Committee Performance Review Action Plan 2016/17 – Update on Proposals Audit Committee Action Tracker Report
13 February 2018	Wales Audit Office Update Report Wales Audit Office Grants Report 2016/17 Internal Audit Monitoring Report Quarter 3 2016/17 Internal Audit Annual Plan Methodology 2018/19 Procurement Update Audit Committee Action Tracker Report
10 April 2018	Wales Audit Office Annual Plan 2018 Audit Committee Review of Performance 2017/18 Wales Audit Office Update Report Risk/Performance/Governance Update Internal Audit Charter 2018/19 Internal Audit Annual Plan 2018/19 Corporate Fraud Annual Plan 2018/19 Draft Audit Committee Annual Report 2017/18 Audit Committee Action Tracker Report

*Note: Agenda items in **Bold** are standard agenda items that occur at set times throughout the financial year.*