



**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, 8 Hydref 2019

**Amser:** 2.00 pm

**Cadeirydd:** Paula O'Connor (Cadeirydd Annibynnol)

### **Aelodaeth:**

Cynghorwyr: C Anderson, P M Black, D W Helliwell, T J Hennegan, P R Hood-Williams, O G James, P K Jones, J W Jones, E T Kirchner, M B Lewis, S Pritchard, L V Walton a/ac T M White

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## **Agenda**

**Rhif y Dudalen.**

- 1 Ymddiheuriadau am absenoldeb.**
- 2 Datgeliadau o fuddiannau personol a rhagfarnol.**  
[www.abertawe.gov.uk/DatgeliadauBuddiannau](http://www.abertawe.gov.uk/DatgeliadauBuddiannau)
- 3 Cofnodion.** **1 - 13**  
Cymeradwyo a llofnodi, fel cofnod cywir, gofnodion y cyfarfod(ydd) blaenorol.
- 4 Adroddiad Blynyddol Twyll Corfforaethol 2018/19.** **14 - 28**
- 5 Adroddiad Blynyddol Archwiliadau Ysgolion 2018/19.** **29 - 45**
- 6 Cyflwyniad - Ymateb y Cyfarwyddwr Addysg i'r Adroddiad Archwiliad Ysgolion.**
- 7 Diweddariad ar yr Amgylchedd Rheoli Mewnol (gan gynnwys Rheoli Risgiau) - Cyfarwyddwr Addysg. (Llafar)**
- 8 Monitro'r Gyllideb Refeniw a Chyfalaf - Chwarter 1af 2019/20. (Er gwybodaeth)** **46 - 62**
- 9 Hunanasesiad Cynladwyedd Ariannol ar gyfer Swyddfa Archwilio Cymru. (Llafar)**
- 10 Adroddiad Blynyddol Rheoli'r Drysorfa ar gyfer 2018/19. (Er** **63 - 83**

gwybodaeth)

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| 11 | Swyddfa Archwilio Cymru - Adborth o Holiadur Effeithiolrwydd y Pwyllgor Archwilio. | 84 - 99   |
| 12 | Adroddiad Orlhain Camau Gweithredu'r Pwyllgor Archwilio. (Er gwybodaeth)           | 100 - 105 |

**Cyfarfod nesaf:** Dydd Mawrth, 10 Rhagfyr 2019 ar 2.00 pm

*Huw Evans*

**Huw Evans**

**Pennaeth Gwasanaethau Democrataidd**

**Dydd Mawrth, 1 Hydref 2019**

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**Cyswllt: Gwasanaethau Democrataidd: - 636923**

# Agenda Item 3



City and County of Swansea

## Minutes of the **Audit Committee**

Committee Room 5, Guildhall, Swansea

Tuesday, 13 August 2019 at 2.00 pm

**Present:** P O'Connor (Independent Chair) Presided

### **Councillor(s)**

C Anderson  
O G James  
E T Kirchner

### **Councillor(s)**

D W Helliwell  
P K Jones  
L V Walton

### **Councillor(s)**

P R Hood-Williams  
J W Jones  
T M White

### **Officer(s)**

Simon Cockings  
Jeffrey Dong

Kate Jones  
Tracey Meredith  
Richard Rowlands  
Ben Smith  
Amanda Thomas

Chief Auditor  
Interim Deputy Chief Finance Officer and Deputy S151 Officer.  
Democratic Services Officer  
Chief Legal Officer / Monitoring Officer  
Strategic Delivery & Performance Manager.  
Chief Finance Officer / Section 151 Officer  
Chief Accountant / Interim Deputy Section 151 Officer

### **Also Present**

Anthony Veale  
David Williams

Wales Audit Office  
Wales Audit Office

### **Apologies for Absence**

Councillors(s): P M Black, M B Lewis and S Pritchard

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## **14 Disclosures of Personal and Prejudicial Interests.**

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interests were declared: -

Councillor P R Hood-Williams – Minute Nos 21 & 22 - Internal Audit Annual Report 2018/19 & Internal Audit Annual Plan 2019/20 Monitoring Report for the Period 1 April 2019 to 30 June 2019 – School Governor at Crwys & Cila Primary Schools – Personal

Paula O'Connor – Agenda as a whole – Employee of Velindre NHS Trust – Providing Internal Audit Service as Head of Internal Audit to Swansea Bay University Health Board – Personal.

Councillor T M White – Minute No.16 - Draft Statement of Accounts 2018/19 – City and County of Swansea - Member of the Local Pension Board, Member of Local

Authority Waste Disposal Company (LAWDC) and Member of Swansea Bay Port Health Authority – Personal.

**15 Minutes.**

**Resolved** that the Minutes of the Audit Committee held on 11 June 2019 be approved and signed as a correct record.

**16 Draft Statement of Accounts 2018/19 - City and County of Swansea.**

Ben Smith, Chief Finance Officer, presented the Draft Statement of Accounts 2018/19.

The Draft Accounts for 2018/19 had been prepared and signed on 20 May 2019. A copy was provided at Appendix A of the report. The Chief Finance Officer expressed his thanks to his team for their excellent work.

It was highlighted that there would be minor revisions to the report to reflect the continuing developments on Brexit, City Deal and McCloud pension judgement.

The Chief Finance Officer highlighted the following from the Statement of Accounts: -

- There was a net overspend on services again and this was not sustainable long term
- Council had approved a change in the Minimum Revenue Provision (MRP) Policy, which helped lower repayment charges in the short to medium term
- Capital Spending in 2018/2019
- At the end of the year, the Authority's revenue reserve balances amounted to £83.178m
- Financial outlook for the Authority – continued need for further savings
- Expenditure and funding analysis – setting out all activities and the cost of services
- Movement in reserves statement – the total amount of reserves had reduced mainly due to the technical pension negative reserve and it was anticipated that this would deteriorate further. Usable reserved had increased
- Short Term Investments – There was an increase in short term investment from £25,500 (k) in 2018 to £121,772 (k) in 2019
- £100 Million was being held in advance of spending n the Capital Programme
- Cash Flow Statement
- Movements in earmarked reserves
- Officers' Remuneration and departure costs through the voluntary redundancy scheme
- Grant Income
- Contingent Liabilities – specifically those with unknown effect
- Housing Revenue Account

The Committee asked questions in relation to European Regional Development Fund; expenditure / overspend; capital repayment, MRP Policy and additional borrowing

The Chair congratulated the Chief Finance Officer and his team for the comprehensive accounts.

**Resolved** that the contents of the report be noted.

**17 Reports of the Wales Audit Office: -**

**a City and County of Swansea - Audit Enquiries to Those Charged with Governance and Management.**

David Williams and Anthony Veale, Wales Audit Office, presented correspondence in respect of audit enquires to those charges with governance and management.

**b Draft ISA 260 Report.**

David Williams and Anthony Veale, Wales Audit Office, presented a report on 'Audit of Financial Statements Report – City and County of Swansea 2018/19' in which the following was highlighted: -

- The report provided a positive opinion overall
- Approach to the Audit
- Materiality set at £8.6 Million for the City and County of Swansea
- International Standard on Auditing (ISA) 260
- A separate report would be provided in respect of the Pension Fund and that would be reported to the Pension Fund Committee
- Status of Audit – some issues remained outstanding and there was also continuing correspondence from an elector. The report could not be signed off until that correspondence had concluded
- The Letter of Representation was set out at Appendix 1 – it was anticipated that this would be signed following Council on 29 August 2019
- Appendix 3 of the report outlined a summary of matters which needed correction
- Additional Pension Liability – impact of the McCloud judgement on public service pension schemes
- Appendix 4 of the report outlined the recommendations arising from the 2018/19 financial audit – three recommendations were made and responses had been received

The final report would be presented to Council on 29 August 2019.

The Chair stated that she was content with the ISA 260 and requested that the recommendations made in the report be transferred to an external tracker report for the Committee.

**Resolved** that the contents of the report be noted.

**18 Overview of the Overall Status of Risk - Quarter 1 2019/20. (For Information)**

Richard Rowlands, Strategic Delivery & Performance Manager, presented a report on 'Overview of the Overall Status of Risk – Quarter 1 2019/20'. The summary of the overall status of risk within the Council – Quarter 1 2019/20 was attached at Appendix A.

It was reported that 97.4% of risks that were in place as at Quarter 4 2018/19 were recorded as having been reviewed in Quarter 1 2019/20. That was an improvement on the position at Quarter 4 2018/19 where 85.6% of risks had been reviewed since Quarter 3 2018/19.

25 out of 28 risks (89.3%) that were closed had reasons / comments for doing so recorded, compared to 18% in Quarter 4 2018/19.

The annual review of Corporate Risks took place in May 2019 and a new strategic risk was identified for the Corporate Risk Register on the capacity of the highways and transport infrastructure to meet future demand.

The Corporate Risk Register Report 11/07/19 was attached at Appendix B. Corporate Risk 81: City Centre and Corporate Risk 90: Decision to leave the European Union (BREXIT) were highlighted.

The Corporate Services Risk Register Report 11/07/19 was attached at Appendix C.

It was reported that work was ongoing in respect of developing a new Risk Register Application.

The Chair noted that she had some concerns over the content of the Risk Register. The Committee asked questions regarding the risks which had not been reviewed in Quarter 1 and the meaning of 'Risk Replaced'. They also noted the jargon / abbreviations used in the report as well as those risks closed without a recorded reason.

The Chair thanked the Strategic Delivery & Performance Manager and his team for their hard work and effort in delivering this work.

**Resolved** that the content of the report be noted.

**19 Revenue Financial Outturn 2018/19. (For Information)**

Ben Smith, Chief Finance Officer, provided a report on 'Revenue Financial Outturn 2018/19'.

He specifically highlighted another overspend in respect of services, which could not be sustained in the long term.

The Committee discussed the position / possible action regarding continued service overspends. Directors were specifically tasked with providing the Committee with

sight of their full action plans detailing how they intended to deliver credible savings to rebalance the budget as a matter of urgency.

Questions were asked on Capitalisation, Contingency Fund and Reserves.

**Resolved** that the Chair of the Audit Committee, notify Council of the concerns on overspend and the need for Directors to evidence full delivery plans in respect of savings.

## 20 **Draft Annual Governance Statement.**

Tracey Meredith, Chief Legal Officer, presented a report on 'Draft Governance Statement 2018/19' and highlighted the principles of 'Delivering Good Governance in Local Government Framework 2016' established by CIPFA and SOLACE.

The Annual Governance Statement was based on a number of sources of Assurance both internal and external.

- **Internal Sources of Assurance**

There had been amendments to the Senior Management Assurance Statements. The assurance statements showed an overall 'strong application' of good governance across the assurance areas.

The greatest maturity in was reported in budget monitoring, whilst the weakest maturity assessment was reported in Performance Measurement and Management. Assurance was also provided from Core Evidence received from Council, Cabinet and Committees, the Monitoring Officer, Section 151 Officer and Chief Internal Auditor with the opinion of the Audit Committee to be provided.

- **External Sources of Assurance** – External Auditors (Wales Audit Office), External Regulation / Inspections and Statutory Inspections.

The Chief Legal Officer also highlighted the significant governance issues set out in the Annual Governance Statement which were identified during the review of effectiveness along with the action taken.

The Committee asked questions around Principles B & F, Senior Management Assurance Statements and representation from the Audit Committee on the Annual Governance Statement including the scope of that representation as an observer.

The Chair drew Committee's attention to the potential disconnect between those areas reported as scoring highly in the self-assessment by Senior Management and the Committee's own concerns expressed throughout the year especially around service overspending (and thus lack of evidenced budgetary control) and the maturity and rigour of the approach to risk management.

**Resolved** that the contents of the report be noted.

**21 Internal Audit Annual Report 2018/19.**

Simon Cockings, Chief Auditor, presented a report which outlines and reviews the work of the Internal Audit Section during 2018/19 and includes the Chief Auditor's required opinion on the internal control environment for 2018/19 based on the audit testing completed in the year.

He outlined and detailed the contents of the report, including the following key areas:

- Staffing issues;
- 87% of audits were completed to at least draft report stage during the year, whilst a further 5 audits were in progress
- Time spent per area was outlined in Appendix 1
- The audits finalised during 2018/19 were outlined fully at Appendix 2
- During the year 99% of recommendations made had been accepted by clients.
- Grants certified and audited in 2018/19
- Follow up audits undertaken
- Performance Indicators – 10 out of 11 Performance Indicators had been met, which was an improvement on 2017/18. These were outlined fully in Appendix 3
- Quality Assurance & Improvement Programme & Statement of Conformance with PSIAS
- Statement of Organisational Independence
- Internal Control Opinion

He placed on record his thanks to the team for their excellent work during the past year.

The Committee raised questions around issues of training, setting achievable targets, comparable performance indicators particularly with those Authorities that do not set / use performance indicators.

**Resolved** that the report be noted and approved.

**22 Internal Audit Annual Plan 2019/20 Monitoring Report for the Period 1 April 2019 to 30 June 2019.**

This item was deferred as outlined in Minute 26

**23 Internal Audit Moderate Rating Follow Up Report - Young People's Services 2019/20. (Verbal)**

This item was deferred as outlined in Minute 26.

**24 Internal Audit Recommendation Follow-up Report Q1 2019/20.**

This item was deferred as outlined in Minute 26.

**25 Audit Committee Action Tracker Report. (For Information)**



This item was deferred as outlined in Minute 26.

**26 Audit Committee Work Plan. (For Information)**

This item was deferred save for a discussion regarding the Committees concerns over the size of the Agenda. The Committee discussed deferring items that were not time critical (Agenda Items 10-15 inclusive) until September and meeting more frequently in order to avoid such large agenda's in the future.

**Resolved** that items 10-15 inclusive be deferred.

**27 Scrutiny / Wales Audit Office Reports (For Information):**

This item was deferred as outlined in Minute 26.

**a Progress addressing Wales Audit Office Recommendations relating to Strategic Commissioning of Accommodation Services for Adults with Learning Disabilities. (For Information)**

This item was deferred as outlined in Minute 26.

**b Progress in implementing the Recommendations of the Wales Audit Office Review of Housing Adaptations in Wales Report. (For Information)**

This item was deferred as outlined in Minute 26.

**c Wales Audit Office Report - Local Government Services to Rural Communities. (For Information)**

This item was deferred as outlined in Minute 26.

**d Local Government Services to Rural Communities. (For Information)**

This item was deferred as outlined in Minute 26.

The meeting ended at 4.00 pm

**Chair**



City and County of Swansea

## Minutes of the Special **Audit Committee**

Committee Room 5, Guildhall, Swansea

Monday, 16 September 2019 at 2.00 pm

**Present:** P O'Connor (Independent Chair) Presided

**Councillor(s)**

C Anderson  
P R Hood-Williams  
M B Lewis

**Councillor(s)**

D W Helliwell  
J W Jones  
L V Walton

**Councillor(s)**

T J Hennegan  
E T Kirchner

**Officer(s)**

Jeremy Parkhouse  
Nick Davies  
Gavin Evans  
Tracey Meredith

Democratic Services Officer  
Principal Auditor  
Young People Services Manager  
Chief Legal Officer / Monitoring Officer

**Apologies for Absence**

Councillor(s): P M Black, O G James, P K Jones and T M White

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### 28 **Disclosures of Personal and Prejudicial Interests.**

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interests were declared: -

Councillor T J Hennegan - Minute No.29 - Internal Audit Annual Plan 2019/20 - Monitoring Report for the Period 1 April 2019 to 30 June 2019 – Governor of Clwyd Primary School – personal.

Councillor P R Hood-Williams - Minute No.29 - Internal Audit Annual Plan 2019/20 - Monitoring Report for the Period 1 April 2019 to 30 June 2019 – Governor of Crwys Primary School – personal.

Councillor J W Jones - Minute No.29 - Internal Audit Annual Plan 2019/20 - Monitoring Report for the Period 1 April 2019 to 30 June 2019 – Governor of Olchfa Comprehensive School – personal.

Councillor M B Lewis - Minute No.29 - Internal Audit Annual Plan 2019/20 - Monitoring Report for the Period 1 April 2019 to 30 June 2019 – School Governor – personal.

Councillor L V Walton - Minute No.29 - Internal Audit Annual Plan 2019/20 - Monitoring Report for the Period 1 April 2019 to 30 June 2019 – School Governor of Dylan Thomas Community School – personal.

Paula O'Connor – Agenda as a whole – Employee of Velindre NHS Trust – Providing Internal Audit Service as Head of Internal Audit to Swansea Bay University Health Board – Personal.

**29 Internal Audit Annual Plan 2019/20 Monitoring Report for the Period 1 April 2019 to 30 June 2019.**

Nick Davies, Principal Auditor presented a report which provided the audits finalised and any other work undertaken by the Internal Audit Section during the period 1 April 2019 to 30 June 2019.

A total of 28 audits were finalised during the quarter. The audits finalised were provided in Appendix 1, which also showed the level of assurance given at the end of the audit and the number of recommendations made and agreed. A total of 248 audit recommendations were made which management agreed to implement them all, i.e. 100% of the recommendations made were accepted against a target of 95%. Appendix 2 provided a summary of the scope of the reviews finalised during the period.

It was added that discussions were still ongoing with the audit management software provider regarding the practicalities of introducing a new Performance Indicator and the Principal Auditor added that this process had now been introduced and would be discussed in the Quarter1 Follow Up Report for 2019/2020. Details of grants certified during the quarter were also reported.

Appendix 3 showed each audit included in the Audit Plan approved by Committee in April 2019 and identified the position of each audit as at 30<sup>th</sup> June 2019. 20% of the planned reviews had been completed to at least draft report stage, with an additional 34% of the planned audits in progress. As a result approximately 54% of the Audit Plan was either completed or in progress.

It was highlighted that one moderate report for Young People's Services 2019/20 was issued in the quarter and details of the significant issues which led to the moderate rating were provided.

The Chair expressed her appreciation for the additional information provided in the report.

**Resolved** that: -

- 1) The contents of the report be noted;
- 2) The Principal Auditor circulates the detail of the Accounts Payable audit report finding regarding duplicate payments and the scope of the audit examining information governance.

**30 Internal Audit Moderate Rating Follow Up Report - Young People's Services 2019/20. (Verbal)**

Gavin Evans, Young People's Services Manager provided a verbal update regarding the moderate audit rating received by Young People's Services 2019/20. He explained that the recommendations arising from the audit had been reviewed and an action plan had been completed ready for the follow-up audit scheduled in November 2019.

He provided an update on the following key areas: -

- P-Card Expenditure – All staff within the Business Support Team had received training.
- Inventories – A number of issues had been reviewed and a new system had been introduced. However, it was recognised that some elements were still not compliant. There were 4 posts dealing with inventories, 2 of which had been vacant but had been filled since the audit and the new staff had been fully trained.
- Unofficial Funds – These involved small accounts e.g. tuck shops which lacked compliance. This had been reviewed, staff had been trained and were now fully aware of the requirements.
- Disclosure and Barring Service (DBS) Checks – The audit had highlighted a systematic issue linked with youth club staff. An additional system had been re-installed which would run alongside the current system which would pick up DBS details. It was added that the area would undergo a significant restructure over the next 6 months but measures were in place to ensure all DBS checks were completed correctly.

The Principal Auditor confirmed that an Authority wide audit of DBS Checks was in the current Audit Plan and currently underway.

The Committee discussed the following: -

- Good work being done at youth clubs throughout Swansea;
- The need for written reports to be provided in future;
- DBS Checks being a very high risk area for the Authority and the need for the follow-up audit to address the issues raised;
- Management of data;
- The amounts of money involved with duplicate payments and the need for accuracy when collecting information.

**Resolved** that: -

- 1) The contents of the report be noted;
- 2) The issues highlighted, particularly surrounding DBS Checks, be addressed in the follow-up audit in November 2019;
- 3) Written reports be provided in future moderate audits.

**31 Internal Audit Recommendation Follow-up Report Q1 2019/20.**

The Principal Auditor presented a report to allow Committee to monitor the implementation status for those audits that have been subject to a follow up review in the quarter.

Appendix 1 provided a summary of the recommendations accepted and implemented. Appendix 2 provided details of recommendations not accepted and implemented.

In addition, the report provided further details of standard follow-up procedures, fundamental audits, non-fundamental audits, Chief Auditors Group PI's and External Audit recommendation tracking.

The Committee discussed the follow up procedures, particularly regarding the follow-up of recommendations not completed.

The Chair commented that efficiency savings could be made in respect of low risk / best practice recommendations. The Principal Auditor stated that managers receive a follow up email asking them to confirm that all recommendations had been implemented for audits that had received a high or substantial level of assurance. Any reviews receiving a moderate or limited level of assurance were subject to a follow up visit, whereby the medium and high risk areas were re-tested.

**Resolved** that the contents of the report be noted.

**32 Draft Audit Committee Annual Report 2018/19.**

The Chair presented the draft Audit Committee Annual Report 2018/19.

She expressed her thanks to the Chief Auditor and Democratic Services for their support.

The Chair highlighted the Committees progress in the previous 12 months in addressing the Wales Audit Office recommendations to strengthen the Committees effectiveness in fulfilling the Committee's terms of reference.

She referred to the presentation on the Council's Assurance Framework by Adam Hill, Deputy Chief Executive which provided assurance but was also an area for improvement in the development of the assurance framework.

She also praised Richard Rowlands, Strategic Delivery and Performance Manager for developing the new electronic risk management process / system and commented that it would be unlikely that the new system would become fully implemented and operational for some time. The current status meant that the Audit Committee was unable to fully review the effective development and operation of risk management in the Council and the Chair requested that the Council note the position.

She highlighted the proposed review of the Council's financial position by the Wales Audit Office, emphasising the high risk of the significant financial challenges facing the Authority. The Chair commented that the Authority should ensure that recovery plans are developed to ensure the Council plans and overspends are addressed.

**Resolved** that: -

- 1) The draft report be agreed and forwarded to Council for approval;
- 2) The Section 151 Officer updates the next Audit Committee on recovery plans in respect of the significant financial challenges facing the Authority.

### **33 Annual Governance Statement.**

Tracey Meredith, Chief Legal Officer provided a 'for information' report which updated the Audit Committee on the final version of the Annual Governance Statement included within the Statement of Accounts.

She added that following discussion between the Chair of Audit and the Chief Legal Officer, Audit Committee comments around governance had been incorporated into the finalised Annual Governance Statement attached at Appendix A. The Annual Governance Statement was presented to full Council as part of the Statement of Accounts on 29 August 2019.

She highlighted the requirement for a Member of the Audit Committee to be a member of the Annual Governance Group and outlined that the terms of reference had been drafted and were awaiting approval from the Deputy Chief Executive. She added that the draft terms of reference included oversight of the Senior Management Assurance Statements and assisting in consideration of the significant governance issues going forward. Jason Garcia, Wales Audit Office commented that the role would give independent assurance to the Committee.

**Resolved** that Councillor LV Walton be elected as the representative of the Audit Committee on the Annual Governance Group for 1 year only.

### **34 Audit Committee Action Tracker Report. (For Information)**

The report was provided 'for information'.

### **35 Audit Committee Work Plan. (For Information)**

The report was provided 'for information'.

### **36 Progress addressing Wales Audit Office Recommendations relating to Strategic Commissioning of Accommodation Services for Adults with Learning Disabilities. (For Information)**

The report was provided 'for information'.

**37 Progress in implementing the Recommendations of the Wales Audit Office Review of Housing Adaptations in Wales Report. (For Information)**

The report was provided 'for information'.

**38 Wales Audit Office Report - Local Government Services to Rural Communities. (For Information)**

The report was provided 'for information'.

**39 Local Government Services to Rural Communities. (For Information)**

The report was provided 'for information'.

**40 Presentation - Wales Audit Office - Review of Audit Committee Effectiveness.**

Jason Garcia and David Williams, Wales Audit Office and the Principal Auditor facilitated a session to allow the Audit Committee to complete a review of its effectiveness during 2018/19.

The Principal Auditor provided a presentation on the work of Internal Audit and a group session followed where Members were requested to complete questionnaires on how the Committee was organised and the information provided in the meetings.

Due to time constraints, it was proposed that the Wales Audit Office presentation be provided at the next scheduled meeting.

**Resolved that: -**

- 1) The Wales Audit Office presentation be provided to the next scheduled meeting;
- 2) Questionnaires be circulated to Councillors who had not attended the meeting;
- 3) The presentation provided by the Principal Auditor be circulated to the Committee;
- 4) Wales Audit Office provide feedback from the questionnaires at the next scheduled meeting.

The meeting ended at 4.05 pm

**Chair**



## Report of the Chief Auditor

Audit Committee – 8 October 2019

### Corporate Fraud Annual Report 2018/19

<b>Purpose:</b>	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2018/19.
<b>Policy Framework:</b>	None.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that Committee review and discuss the work of the Fraud Function of Internal Audit in 2018/19 and its progress against the Fraud Function Anti-Fraud Plan for 2018/19.
<b>Report Authors:</b>	Jonathon Rogers / Jeff Fish
<b>Finance Officers:</b>	Jonathon Rogers / Jeff Fish
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Rhian Miller

## 1. INTRODUCTION

- 1.1 This report provides a 12-month summary of the activities of the Fraud Function for 2018/19 and reviews achievements compared to target outcomes contained in the Fraud Function Anti-Fraud Plan for 2018/19.
- 1.2 This is the first Fraud Function report to come to committee since the reduction of the team from 3 to 2 officers following the deletion of the Manager post in March 2018.

## 2. OVERVIEW OF ACTIVITIES

- 2.1 Activities broadly fall into two main categories:
  - Allegations and cases solely investigated by the team including: council tax reduction, direct payments for social care, social housing tenancy fraud, employee issues and special investigations, and fraud awareness.
  - Suspicious Council Tax Reduction claims and associated tenancy fraud considered as part of the Joint Working with the Department for Work and Pensions (DWP).



- 2.2 The team have now commenced the management of the National Fraud Initiative 2018 (NFI18) published 2019.
- 2.3 Appendix 1 provides an overview of the activities of the function for 2018/19.
- 2.4 Appendix 2 provides further data for 2018/2019 in respect of investigations undertaken by the function in relation to council employees. (NB: Figures in Appendix 1 are inclusive of those shown in Appendix 2)

### **3. THE VALUE OF THE FUNCTION**

- 3.1 The fraud function contributes to the Council's corporate vision and priorities by investigating allegations of fraud and corruption against the Authority, both from within the organisation and from external third parties.
- 3.2 The value of this function to the Authority can be 'measured' via the following headings:

#### **3.2.1 Deterrent value**

The deterrent value of having a fraud function is invaluable. It offers a confidential mechanism to report concerns, showing that those concerns are acted upon, taking appropriate sanctions such as disciplinary action or criminal prosecutions, and reporting outcomes as appropriate.

#### **3.2.2 Strengthening procedures & workforce relationships**

Internal investigations may not yield immediately quantifiable financial outcomes. However, they can and have had a positive effect as a consequence of:

- Changing policies and procedures that reduce the potential for subsequent loss by fraud or error by enhancing robustness and delivering efficiencies.
- Stopping inappropriate practices can increase morale and enhance relationships between colleagues and managers and service users thereby positively effecting performance.

#### **3.2.3 Outcomes with financial implications**

Activities may identify money, or assets that have been claimed or misappropriated via fraud or error, which are targeted for recovery. For example:

- Overpayments of Housing Benefit, Council Tax Benefit, Council Tax Reduction.
- Council properties returned to stock
- Money resulting from action taken under the Proceeds of Crime Act 2002.

Activities may also result in additional liability being created. For example via the removal of Council Tax discounts and exemptions.

## **4 KEY ACTIVITIES 2018/19**

### **4.1 Joint work with DWP's Counter Fraud, Compliance & Debt Service formerly the Fraud and Error Service**

- 4.1.1 As previously reported following the introduction of the DWP's Single Fraud investigation Service (SFIS) in June 2015 and the inception of the Internal Audit Fraud Function, the DWP became solely responsible for investigating all

welfare benefit frauds, including Housing Benefit and the former Council Tax Benefit.

- 4.1.2 However, due to concerns raised mainly by Local Authorities (LA's) regarding potential loss of local knowledge, reduced information sharing, and Council tax Reduction (CTR) offences either not being investigated, or LA's undertaking a separate investigation alongside SFIS investigations, the Government introduced a joint working pilot. Swansea Council were the sole Welsh Authority to take part in that pilot which ran from November 2015 to May 2017.
- 4.1.3 On completion of the pilot, the Government concluded that joint working "Protects the integrity of the Welfare Benefit, Tax Credits, and Local Government systems" and as a consequence as previously reported to committee the National roll-out was due to commence October 2018.
- 4.1.4 The national roll-out commenced 28<sup>th</sup> April 2019. Swansea is one of 9 of the 22 Welsh Authorities currently undertaking joint investigations with the DWP.
- 4.1.5 Data outcomes for this work are shown at Appendix 1. Although there was a decrease in the number of cases investigated in 2018/19, the number of sanction outcomes increased. 8 cases were referred to the Crown Prosecution Service with 5 being prosecuted (2 cases in 17/18) and 4 Administrative Penalties in lieu of prosecution were offered and accepted (2 in 17/18). The value of overpayments realised decreased to £203,019.69 from £290,685.17 in 17/18, but that is reflective of the decrease in cases investigated. (NB: Due to the length of investigations sanction outcomes often occur in subsequent years)

## **4.2 National Fraud Initiative 2018**

- 4.2.1 NFI is a bi-annual data matching exercise delivered by the Cabinet Office.
- 4.2.2 Data matching involves comparing computer records held by one organisation against computer records held by the same or another organisation to see how far they match.
- 4.2.3 Areas that are subject to data matching include:
- Blue Badge
  - Creditors
  - Council Tax Reduction
  - Housing Benefits
  - Housing tenants
  - Housing waiting lists
  - Immigration
  - Market traders
  - Payroll
  - Pensions
  - Personal alcohol licences
  - Personal budgets for social care
  - Right to buy
  - Student loans
  - Taxi licenses
  - VAT overpaid

- 4.2.4 NFI18 Matches were published on a Cabinet Office secure web-site at the end of January 2019
- 4.2.5 This authority received in excess of 10,000 matches of which 866 are considered High Risk.
- 4.2.6 Internally, the exercise is coordinated by the Chief Internal Auditor and the Fraud Investigation Officers, and matches have been allocated to officers based within the authority for scrutiny.
- 4.2.7 The NFI match investigations are ongoing and information on outcomes will be provided to subsequent Audit Committee.

### **4.3 Fraud Awareness**

- 4.3.1 The Fraud Function continues to act as the hub for the receipt of Intelligence and Scam alerts from the National Anti-Fraud Network. Relative alerts are then circulated to the appropriate departments.
- 4.3.2 Annual Fraud Awareness training was delivered to the Audit Committee. The aims were:
- To clarify the Council's obligations to tackle fraud.
  - To highlight the principles of good fraud risk management.
  - To underline the Council's arrangements for tackling fraud.
- 4.3.3 The team delivered a Banking Fraud Awareness training event along with the councils Cash management Team and our banking partners to educate corporate users of potential scams and how to best safeguard themselves to these threats. The event was attended by nearly 70 people and within a short period of time led to users being able to better protect themselves against such threats.
- 4.3.4 The team also attended events hosted by the Wales Fraud Forum and the Welsh Audit Office to ensure continual professional learning e.g. Concessionary Travel fraud.

### **4.4 Inter-Agency work and Data Exchange**

- 4.4.1 During 2018/19 the team has continued to develop its role in inter-agency working and data exchange.
- 4.4.2 Staff have attended regular meetings and shaped the development of the Local Authority Welsh Anti-Fraud Officers group e.g. Uniformity in employee investigations.
- 4.4.3 Staff have also attended regular inter agency meetings with other government agencies tackling organised crime and hosted a meeting of the multi-agency Local Organised Crime Board.
- 4.4.4 The function was a consultee in the Auditor General for Wales report to the Public Accounts Committee (PAC) on Counter-Fraud Arrangements in the Welsh Public Sector and one of the Investigators gave a presentation to the PAC hearing at the Pierhead Building in Cardiff on Local Authority Counter-Fraud arrangements across Wales.

- 4.4.5 The purpose of the report was to outline the picture of Counter Fraud arrangements across the Public Sector in Wales and Swansea provided responses and information to this effect. The report concluded that there was no overarching policy or framework for LA's in Wales, resulting in a wide variety of arrangements from council to council. The Wales Audit Office have now been commissioned to further extend this piece of work and it is planned that Swansea will be a leading contributor to this additional exercise.
- 4.4.6 The function also played a senior command and intelligence role with South Wales Police in relation to Operation Timmea, an investigation into a series of serious and aggravated burglaries in South Wales and beyond.
- 4.4.7 During the year, the function has handled 435 requests for information from a raft of other government agencies.

#### **4.5 Review of the Fraud Function Plan for 2018/19**

- 4.5.1 Of the 9 planned Fraud Function activities 6 were fully achieved. Appendix 3 provides commentary against these activities.
- 4.5.2 For those activities not achieved, due to the teams reduced resources and the requirements of reactive work, in particular employee investigations, have continued to demonstrably restrict the opportunities for proactive work to be undertaken against the plan.

### **5. Equality and Engagement Implications**

- 5.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

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

### **6. Financial Implications**

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

### **7. Legal Implications**

- 7.1 The Accounts and Audit (Wales) Regulations 2014 require the maintenance of an adequate and effective system of internal audit of the Council's accounting records and control systems. This is essential to the prevention and detection of fraud and corruption and is a key element of the Chief Finance Officer's statutory duties as contained in section 151 of the Local Government Act 1972.

**Background Papers:** None

**Appendices:**

Appendix 1 - Overview of activities for 2018/19

Appendix 2 - Data for 2018/19 in respect of council employees.

Appendix 3 - Review of the Fraud Function Plan for 2018/19.

## Appendix 1 - Overview of activities for 2018/19

### Overview of cases:

Type	Joint Working with DWP	FF only	Total
Brought forward from 2017/18	30 (28)	45 (37)	75 (65)
New cases in 2018/19	9 (29)	172 (169)	181 (198)
<b>Total</b>	<b>39 (57)</b>	<b>217 (206)</b>	<b>256 (263)</b>

(Figure in italics refer to 17/18)

### Status of cases:

Type	Joint Working with DWP	FF only	Total
Cases closed	24 (27)	177 (170)	201 (197)
Cases to be considered	0 (0)	9 (12)	9 (12)
Cases under investigation	15(30)	31 (24)	46 (54)
<b>Total</b>	<b>39 (57)</b>	<b>217 (206)</b>	<b>256 (263)</b>

(Figure in italics refer to 17/18)

### Overpayments created:

Joint Working with DWP cases			
Created via FF		Created via DWP	
CTR	Other	HB & CTB	DWP
<b>£16,444.87</b> <i>(£24,946.87)</i>	<b>£466.20</b> <i>(£1,110.30)</i>	<b>£59,132.03</b> <i>(£141,316.7)</i>	<b>£126,976.59</b> <i>(£123,311.2)</i>
<b>£16,911.07</b> <i>(£26,057.17)</i>		<b>£186,108.62</b> <i>(£264,628.00)</i>	
<b>£203,019.69</b> <i>(£290,685.17)</i>			

(Figures in italics refer to 17/18)

FF only cases
CTR & Other
<b>£2,775.17</b> <i>(£7,184.13)</i>

Total of all overpayments
<b>£205,794.86</b> <i>(£297,869.30)</i>

## Appendix 2 - Data for 2018/2019 in respect of council employees

Type	Cases	Employees
Brought forward from 2017/18	17 (9)	17 (10)
New cases in 2018/19	17(15)	17 (25)
<b>Total</b>	<b>34 (24)</b>	<b>34 (35)</b>

(Figure in italics refer to 17/18)

Reason	Cases	Employees
Abuse Of Position	6	6
Expenses	1	1
Flexi Abuse	10	10
Not following procedures	1	1
Theft	4	4
Working whilst on sick leave	3	3
Other	9	9
<b>Total</b>	<b>34</b>	<b>34</b>

Employee Outcomes	
Type	Number
Investigation not appropriate	3
Investigated but no further action appropriate	7
Other Action Taken	1
Disciplinary - Dismissal	2
Disciplinary - Warning	6
Ongoing investigation	15
<b>Total</b>	<b>34</b>

### Appendix 3 – Review of the Fraud Function Anti-Fraud Plan for 2018/19

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>1. Continue to consider new areas of activity:</p> <ul style="list-style-type: none"> <li>• Planning,</li> <li>• Preparation,</li> <li>• Procedures.</li> </ul>	<p>Subject to available resources, to continue to explore new areas with a view to undertaking proactive activity. For example:</p> <ul style="list-style-type: none"> <li>• Grants.</li> <li>• Payments for Social Care.</li> <li>• Procurement.</li> </ul>	<p>‘Fact finding’ in order to establish an understanding of relevant legislation and best practices.</p> <p>Devise and implement proactive exercises to:</p> <ul style="list-style-type: none"> <li>• Assist in ensuring that funds are used for the intended purposes.</li> <li>• Identify fraud and error.</li> <li>• Seek to recover losses.</li> <li>• Take criminal action in appropriate cases.</li> </ul>	<p>Not achieved.</p> <p>Reduced resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.</p>



Activity	Detail	Target Outcomes	Outcomes Achieved
<p>2. Tackle social housing tenancy fraud</p>	<p>Continue to work in partnership the Housing Department and Legal Section to combat tenancy fraud: from unlawful subletting to bogus succession claims.</p>	<p>Raise awareness of the problem of social housing fraud and the damage that it does.</p> <p>Prevent the unlawful succession to social housing properties by people that do not have a right to succeed the tenancy</p> <p>Reduce the number of properties being unlawfully sub-let.</p> <p>Recover properties where tenancy fraud has been identified.</p> <p>Undertake criminal prosecutions &amp; utilise Unlawful Profit Orders to recover any profit made by offenders, in accordance with the Prevention of Social Housing Fraud Act 2013 and/or the Fraud Act 2006.</p>	<p>Fully achieved.</p> <p>The team continued to develop and strengthen its relationship with the Housing Department and undertook a number of investigations into sub-letting of council stock.</p> <p>Council property has again been returned to stock as a direct consequence of fraud investigations undertaken.</p>
<p>3. Tackle Council Tax fraud</p>	<p>Utilise internal and external Data Matching products to identify potential discrepancies in Single Person Discounts and other Council Tax discounts, disregards and exemptions.</p>	<p>Recover single person discounts 'incorrectly' claimed.</p> <p>Recover other disregards and discounts 'incorrectly' claimed.</p>	<p>Fully achieved.</p> <p>Incorrectly claimed discounts and exemptions have been identified via individual investigations and via internal &amp; external data matching.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>4. Tackle Council Tax Reduction fraud</p>	<p>Continue to investigate CTR fraud solely or jointly with DWP's Counter Fraud Division.</p> <p>From November 2015 to November 2017, The Fraud Function participated in a Joint Working Pilot with DWP's Counter Fraud Division to ensure that the full extent of all welfare benefit and CTRS frauds were considered / progressed via a single investigation.</p> <p>Due to the Government's intention to roll-out joint working nationally from 2018, following the cessation of the pilot, the Fraud Function adopted joint working with DWP's Counter Fraud Division as a 'business as usual' function.</p>	<p>Sharing information and expertise between the Fraud Function &amp; DWP's Counter Fraud Division:</p> <ul style="list-style-type: none"> <li>• To ensure that the totality of welfare benefit and CTRS are tackled in the most efficient and effective manner.</li> <li>• To identify overpayments and excess reductions.</li> <li>• To take sanction action in appropriate cases. Administrative Penalties and prosecutions.</li> </ul>	<p>Fully achieved.</p> <p>Although the national roll-out was delayed until April 2019 'business as usual' function allowed joint working to effectively continue.</p> <p>Overpayments have been identified and sanction action taken in appropriate cases.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
5. Tackle payments made in respect of Social Care (Direct Payments)	Continue to review and develop processes to aid the identification and investigation of any fraud.	<p>Fraud Function Officers to attain a practicable appreciation of relevant legislation and related processes applied to the application / monitoring of Direct Payments.</p> <p>Offer advice and guidance to Social Services. For example to ensure that relevant documents such as the Direct Payments Contract are 'criminally robust'.</p> <p>To consider 'suspicious' cases with a view to demining appropriate action, including:</p> <ul style="list-style-type: none"> <li>• Seeking to ensure procedures and documents are adequately robust.</li> <li>• Identifying potential overpayments.</li> <li>• Instigating criminal proceedings where appropriate.</li> </ul>	<p>Not achieved.</p> <p>Reduced resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
6. Tackle Procurement fraud	Continue to develop proactive work in this area.	<p>Reinforce existing relationships between the Fraud Function and the Procurement Team.</p> <p>Attain a practicable appreciation of relevant legislation and related processes.</p> <p>Determine whether any proactive work can be undertaken with a view to undertaking sample testing.</p>	<p>Not achieved.</p> <p>Reduced resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.</p>
7. National Fraud Initiative Page 26	Continue to participate in the biannual National Fraud Initiative coordinated by the Cabinet Office	<p>To ensure and appropriate number of matches are examined with particular reference to High Risk Reports</p> <p>To identify processes and procedures that need to be made more robust</p> <p>To identify overpayments and excess reductions</p> <p>To take appropriate action again offenders</p>	Fully achieved and work on the initiative is ongoing

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>8. Tackle other internal and external fraud, examples includes:</p> <ul style="list-style-type: none"> <li>• Abuse of Position</li> <li>• Blue badge</li> <li>• Flexi time</li> <li>• Income collection and banking</li> <li>• Payroll</li> <li>• Pensions</li> <li>• Travel and subsistence</li> <li>• Etc</li> </ul>	<p>During 2018/19, the Fraud Function will continue to investigate various anomalies and referrals.</p> <p>The Fraud Function will continue to work with internal departments and external organisations in order to undertake risk assessments, and gather intelligence and evidence to point towards or away from fraud and error.</p> <p>Subject to available resources, the Fraud Function will consider and investigate any other frauds if it is in the best interests of the Council and the public it serves.</p>	<p>Maintain public confidence by being 'transparent'.</p> <p>Maintain the Council's good reputation.</p> <p>Identify fraud, error and over payments.</p> <p>Instigate disciplinary / criminal proceedings as appropriate.</p> <p>Assist in the recovery of 'losses', financial or otherwise.</p>	<p>Fully achieved.</p> <p>The team has considered all allegations made.</p> <p>However, as a consequence of limited resources and the requirements of other reactive work which may attract a higher priority, in some instances the team may not be in a position to take an allegation forward in a timely manner.</p>

Activity	Detail	Target Outcomes	Outcomes Achieved
<p>9. Raising Awareness</p>	<p>Continue to raise awareness of the role of the Fraud Function both inside and outside the Council.</p> <p>The aim is to maintain reputation and to encourage the reporting of potential fraud in the belief that action will be taken.</p>	<p><u>Staff:</u></p> <ul style="list-style-type: none"> <li>• New – A guide to Corporate Fraud is included in Corporate Induction Training provided by Human Resources.</li> <li>• Existing – Continue to develop and deliver training as and when required.</li> </ul> <p><u>Members:</u> Continue to deliver / presentations reports to the Audit Committee and other members as necessary.</p> <p><u>Public:</u> Continue to publicise activities, successes, and prosecutions.</p>	<p><u>Staff</u> -Target achieved. Staff have received bespoke training in appropriate areas.</p> <p><u>Members</u> - Target achieved. Reports and updates have been delivered regularly to the Audit Committee.</p> <p><u>Public</u> - Target achieved Publicity regarding FF's activities has appeared in the South Wales Evening Post and other media outlets.</p> <p><u>External Partners</u> – Target achieved.</p> <p>Relationships extended and embedded.</p>

# Agenda Item 5



## Report of the Chief Auditor

Audit Committee – 8 October 2019

### Annual Report of School Audits 2018/19

<b>Purpose:</b>	This report provides a summary of the school audits undertaken by the Internal Audit Section during 2018/2019 and identifies some common issues found during the audits.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance and Access to Services
<b>Recommendation(s):</b>	It is recommended that Committee review and discuss the key findings arising from the school audits undertaken during 2018/2019.
<b>Report Author:</b>	Nick Davies
<b>Finance Officer:</b>	Simon Cockings
<b>Legal Officer:</b>	Tracey Meredith
<b>Access to Services Officer:</b>	Rhian Millar

#### 1. Introduction

- 1.2 An audit of each primary, secondary and special school in Swansea is undertaken every 3 years. A standard audit programme exists for each school sector.
- 1.2 A report summarising the school audits undertaken each year has been prepared for the Director of Education. The report also identifies the common themes, which have been highlighted during the audits.

## **2. Annual Report of School Audits 2018/2019**

2.2 The Annual Report of School Audits 2018/2019 is attached in Appendix A.

## **3. Equality and Engagement Implications**

3.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Our Equality Impact Assessment process ensures that we have paid due regard to the above.

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

## **4. Financial Implications**

4.2 There are no financial implications associated with this report.

## **5. Legal Implications**

5.2 There are no legal implications associated with this report.

**Background Papers:** Internal Audit Plan 2018/19

**Appendices:** Appendix A - Annual Report of Schools Audits 2018/19



## Report of the Chief Auditor

### Annual Report of School Audits 2018/19

#### 1. Introduction

- 1.1 Each year a significant amount of audit resource is dedicated to school audits and this service is paid for by schools from their allocated budget. Note that from April 2019, the requirement for schools to opt in to a Service Level Agreement (SLA) for the provision of internal audit services has ceased. As agreed by the schools, the budget for the provision of audit services has been retained centrally, thus schools therefore no longer need to sign up to the SLA individually. The Internal Audit Section reviews all Swansea Council primary, special and secondary schools.
- 1.2 For routine audits, a risk assessment is carried out at individual school level and based on this a rolling programme of School audits is undertaken. Primary, special and secondary schools are currently audited every three years.
- 1.3 The scope for school audits during the 2018/2019 financial year included the following areas:
- Governance
  - Management of Delegated Resources
  - Budget Preparation and Monitoring
  - Lettings
  - After School / Breakfast Clubs
  - Banking Procedures
  - Recording of Key Income
  - School Unofficial Funds
  - School Meals Income
  - Bank Reconciliations
  - Purchasing of Goods and Services (Including Multi-Pay Cards)
  - Employees
  - Health & Safety
  - Inventories
  - School Mini Bus / Vehicles
  - Computer Security and Data Protection
- 1.4 There are slight variations between the work undertaken at primary schools and secondary schools. However, the scope of the audit remains more or less the same for both sectors.
- 1.5 In addition to the Internal Audit review, schools are also subject to an audit inspection by Estyn. From September 2016, the period of inspection has changed from a six to a seven-year cycle. Inspections are based on the common inspection framework that was revised in September 2017.

- 1.6 At the routine audit, a formal level of assurance is provided for the overall financial management and other areas within the school as defined above. The assurance levels vary across four categories, namely High, Substantial, Moderate and Limited assurance.
- 1.7 Recommendations are contained within a Management Action Plan and are prioritised according to perceived risk. Therefore, the Headteacher has an indication of Internal Audit's view of the level of risk that the school could be exposed to if the recommendation is not implemented.
- 1.8 Once the Action Plan has been finalised with the Headteacher, a copy of the final Audit Report and Action Plan is forwarded to the Chair of the School's Governing Body and the Chief Education Officer for information. Agreed actions are followed up in accordance with the Management Action Plan timetable to ensure that they have been satisfactorily implemented. On distribution of the report, it is requested that the Chair of the Governing Body ensures that the final report is presented at the next full Governing Body meeting. We also ask that the Chair ensures that all actions have been implemented within the timescales stipulated in the Management Action Plan.
- 1.9 As part of their monitoring procedures, the School Funding and Information Unit request minutes of the Governing Body meetings in order to confirm that the audit report has been presented and discussed. Of the 25 primary schools, and 4 secondary schools that were audited and finalised in 2018/2019, the School Support Unit had received minutes confirming that the audit report had been presented for 20 primary schools and all 4 secondary schools. The Unit has requested minutes from those schools that have not forwarded them to date and this continues to be followed up on an ongoing basis.
- 1.10 As the operation of local bank accounts remains a key area for examination during audits, primary school audits last three days. The budgeted time for secondary school audits is ten days.
- 1.11 The remainder of this Annual Report provides information on the various developments that have occurred during the year and provides further details of the results of the school audits undertaken and finalised during 2018/2019.

## **2. Summary of Findings**

- 2.1 Of the 25 primary schools audited and finalised in year, 6 achieved a high level of assurance, 18 achieved a substantial level of assurance and 1 school was awarded a moderate level of assurance which is a relatively positive result. This is generally comparable to the level of assurance awarded to those schools audited in 2017/18.
- 2.2 Of the 4 secondary schools audited and finalised in year, 1 received a high level of assurance, 2 received a substantial level of assurance and 1 received a moderate level of assurance. Again, this is generally comparable to the levels of assurance awarded in 2017/2018.
- 2.3 No special schools were audited in 2018/2019.
- 2.4 It is pleasing to note that this year, the majority of schools audited and finalised achieved a substantial or high level of assurance. This continues to demonstrate the fact that the schools in question are being managed appropriately and were operating effectively.

- 2.5 As has historically been the case, procurement was the main source of the recommendations made across all schools in 2018/2019. As seen in tables 3.6 and 4.4 later in the report, 32% of all recommendations made for primary & secondary schools were in relation to procurement. It should be noted that due to the delegated nature of school budgets, there would inevitably always be some issues in this area. However, considerable efforts have been made by the local authority in an attempt to improve schools awareness of their responsibilities in this area.
- 2.6 Periodic financial training is provided to all Headteachers by the School Funding & Information Unit, which clearly communicates the procedures that should be followed by schools in relation to ordering and procurement. In addition to this, the unit now also offers newly appointed Headteachers a bespoke finance session and monitors attendance reminding them to attend refresher sessions every three years. However, it should be noted that attendance at such training is not compulsory.
- 2.7 Since April 2015, there has been a considerable change in the Schools Procurement Service Level Agreement (SLA) at the request of the schools through the Joint Finance Group. Schools had opted for a basic SLA, which no longer funds a dedicated Schools Procurement Officer. Understandably, because of the ongoing budgetary pressures and consideration of value for money, a number of schools have chosen to opt out of the Procurement SLA.
- 2.8 For 2018/2019, 22 Primary Schools had opted out of the Procurement SLA compared to 7 Schools in 2017/2018. In addition, 2 secondary schools and 1 special school also opted out of the SLA. The areas covered by the SLA are detailed in Appendix 5.
- 2.9 It was confirmed that for 2019/20, all schools have decided to opt out of the Procurement SLA as they felt it was not fit for purpose. There is however, still an option for schools to take advantage of Procurement's services, for an hourly rate.
- 2.10 It was noted in the previous two reports that Contract Procedure Rules (CPR's) were in the process of being reviewed and updated. This process is now complete and Procurement have confirmed that the updated CPR's are due to be approved ready for officer sign-off. Once this process has been completed, it is proposed that school specific CPR's and associated guidance notes will be produced detailing how the amended CPR's should be interpreted specifically for schools.
- 2.11 The sections that follow provide a more detailed examination in relation to the findings of our audits across the schools in Swansea for 2018/2019.

### 3. Primary Schools

3.1 Twenty five primary school audits were finalised by Internal Audit during 2018/2019. The assurance rating that was awarded to each of the schools is shown in Appendix 1.

3.2 The table below shows the total number of primary schools audited within the last two financial years and the assurance levels that have been awarded.

<b>Level of Assurance</b>	<b>Schools 2017/18</b>	<b>Schools 2018/19</b>
High	5	6
Substantial	29	18
Moderate	0	1
Limited	0	0
<b>Total</b>	<b>34</b>	<b>25</b>

3.3 The level of assurance awarded confirms the view that primary schools in Swansea are generally well run with sound internal controls and financial management in the majority of cases. It is pleasing to note that all but one of the primary schools audited in year were rated as providing either a High, or Substantial level of assurance.

3.4 A total of 250 recommendations were made as a result of the audit process, representing an average of 10 recommendations per school. All of the audit reports have been finalised at the date of this report, with agreement reached with Headteachers to implement 99.6% of the recommendations made.

3.5 It should be noted that there is not a direct correlation between the number of recommendations made at each school and the overall level of assurance awarded. This is due to differences in the rating of the individual recommendations i.e. High/Medium/Low Risk or Good Practice. Therefore, the number of recommendations made for each school has not been reported.

3.6 An analysis of the areas where recommendations have been made is summarised in the table below. As can be seen, the main area where issues were identified are in relation to Procurement & Expenditure, as has been the case in previous years. Please also see Appendix 3, which details the main areas reported on within each category below.

<b>Primary Schools</b>				
<b>Audit Area</b>	<b>Total Rec's 2017/18 based on 34 Schools</b>	<b>2017/18 %</b>	<b>Total Rec's 2018/19 based on 25 Schools</b>	<b>2018/19 %</b>
Governance	10	3%	4	2%
Management of Delegated Resources	16	5%	7	3%
Income & Bankings (inc Lettings)	52	15%	30	12%
School Funds	46	13%	41	16%
School Meals (including banking)	21	6%	15	6%
Procurement / Expenditure	107	30%	83	33%
Multi-Pay Cards	14	4%	21	8%
Health & Safety / Premises Security	14	4%	1	0%
Inventory	35	10%	22	9%
IT	29	8%	19	8%
Other	7	2%	7	3%
<b>TOTAL</b>	<b>351</b>	<b>100%</b>	<b>250</b>	<b>100%</b>

- 3.7 Procurement / Expenditure was again, identified as the main issue in the majority of Schools, with the percentage of recommendations accounting for 33% of the total made. As always, Headteachers are continually reminded of the requirement to comply with the Scheme for the Financing of Schools, Contract Procedure Rules (CPR's), Financial Regulations and Accounting Instructions. Also, the Procurement Section and their Procurement Guide are available to assist Schools with any issues they may have.
- 3.8 The main areas where problems have arisen regarding procurement are highlighted below:-
- Not obtaining the relevant number of quotations where expected. This was mainly noted where goods or services were procured or accumulated annual spend for a particular 'item' exceeded £5k per year.
  - Not raising authorised purchase orders at the point of commitment or at all. This is also important as it allows for effective budget monitoring and proper certification procedures. It is also a record of what has been ordered, helps to minimise disputes and to facilitate matching to the invoice both in terms of price and quantity.
  - The use of suppliers that do not have a corporate contract with the local authority without undertaking any form of tendering exercise. Note that due to delegation, the use of contracted suppliers by schools is not compulsory. However, should they opt to use alternative suppliers, Schools must undertake their own tendering exercise to ensure best value is obtained.
  - Insurance arrangements not being in place for persons / companies used by the school to provide services which have not been arranged via a Corporate Contract.
- 3.9 The average number of recommendations made per school has remained the same as last year i.e. 10. Whilst generally, the percentage of recommendations made across the various areas has remained fairly static year on year, some additional detail in relation to some of the more notable changes may be seen below:
- Schools Funds – As stated in previous reports, we have increased our testing in this area and the issues encountered were in relation to the following; Accounts not properly being audited and reconciled regularly, bank mandates for the accounts not being up to date, the lack of any fund constitutions (or terms of reference) or evidence of management committees in place.
  - Income, Bankings & Lettings – Primarily in relation to bank reconciliations not being undertaken in a timely manner, Lettings documentation not being in place and / or up to date, and monies being held on site which exceed insurance limits.
  - Inventories – Records not up to date, Disposal forms not being completed, annual inventory checks not being undertaken and new purchases not being added to the records.
- 3.10 Whilst we report on non-compliance in these areas, what the above summary figures do not reflect is the number of instances of non-compliance per school i.e. we would include a recommendation regardless of the number of instances of non-compliance, with the extent and significance of the issue being highlighted in the body of the report.

## 4. Secondary Schools

4.1 Four secondary schools were visited by Internal Audit during 2018/19. The level of assurance awarded for each of the schools can be seen in Appendix 2.

4.2 The table below shows the total number of secondary schools audited within the last two financial years, together with the assurance levels that have been awarded.

<b>Level of Assurance</b>	<b>Schools 2017/18</b>	<b>Schools 2018/19</b>
High	5	1
Substantial	1	2
Moderate	0	1
Limited	0	0
<b>Total</b>	<b>6</b>	<b>4</b>

4.3 A total of 63 recommendations were made, which represents an average of 16 recommendations per school. All of the audit reports have been finalised at the date of this report, with agreements reached with Headteachers to implement all of the recommendations made.

4.4 An analysis of findings to identify areas for improvement is shown below:-

<b>Secondary Schools</b>				
<b>Audit Area</b>	<b>Total Rec's 2017/18 based on 6 Schools</b>	<b>2017/18 %</b>	<b>Total Rec's 2018/19 based on 4 Schools</b>	<b>2018/19 %</b>
Governance	0	0%	2	3%
Management of Delegated Resources	2	4%	3	5%
Income & Bankings (inc Lettings)	11	24%	12	19%
School Funds	1	2%	3	5%
School Meals (including banking)	0	0%	0	0%
Procurement / Expenditure	17	37%	17	27%
Multi-Pay Cards	2	4%	8	13%
Health & Safety / Premises Security	4	9%	0	0%
Inventory	4	9%	6	10%
IT	5	11%	4	6%
Other	0	0%	8	12%
<b>TOTAL</b>	<b>46</b>	<b>100%</b>	<b>63</b>	<b>100%</b>

4.5 As with primary schools, procurement has been identified as the main area where issues have arisen and the same comments as noted in 3.7 and 3.8 apply here.

4.6 It is also noted that the average number of recommendations made per school has increased when compared to the 2017/18 figures. Please see below for further details:

- Multi-Pay Cards – Has increased from 4% to 13%, mainly due to reconciliations not being carried out in a timely manner, VAT receipts not being obtained / retained and in some cases, no division of duties being in existence when reconciling spend.
- Other – Increasing from 0% in 17/18 to 12% in 18/19. This increase relates to some Petty Cash issues such as not retaining VAT receipts and the authorisation of reimbursement claims also utility invoices not being checked to meter readings.

## **5. Special Schools**

5.1 No special schools were visited by Internal Audit during 2018/19.

## **6. Developments & Other Work Undertaken in Year**

6.1 During the year, in addition to the school audits covered as part of our cyclical review, other work was also undertaken as noted below.

6.2 Ad-hoc work covering a range of areas as and when they arise, at the request of schools or the Education Directorate.

6.3 Internal Audit have attended and provided information to a number of admin forums giving training to school office staff and Headteachers on the main reported areas highlighted during routine audits. Training for staff will continue via this forum.

6.4 There is a corporate project underway seeking to identify if there are benefits from schools using a central system instead of their separate SIMS/cheque book system, with the initial view being that this may improve procurement controls.

6.5 Two follow up visits were undertaken in year. One primary school and one secondary school were listed as receiving a moderate assurance rating in 2018/2019. Therefore both schools were re-visited, the secondary school in February 2019, and the primary school in March 2019 in order to determine whether appropriate action had been taken to implement the recommendations that were made. In both cases, it was confirmed that significant progress had been made, and the vast majority of recommendations had been addressed. There were however a small number of good practice and low risk recommendations that were partly implemented and therefore these areas will be re-tested when the next full school audit is undertaken.

6.6 General school programme updates to ensure the audit scope and questionnaire was up to date and relevant.

## **7. School Self-Assessment Questionnaires**

7.1 One of the key targets over the last number of years was to introduce a self-assessment questionnaire for schools. As reported previously, it was decided that this approach should be adopted for primary and special schools in an attempt to more effectively utilise reduced audit resources and to balance the annual audit plan. The questionnaire was finalised and the new audit approach was rolled out to schools in 2016/2017. To date over 88% of schools have now gone through this process.

7.2 Each year since the questionnaire was introduced, we review the questionnaire to ensure resources are being focused on key areas that are relevant in the modern school environment.

7.3 At the time of writing this report, the next phase of questionnaires have been issued to those Schools that are due to be audited in 2019/2020.

7.4 The overall reaction to the questionnaire continues to be very good, with encouraging feedback being received from all of the schools that have contacted the Audit Team. Consultation with the Primary Support Officers has also indicated that the schools continue to react positively to this audit approach.

## 8. Quality Measures

- 8.1 At the end of each audit, Headteachers are provided with a Quality Control Questionnaire (QCQ) that allows them to comment on the quality of the audit service provided. A copy of the questionnaire is attached, see Appendix 4.
- 8.2 Each completed questionnaire is reviewed and comments are taken into account when planning future audits, where appropriate.
- 8.3 QCQ results are fed into a Performance Indicator which shows the percentage of clients expressing 'at least satisfaction' with the conduct of audit assignments undertaken by Internal Audit. For this exercise, this relates to the QCQ's issued for audits finalised in 2018/19 as at the time of writing this report.
- 8.4 The Performance Target for schools, at least satisfied with the quality of audit service for 2018/19 was 98%.
- 8.5 The response rate to our QCQ surveys over the last two years are as follows:

	2017-18			2018-19		
	<i>QCQ's issued</i>	<i>No. of Responses</i>	<i>Response %</i>	<i>QCQ's issued</i>	<i>No. of Responses</i>	<i>Response %</i>
Primary	34	32	94%	25	25	100%
Secondary	6	5	83%	4	4	100%
Special	1	1	100%	0	0	0
<b>Overall</b>	<b>41</b>	<b>38</b>	<b>93%</b>	<b>29</b>	<b>29</b>	<b>100%</b>

- 8.6 Historically, return rates on QCQ issued have been low (2016/2017 = 22%). As you can see from the table above, over the last two years we have made a concerted effort to ensure that where possible, feedback from Headteachers in relation to the service provided is returned, by following up those schools that have not submitted their QCQs. The table above shows that this year results have improved again, and we achieved a 100% return rate, which is an improvement on last year, and significant improvement on previous years.
- 8.7 It should also be noted, that for those QCQ's received for both primary and secondary schools, 98% were at least satisfied with the overall usefulness of the audit which is in line with our internal performance target of 98%.



## **9. Conclusion**

- 9.1 This annual report provides information on School audits undertaken and finalised during 2018/19, and identifies the main areas for improvement in relation to the financial management and procurement of goods and services for schools.
- 9.2 A good working relationship continues to exist between Schools and the Internal Audit Section, with Headteachers generally responding positively to audit recommendations. However, as highlighted in previous years the raising of orders and compliance with Contract Procedure Rules does remain an issue and in the last number of years these areas have been repeatedly re-reported.
- 9.3 As noted in previous reports, procurement is still the biggest issue arising from School audits. However, the issues highlighted should be considered in the context of the overall school budget. The significant majority of any school's delegated budget is spent on staff salaries (85%) which, given the ever increasing budgetary pressures being felt by schools, leaves a relatively small amount of money for the school's other procurement activities.
- 9.4 It is again the opinion of the Internal Audit Section that financial management systems established in schools continue to provide a generally high level of assurance, subject to the procurement compliance issues as noted above.

## PRIMARY SCHOOLS AUDITED AND FINALISED 2018/19

School	Date Report Finalised	Level of Assurance
Pontlliw Primary	03/07/2018	High Assurance
Newton Primary	13/09/2018	High Assurance
St. Helen's Primary	23/10/2018	High Assurance
Cila Primary	08/11/2018	High Assurance
Talycopa Primary	28/11/2018	High Assurance
Trallwn Primary	14/12/2018	High Assurance
Y.G.G. Llwynderw	12/06/2018	Substantial Assurance
Mayals Primary	29/06/2018	Substantial Assurance
Danygraig Primary	09/07/2018	Substantial Assurance
Y.G.G. Y Login Fach	09/07/2018	Substantial Assurance
Brynhyfryd Primary	20/07/2018	Substantial Assurance
Townhill Primary	11/09/2018	Substantial Assurance
Hendrefoilan Primary	27/09/2018	Substantial Assurance
Sketty Primary	27/09/2018	Substantial Assurance
Burlais Primary	02/10/2018	Substantial Assurance
Dunvant Primary	10/10/2018	Substantial Assurance
Knelston Primary	15/10/2018	Substantial Assurance
Gors Community Primary	18/10/2018	Substantial Assurance
Y.G.G. Bryniago	30/10/2018	Substantial Assurance
Gowerton Primary	26/11/2018	Substantial Assurance
Y.G.G. Bryn-y-Mor	10/12/2018	Substantial Assurance
Christchurch Church in Wales	02/01/2019	Substantial Assurance
Penclawdd Primary	05/02/2019	Substantial Assurance
Terrace Road Primary	31/03/2019	Substantial Assurance
Portmead Primary	04/12/2018	Moderate Assurance

## SECONDARY SCHOOLS AUDITED AND FINALISED 2018/19

School	Date Report Finalised	Level of Assurance
Birchgrove Secondary School	18/01/2019	High Assurance
Gowerton Secondary School	10/07/2018	Substantial Assurance
Dylan Thomas Secondary School	25/07/2018	Substantial Assurance
Bishop Gore Secondary School	11/10/2018	Moderate Assurance

## AREAS REVIEWED AT PRIMARY / SECONDARY / SPECIAL SCHOOLS DURING 2018/19

AUDIT AREA	MAIN CATEGORIES REVIEWED IN EACH AUDIT AREA
<b>Governance</b>	Roles and Responsibilities of Governors, Committees and Staff Policies and Committees Governors Involvement in Setting the School Development Plan Finance, Administration and DBS
<b>Management of Delegated Resources</b>	Budget Setting and Approval Authorised Signatories Delegated Powers
<b>Budget Monitoring</b>	Budget Monitoring Reports sent to the Governing Body Any Capital Expenditure Any Loans / Overdrafts / Leases
<b>Lettings</b>	Governing Body Approval Lettings Applications & Insurances
<b>After School / Breakfast Clubs</b>	Charges Governing Body Approval Income & Expenditure
<b>Banking Procedures</b>	Safety of Monies Holding Limits
<b>Recording of Income</b>	Types of Income Record Accuracy & Retention Segregation of Duties
<b>School Unofficial Funds</b>	School Fund Signatories Audit and Presentation of the School Fund Fund Transactions & Reconciliations Fund Constitutions & Management Committees
<b>School Meals</b>	Dinner Money Arrears Certification of CS3's by Headteachers CS3 Meals Served to sQuid Records Weekly Banking of Dinner Monies (if applicable) Entitlement to Free School Meals
<b>Bank Reconciliation</b>	Undertaken / Frequency Independently Reviewed
<b>Expenditure &amp; Procurement</b>	Official Orders Raised and Authorised Payment Procedures Governing Body Approval of Payments more than £5k Compliance with Contract Procedure Rules Cheque Stock Records Insurance Arrangements for Non-Authority 'Approved' Suppliers.

<b>Multi-pay Cards</b>	Card Security
	Segregation of Duties
	Reconciliations
<b>Employees</b>	Staff References
	Travel & Subsistence Payments
	Overtime Payments
<b>Health &amp; Safety/ Fire/ Premises</b>	Health and Safety Inspections
	Fire Risk Assessments and Portable Appliance Testing
	Self-review of Security Issues
<b>Inventory</b>	Format and Security of the School Inventory
	Keeping the Inventory up-to-date including Disposal Procedures
	Physical Checks & Annual Reconciliation / Authorisation
<b>School Mini Bus / Vehicles</b>	Vehicle Logs Maintained
	Driver Licence Checks
	Security of Vehicles
	Insurance, MOT, Serviced
<b>Computer Security &amp; Data Protection</b>	Password Protection
	Regular Password Changes
	Audit Trails
	Data Protection Register

**CITY AND COUNTY OF SWANSEA**  
**DINAS A SIR ABERTAWE**

**QUALITY CONTROL QUESTIONNAIRE - INTERNAL AUDIT SECTION**

We are keen to monitor and, where possible, improve the quality of our work. We have adopted a number of performance indicators that we report on monthly, quarterly & annually. One of these is your view of the overall quality etc. of our work.

For this reason please complete the questions below indicating your level of satisfaction with various aspects of our audit. Any additional comments you may have should also be included.

AUDIT: \_\_\_\_\_ DATE OF ISSUE: \_\_\_\_\_

AUDIT FILE REF. NO: \_\_\_\_\_ AUDITOR(S): \_\_\_\_\_

ASPECT OF AUDIT	VERY SATISFIED	SATISFIED	DIS-SATISFIED	VERY DIS SATISFIED
<b>AUDIT PLANNING</b> Appropriateness of scope and objectives of audit				
Usefulness of initial discussions with auditor(s)				
Timing of audit				
<b>CONDUCT OF AUDIT</b> Duration of audit				
General helpfulness of auditors				
Consultation on findings				
<b>AUDIT REPORT</b> Fair presentation of findings				
Importance of findings				
Usefulness of recommendations				
Consultation on findings and recommendations				
The value and practicality of the recommendations				
<b>OVERALL</b> How would you rate the overall usefulness of the audit?				

**OTHER COMMENTS:**

SIGNED: \_\_\_\_\_ DATE: \_\_\_\_\_

DESIGNATION/POST TITLE: \_\_\_\_\_

***Please return to the Chief Internal Auditor, Room 102, The Guildhall or by email.***

## **Basic Procurement SLA from April 2015**

The SLA no longer funds a specific Schools Procurement Officer, but covers the following:-

- Access to the Council's corporate, regional and national contracts and framework agreements held for an extensive range of goods and services that can be fully utilised by Schools throughout the City and County of Swansea. Contracts including but not limited to:-
  - (i) Electricity, Gas and Oil.
  - (ii) Window cleaning
  - (iii) Stationery
  - (iv) Washroom equipment & sanitary disposal
  - (v) MFDs
  - (vi) Catering and Cleaning materials
- Monitor corporate contracted suppliers with regard to adherence to contract specifications and prices.
- Provide a dedicated telephone helpline between 9am and 4.30pm, Monday to Friday, excluding Bank Holidays offering :-
  - (i) Procurement advice and guidance on all procurement matters, including product specifications, supplier sourcing and procedures.
  - (ii) Provide advice on the relevant documentation and for Schools to conduct background checks on potential suppliers when procuring individual School contracts (e.g. Health & Safety, Insurances, DBS)
- Updating and reviewing Contracting Procedure Rules for Schools when required by changes to Legislation, policy or procedures.

# Agenda Item 8



## Report of the Section 151 Officer

Audit Committee – 8 October 2019

## Revenue and Capital Budget Monitoring 1st Quarter 2019/20

Purpose:	To provide the Audit Committee with the Revenue and Capital Budget Monitoring Report that was presented to Cabinet on 15 August 2019.
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Report Author:	Ben Smith
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Finance Officer:	N/A
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Legal Officer:	N/A
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Access to Services Officer:	N/A
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### For Information

#### 1. Background

1.1 To provide the Audit Committee with the Revenue and Capital Budget Monitoring Report that was presented to Cabinet on 15 August 2019.

**Background papers:** None.

#### Appendices:

Appendix 1 - Revenue and Capital Budget Monitoring Report that was presented to Cabinet on 15 August 2019

Appendix A – Revenue Budget forecast 2019/20

Appendix B – Directors comments on variances

Appendix C – Savings tracker summary

Appendix D - Expenditure on major Capital Schemes





## Report of the Cabinet Member for Economy & Strategy

Cabinet – 15 August 2019

### Revenue and Capital Budget Monitoring 1<sup>st</sup> Quarter 2019/20

<b>Purpose:</b>	To report on financial monitoring of the 2019/20 revenue and capital budgets, including the delivery of budget savings.
<b>Policy Framework:</b>	Budget 2019/20 Transformation and Future Council (Sustainable Swansea – Fit for the Future)
<b>Consultation:</b>	Cabinet Members, Corporate Management Team, Legal and Access to Services.
<b>Recommendation(s):</b>	It is recommended that: <ol style="list-style-type: none"> <li>1) The comments and variations in this report, and the actions in hand to address these, are noted.</li> <li>2) That Directors develop and rapidly bring forward sufficiently detailed plans to assure Cabinet that service budgets can be sustainably brought back into line for 2019-20 and beyond.</li> <li>3) That the consequences of continued service overspending are that no officer may consider any material further spending commitments until those savings plans are assured.</li> </ol>
<b>Report Author:</b>	Ben Smith
<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Tracey Meredith
<b>Access to Services Officer:</b>	Rhian Millar

## 1. Background and Introduction

- 1.1 This report details forecast variations from the agreed budget for 2019/20, including the latest assessment of the delivery of savings.
- 1.2 In respect of Revenue Budgets, this report provides a consolidated forecast which combines:
- projected variations (mainly shortfalls) in relation to budget savings agreed by Council in February 2019
  - Variations arising from other service pressures not directly linked to specific savings plans (e.g. increased service demand, price and pay inflation, increased, but most often unfunded, regulatory obligations and burdens from both UK and Welsh governments)
- 1.3 The report includes comments from Directors in relation to the variations highlighted and the action that is in hand or proposed as appropriate.
- 1.4 The report also includes the latest completed Savings tracker summary in Appendix C that indicates the current overall forecast delivery % of the various savings streams by the services is at 79%. Any shortfalls in achieving savings will be reflected in the table at 2.3 and in Appendix A.

## 2. Revenue Outturn Forecast Based on 1<sup>st</sup> Quarter Position

- 2.1 Appendix 'A' to this report details the approved Revenue Budget for 2019/20 and the forecast variation at this time.
- 2.2 Other than projected variations on Directorate expenditure, it is still too early to forecast variations that may arise on some significant Corporate items, including the level of Council Tax collection (which posted a deficit in 2018-19 of £0.3m though in previous years has returned a modest surplus) – it is assumed at the current time that these remain largely as per the approved budget.
- 2.3 The overall Directorate position is summarised below:-

### **DIRECTORATE**

	<b>FORECAST VARIATION 2019/20 £000</b>	<b>SAVINGS VARIATION 2019/20 £000</b>	<b>OTHER VARIATION 2019/20 £000</b>
RESOURCES#	1,111	1,777	-666
PEOPLE - SOCIAL SERVICES#	1,424	1,215	209
PEOPLE - EDUCATION	1,803	0	1,803
PLACE	0	822	-822
<b><u>NET DIRECTORATE EXPENDITURE</u></b>	<b>4,338</b>	<b>3,814</b>	<b>524</b>

# To reflect operational management and reporting hierarchy the majority of Poverty & Prevention budgets (£4,510,000) and any forecast variations are now included as part of the Social Services budget. The remaining budget and any related forecast variation (£101,000 re Community Integration Unit) is now included within Resources.

- 2.4 Directors' comments on the above variations are shown at Appendix B :-
- 2.5 Within the *Sustainable Swansea* Delivery Programme, work continues to develop service delivery plans that will include all savings requirements across all strands. This includes the cross cutting nature of new reviews as well as the completion of current in-flight reviews.
- 2.6 The above potential service overspend remains a significant risk and needs to be addressed on a whole Council basis as it remains unsustainable to continuously spend more than budgeted, especially so given the position is helped only temporarily by one off grant funding sources . A number of the overspend areas follow on from the outturn position for 2018/19 and need to be considered in the light of the forecast savings going forward within the 2019/20 budget, Medium Term Financial Plan, and the cumulative effect of non-achievement of savings going forward.
- 2.7 Corporate Management Team has re-enforced the current arrangements for budget monitoring in particular :-
- focus on a range of corrective actions;
  - targeted immediate spend reduction action;
  - spending control on all vacancies and contracts;
  - a continued reminder that **no Responsible Officer is authorised to overspend their budget in line with Financial Procedure Rules;**
  - and consequently that Directors will rapidly bring forward to Cabinet and Corporate Management Team detailed and realistic mitigation plans to contain service overspending.
- 2.8 Offsetting opportunities do exist to temporarily ameliorate the currently identified service demand and price pressures as follows.
- £1m was set aside in the budget for the potential costs relating to the impact of the Apprenticeship Levy. The final costs relating to this levy will only be known once final employee related costs are calculated at the year end. Should the full allocation not be required then any saving will be proposed to be used to mitigate service pressures at year end.
  - £2m was also set aside to meet any specific and significant inflationary increases arising in year. A Commercial savings target was held corporately in 2018/19 and initially 2019/20. Any actual contract/procurement savings were delivered within services and not allocated to this central target. For 2019/20 this total has been allocated to services and is funded from the Inflationary provision to avoid double counting against previous contract procurement savings. Given the overall financial projection at this stage it is proposed by the S151 officer that £1.1m is allocated to services to cover commercial pricing pressures and the remaining

£0.9m be conserved for now as a hedge against potential service over spending . The most likely area needing further budgetary support in year for inflation costs is Social Services given a range of contract renewals and re-tenders and continued fragility of some providers in the market.

- Use of the Contingency Fund as detailed below.

### 3. Contingency Fund Provision for 2019/20

3.1 The contingency fund is set at the £7.072m contribution for 2019/20 as set out in the budget report approved by Council in February 2019. This is significantly higher than in recent years reflecting additional mitigation against any repeated overspending.

3.2 The current potential calls on the contingency fund for 2019-20 are:-

<b>Contingency Fund 2018/19</b>	<b>Prediction</b>
	<b>2019/20 (£m)</b>
Contribution for year	7.072
One off interim support arrangements for Chief Executive and ongoing regional working – a sum up to	-0.072
One off support to a range of events celebrating the 50 <sup>th</sup> anniversary of the granting of city status to Swansea - a sum up to	-0.150
Support for Swansea Community Awards	-0.001
ER/VR in year costs if ultimately exceeding balance on Restructure Reserve of £3m (this is currently not expected to be needed on basis of levels of ER/VRS)	0.000
Service overspend mitigation £3.438m and mitigation for future spend risks/demand and regulatory pressures/Inflation £3.411m	6.849
<b>Balance 31st March 2020</b>	<b>0</b>

The above table lists current potential calls on the budgeted contingency fund. The final amounts will be dependent on a number of factors during the year including speed of implementation, actual costs/commitments incurred and final Directorate outturn position. Spend approvals will be deliberately limited to seek to maximise underspend here as part of mitigating budget savings action. Updates will be provided during the financial year as part of the routine quarterly reporting to members.

As set out in the 2018-19 Revenue outturn report to members some £3m remained within the Restructure Reserve to contribute toward ER/VR costs in 2019-20. The S151 officer proposes that any such costs over and above this £3m will be funded via the contingency. The final costs of ER/VR will only be known towards the end of the year once all management actions re savings proposals etc are implemented.

At this stage it is assumed that all ER/VR costs will be able to be contained within the sum left in the Restructure Reserve.

The S151 officer proposes that ,as set out in Appendix A, the forecast shortfall in the funding of service costs for 2019-20 of £3.438m (Service overspends of £4.338m less unallocated Inflation provision £0.9m) will be met in full from the Contingency fund. That the remaining balance on the Contingency Fund of £3.411m be provisionally allocated to mitigate any potential additional spend risks/ demand and regulatory pressures/ pay and price inflation arising in the financial year.

The S151 officer proposes to reserve his final position on the recommended levels of use of the restructure reserve and contingency fund until the success or otherwise of reducing the forecast overspend is known at year-end.

3.3 The current indication is that ,for 2019-20, there still needs to be urgent and decisive action to pursue and deliver all savings proposals across the Council.

3.4 The action being taken includes working through existing plans on an accelerated delivery basis :

- Management and Business Support Review: ongoing review of the management structure across the Council and future requirements given the Council's priorities, future challenges and the changing nature of the role of managers
- Reducing the Pay Bill: review of options to reduce employee costs across the Council as part of our overall future workforce strategy (subject to trade union consultation at the appropriate time)
- Commercialism through third party Procurement Savings and Income Generation: review of further options to increase income from fees and charges, trading etc, in addition to the targets already set for 2019/20
- Progressing implementation of Commissioning Reviews and Cross Cutting Themes.
- Further implementation of the Social Services Saving Plan through which we have identified mechanisms for bringing down overall costs.
- Continuing the extant spending restrictions which have been reviewed, refreshed and reissued by Corporate Management Team.

3.5 It should be noted that at this time, although the Council continues to pursue a number of VAT related claims, some are more advanced than others, there is NO certainty of windfalls from VAT refunds or any other external source being received in the current year.

#### **4. Revenue Budget Summary**

4.1 The position reported above reflects the best known current position. A net £4.338m of shortfall in service revenue budgets, offset by £0.9m of identified additional savings from the non-allocation of the Inflation provision together with utilising £3.438m from the use of the Contingency Fund.

4.2 Corporate Management Team have reinforced the expectation that both service and overall net expenditure must be contained within the relevant limits of the current year budget as set by Council.

- 4.3 As previously mentioned, it is too early to provide an accurate forecast as to the potential outturn on corporate items such as Council Tax collection which is in itself potentially affected by the effects of welfare reform measures, but offset by an often increasing tax base.
- 4.4 Included in the projected budget for 2019/20 for other corporate items are capital finance charges. At this early stage no variance is forecast, in any case any underspending or overspending will be transferred at year end to or from the capital equalisation reserve, a strategy previously agreed by Council . This will be reviewed and updated during the year as various capital schemes/programmes progress.
- 4.5 The overall judgement at this point is that there remains an urgent need to identify and implement existing and additional budget savings across all Council Services to improve the 2019/20 position and beyond.
- 4.6 There remains a degree of confidence that some further inroads can be made into the forecast overspend position by ongoing management and member action. Equally, the scale remains such, that it would be on balance very unlikely that spending can be fully contained in year without wide scale mitigation actions, including those set out in this report.
- 4.7 There continue to be increasing risks around general inflationary pay and price pressures (including potentially another higher than previously budgeted teachers' pay award from September). Nevertheless the Council simply cannot afford to fund them, savings will have to be made elsewhere to meet such pressures.
- 4.8 Detailed monitoring of budgets will continue to be carried out and reported to Departmental Performance and Financial Management meetings on a monthly basis.
- 4.9 The Section 151 Officer has considered professional advice given as to funding levels within the Insurance Reserve and notwithstanding the ongoing modest draws from the reserve over the duration of the MTFP to help support the revenue budget, he is satisfied there is at least a further £2.648m of headroom (over funding) beyond that reasonably likely needed to meet future claims. This enables a transfer to be made between earmarked reserves and bolster the capital equalisation reserve yet further in anticipation of the substantial future capital spending which remains to be predominantly financed from unsupported borrowing.
- 4.10 It is imperative that sustainable base budget savings are found to replace these in year one off actions to stabilise the 19-20 budget ahead of an anticipated extremely challenging and uncertain 2020-21 budget round.

## **5. Capital Budget**

- 5.1 Expenditure to 30<sup>th</sup> June 2019 is £11.756 million, summarised as follows:

<b>Directorate</b>	<b>Budget 2019/20</b>	<b>Actual to 30/06/19</b>	<b>% spend</b>
	£'000	£'000	
Corporate Services	6,484	339	5.2%
People	26,662	785	2.9%
Place (General Fund)	68,115	5,248	7.7%
Place (HRA)	71,989	5,384	7.5%
<b>Total</b>	<b>173,250</b>	<b>11,756</b>	<b>6.8%</b>

Expenditure on major capital schemes is detailed in Appendix D.

It should be noted that the actual spend to 30 June may only have 1 or 2 months costs relating to external invoices. In addition the budgets will be reviewed during July which will result in some budgets being re-profiled into later years.

## **6. Housing Revenue Account**

- 6.1 There are no material budget issues to flag at this stage of the year. Forecast changes to levels of borrowing and a reduction in the pooled rate of interest could lead to a reduction in finance costs however, it is too early in the year to make an accurate projection.

## **7. Legal Implications**

- 7.1 There are no legal issues contained within this report.

## **8. Equality & Engagement Implications**

- 8.1 The Revenue budget of the Council was approved following the application of the corporate Equality Impact Assessment (EIA) process throughout the Budget setting process. It is essential where service levels are affected by changes to the Revenue Budgets (including savings options) that the EIA process (alongside consultation and engagement as appropriate) is applied to ensure due regard is paid to the potential equality impacts of any proposals prior to decision making.

**Background papers:** - None

### **Appendices:**

- Appendix A – Revenue Budget forecast 2019/20
- Appendix B – Directors comments on variances
- Appendix C – Savings tracker summary
- Appendix D - Expenditure on major Capital Schemes

## Appendix A

## REVENUE BUDGET PROJECTION QUARTER 1 2019/20

<b><u>DIRECTORATE</u></b>	<b>BUDGET 2019/20 £000</b>	<b>PROJECTED 2019/20 £000</b>	<b>VARIATION 2019/20 £000</b>
RESOURCES	45,593	46,704	1,111
PEOPLE - SOCIAL SERVICES	120,831	122,255	1,424
PEOPLE – EDUCATION	170,821	172,624	1,803
PLACE	56,058	56,058	0
<b><i>NET DIRECTORATE EXPENDITURE</i></b>	<b>393,303</b>	<b>397,641</b>	<b>4,338</b>
SPECIFIC PROVISION FOR APPRENTICESHIP LEVY/INFLATION	1,850	950	-900
CONTINGENCY FUND	6,849	3,411	-3,438
<i>OTHER ITEMS</i>			
LEVIES			
SWANSEA BAY PORT HEALTH AUTHORITY	86	86	0
CONTRIBUTIONS			
MID & WEST WALES COMBINED FIRE AUTHORITY	12,971	12,971	0
<i>CAPITAL FINANCING CHARGES</i>			
PRINCIPAL REPAYMENTS	14,478	14,478	0
NET INTEREST CHARGES	18,119	18,119	0
<b><i>NET REVENUE EXPENDITURE</i></b>	<b>447,656</b>	<b>447,656</b>	<b>0</b>
<i>MOVEMENT IN RESERVES</i>			
GENERAL RESERVES	0	0	0
EARMARKED RESERVES	-4,730	-4,730	0
<b><i>TOTAL BUDGET REQUIREMENT</i></b>	<b>442,926</b>	<b>442,926</b>	<b>0</b>
DISCRETIONARY RATE RELIEF	400	400	0
<b><i>TOTAL CITY AND COUNTY OF SWANSEA REQUIREMENT</i></b>	<b>443,326</b>	<b>443,326</b>	<b>0</b>
COMMUNITY COUNCIL PRECEPTS	1,465	1,465	0
<b><i>TOTAL REQUIREMENT</i></b>	<b>444,791</b>	<b>444,791</b>	<b>0</b>
<b><i>FINANCING OF TOTAL REQUIREMENT</i></b>			
REVENUE SUPPORT GRANT	242,197	242,197	0
NATIONAL NON-DOMESTIC RATES	80,014	80,014	0
COUNCIL TAX - CITY AND COUNTY OF SWANSEA	121,115	121,115	0
COUNCIL TAX - COMMUNITY COUNCILS	1,465	1,465	0
<b><i>TOTAL FINANCING</i></b>	<b>444,791</b>	<b>444,791</b>	<b>0</b>



## Directors comments on budget variances

## Appendix B

**Director of Resources**

Variance	£000	Explanation and Action
<b><u>Savings Variation</u></b>		
18/19 Sustainable Swansea Savings targets:		
Management review of grade 10 and above	113	These three areas form part of Corporate Services proposals to merge and review cross-cutting functions across the Council related to Business Support functions, exploring new ways working including regional collaboration where possible. Limited opportunities are available regarding shared services and the regional working options are very slow in progressing, with little if any appetite across other organisations. Further Proposals and plans are being discussed.
Service review/regional working/shared services	239	
Stopping or reducing services through new ways of working	597	
Merging of Land Charges with Planning and Building Control as per the Commissioning Review	25	The team has successfully merged with Planning and savings achieved in the Place Directorate. It was planned that new ways of working would release this £25k in legal however, this is no longer possible. Alternative savings are now being sought in legal however this is proving difficult with the additional pressures from savings already made in staffing.
Establishing Business Support hubs in the People and Place Directorates	-79	An additional saving as a result of implementing the 'One Council' approach to Business Support.
19/20 balance	-125	Additional savings as a result of vacancy freeze and delay in appointing staff.
16/17 & 17/18 saving targets	531	The savings identified in previous years requires changes to terms and conditions or the potential stopping of services, this to date has not had support and remains an area of further investigation before anything is recommended or agreed.
Sub total	1,301	
Other saving targets:		

Transfer and review of the Welsh Translation Unit, including cost and charges	170	The Welsh Translation Unit is reviewing ways of working however, the demand for Welsh translation continues to increase. In order for the Council to meet its statutory responsibilities and statutory deadlines for certain reports further budget reductions are not possible. External translation services are now being used to help with capacity, which impacts the budget. Although the team will continue to improve and change processes and ways of working, including the use of technology, it is anticipated this saving can not be achieved due to rising demand.
16/17 Communications model & Corporate Health & Safety/Wellbeing	306	This saving is challenging with the identified model of merging the marketing and communications from across the council into one team not able to progress. In addition the increase in demand in the referrals to occupational health has not enabled the growth of this area to become income generating due to all spare capacity being used internally.
Total	1,777	
Other Net Underspends	-666	Legal underspends £-279k, Finance underspends CTRS £-350k & staff savings £-200k
Total Variation	1,111	

Corporate Services underwent significant change in 2017/18 which followed into 2018/19, in order to realise savings and rebalance the budget.

The Directorate has proactively and strictly managed any overspending in Quarter 1, and as a base budget has performed well. The legacy savings from the previous years have affected the budget and have created an overspend position in Qtr 1.

Detailed plans and proposals are in place for all of the variances above, however there will be some difficulty in achieving these savings in the current year.

**Director of Social Services****Social Services**

Variance	£000	Explanation and Action
<b>Savings Variation</b>		
Implement preferred options as outcome of Commissioning Review (Learning Disability, Physical Disability & Mental Health service provision)	500	This project continues with dedicated resource and senior management input. Initial retendering exercise underway. The continued effect of increases to minimum wage and the need to diversify the supplier base may cause some costs to increase.
Review of CHC Arrangements/LD MH Right Sizing and Review	334	This project has had some success in identifying individuals eligible for third party funding. This work continues.
Review all packages of care to ensure fit for purpose and effectively manage new admissions to domiciliary care.	81	Domiciliary care continues to be subject to significant demand pressures. Rightsizing work is therefore likely to release capacity rather than reduce spend.
Direct Payments Strategy - Targeted increase in recourse to direct payments as alternative to non-complex domiciliary care packages	300	Savings in this area continue through reviews of allowances paid and, where appropriate, the reclaim of unused balances.
<b>Other</b>		
Independent Child and Family Placements	745	This budget is subject to both fee and demand pressures. It is hoped that the implementation of a new practice model will see this forecast reduce over time.
Fostering Fees	150	The full year effect of a requirement to increase fees paid to family and friends carers will see costs increase.
External Residential Care	84	These areas continue to be exposed to both demographic and cost pressures. Work to ensure all placements are appropriate and cost effective continues.

Variance	£000	Explanation and Action
Internal Staffing and Services	- 2,459	The council has received a number of grants in the current year that support the overall financial position. Work to ensure services are designed in a way that enables the Council to access all funding sources continues and will cause significant underspends to appear in these initial stages. Work to rebalance the Service's budgets is underway.
Third Party Spend	70	In addition, the service continues to maintain tight vacancy and contract management
MHLD Complex Care	1,619	This is a continuation of the previous years' overspend and remains an area of extreme demand and price pressure. Additional budget has been allocated but is being outstripped by both pressures on demand and fee levels.
<b>Overall Variation</b>	<b>1,424</b>	

The Social Services position is due to a combination of both unachieved savings and fee and demand pressures across externally commissioned services. Management action will continue to seek ways of safely reducing the net cost of our services. Much of the funding enabling the internal services underspend underpinning overspends in commissioned services is time limited. The sustainability of this approach is subject to future budget decisions of both the Welsh and Westminster Governments.

### **Director of Education**

Variance	£000	Explanation and Action
Home to School Transport	344	Inflationary fuel price pressures and continuing demand, particularly within the ALN and post 16 sector continue to increase costs. These demand and price pressures are inherently volatile and uncontrollable within current transport policy.
Catering and Cleaning	290	The service continues to be subject to substantial inflationary pressures on the cost of food and staff. This has been partially offset by a combination of management cost control and positive take up of paid meals. Further means of reducing net cost are being examined.
Additional Learning Needs	400	This forecast primarily concerns the cost of placements within Independent Special Schools. The Council continues to see both cost and demand pressures in this area, despite continued efforts to increase the supply of such places locally. Should

		demand for such placements continue to rise, this forecast will increase.
Centrally funded non-delegated pressures.	769	This overspend is primarily attributable to ongoing historic pension costs borne by the Council on behalf of Schools. It also includes increases in the cost of maternity/paternity leave.
<b>Overall Variation</b>	1,803	

Many of the pay, price and demand pressures identified above are a continuation of the overspend position from 2018/19. Ongoing robust management action will continue. This will seek to mitigate pressures and bring forward additional savings where possible.

### **Director of Place**

A number of issues need to be highlighted for the purpose of visibility. These include unfunded budget pressures as follows:

- Significant increased electricity costs of £246k
- Reduced recycling prices in waste management of £300k to £350k
- Increased costs for maintaining and replacing aging social services fleet £300k

In year savings of £704k have been identified as difficult to achieve by year end and these comprise mainly of Commissioning Review (Service in the Community), IT delays for rollout of mobile working and delayed and “cashable” Integrated Transport Unit savings and transport savings removed budget but authorisation to implement withdrawn

In addition there are some challenges in achieving all of the “cross cutting” saving requiring policy changes identified for 19/20 in particular

- Staff – Christmas closure, average holiday pay, 50% Honoraria reduction, 50% market supplement reduction and remove first aid payments (total £118k)

The directorate is working to offset these spending, predominantly price, pressures within its overall budget but at this stage it is likely that further decisions will have to be made in year to be able to offset these costs and return a balanced budget.

# June 2019 MTFP Tracker Report

**Target Savings**

**£12.64m**

**Expected Savings by 31st March 2020**

**£9.985m**

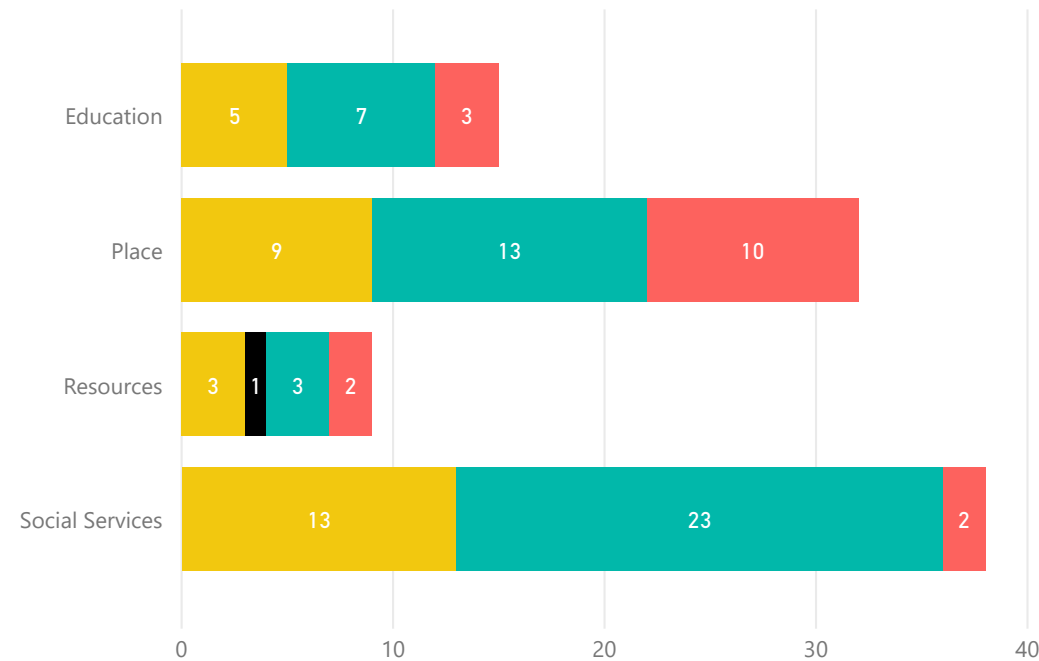
**Delivered**

**£3.72m**



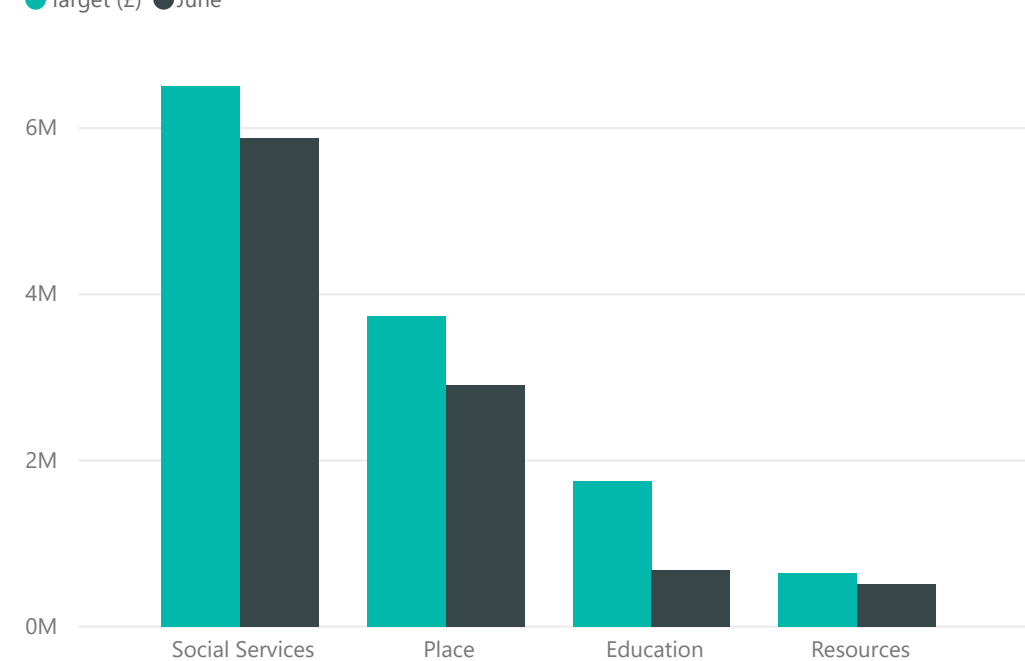
May: £3.70m

June BRAG ● Amber ● Black ● Green ● Red

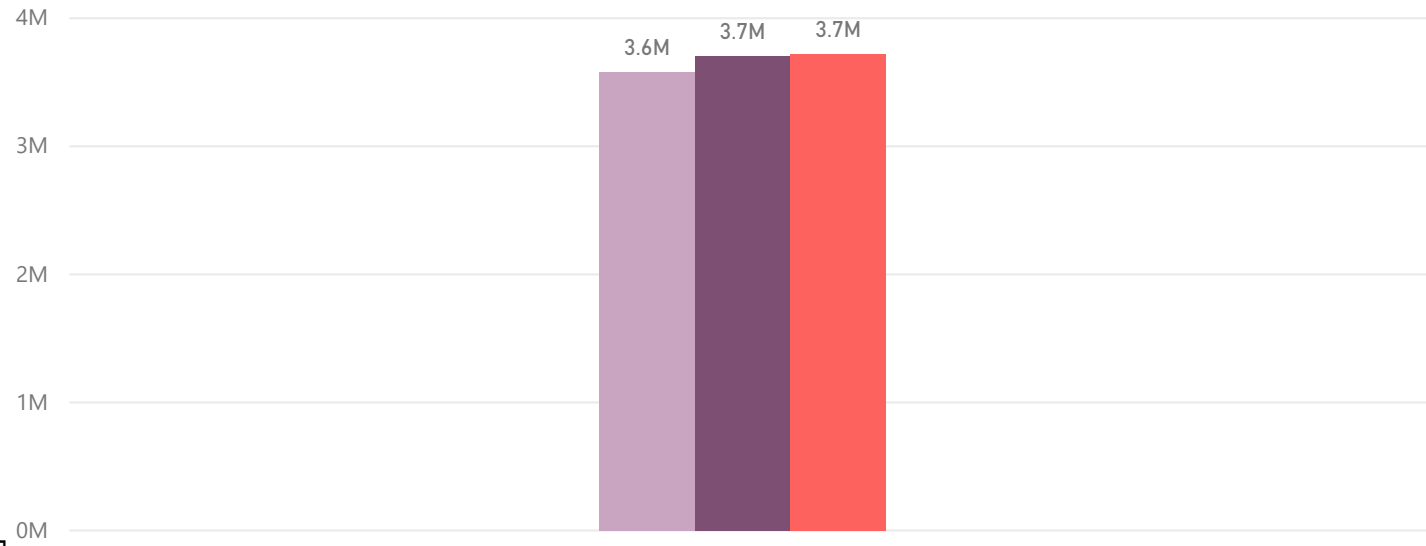


Target (£) and June by Directorate

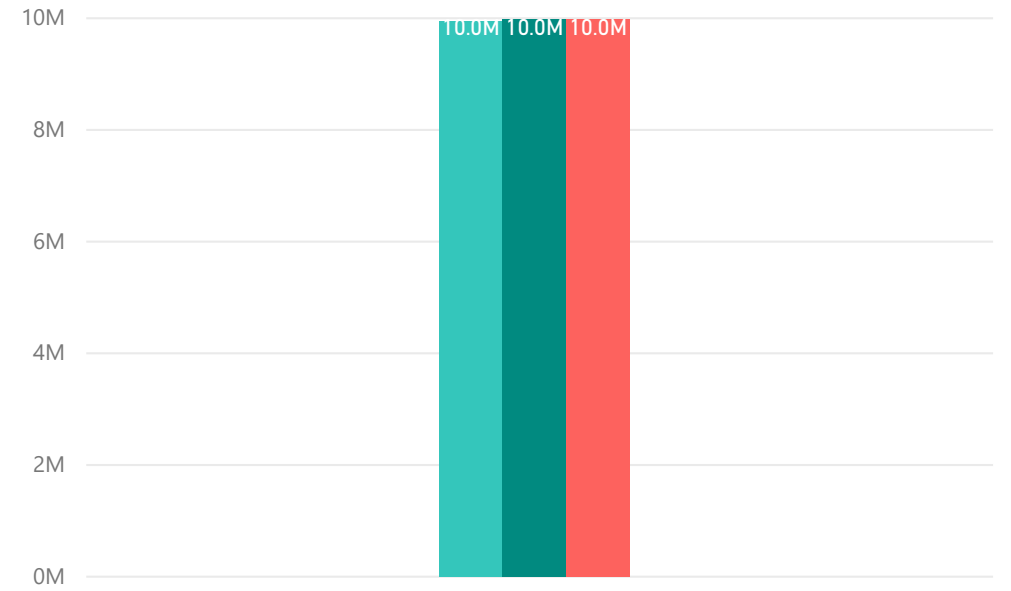
● Target (£) ● June



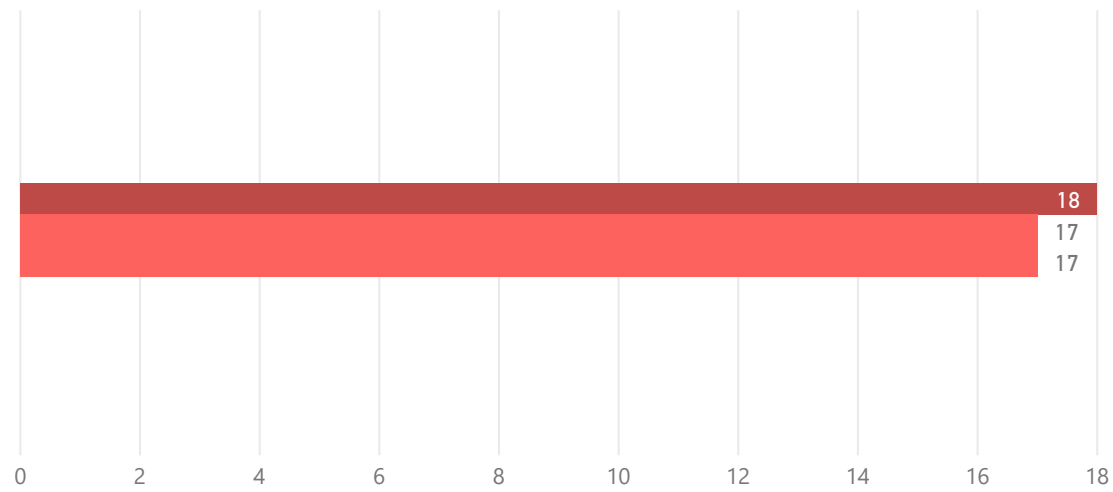
Firm delivered to date ● April Delivered ● May Delivered ● June Delivered



Expected Savings ● April ● May ● June



Red BRAG Comparison ● Count of April BRAG ● Count of May BRAG ● Count of June BRAG



## Appendix D

<b>Capital expenditure on major schemes to 30 June 2019 (where spend greater than £250k)</b>	<b>£000's</b>
<b>People</b>	
Pentrehafod Comp School Remodelling	514
<b>Resources</b>	
Agile & Mobile programme (laptops and accessories)	323
<b>Place</b>	
Swansea Central (Arena)	1,733
Highways - carriageways & resurfacing	1,475
Disability Facilities Grants	566
HRA capital programme (including More Homes schemes)	5,384
<b>Total scheme value where spend greater than £250k</b>	<b>9,995</b>



# Agenda Item 10



## Report of the Section 151 Officer

Audit Committee – 8 October 2019

### Treasury Management Annual Report 2018/19

Purpose: To provide the Audit Committee with the Treasury Management Annual Report 2018/19 Report that was presented to Council on 26 September 2019.

Report Author: Jeff Dong

Finance Officer: N/A

Legal Officer: N/A

Access to Services Officer: N/A

#### For Information

#### 1. Background

1.1 To provide the Audit Committee with the Treasury Management Annual Report 2018/19 Report that was presented to Council on 26 September 2019.

**Background papers:** None.

#### Appendices:

Appendix 1 - Treasury Management Annual Report 2018/19 Report that was presented to Council on 26 September 2019.

Appendix A – Treasury Management Annual Report 2018/19.



## Report of the Section 151 Officer

Council - 26 September 2019

### Treasury Management Annual Report 2018/19

<b>Summary</b>	
<b>Purpose:</b>	This report provides details of the Council's Treasury Management activities during 2018/19 and compares actual performance against the strategy laid down at the start of the year.
<b>Policy Framework:</b>	Treasury Management Policy Statement
<b>Consultation:</b>	Finance, Access to Services and Legal
<b>Report Author:</b>	Jeff Dong
<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Deb Smith
<b>Access to Services Officer</b>	Rhian Millar
<b>For Information</b>	

## 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 There was a projected unfunded capital financing requirement of £127m as at end of 2018/19. Identified borrowing of £90m within target levels was undertaken during the year at an average interest rate of 2.35%

- 2.2 The average interest rate on outstanding Council borrowing was 4.22% in 2018/19 down from 4.44% 2017/18.
- 2.3 Internally Managed investments achieved a return of 0.69%. This represents an outperformance of +0.18% from the average 7 day LIBID benchmark rate of 0.51% returning £850k of investment income
- 2.4 The Council has operated within all of the determined Prudential and treasury limits outlined in 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:**

None

### **Appendices:**

Appendix A – Treasury Management Annual Report 2018/19

# Treasury Management Annual Report

## 2018/19

### *Contents*

#### **Section**

- 1. Executive Summary**
- 2. Introduction and Background**
- 3. Debt Portfolio**
- 4. Treasury Strategy 2018/19**
- 5. Actual Borrowing 2018/19**
- 6. Compliance with Treasury Limits**
- 7. Capital Financing Charges 2018/19**
- 8. Investment Strategy for 2018/19**
- 9. Actual Investments 2018/19**
- 10. Early Debt Repayment**

**Appendices**

# 1. Executive Summary

- 1.1 There was a projected unfunded capital financing requirement of £127m as at end of 2018/19. Identified borrowing of £90m within target levels was undertaken during the year at an average interest rate of 2.35%
- 1.2 The average interest rate on outstanding Council borrowing was 4.22% in 2018/19 down from 4.44% 2017/18.
- 1.3 Internally Managed investments achieved a return of 0.69%. This represents an outperformance of +0.18% from the average 7 day LIBID benchmark rate of 0.51% returning £850k of investment income.
- 1.4 The Council has operated within all of the determined treasury limits outlined in 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 2018 and updated in February 2019 the Treasury Strategy Statement and Investment Strategy and MRP Strategy for 2018/19 and The Revised MRP Policy approved by Council in Dec 2018.
- 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. The Code was updated in 2017. 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 2018/19 Prudential & Treasury Management 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 2018		31 March 2019	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
<b>Long Term Debt</b>				
PWLB - fixed rate	354,084	4.95	444,084	4.42
Money Market (LOBO)	98,000	4.10	98,000	4.10
Welsh Gov	5,500	-	10,970	-
<b>Short Term Debt</b>				
Market	-	-	-	-
External Bodies	951	0.61	969	0.56
<b>Total Debt</b>	<b>458,535</b>	<b>4.44</b>	<b>554,023</b>	<b>4.22</b>

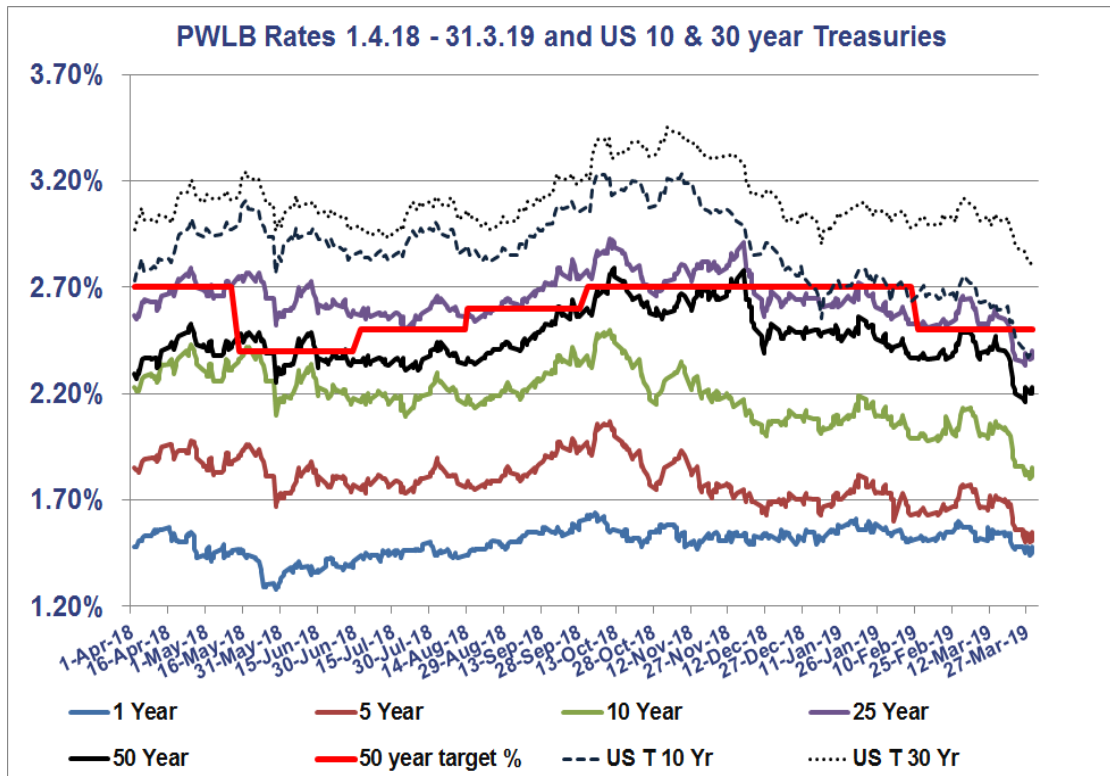
3.2 The average external debt portfolio interest rate was 4.22%. ( 2017/18 4.44%)

## 4. Treasury Strategy 2018/19

- 4.1 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.
- 4.2 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.
- 4.3 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.
- 4.4 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again. Continued uncertainty in the aftermath of the 2008 financial crisis has 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.
- 4.5 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years ( eliminating the 'cost of carry' where the interest rates of borrowing are greater than available investment rates). During 2018-19, in light of the planned capital spend in subsequent years, it was determined prudent to materially fund its outstanding capital financing requirement during the year, fixing in some historically low interest PWLB financing for the portfolio during the course of the year.
- 4.6 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy to manage interest rate risks, taking the opportunity to average in the capital financing

requirement as opportunities arose during the year during periods of market volatility/ market sentiment caused by Brexit uncertainty and US Trade war rhetoric.

- 4.7 As depicted in the graph below, PWLB 5,10, 25 and 50 year rates have been volatile during the year with little consistent trend. The graphs and tables for PWLB rates 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



## 5. Actual Borrowing 2018/19

- 5.1 The Treasury Management strategy 2018/19 agreed by the Council in February 2018 projected an unfunded capital financing requirement of £127m as at end of 2018/19.
- 5.2 As identified in 4.5 above, the general overall strategy is to mitigate the ‘cost of carry’ in the current economic environment, however during 2018/19 it was determined prudent to fully fund the capital financing requirement ahead of planned capital spend in subsequent years, locking in some historically low PWLB long term interest rates which offered long term value. As such, long term borrowing of £90m was undertaken during the year outlined below. 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- issue date	Amount	Maturity	Interest Rate
PWLB April 2018	£10m	46 years	2.46%
PWLB April 2018	£10m	49 years	2.45%
PWLB April 2018	£10m	50 years	2.45%
PWLB Oct 2018	£10m	9 years	2.21%



PWLB Oct 2018	£10m	10 years	2.28%
PWLB Dec 2018	£10m	11 years	2.09%
PWLB Dec 2018	£10m	50 years	2.39%
PWLB Feb 2019	£10m	43 years	2.41%
PWLB Feb 2019	£10m	44 years	2.40%
<b>TOTAL</b>	<b>£90m</b>	<b>34.7 years</b>	<b>2.35%</b>

## 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 2018/19 under the Prudential Code. The outturn for the prudential indicators are shown in Appendix 1.

## 7. Capital Financing Charges 2018/19

- 7.1 The capital financing charges made to the Council's accounts for 2018/19 including capital repayments net of discounts/premiums and interest receivable are detailed below.

	Actual 2017/18	Actual 2018/19
	£'000	£'000
Housing Revenue A/c	9,297	9,689
General Fund	28,367	24,756

- 7.2 The net capital financing interest 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 the amortisation of historical discounts/premia applied. The General Fund capital financing charges 2018/19 take into account implementation of the revised Minimum Revenue Provision ( MRP) Policy adopted by Council in Dec 2018.

## 8. Investment Strategy for 2018/19

- 8.1 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.
- 8.2 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.

- 8.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again. Continued uncertainty in the aftermath of the 2008 financial crisis has 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.
- 8.4 The Council's investment policy is also governed by WAG guidance, which was implemented in the annual investment strategy 2018/19 approved by the Council on February 2018. 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 2018/19

- 9.1 The Council manages its cashflow and core balance investments internally, having realised its cash balances held with its external cash fund managers 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 2018	Balance 31 March 2019	Average Value 2018/19	Interest	Rate of Return	Benchmark 7 day LIBID
£'000	£'000	£'000	£'000	%	%
61,889	147,288	123,966	850	0.69	0.51

- 9.2 The interest achieved on internally managed investments was £0.850m or 0.69%. This return outperformed the benchmark seven-day rate by +0.18%.
- 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 31<sup>st</sup> March 2018 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. Appraising the current portfolio, no such opportunities arose in 2018/19 which would be economically beneficial to the Authority.

## Prudential &amp; Treasury Management Indicators

Prudential Indicators	2017/18	2018/19	2018/19
	Actual	Budget	Actual
	£'000	£'000	£'000
<b>Capital Expenditure</b>			
GF	40,379	76,785	53,482
HRA	45,835	47,705	43,029
TOTAL	86,214	124,490	96,511
<b>Ratio of financing costs to net revenue stream</b>	%		
GF	6.75	5.9	6.2
HRA	16.44	15.23	14.77
<b>Capital Financing Requirement</b>			
GF	333,490	362,865	340,841
Credit Arrangements	1,898	453	778
HRA	151,068	159,004	151,916
TOTAL	486,456	522,322	493,535

Treasury Management Indicators	2017/18	2018/19	2018/19
	Actual	Budget	Actual
	£'000 or %	£'000 or %	£'000
Authorised limit for external debt	458,535	681,958	554,023
Operational boundary for external debt	458,535	641,958	554,023
Upper limit for fixed interest rate exposure	78.6%/ £360,535	100%/ £681,958	82.32%/ £456,023
Upper limit for variable interest rate exposure	21.4%/ £98,000	40%/ £272,783	17.68%/ £98,000
Upper limit for total principal sums invested for over 364 days	0	40,000	0

<b>Maturity Structure of Fixed Rate Borrowing in 2018/19</b>			
	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual %</b>
Under 12 months	60	0	0.7
12 months and within 24 months	60	0	0.5
24 months and within 5 years	60	0	0.1
5 years and within 10 years	90	0	9.7
10 years and above	95	15	89

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 2018/19

are shown as at balance sheet date 31<sup>st</sup> March 2019, however it can be reported that none of the above limits were breached during 2018/19.

## Treasury Management – Glossary of Terms

<b>Annualised Rate of Return</b>	Represents the average return which would have been achieved each year.
<b>Authorised Limit</b> <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.
<b>Bank Rate</b>	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.
<b>Base Rate</b>	Minimum lending rate of a bank or financial institution in the UK.
<b>Basis Points (bp)</b>	A basis point is 0.01 of 1% (100 bp = 1%)
<b>Borrowing</b>	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- <ul style="list-style-type: none"> <li>• Borrowing repayable with a period in excess of 12months</li> <li>• Borrowing repayable on demand or within 12months</li> </ul>
<b>Capital Expenditure</b>	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.

<b>Capital Financing Charges (see financing costs also)</b>	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
<b>Capital Financing Requirement</b>	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.
<b>CIPFA</b>	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.
<b>Counterparty</b>	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
<b>Credit Rating</b>	<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"> <li>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</li> <li>2. F1/A1/P1 are short-term rating definitions used by Moody's, S&amp;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.</li> </ol>

<b>Debt</b>	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.
<b>Discounts</b>	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.
<b>Financing Costs</b>	<p>The financing costs are an estimate of the aggregate of the following:-</p> <ul style="list-style-type: none"> <li>• Interest payable with respect to borrowing</li> <li>• Interest payable under other long-term liabilities</li> <li>• 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)</li> <li>• Interest earned and investment income</li> <li>• 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</li> </ul>
<b>Financial Reporting Standards (FRSs)</b>	These are standards set by governing bodies on how the financial statements should look and be presented.
<b>Investments</b>	<p>Investments are the aggregate of:-</p> <ul style="list-style-type: none"> <li>• Long term investments</li> <li>• Short term investments (within current assets)</li> </ul>

	<ul style="list-style-type: none"> <li>• Cash and bank balances including overdrawn balances</li> </ul> <p>From this should be subtracted any investments that are held clearly and explicitly in the course of the provision of, and for the purposes of, operational services.</p>
<b>IMF</b>	International Monetary Fund
<b>LOBO (Lender's Option/ Borrower's Option)</b>	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.
<b>London Inter-Bank Bid Rate (LIBID)</b>	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
<b>Managed Funds</b>	<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>
<b>Maturity</b>	The date when an investment is repaid or the period covered by a fixed term investment.
<b>Minimum Revenue Provision (MRP)</b>	The amount required by statute to be principal repayment each year.
<b>Monetary Policy Committee (MPC)</b>	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.
<b>Money Market</b>	<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>
<b>Net Borrowing</b>	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
<b>Net Revenue Stream</b>	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.
<b>Operational Boundary</b>	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.
<b>Other Long Term Liabilities</b>	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).
<b>Premature Repayment of Loans (debt restructuring/rescheduling)</b>	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.
<b>Premia</b>	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 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.
<b>Prudential Code</b>	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
<b>Public Works Loan Board (PWLB)</b>	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.
<b>Range Trade Accrual</b>	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

	<p>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 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.</p>
<b>Risk</b>	<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>
<b>Set Aside Capital Receipts</b>	<p>A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.</p>
<b>SORP</b>	<p>Statement of Recommended Practice, published by CIPFA (Local Authority</p>

	Accounting Body). This sets out guidelines regarding the Council's financial matters.
<b>Specified/Non Specified investments</b>	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.
<b>Supranational Bonds</b>	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.
<b>Temporary Borrowing and Investment</b>	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
<b>Treasury Management</b>	<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>
<b>Yield Curve</b>	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 Investments 31<sup>st</sup> March 2019

<b>Counterparty</b>	<b>£</b>
Bank of Scotland	24,988,266.27
Santander Bank	10,300,000.00
DMO	17,000,000.00
Blaenau Gwent County Borough Council	3,000,000.00
Blackpool Borough Council	2,000,000.00
Cornwall Council	2,000,000.00
Conwy CBC	9,000,000.00
Coventry Building Society	3,000,000.00
Dumfries & Galloway DC	4,000,000.00
Eastleigh Borough Council	2,000,000.00
Goldman Sachs	14,000,000.00
Gosport Borough Council	3,000,000.00
Leeds City Council	2,000,000.00
London Borough of Enfield	3,000,000.00
London Borough of Newham	3,000,000.00
London Borough of Barking & Dagenham	4,000,000.00
North Lincolnshire Council	4,000,000.00
Reading BC	3,000,000.00
Salford City Council	3,000,000.00
Suffolk County Council	3,000,000.00
Telford & Wrekin Council	5,000,000.00
Thurrock Borough Council	16,000,000.00
Wakefield MBC	5,000,000.00
West Dunbartonshire Council	2,000,000.00
<b>Total</b>	<b>147,288,266.27</b>



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## Audit Committee self-assessment – **City and County of Swansea**

Audit year: 2018-19

Date issued: October 2019

Document reference:

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

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# Contents

This document summarises the feedback provided by Audit Committee members to the self-assessment questionnaire discussed at the Audit Committee meeting on 16 September 2019.

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# Summary report

## Introduction

- 1 On 16 September 2019, the Audit Committee of City and County of Swansea Council undertook their annual self-assessment process. This was facilitated by Wales Audit Office staff and involved the completion of a questionnaire which is attached at [Appendix 1](#) to this report.
- 2 This questionnaire covered the following 3 areas:
  - a. Regularity and Length of Audit Committee meetings;
  - b. Outstanding Actions from Audit Committee Performance Review 2017-18; and
  - c. Information Provided to Audit Committee members
- 3 Members completed the questionnaire in three groups of 3 to 4 people and this report will summarise the feedback provided in each of the above areas:

## Regularity and Length of Audit Committee meetings

- 4 The questionnaire asked 5 questions relating to the regularity and length of Audit Committee meetings and the feedback provided is summarised below:

### Question 1 – What are your views on the current regularity and length of audit committee meetings?

- 5 All three groups suggested that meetings should last for a maximum of 2 hours and that meetings should be held every 6 weeks to allow for members to receive the information needed to discharge their terms of reference. One group suggested that meetings should start at 10am rather than at 2pm.

### Question 2 – Do you think the current meetings give you enough time to discharge your duties in regard to the Committee's terms of reference?

- 6 Feedback outlined that currently there were too many items on the agenda and that it was not possible to deal with all items in 2 hours. One group suggested that agendas should be prioritised so that the most important items are dealt with first.

### Question 3 – What are your views on Audit Committee meetings on occasions overrunning to ensure an agenda is fully dealt with?

- 7 Two groups indicated that they had no issues with meetings overrunning up to a maximum of 30 minutes. The other group commented that agendas should be prioritised so that the most important items are dealt with first which would mean that the least important items are not dealt with if the meeting reaches its 2-hour limit.

Question 4 – If there were changes to the calendar of Audit Committee meetings would you prefer fewer longer length meetings or more regular shorter length meetings?

8 As per the answers to question 1 there was a consensus that meetings should last no longer than 2 hours and meetings should be held on a 6 weekly basis to allow the committee sufficient time to fully discharge its terms of reference.

Question 5 – Do you think that having a periodic meeting between external auditors and audit committee members without officers' present would be beneficial?

9 Two groups did not see a need for such a meeting to be held and were content that the Audit Committee chair met with auditors periodically. The other group did suggest that it would be beneficial for auditors to turn up half hour before the start of each meeting to be available for any member who wished to speak with them.

## Conclusion

10 The Council's Audit Committee needs to review the answers given in this section of the self-assessment and decide what changes if any are needed to be made to the regularity and length of Audit Committee meetings.

11 If changes are made to the calendar of meetings it will also be necessary to amend the Committee's work programme so that there is clarity as to exactly what is on the agenda for each committee meeting.

## Outstanding actions from the Audit Committee Performance Review 2017-18

12 In 2018 the Audit Committee's self-assessment process highlighted a series of actions that needed to be undertaken. As at September 2019, the following recommendations were to be completed:

- a. Benchmarking – The Corporate Management team will consider how best to use benchmarking information and provide an update to the committee
- b. Risk Management – It has been commented that more guidance and support should be given to audit committee members to allow them to discharge their duties in relation to risk management
- c. Partnerships – Review the mechanisms for assessing and scrutinising the risk associated with partnerships

13 As part of this year's self-assessment process members were asked to outline what actions were needed to be undertaken to fully satisfy these recommendations. The feedback received is summarised below:

### Benchmarking

14 Members were not sure as to what should be done to satisfy this recommendation and could not see how it fell within their terms of reference.

## Risk Management

- 15 Members recognised this was an area that more work was needed to be undertaken to fully discharge their terms of reference. Some members acknowledged that they did not fully understand the mechanisms the Council employed to mitigate and monitor their corporate risks.
- 16 One group recognised that processes were in place to have directors present to the committee the governance and risk management framework employed in their directorates. However, it was also recognised that the committee could undertake more detailed reviews of individual risks.

## Partnerships

- 17 Generally, members commented that they did not fully understand the number of different partnerships the Council was involved in. They also were not clear as to the split of duties in relation to partnerships between scrutiny committees and the Audit Committee.
- 18 One group suggested that a presentation should be made to the committee outlining all the different partnerships the Council was involved in. This would allow the committee to establish the partnerships which require a more detailed review. It would also allow the committee to establish what processes relevant scrutiny committees were following in relation to partnerships and decide what additional work the Audit Committee needed to undertake.

## Conclusion

- 19 The Council's Audit Committee needs to review the answers given in this section of the self-assessment and decide exactly what actions are needed to fully satisfy these previous recommendations. Officers need to be advised as to what members require from them to help them discharge their duties in relation to risk management and partnership work.

## Information provided to Audit Committee members

- 20 We reviewed the committee's current terms of reference and identified a number of separate areas that members had duties to discharge. We asked members to assess whether the current information provided was too little, about right or too much to allow them to discharge their duties.
- 21 We also asked for any examples of information that satisfied one of the two criteria below:
  - a. Information that the Committee had received that members did not think was needed to discharge their terms of reference; and
  - b. Information that the Committee had not received that members believed was needed to discharge their terms of reference.

- 22 The specific areas that members were asked about are shown in **Exhibit 1** as well as the answers provided by members:

**Exhibit 1: Assessment of current information provided**

Term of reference area	Assessment of Current Information provided to Audit Committee		
	Too Little	About Right	Too Much
Council's Corporate Governance Arrangements	1	2	0
Annual Governance Statement	0	3	0
Council's arrangements to achieve value for money	2	1	0
Council's risk management arrangements	2	1	0
Council's arrangements to manage fraud	0	3	0
Internal Audit plans and reports	1	1	1
External Audit plans and reports	0	3	0
Statement of Accounts	0	1	2
Accounting Policies	0	3	0
External Auditor's report to those charged with governance	0	3	0
Audit Committee's compliance with their terms of reference	1	2	0

- 23 **Exhibit 1** highlights that generally members were of the view that they need more information to allow them to discharge their duties in relation to risk management and value for money but felt the amount of information they received on the statement of accounts was too much and generally overly complex.
- 24 Some of the other comments that were made in completing this area of the questionnaire are shown below:
- a. An executive report for the statement of accounts summarising key information would be more beneficial than a detailed presentation on the full document.
  - b. The report on the corporate governance framework provided by the Deputy Chief Executive was beneficial but it would be useful to have this knowledge developed by more detailed presentations on individual elements of the framework.
  - c. Including a representative of the Audit Committee onto the formal Governance group was a positive step and will allow the Audit Committee to better discharge its duties in relation to the Annual Governance Statement.

- d. More information needed on the mitigation procedures in place for individual corporate risks. This will allow members to challenge these processes and better discharge their duties in relation to risk management.
- e. Internal Audit should undertake more work on areas which consider the efficiency of Council services and the achievement of Value for Money. This would help the committee discharge their duties in relation to Value for Money.

## Conclusion

- 25 The Council's Audit Committee needs to review the answers given in this section of self-assessment and decide exactly what actions are needed to allow members to fully discharge their duties under their individual terms of reference.
- 26 One these actions are agreed, officers need to be advised as to what members require from them to help them discharge their duties.

# Appendix 1

## Audit Committee Workshop - Group Session Questionnaire

### Regularity and Length of Audit Committee meetings

**Question 1** – What are your views on the current regularity and length of audit committee meetings

**Question 2** – Do you think the current meetings give you enough time to discharge your duties in regard to the committee's terms of reference?

**Question 3** – What are your views on Audit Committee meetings on occasions overrunning to ensure an agenda is fully dealt with?

**Question 4** – If there were changes to the calendar of Audit Committee meetings would you prefer fewer longer length meetings or more regular shorter meetings?

**Question 5** – Do you think that having a periodic meeting between external auditors and audit committee member without officers' present would be beneficial?

**Outstanding Actions from Audit Committee Performance Review 2017-18**

The following recommendations are to be completed from the above performance review:

- **Benchmarking** – The Corporate Management team will consider how best to use benchmarking information and provide an update to the committee
- **Risk Management** – It has been commented that more guidance and support should be given to audit committee members to allow them to discharge their duties in relation to risk management
- **Partnerships** – Review the mechanisms for assessing and scrutinising the risk associated with partnerships

**Question** – What actions do you think are needed to fully satisfy these recommendations?

**Information Provided to Audit Committee members**

The Committee’s term of reference covers the areas shown below: For each area can you please provide your views as to the level of information you currently receive.

**Governance, Risk and Control**

**Area 1 - Council’s Corporate Governance Arrangements**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 2 – Annual Governance Statement**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 3 - Council’s arrangements to achieve Value for Money**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 4 - Council’s Risk Management Arrangements**



Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 5 - Council's arrangements to manage Fraud**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Internal Audit and External Audit**

**Area 6 – Internal Audits Plans and reports**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 7 – External Audits Plans and reports**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Financial Reporting**

**Area 8 – Statement of Accounts**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 9 – Accounting Policies**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 10 – External Auditor’s report to those charged with governance**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?

**Area 11 – Audit Committee’s compliance with their Terms of Reference**

Information received is

Too Little		About Right		Too Much	
------------	--	-------------	--	----------	--

Can you please give some examples of?

What do you get that you do not believe you need?

What do you not receive that you think would be useful to allow you to discharge your duties?



# Agenda Item 12



## Report of the Chief Auditor

Audit Committee – 8 October 2019

### Audit Committee – Action Tracker

<b>Purpose:</b>	This report details the actions recorded by the Audit Committee and response to the actions.
<b>Report Author:</b>	Simon Cockings
<b>Finance Officer:</b>	Simon Cockings
<b>Legal Officer:</b>	Tracey Meredith
<b>Access to Services Officer:</b>	Rhian Millar

#### 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 As agreed in 2016/17 an Action Tracker process was put in place to ensure transparency over the outcomes of actions agreed by Committee.
- 1.3 The Action Tracker records the actions agreed by the Audit Committee and provides an outcome for each action.
- 1.4 The Action Tracker for the 2017/18, 2018/19 and 2019/20 municipal years are attached in Appendix 1, 2 and 3.
- 1.5 The Action Tracker is regularly updated and any completed actions will be marked 'CLOSED' and coloured in grey.
- 1.6 The Action Tracker is reported to each Audit Committee meeting for information.

## **2. Equality and Engagement Implications**

2.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

2.2 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 2019/20

**Appendix 2** – Action Tracker 2018/19 (Closed actions removed)

**Appendix 3** – Action Tracker 2017/18 (Closed actions removed)

## Appendix 1

<b>AUDIT COMMITTEE ACTION TRACKER 2019/20</b>	
<b>Action</b>	<b>Outcome</b>
<b>16/09/19 Min 29 Internal Audit Monitoring Report April – June 2019</b>	
The Principal Auditor circulates the details of the Accounts Payable audit report finding regarding duplicate payments and the scope of the Information Governance audit.	
<b>16/09/19 Min 30 – Young People’s Service Moderate Rating Follow Up Update</b>	
Issues highlighted, particularly DBS checks, to be addressed in the follow up audit in November.	
Written reports to be provided to Committee for all moderate report updates in future.	
<b>16/09/19 Min 32 – Draft Audit Committee Annual Report 2018/19</b>	
The draft report be agreed and forwarded to Council for approval.	
The Section 151 Officer updates the next Audit Committee on the recovery plans in respect of the significant financial challenges facing the Authority.	
<b>16/09/19 Min 33 – Annual Governance Statement</b>	
Councillor LV Walton be elected as the representative of the Audit Committee on the Annual Governance Group for 1 year.	
<b>16/09/19 Min 40 – WAO Review of Audit Committee Effectiveness</b>	
WAO presentation to be provided at the next scheduled meeting.	
Questionnaires to be circulated to Councillors who had not attended the meeting.	
The presentation provided by the Principal Auditor to be circulated to the Committee.	
WAO to provide feedback from the questionnaires at the next scheduled meeting.	
<b>13/08/19 Min 17 – ISA 260 Report</b>	
The recommendations made in the report should be transferred to an external tracker report for committee.	
<b>13/08/19 Min 19 – Revenue Financial Outturn 2018/19</b>	
The Chair of the Audit Committee notify Council of the concerns on overspend and the need for Directors to evidence full delivery plans in respect of savings. Directors were specifically tasked with providing the Committee with sight of their full action plans detailing how they intended to deliver credible savings to rebalance the budget as a matter of urgency.	Update S151 Officer 23/09/19: Cabinet received advice from the S151 Officer to same effect and passed similar resolution on 15 <sup>th</sup> August requiring rapid development of those delivery plans by Directors. To date none have yet been received. The S151 Officer expects these to be formally delivered and shared as part of second quarter reporting and mitigation which is due to go to Cabinet in November.
<b>11/06/19 Min 5 – Service Centre Accounts Receivable Update</b>	
A follow-up report should be provided to Audit Committee within 6 months, the scope should include the decentralised process.	The follow up of all fundamental audits is underway. The results of the Accounts Receivable follow up will be reported to committee in December.
<b>11/06/19 Min 6 – Audit Committee Training Programme 2019/20</b>	
The Chair/ Democratic Services report an amended Training Programme to the next scheduled meeting.	



All future committee training requirements and arrangements will be the responsibility of Democratic Services.	
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## Appendix 2

<b>AUDIT COMMITTEE ACTION TRACKER 2018/19</b>	
<b>Action</b>	<b>Outcome</b>
<b>09/04/19 Min 86 – Wales Audit Office 2019 CCS Audit Plan</b>	
WAO is to provide an update report on performance work and also any issues from the assurance and risk assessment scoping exercise in the next Municipal year.	
<b>09/07/19 Min 89 – Revenue and Capital Budget Monitoring</b>	
Revenue and Capital budget monitoring is to be a regular item on future Committee agendas.	
<b>12/02/19 Min 80 – Audit Committee Action Tracker Report</b>	
An update to be provided on the use of supply / agency staff by schools and establishing the spend against supply / agency costs.	Principal Finance Partner for Schools agreed to provide this information via the PSO's. Information has been received. Chair has requested a report from Head of Commercial Services in relation to Supply Procurement. Update: New National Procurement Service Framework for the provision of Supply Teachers and Education Temporary Workers has been finalised. Introduced from 01/08/19/.
<b>11/12/18 Min 59 – Overview of the Overall Status of Risk – Quarter 2 2018/19</b>	
The contents of the Risk Register requires enhancement.	Currently under review. New Risk Management system currently being developed which should address this.

## Appendix 3

<b>AUDIT COMMITTEE ACTION TRACKER 2017/18</b>	
<b>Action</b>	<b>Outcome</b>
<b>08/03/18 Min 68 – Amendments to Contract Procedure Rules</b>	
<p>Once the amendments to the Contract Procedure Rules have been finalised, a copy should be forwarded to all Schools' Governing Bodies to make them aware of the changes. Schools are also to be requested to ensure the amended CPRs are included as an agenda item on the next Finance Committee and Building/Property Committee Meeting.</p>	<p>Amended Contract Procedure Rules are currently going through a consultation process. Chief Auditor discussed proposed amendments with Head of Commercial Services on 30/07/18. Update from Head of Commercial Services 17/05/19 – The proposed changes to the Contract Rules have been agreed in principle; there has also been additional dialogue regarding other parts of the Constitution (which impact on the award of contracts) to ensure coherence with the new rules, resulting in some further / consequential changes which again have been agreed in principle.</p> <p>Update Head of Commercial Services 17/09/19: The updated contract procedure rules have been agreed in principle, but are currently subject to a further review by Legal Services due to a linked matter (which is the publication of contract awards and the associated call-in process). This matter is expected to be resolved in the near future so we hope matters will proceed during October for final sign off.</p>