



## City and County of Swansea

### Notice of Meeting

You are invited to attend a Meeting of the

## Audit Committee

**At:** Remotely via Microsoft Teams

**On:** Tuesday, 8 September 2020

**Time:** 2.00 pm

**Chair:** Paula O'Connor

#### Membership:

Councillors: 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 and T M White

Watch online: <https://bit.ly/3geN04G>

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<b>3</b>	<b>Minutes.</b> To approve & sign the Minutes of the previous meeting(s) as a correct record.	1 - 4
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**Next Meeting:** Tuesday, 20 October 2020 at 2.00 pm

*Huw Evans*

**Huw Evans**  
**Head of Democratic Services**  
**Tuesday, 1 September 2020**  

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**Contact: Democratic Services: - 636923**

# Agenda Item 3



City and County of Swansea

## Minutes of the **Audit Committee**

Remotely via Microsoft Teams

Tuesday, 21 July 2020 at 2.00 pm

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

**Councillor(s)**

C Anderson  
T J Hennegan  
J W Jones  
S Pritchard

**Councillor(s)**

P M Black  
P R Hood-Williams  
E T Kirchner  
L V Walton

**Councillor(s)**

D W Helliwell  
P K Jones  
M B Lewis  
T M White

**Officer(s)**

Simon Cockings  
Michelle Davies  
Peter Field

Adam Hill  
Kate Jones  
Richard Rowlands  
Ben Smith  
Debbie Smith

Chief Auditor  
Cash Management & Accounts Receivable Manager  
Principal Officer Prevention, Wellbeing and  
Commissioning  
Deputy Chief Executive / Director of Resources  
Democratic Services Officer  
Strategic Delivery & Performance Manager  
Chief Finance Officer / Section 151 Officer  
Deputy Chief Legal Officer

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### 120 Disclosures of Personal and Prejudicial Interests.

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

### 121 Minutes.

**Resolved** that the Minutes of the Audit Committee held on the 30 June 2020 were approved and signed as a correct record.

### 122 Update on Internal Audit of Social Care Contracts.

Peter Field, Principal Officer, Prevention, Wellbeing and Commissioning presented an update report on the Internal Audit of Social Care Contracts.

As a result of an internal audit on social care contracts carried out in December 2017 an action plan was developed to address contracts that were non-compliant with the corporate Contract Procedure Rules and the Public Contract Regulations 2015.

The Committee were provided with updates regarding progress to June 2020.

There were no non-compliant contracts, however, waivers and variations were in place to enable some to be compliant with corporate requirements.

Recommissioning work would continue over the coming 12 months and contracts covered by waivers, approximately 10, would be re-tendered where necessary. A follow up audit would be carried out in Autumn 2020.

The Chair congratulated the Officer on the progress made to date and noted that re-commissioning the contracts covered by waivers, should be a key focus.

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

**123 Internal Audit Annual Plan 2020/21 – Monitoring Report for the Period 1 April 2020 to 30 June 2020.**

The Chief Auditor presented a report which provided the audits finalised and any other work undertaken by the Internal Audit Section during the period 1 April 2020 to 30 June 2020. It was noted that this is the first period of reporting since the exposure of the challenges of COVID-19.

A total of 18 audits were finalised during Quarter 1. The audits finalised were listed at Appendix 1, which also showed the level of assurance given at the end of the audit and the number of recommendation made and agreed. A summary of the scope of audits finalised during the quarter was also provided. One moderate report was issued in the Quarter.

A total of 105 recommendations were made which were all accepted. One high risk recommendation was made.

The Internal Audit Section certified the Housing Support Grant – Regional Development Co-ordinator during the quarter.

The status of the Internal Audit Annual Plan 2020/21 was provided as at 30 June 2020.

No moderate audit reports were followed up in Quarter 1. Follow ups of the Disclosure & Barring Service 2019/20 Audit and Concessionary Fares Audit 2019/20 were scheduled for Quarter 2. Follow ups at Cwm Glas Primary School and Pen y Bryn Special School would be undertaken in the new school year.

Information was provided on the impact of COVID-19 on the Internal Audit Section, with some staff seconded or assisting with COVID-19 work as well as the impact on completing and progressing some audits with staff working from home and not having access to certain required documentation and certain departments being closed.

Assurance was provided in respect of the maintenance of independence of the Internal Audit Section whilst helping with COVID-19 work.

The Committee discussed the impact of COVID-19 specifically in Accounts Receivable and Accounts payable.

The Chair requested clarification of the root cause of the issues highlighted in Accounts Receivable in the September Audit Committee.

Update from Accounts Receivable Audit 2019/20

Michelle Davies, Cash Management & Accounts Receivable Manager, provided an update to the Committee on the progress since the Accounts Receivable Audit 2019/20

The backlog of unpaid invoices over 6 months had reduced to 3,566. Larger debts had been prioritised with the value of outstanding invoices reducing to just over £1 Million.

At the time of the some staff had been allocated to the Oracle project and new staff required trained. There was a recovery plan in place working through backlog invoices and it was expected that debt recovery would resume by September.

**Resolved** that:

- 1) The contents of the report be noted
- 2) A further update on Accounts receivable be provided at the Audit Committee in September.

**124 Internal Audit Recommendation Follow-Up Report Q1 2020/21.**

The Chief Auditor presented a report to allow the Committee to monitor the implementation status for those audits that had 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 implemented.

It was highlighted that from the 205 recommendations made. 201 had been implemented. The 4 not implemented were low risk and had not been implemented primary due to COVID-19.

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

**125 COVID-19 Recovery of Risk Management.**

The Strategic Delivery & Performance Manager presented a 'for information' report which presented the plan for the recovery of risk management monitoring and reporting.

Existing work would continue on developing the reporting functionality on the new Risk Register as well as a review of all risks following the impact of COVID-19.

Adam Hill, Deputy Chief Executive, provided an update on risk management. It was reported that all audits with moderate assurances would go to each Directorate's Performance and Financial Monitoring and anything identified as adverse or red risks would be escalated to the Corporate Management Team who would have an overview of all moderate assurance audits.

The risk register was being updated and was due to be completed by the end of July.

The Chair highlighted the shortfall in assurance on risk management, which was noted in the Annual Governance statement. The importance of maintaining timescales for the review of the risk register and providing greater assurance on risk management to the Audit committee was outlined.

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

**126 Audit Committee Action Tracker Report.**

The Audit Committee Tracker Report was provided 'for information'.

It was noted that outstanding items were primary outstanding due to COVID-19.

**127 Audit Committee Work Plan 2019/21.**

The Audit Committee Work Plan was reported for information.

It was noted that the Work Plan would be kept under constant review.

The meeting ended at 2.45 pm

**Chair**



## Report of the Director of Education

Audit Committee – 8 September 2020

### Cwm Glas Primary School Audit Report 2019/20

#### 1. Introduction

- 1.1 An audit has recently been completed at Cwm Glas Primary School. The audit was pre-arranged and all findings and recommendations have been discussed with the Headteacher.
- 1.2 The audit included the review and testing of the controls established by management over the following areas:
- Governance
  - Management of Delegated Resources
  - Bank Reconciliations
  - Banking Procedures
  - Lettings & Clubs
  - Unofficial Funds
  - School Meals Income & FSM
  - Expenditure
  - Employees
  - Inventory
  - Computer Security
- 1.3 In addition to the testing undertaken at the school, reliance has been placed on the responses provided in the Control Risk Assessment Questionnaire.
- 1.4 The objectives of the audit were to ensure that material business risks have been identified and that the controls in place are adequate for the purpose of minimising business risk and are operating in practice.
- 1.5 Cwm Glas Primary School was last audited during 2015/16, where there were 12 recommendation and the Assurance Level awarded was 'Substantial'. The Corporate Fraud Team also undertook a special investigation in 2018/19 after concerns were raised about historic operations of the schools finances. Findings and recommendations arising from the investigation were reported in September 2018.
- 1.6 The period tested during this review was April 2019 to January 2020. It is acknowledged that for the period April to the end of August the school were without a permanent Admin Officer, which would inevitably have an impact on many of the processes and procedures that were reviewed as part of the audit. A full time Admin Officer has been appointed and in post since September 2019.

1.7 The work carried out and the findings arising from this audit and the audit opinion are stated in the report below. Where we have been able to place reliance on the responses to the Control Risk Assessment Questionnaire, no additional testing has been undertaken and therefore no findings have been reported for these areas.

1.8 The recommendations made to address the findings are included within the attached Management Action Plan.

## **2. Work Done / Findings**

### **2.1 Management of Delegated Resources**

2.1.1 It was noted that the 2019/20 budget was agreed by the Governing Body at a meeting held on 15 May 2019.

2.1.2 The Governing Body formally considered the extent of the delegation of powers to the Headteacher on the 9 October 2019, to the value of £5,000.

2.1.3 It was noted that there are only two signatories to the Delegated Bank account. The addition of a third signatory would provide better contingency arrangements.

### **2.2 Bank Reconciliations**

2.2.1 It was confirmed that bank reconciliations were being carried out, however there was no evidence of them being reviewed by an independent person.

### **2.3 Banking Procedures**

2.3.1 A review of recent Paying In books revealed that banking had not taken place on a weekly basis. It is acknowledged that very little cash/cheque income is received however; every effort should be made to ensure banking is carried out on a regular basis.

2.3.2 At the time of the audit a cash count was undertaken of money held in the safe:

Trip Money - £30.00

Fruit Money - £78.00

Fruit Money (Float) - £2.00

School Council - £100.00

'Found' Money - £2.00

2<sup>nd</sup> Hand Uniform Sales - £8.00

School Meals - £66.96

Playgroup - £40.00

Sponsorship Money – unknown amount, had not been counted as it was only recently received.

There was also a cheque for £90.00 that was received in December. Therefore, the overall total was £416.96 excluding the sponsorship money.

2.3.3 We were informed that all income is held in the safe. The safe is operated by a PIN that is known only to key members of staff.



## 2.4 Lettings & Clubs

- 2.4.1 The Learning Lounge is available to clubs and external organisations to hire. A period of free lettings were agreed when the school first started to let the facility in September 2019, however since the fees have been introduced there have been no lettings.
- 2.4.2 There was no formal Lettings Policy in place. Advice on the requirements was given to the Admin Officer during the audit.
- 2.4.3 The school operate a Breakfast Club and After School Club for which there is no charge.

## 2.5 Unofficial Funds

- 2.5.1 At the time of the Audit, there were three unofficial funds in the name of the school. Details of these accounts are recorded in the table below:

Account Name	Purpose of Account	Last Statement Date	Balance
School Fund Account – Lloyds	Fundraising, trips etc.	27.12.19	£7,701.69 (see 2.5.2)
Cwm Glas Primary School	To buy and sell school uniform	28.02.19 <i>Note 1</i>	£3,444.96
Cwm Glas Primary School – A/C 2-DN	Purchase of items, goods and services relating to the Day Nursery (now ceased operating)	09.12.19	£5,710.78

**Note 1:** No statements received since February 2019. Headteacher contacted the bank on the 21 January 2020, confirmation received that no statements sent, as there had been no activity on the account since February 2019. Balance on the account remained at £3,444.96.

- 2.5.2 The balance of the School Fund account has decreased dramatically over the last two years (Feb 2018 to December 2019) when the funds reduce from £104,331.34 as at 30 January 2018 to £7,701.69 as at 27 December 2019. A review of the expenditure during this period revealed that there has been significant spend on works undertaken at the school including improvements in the outdoor play area and the refurbishment of the Learning Lounge e.g. Painting, rewiring, carpets, lockers and furniture. Invoices were available to support the spend.
- 2.5.3 It was noted however that the majority of the invoices could have been paid via the delegated budget in order for the VAT to be reclaimed (saving the school 20%) and funds transferred from the School Fund to cover the Net cost. A small number of the purchases had been processed in this way but not all.

- 2.5.4 The School Uniform account is to be closed as it has been decided that parents/guardians should now purchase school uniform directly from the supplier. The funds in this account should be transferred to either the School Fund or Delegated, depending on advice from the PSO and VAT accountant. Income from the sale of any remaining uniform stock will be banked into the relevant account.
- 2.5.5 The Headteacher is also in the process of closing the Cwm Glas Primary School – A/C 2-DN account. As there are only two signatories on the account, one being a member of staff that no longer works at the school, the closure of the account is not straightforward and is taking longer than anticipated to resolve. The funds in this account will be transferred to the Delegated Budget.
- 2.5.6 Each of the ‘unofficial funds’ only have two signatories. The current difficulties that they are experiencing with the closure of one of the accounts proves that there should be at least three signatories.
- 2.5.7 The last audit of these funds are recorded in the table below:

<b>Account Name</b>	<b>Date of Last Audit &amp; Period Covered</b>	<b>Auditors</b>	<b>Date Presented to Governors</b>
School Fund Account – Lloyds	31.08.19 Year ending Aug 2019	Gemma Price	08.10.19
Cwm Glas Primary School	04.10.17 Sept 16 – Aug 17	L Govier & G Thomas	15.11.17
Cwm Glas Primary School – A/C 2-DN	04.10.17 Sept 16 – Aug 17	L Govier & G Thomas	15.11.17

- 2.5.8 It was noted that the Audit Certificate for the School Fund Account Lloyds did not record the balance on the account.
- 2.5.9 As the other two accounts (School Uniform & Day Nursery) have not been audited since September 2017 it would be best practice to undertake an audit prior to the accounts being closed.
- 2.5.10 There were no Fund Constitutions in place for any of the funds. Advice was provided and staff were directed to the Councils Accounting Instruction No. 11.
- 2.5.11 As the School Uniform and Day Nursery Accounts have been dormant for some time, only the records for the School Fund were reviewed. It was confirmed that adequate income and expenditure records were maintained and reconciliations to the bank statements were regularly being undertaken. However, there was no evidence of an independent review.

## **2.6 School Meal Income & Free School Meals**

- 2.6.1 The majority of income in respect for school meals is collected via the sQuid payments system, however cash and cheque payments are still accepted but this is minimal.
- 2.6.2 A total of £66.96 (cash) was held in the safe, which related to school meals income collected for the period 20 November 2019 to 20 January 2020. This income should have been paid into the Delegated Account and subsequently paid over to Catering by means of raising a cheque from Delegated and sent to Cashiers.
- 2.6.3 Advice was also given on the requirement to run 'Fund Deposits Reports' on a weekly basis in order to reconcile cash collected to that entered onto sQuid manually. At present, this was not being undertaken.
- 2.6.4 A total of £232.30 of debt was recorded on the Debtors Report as at 20 January 2020. £150.05 of this overall debt related to 'archived' accounts, where the account holder is no longer a pupil or teacher at the school. Individual amounts owed were low in value, with the highest individual amount being £12.00. A number of these debts had however been outstanding for over 500 days.
- 2.6.5 Of the Active users, the highest value outstanding was £11.70. It was noted however that there were a number of pupils on this report where the debts had been outstanding for more than 300 days.
- 2.6.6 A review of the Discretionary Account showed that the school was paying for a high number of staff meals from their Delegated Budget. Individual staff members were having their sQuid accounts topped up from funds in the Discretionary Account. Free staff meals are currently being reviewed by the School Funding & Information Unit and once a decision has been made on the agreed approach, information will be disseminated to schools. In the meantime, it is advised that the school review their current arrangements to ensure that only eligible staff are in receipt of a free meal.
- 2.6.7 A sample of five pupils in receipt of free school meals was selected, and a check carried out to ensure that authorisation had been received from the Authority's Finance Section. This test proved satisfactory.

## **2.7 Expenditure**

- 2.7.1 A review of purchases in excess of £5,000 (inc. cumulatively) made during the year was carried out to ensure Contract Procedure Rules had been complied with. Results were satisfactory.
- 2.7.2 An examination of a further eight purchases was undertaken and testing revealed that orders had only been raised for one of the eight sampled. It is acknowledged that the school had a period where they did not have a full time Admin Officer; however, an Admin Officer was appointed and had now been in post since September 2019.
- 2.7.3 It was noted that the 'grid stamp' on the invoices was not being completed in full. Normally this would not have been an issue when the new batch header is being completed correctly however testing revealed this was not the case.

- 2.7.4 Enquiries revealed that the new procedures for checking the employment status of individuals, companies and partnerships, which provide a service to the school, had been complied with.
- 2.7.5 Non-order facility had been used for items other than utilities and supply teaching. Orders should be produced for all goods and services including CCS orders. This is required for effective budget monitoring and proper certification procedures. It is also a record of what has been ordered, and helps to reduce the risk of duplicate payments being made, and to facilitate matching to the invoice in terms of both price and quantity.
- 2.7.6 Testing revealed the Cheque Stock Record was not being completed with details of cheques used. The requirement to complete this record was discussed with the Admin Officer and assurances were given that the record will be completed going forward.
- 2.7.7 Our review confirmed that any cancelled cheques had been recorded on the Cheque Stock Record as required.
- 2.7.8 Testing was carried out on the Schools Lloyds Bank MultiPay Card to ensure it was being used in compliance with the Guidance Notes issued. Testing identified the following:
- a) A VAT receipt was not obtained for one purchase (Amazon) however, VAT had been reclaimed.
  - b) VAT had also been reclaimed on items which are non-vatable e.g. stamps.

## **2.8 Employees**

- 2.8.1 A report of all employees allocated to the school on the Council's Payroll System was checked by the Admin Officer and confirmed as being correct.

## **2.9 Inventory**

- 2.9.1 An Inventory record was not available at the school. Discussions were held over the requirements to maintain an Inventory and advice given to follow Accounting Instruction No. 9 of the Councils Accounting Instructions. As there were no records maintained no further testing could be undertaken in this area.

## **2.10 Computer Security**

- 2.10.1 Testing revealed that passwords to the SIMS FMS system had been changed in the last twelve months as required.

## **3. Conclusion**

- 3.1 The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.
- 3.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.

- 3.3 The description of each type of recommendation and also the basis for each of the Assurance levels is noted in **Appendix 1**.
- 3.4 Based on the audit testing undertaken, it was found that some procedures were operating satisfactorily, however, there were many areas where improvements were needed.
- 3.5 As a result, an Assurance Level of '**Moderate**' has been given. This indicates that 'The ineffective controls represent a significant risk to the achievement of system objectives.'
- 3.6 We will contact you in due course to confirm that you have implemented the agreed recommendations.
- 3.7 This audit was carried out in conformance with the Public Sector Internal Audit Standards.

**Background Papers:** None.

**Appendices:** Appendix 1 – Classification of Audit Recommendations.

## **Classification of Audit Recommendations**

<b>Recommendation</b>	<b>Description</b>
High Risk	Action by the client that we consider <b>essential</b> to ensure that the service / system is not exposed to <b>major risks</b> .
Medium Risk	Action by the client that we consider <b>necessary</b> to ensure that the service / system is not exposed to <b>significant risks</b> .
Low Risk	Action by the client that we consider <b>advisable</b> to ensure that the service / system is not exposed to <b>minor risks</b> .
Good Practice	Action by the client where we consider <b>no risks</b> exist but would result in better quality, value for money etc.

## **Audit Assurance Levels**

<b>Assurance Level</b>	<b>Basis</b>	<b>Description</b>
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice.	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk.
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk.	The ineffective controls represent a significant risk to the achievement of system objectives.
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk.	The ineffective controls represent unacceptable risk to the achievement of the system objectives.

**CITY AND COUNTY OF SWANSEA  
MANAGEMENT ACTION PLAN  
EDUCATION: CWM GLAS PRIMARY SCHOOL 2019/20**

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	PROGRESS UPDATE 29 <sup>th</sup> MAY 2020
<b>Management of Delegated Resources</b>					
2.1.3	Consideration should be given to increasing the number of signatories on the Delegated Account in order to provide sufficient contingency arrangements in the absence of other signatories.	GP	Mrs Cerianne Kieft (SLT) will be added as 3 <sup>rd</sup> signatory to Delegated and School Fund Accounts	RR to liaise with CK and the bank(s) and implement the change	CK took LOA from 04.03.20 then school closed (COVID-19) 20.03.20
<b>Bank Reconciliations</b>					
2.2.1	Bank Reconciliations should be signed or initialled as evidence of a review.	MR	Bank Recs to be signed by Headteacher and PSO	RR & NCL	With immediate effect (from Feb 2020)
<b>Banking Procedures</b>					
2.3.1 & 2.3.2	Income should be banked at least weekly or at any time when the cash holding limit (£500) is likely to be reached.  <i>(Previous audit recommendation)</i>	LR	Miss Rachel Roberts (Senior Admin/Finance) to leave work at 15:15 on either Wed or Thurs weekly in order to bank income	RR	With immediate effect (from Feb 2020)
<b>Lettings &amp; Clubs</b>					
2.4.2	A Lettings Policy should be formalised.	GP	NCL to meet with Premises Sub-Group of the Gov Body	NCL and GB Sub-Group	By end of April 2020 (COVID-19 Closure) New date: 29.05.20
<b>Unofficial Funds</b>					
2.5.3	Any eligible purchases should be made via the delegated budget and reimbursements made from the Unofficial Fund in order to reduce the cost of the item by 20%.	GP	NCL, RE and RR to liaise and confirm eligibility ahead of purchases, seeking clarity from PSO if needed	RR (+NCL & RE)	With immediate effect (from Feb 2020)

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	PROGRESS UPDATE 29 <sup>th</sup> MAY 2020
2.5.4 & 2.5.5	The Uniform and Day Nursery Accounts should be closed and funds transferred to the relevant account.	LR	Uniform Account is now CLOSED. Balance transferred to School Fund	RR & NCL	Feb 2020
			2 <sup>nd</sup> signatory of DN to be acquired. Balance to be transferred to Delegated Budget. Awaiting advisory from Auditor	RR, NCL & PSO (plus advice around 2 <sup>nd</sup> signatory)	By end of March 2020 (COVID-19 Closure) Awaiting advice from County. RR will chase up
2.5.6	The number of signatories on the School Fund accounts should be increased in order to provide sufficient contingency arrangements in the absence of other signatories.	GP	Mrs Cerianne Kieft (SLT) will be added as 3 <sup>rd</sup> signatory to Delegated and School Fund Accounts	RR to liaise with CK and the bank(s) and implement the change	CK took LOA from 04.03.20 then school closed (COVID-19) 20.03.20
2.5.8	The Audit Certificate should include the balance of the account as at the time of the audit. Consideration should be given to using the template in Accounting Instruction No.11.	GP	All future audits will use the template in Accounting Instruction 11. NCL to present this to auditor prior to annual audit	NCL and auditor (then present to Finance Sub-Group)	With immediate effect (from Feb 2020) Next audit of School Fund is Aug 2020 New date: 29.05.20
2.5.9	An audit of the Uniform and Day Nursery accounts should be undertaken prior to closure.	LR	Use the template in Accounting Instruction 11 to audit both accounts.	NCL and auditor (then present to Finance Sub-Group)	By end of April 2020 (COVID-19 Closure) New Date: Aug 2020
2.5.10	The Unofficial School Fund Constitution set out in Accounting Instruction No. 11 should be used. The Constitution should be approved by Governing Body.	MR	NCL to present Accounting Instruction 11 to the Finance Sub-Group for approval	NCL and Finance Sub-Group	By end of April 2020 (COVID-19 Closure) New date: 29.05.20
2.5.11	The monthly reconciliation of the School Fund should be recorded along with evidence of an independent review.	MR	Headteacher to countersign the monthly	RR & NCL	From March 2020 *this account now has a digital ledger managed by RR



REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	PROGRESS UPDATE 29 <sup>th</sup> MAY 2020
			reconciliation along with Rachel Roberts		
<b>School Meal Income &amp; Free School Meals</b>					
2.6.2	Cash and Cheque income should be paid into the Delegated Account regularly. The required Pro-forma and payment should also be sent to the Cashiers Section promptly.	LR	RR has since actioned this recommendation	RR	With immediate effect (from Feb 2020)
2.6.3	Cash and Cheque collections should be reconciled to 'Fund Deposits Reports' on a weekly basis.	LR	RR has since actioned this recommendation	RR	With immediate effect (from Feb 2020)
2.6.4	The School Meals Dinner Money Policy should be adhered to. Arrears should be cleared prior to the pupil or member of staff leaving the school.	LR	Arrears have now been chased up (past pupils & staff). Arrears to be monitored at least fortnightly	BG and RR	With immediate effect (from Feb 2020)
2.6.4	Any unrecoverable arrears should be transferred to the Discretionary Account when every avenue of recovery has been exhausted.	GP	Arrears to be monitored at least fortnightly. Inform NCL of arrears	BG and RR	With immediate effect (from Feb 2020) RR & BG recovered past pupil & staff arrears. Some were errors whilst some opted for digital transfer to a sibling
2.6.6	The current practice of topping up staff sQuid accounts should be reviewed so only eligible staff receive a free meal.	LR	BG & RR to check with NCL re eligibility. NCL to speak with staff directly to achieve clarity. Staff who volunteer all / part of their lunchbreak to support	BG and RR sQuid advisory	With immediate effect (from Feb 2020) Staff meal is a courtesy in lieu of 0.75 of an hour's salary (approved

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	PROGRESS UPDATE 29 <sup>th</sup> MAY 2020
			pupils are eligible (approved by Govs)		by Govs). County now agree this is the best way also
<b>Expenditure</b>					
2.7.2 & 2.7.5	An official order should be raised in advance for all expenditure to ensure that the expenditure is duly authorised and committed promptly to the cost centre. Non-order payments should be restricted to utilities invoices only.  <i>(Previous audit recommendation)</i>	MR	RR has since actioned this recommendation. RR to seek advice from PSO re School Card	RR (plus PSO advice)	With immediate effect (from Feb 2020) All implemented apart from school card. RR awaits advice (difficult with COVID-19 closure)
2.7.3	The Batch Header should be completed in full.	LR	Mrs Edwards (DHT) now signs this, alongside NCL & RR	RR, NCL & RE	With immediate effect (from Feb 2020)
2.7.6	The Cheque Stock Record should be completed and reviewed by an independent person.	LR	This was actioned immediately following Audit feedback. Headteacher signs also	RR & NCL	With immediate effect (from Feb 2020)
2.7.8 a) & b)	A VAT receipt should always be requested at the time of purchase. VAT should only be reclaimed on eligible purchases and only where a valid VAT receipt is held.	LR	This was actioned immediately following Audit feedback.	RR	With immediate effect (from Feb 2020)
2.7.8 a) & b)	Advice should be sought from the VAT Accountant in relation to the wrong treatment of VAT on past purchases.	GP	Rachel spoke with PSO and it is being looked into	RR & PSO	With immediate effect (from Feb 2020) This relates to historic errors re School Card. See 2.7.2 & 2.7.5 above
<b>Inventory</b>					

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	PROGRESS UPDATE 29 <sup>th</sup> MAY 2020
2.9.1	<p>Appropriate inventories should be maintained in accordance with Accounting Instruction No. 9. It should be ensured that:</p> <ul style="list-style-type: none"> <li>• Entries are made upon receipt of items.</li> <li>• Full descriptions are recorded inc. make, model &amp; serial number.</li> <li>• Inventory is physically verified annually with an Inventory Certificate completed.</li> <li>• Inventory checks should be recorded.</li> <li>• Approval should be obtained prior to the disposal of any item.</li> </ul> <p><i>(Previous audit recommendation)</i></p>	MR	<p>NCL designed Excel Inventory (Feb 2020) This is to be used to conduct inventory. Inventory and Accounting Instruction 9 to be presented to Finance Sub-Group annually</p>	NCL, RR and GM (Caretaker)	<p>By end of April 2020 This is underway, but (COVID-19 Closure) New date: 01.07.20</p>

## COLOUR CODING

**GREEN** = Fully implemented

**AMBER** = Partially implemented

**RED** = To be implemented

Correct at 29.05.20

Mr N Craven-Lashley, Headteacher

Ms Rachel Roberts, Senior Office Administrative Assistant

# Agenda Item 5



## Report of the Chief Finance Officer

Audit Committee – 8 September 2020

### Service Centre - Accounts Receivable Update

<b>Purpose:</b>	To provide an update for the Service Centre, Accounts Receivable Function.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance and Access to Services
<b>Recommendation(s):</b>	That the Audit Committee note the information within the report and agree the recommendation in Section 5.
<b>Report Author:</b>	Sian Williams (Service Centre Manager) & Michelle Davies (Cash Management & Accounts Receivable Manager)
<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Catherine Window

#### Internal Audit on Accounts Receivable Function – Update August 2020

##### 1. Introduction

- 1.1 As a result of an internal audit on the Accounts Receivable function carried out in Quarter 1 2020, an assurance level of moderate was given in the final report issued in May 2020.
- 1.2 An action plan was developed to address the issues identified and appropriate implementation steps put in place.
- 1.3 This action plan identified the following HR & MR actions (High Risk & Medium Risk)

- (3.6.2 & 3.6.10) All debts should be escalated on a timely basis. Where payment is not received within the timescales allowed a decision should be made on whether to refer to Legal or write-off the debt. (HR)
- (3.6.3a) Very old unpaid invoices should be prioritised to ensure limitation period does not expire. (MR)
- (3.6.7) Officers in Legal should ensure that AR are informed of the closure of each case promptly to ensure the appropriate action is taken ongoing. (MR) (Responsibility of Legal Dept)

**Progress to date:**

- In 2019 a review of over 1000 old invoices was carried out and were progressed in one of the following ways:
  - Payment in full was received
  - Repayment plan was negotiated
  - Referred to Legal
  - Put onto pending write off status. All invoices that were moved to write off status (under £10,000 value) were approved and closed on the system before 31 March 2020.
  - In financial year 2019 / 2020 the following were progressed to write off (approval received and closed on system) or referred to Legal Dept. The invoices written off are collated from the recommendations received from Service Departments, AR Team and Legal Dept. There is a robust process in place whereby debts and debtors are chased and carefully assessed before making the decision to write off. The team use a number of information sources internally and externally to carry out assessments and follow an internal agreed protocol of value thresholds and circumstances to determine whether to refer to Legal for further action. However, it should also be noted that even where cases are referred to Legal there is no guarantee of recovery and many cases are recommended for write off by the Legal Dept where there is no prospect of recovery. All write off reports go through several stages of checking both within the Service Centre section and Internal Audit. Invoices are only written off when all recovery avenues are exhausted.

	<b>Invoice volume</b>	<b>Invoice value</b>
<b>Written Off (closed on system)</b>	1,156	174,976
<b>Referred to Legal</b>	258	745,978

- All invoices that were raised over 5 years ago that were not on a hold reason were included in the review and progressed.
- Progress was limited by the implementation of the Oracle Fusion project in November 2019 as experienced staff were moved to the project and new temporary staff were recruited to backfill. It was necessary to transfer experienced staff to the project as project staff are required to fully appraise and test all of the new system processes and reports as well as carry out data cleansing. Of the 4 debt recovery

processors, 3 were new temporary staff. The staff were not fully in place until February 2020. They began immediate training but progress was further compounded by the Covid19 pandemic when all debt recovery activities were halted completely.

- Covid 19 restrictions have now started to lift and debt recovery activities have been recommenced with a slow ramp up to allow for customer adjustments. The CM & AR Manager has carried out a fresh review analysis of all outstanding invoices on the system and set priorities and targets. These will be reinforced by the re-commencing of the monthly Debt Recovery Activities meeting where staff report back with progress updates and discuss cases and issues. The actions set are:
  - Nulls over 5 years
  - High value Nulls – any age
  - Awaiting evidence of debt from service dept
  - Any hold reasons reflecting recovery action needed, including Sale Pending and Awaiting Probate
- Referrals to Legal will recommence in September 2020.
- The reconciliation of invoices referred to Legal progressed in 2019 but also halted when the Oracle Fusion project was implemented. This is a time consuming piece of work which is hoped will be able to be progressed once sufficient resource becomes available. However, current resource is focussed on debt recovery, training new staff members and essential Oracle project tasks such as data cleansing and report development.
- All AR customer telephone calls have been diverted to the Service Centre Helpdesk since February 2020 as a first line of enquiry which has alleviated the burden on the AR Team freeing up time for more valuable tasks eg debt recovery.
- All communications sent to HOS and to the Receivable system user group contain a link to Accounting Instruction 7 which outlines all procedures and protocols for giving credit. Staff are also regularly reminded of the accounting instruction and are given specific reminders on best practice by direct email.
- A new MS Team has been set up for all AR Invoicing system users across the Authority. All users have been added and invited to engage with the platform. 2 dedicated channels have been created to provide training materials (previously these were emailed to users) and for users to post questions for general advice. This Team will be used as a central point to issue mass communications to all users quickly and for access to up to date information and resources.
- All workflow and process efficiencies are being explored as part of the Oracle Fusion project although the go-live date has now been delayed until 2021.
- Robotic Process Automation is an initiative that is being taken forward corporately and the Service Centre is participating as part of this initiative. The AR processes will be reviewed as part of this initiative. RPA is functionality that can automate any step-based task that is currently being undertaken by staff eg customer requests. We will identify any AR processes that could be undertaken by a Virtual

Worker which will free up time for staff to focus on more value-added activities eg debt recovery. We will be in a position to review this once Oracle Fusion has been implemented.

1.4 Further clarification on the Accounts Receivable debt recovery procedures and devolved responsibilities has been requested by the Audit Committee Chair. This is provided below:

- A summary of the AR Debt Recovery procedures is appended for information.
- **Responsibilities:** AR invoice responsibility lies in 3 areas which are broadly outlined in the table below. The Service Department and AR Section both have a continuous and simultaneous responsibility for debt recovery, whilst the Legal Dept only has responsibility when cases are referred to them. Note that these responsibilities have not changed, however the AR Team has endeavoured to re-inforce the Service Dept role in the debt recovery process by encouraging sections to implement a monthly monitoring routine for their area by running regular system reports. They are requested to resolve disputes without delay and make contact with those customers who have unpaid invoices. This is particularly important in service areas where there are ongoing services being provided eg Commercial Waste Recycling or Social Services sections invoicing partners such as the Health Board.

Department	Responsibilities
Service Department	<ul style="list-style-type: none"> <li>• Provides the goods or services</li> <li>• Retains overall responsibility (or ownership) for the debt as the income ultimately is paid into their budget code</li> <li>• Instigates the relationship with the customer</li> <li>• Resolves all disputes</li> <li>• Instructs AR of any invoice reductions or cancellations</li> <li>• Plays a part in monitoring all outstanding debt for their area and maintains ongoing customer relationship to ensure that debts are paid and that no further credit is given unless payments are up to date</li> <li>• Responsible for obtaining, retaining and supplying evidence of the debt</li> <li>• Recommends write off as appropriate and in accordance with protocol</li> </ul>
Accounts Receivable	<ul style="list-style-type: none"> <li>• Intermediary central control point</li> <li>• Issues and manages all aspects of the invoicing process</li> <li>• Liaises with Service Dept, Customer and Legal Dept to ensure end to end invoice process is progressed efficiently</li> <li>• Invoice debt is carried on the AR central code until the invoice is either paid, cancelled or written off. Note that the Service Dept receives a credit for an</li> </ul>

	<p>invoice when it's raised on the system. The code is only debited for unpaid invoices when the invoice is closed on the system i.e. it's cancelled or final approval to write off is provided</p> <ul style="list-style-type: none"> <li>• Responsible for issuing all debt recovery letters, chasing up outstanding debts, negotiating and managing all instalment repayment plans</li> <li>• Recommends write off as appropriate and in accordance with protocol</li> <li>• Reviews all outstanding debt and refers cases to Legal in accordance with agreed protocol.</li> <li>• Prepares write off reports for final approval</li> </ul>
Legal Department	<ul style="list-style-type: none"> <li>• Accepts referrals and issues Court Warning Notices</li> <li>• Enters debts into court appropriately and in line with corporate protocols</li> <li>• Obtains Charging Order and Third Party Debt Orders as appropriate</li> <li>• Negotiates instalment repayment plans</li> <li>• Recommends write off as appropriate and in accordance with protocol</li> </ul>

- **Underlying issues that have resulted in invoice backlogs:**
  - The AR Team resource has been depleted over the last 10 years resulting in a situation where the Team is unable to give all invoices the necessary attention in order to review and progress in a timely manner.
  - The team has undergone 4 changes of management/ team leader and 2 section re-structures in the last 5 years creating a volatile environment for the staff.
  - New team members have been recruited at various points over the last 5 years. It takes a considerable amount of time for these staff members to be trained and gain the experience needed to fulfil the role competently.
  - Depleted resource has meant that team members are unable to allocate a sufficient percentage of their time to focus on debt recovery activities. This affects the Team priorities as efforts are most often focussed only on the higher value debts with the result that lower value ones are left stagnant. Prior to 2015 staff dedicated to debt recovery activity specific roles were able to allocate 70% of their time specifically to these tasks. By 2018 that had reduced to about 20% where it remained until February 2020 when the first line customer enquiries were directed to the Service Centre Helpdesk. Staff now have about 45% of available time that can be dedicated to these activities.
  - Legislative changes have also contributed to backlogs where the AR Team were unable to refer to the Legal Dept for 1 year. These changes also placed a greater burden on the AR Team as the Pre Action Protocol was more prescriptive and required the AR team



to obtain evidence before referral to Legal, whereas previously this burden of responsibility lay with the Legal Dept. This has improved the situation for the Legal Dept but the work was absorbed into the already depleted AR Team with no extra resource provision available.

- Depleted resource in the Legal Dept has contributed to debts remaining open on the system. Prior to 2015 monthly referral meetings were held between AR and Legal which provided a useful interface to discuss any issues and recovery strategies. This is no longer possible and all referrals are now made via an online form. The online form is an efficient process but the benefits gained by liaison are lost. Legal Debt Recovery officer numbers have also decreased to a very low level compared to previous years.
- Service Depts have a continuous responsibility for the outstanding debt but there are mixed levels of activity across the authority. Some departments have a regular and thorough monitoring routine whereas others have very little or are inconsistent. Where AR staff have engaged with Service Depts an improvement in recovery rates has been seen. However this requires an investment of AR staff time in order to achieve results. It's not possible for AR to be able to monitor whether Service Depts are running reports by checking on the system. Heads of Service are issued with monthly dispute list reports and quarterly lists of outstanding debt over 60 days old for visibility and action. AR relies on the HOS to cascade these down to the relevant managers with the correct message. Liaison has shown that sometimes these lists do not always reach the correct manager and action is not always followed through by dept staff. This has been found for disputes and outstanding debt. The reasons for this lack of action by the Service Depts is not completely understood but may be due to lack of available resource within the Dept, a lack of understanding on what their responsibilities and actions should be, an inability to navigate the Oracle system or possibly simply a view that debt recovery is solely the responsibility of AR. The new MS Team will help the AR Team to improve engagement with Service Depts.

## **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 or engagement implications in this report.

**3. Financial Implications**

3.1 There are no financial implications other than those set out in the body of the report.

**4. Legal Implications**

4.1 There are no legal implications other than those set out in the body of the report.

**5. Recommendations**

5.1 Service Departments to be reminded of their responsibilities and role in the invoice process. This should be reinforced through the Directors and Heads of Service to ensure consistency and robustness of process.

**Background Papers:** None.

**Appendices:**

<b>Appendix A</b>	Accounts Receivable Final Audit Report
<b>Appendix B</b>	Invoicing Debt Recovery Procedures summary



**Final Internal Audit Report**  
**Financial Services & Service Centre**  
**Accounts Receivable 2019 & 20**

## 1. Introduction

- 1.1 An audit has recently been completed of the Accounts Receivable system which is used by all invoice generating Services in the Council. This system is managed and controlled by the Accounts Receivable (AR) Team within Financial Services & Service Centre.
- 1.2 The objectives of the review were to ensure that adequate financial controls are in place for minimising business risk, and that the controls are operating in practice.
- 1.3 The scope of our work is based on the CIPFA audit programme and the audit included the evaluation and testing of a range of controls regarding the following:
- Financial regulations and procedure notes.
  - User access.
  - Creation of invoices.
  - Collection of income.
  - Recovery of arrears.
  - System reconciliations.
  - Invoice cancellations.
  - Write-offs.
  - Refunds.
  - Disaster Recovery and Business Continuity.
  - System back-ups.
  - Performance monitoring.
- 1.4 From January to December 2018 (the most recent statistics available), over 21,000 invoices had been raised on the AR system. Of these, 95% had been paid in full within 12 months. This is an improvement from the 2018/19 audit when the collection rate was 85%. We were advised that this has been achieved through increased efforts on specific areas of unpaid invoices by staff in the AR team.
- 1.5 We are aware that the performance of the Accounts Receivable team has been adversely affected by a reduction in dedicated staff resources. Also, since November 2019, the AR team have had three experienced staff members seconded to the Oracle Cloud project and have recruited three temporary members of staff who required training.
- 1.6 The Accounts Receivable team was last audited in 2018/19 when there were 21 recommendations and the audit assurance level awarded was “Moderate”.

- 1.7 The work carried out and the findings encountered are recorded in the report below. Recommendations arising from our findings are shown in the attached Management Action Plan.
- 1.8 The report has been divided into two sections to ensure that the findings and recommendations can be directed at the appropriate staff within the Council.

## **2 Other Council Services**

### **2.1. Raising of Invoices**

- 2.1.1 The raising of invoices is decentralised to officers in all Services of the Council. A customer should only be allowed credit after a check is carried out on the AR system for unpaid invoices.
- 2.1.2 A sample of 20 invoices was chosen where a new invoice had been created for debtors who already had overdue invoices on the system. These were reviewed to confirm that further credit was only allowed if the service was required to be provided by statute and the following was found:.

Service	Invoice Number & Amount	Goods/Service provided	Finding
Cultural Services – Sports Permits	60267006 £1690.06	Hire of Sports Facilities	Additional services have been provided to this debtor even though this invoice has not been paid.

- 2.1.3 A sample of invoices was checked to ensure that they were raised promptly, the value was correct and that the invoice had a valid budget code. It was found that the following invoices had not been raised promptly:

Service	Invoice No & Amount	Amount	Date of Invoice
Housing & Public Protection – Furniture Stores	60309013	£582.37	Feb. 2019.
Housing & Public Protection – Street Trading Licence	60312342	£3000.00	April 2019
Highways & Public Protection – Callout Charges	60319633	£232.95	August 2019.

- 2.1.4 It was also noted that in the case of invoice 60308022 (for £420, dated January 2019) the debtor made contact with AR to check why a direct debit had not been set up as a mandate form had been submitted to the service that created the invoice (Car Parks). Although an officer in AR contacted officers in Car Parks, this issue was not resolved. No payments have subsequently been made against this invoice.
- 2.1.5 Three systems interface into the AR system - Highways, Trade Waste, and Lifeline. A sample of ten interface records were reviewed and verified to AR. All tested satisfactorily.

## 2.2 Disputes

2.2.1 Reports of invoices classed as being in “Dispute” are forwarded to the relevant Head of Service each month and should be reviewed at PFM. It was confirmed that reports had been distributed on a monthly basis.

2.2.2 As at February 2020, there were 200 invoices, with a value of £2,351,281 subject to a Dispute. A comparison with the number at the time of the last audit is shown below:

<b>DISPUTES</b>	<b>November 2018</b>	<b>February 2020</b>
Value	£581,045	£2,351,281
Number	166	200

The significant increase in the value of invoices in “Dispute” is due to 108 invoices being put onto this category for Swansea Bay Health Board. The value of these invoices is £2,263,512. It was confirmed that these invoices are currently being addressed with the Health Board by the Director of Social Services.

2.2.3 A sample of ten invoices classed as “Dispute” was reviewed. It was found that three had not been resolved by the Service that created the invoice within the 14 day target period. These invoices are shown in the table below:

<b>Invoice No &amp; Amount</b>	<b>Invoice Date £</b>	<b>Debtor</b>	<b>Date of Dispute</b>	<b>Service</b>
60217357 £320.95	2 <sup>nd</sup> Feb 2015	Robert Cooze	1385	Highways & Transportation – The Marina
60321595 £150.00	1 <sup>st</sup> Oct 2019	Amie Murfin	158	Housing & Public Protection - Homes Preparation Unit (HPU)

2.2.4 It has been recommended (and agreed) in previous audit reports that income should be clawed back from a Service if a “Dispute” has not been resolved after 90 days.

2.2.5 It was found that in 2019/20, the Cash Management and Accounts Receivable Manager had undertaken an exercise to highlight disputed invoices with services, with the threat that they would be cancelled if they were not addressed. This resulted in a significant number of disputed invoices either being resolved (and the invoice pursued) or written-off. However, some old disputed invoices from remain on the AR system.

## 3 AR Team

### 3.1 Financial Regulations & Procedure Rules

3.1.1 The Council’s Financial Procedure Rules and Accounting Instructions provide a framework for the creation of invoices, amending invoices, receipt of income, and recovery of outstanding debt. Accounting Instructions No. 7 relates to the collection of credit income and was found to be up to date.

### **3.2 User Access**

- 3.2.1 It was noted that the AR Oracle User Access report had been reviewed for user responsibilities in September 2019.
- 3.2.2 A review of staff in Services across the Council with access to the AR system was carried out to ensure that access rights were appropriate. This proved satisfactory.
- 3.2.3 A discussion with the Cash Management & Accounts Receivable Manager regarding the access of officers in Cashiers revealed that there was an officer with Oracle (Invoice User) access that was no longer appropriate to their current post.

### **3.3 Raising Invoices**

- 3.3.1 A review was carried out to ensure that invoices were consecutively numbered, without any gaps in the sequence allocated by the system. Checks of the invoices produced proved satisfactory.

### **3.4 Invoice Cancellations**

- 3.4.1 A sample of 20 cancellations was checked to confirm they had been processed in accordance with the agreed procedures. It was found that in the case of 60315920, the Cancellation Pro-forma did not record which officer had carried out the cancellation in AR.
- 3.4.2 At the time of the audit, it was found that the routine sample check of 10% of cancellations carried out by senior officers within the AR team had not been carried out since September 2019. This check is carried out to ensure that cancellations are valid, properly authorised, and have been actioned correctly.

### **3.5 Receipt of Income**

- 3.5.1 The system access levels allocated to staff for recording income were reviewed and found to be satisfactory.
- 3.5.2 A review of the official invoice used by AR confirmed that all available payment methods are stated on the reverse of the invoice.
- 3.5.3 Income received from the cash system should be reconciled to the Accounts Receivable system on a daily basis. A sample check of ten days spread throughout 2019 was reviewed and found to be satisfactory.
- 3.5.4 Unidentified (debtor unidentified) and Unapplied (debtor known, but invoice unidentified) cash receipts are reviewed by AR on a regular basis. A comparison of the both types as at December 2018 and February 2020 is shown in the table below. There has been a reduction in both the Unidentified values and Unapplied figures. It was also noted that some of the unapplied payments were dated as far back as 2008, although the majority were of a low value.

Date	Unidentified £	Unapplied £
December 2018	£4,406	£128,942
February 2020	£375	£124,857

### 3.6 Debt Recovery

- 3.6.1 The system escalates each unpaid invoice through recovery stages although manual interventions can be made. A check that the appropriate Reminders and Final Reminders were being issued promptly proved satisfactory.
- 3.6.2 A check on a sample of 20 unpaid invoices was undertaken to confirm that the debt escalation process was being carried out. It was found that for all of the 20 invoices in the sample the debts were not being progressed as would be expected:

Invoice No	Invoice Date	Amount Due £	Date of last action on Oracle	Comment.
60293348	May 2018	£32,680	October 2019, but no recovery action for 12 months prior to this	AR team should be escalating debt.
60296179	Jun 2018	£16,403	No recovery action taken.	AR team should be escalating debt.
60318920	Jun 2019	£2998	No recovery action taken.	AR team should be escalating debt.
60260233	Jan 2017	£2821	No recovery action taken since March 2019	AR team should be escalating debt.
60259320	Jan 2017	£2271	No recovery action taken since April 2018	AR team should be escalating debt.
60311796	Mar 2019	£2260	October 2019, however no follow up	AR team should be escalating debt and diarising a follow up
60295343	Jun 2018	£2100	No recovery action taken.	AR team should be escalating debt.
60274884	Aug 2017	£1624	No recovery action taken.	AR team should be escalating debt.
60312340	Apr 2019	£1622	No recovery action taken.	AR team should be escalating debt.
60279975	Oct 2017	£1620	No recovery action taken since Feb 2018	AR team should be escalating debt.
60241930	Mar 2016	£1532	No recovery action taken since Nov 2017	AR team should be escalating debt.
60320463	Sep 2019	£1500	No recovery action taken.	AR team should be escalating debt.
60282016	Oct 2017	£1495	No recovery action taken.	AR team should be escalating debt.

Invoice No	Invoice Date	Amount Due £	Date of last action on Oracle	Comment.
60265466	Feb 2017	£1465	No recovery action taken.	AR team should be escalating debt.
60253155	Oct 2016	£1445	No recovery since Oct 2017	AR team should be escalating debt.
60288028	Feb 2018	£1409	Direct Debit cancelled Jan 2020 and no ongoing debt recovery	AR team should be escalating debt.
60241945	Mar 2016	£1287	No recovery action taken.	AR team should be escalating debt.
60192766	Feb 2014	£1127	No recovery since Nov 2018	AR team should be escalating debt.
60318920	Jul 2019	£2998	No recovery since Nov 2018	AR team should be escalating debt.
60239497	Jan 2016	£1289	No recovery since Nov 2018	AR team should be escalating debt.

3.6.3 A further sample of invoices was examined, and the following was found:

- a) Two unpaid invoices - 60188155 (£200) and 60198061 (£606.19) were approaching the six year limitation period when the debt could no longer be enforced.
- b) Diary entries were not being used to follow-up contact with the debtor in all instances.

3.6.4 A review of a sample of invoices where “Agreements” had been put in place with the debtor confirmed that instalments were being monitored satisfactorily on a monthly basis.

3.6.5 A review of all agreements put in place with debtors who are subject to an Independent Voluntary Arrangement (IVA) was carried out. There were six in total and it was found that payments had not been received in respect of 60249833 (since March 2019) and 60257704 (since July 2019). This had not been detected by officers in AR as a review had not been carried out since 2019.

3.6.6 A review of all of the invoices subject to High Court Enforcement agreements was also carried out; there were 12 invoices in total. It was found that payments received had ceased in September 2019 for invoice number 60226195 and this had not been detected by officers in AR as a review had not been carried out.

3.6.7 A sample of ten invoices that were recorded on AR as being “Referred to Legal” was selected. These were checked to ensure that recovery action was ongoing by referring to the Timebase case management system used by Legal. The following was found:



Invoice number	Invoice Date	Original amount due	Status with Legal	Test Satisfactory
60118759	28 <sup>th</sup> January 2011	£329.95	Case closed by Legal 19/08/2013 and no trace of email to AR. Now outside of Limitation period and should be written off.	No
60122198	28 <sup>th</sup> March 2011	£858.35	Case closed by Legal 19/01/2015 as passed to High Court Enforcement (HCE) no follow up of payments from HCE by AR.	No
60153564	4 <sup>th</sup> July 2012	£1324.32	Case closed by Legal Jan 2013 – no follow up by AR, now outside of limitation period and should be written off.	No
60142211	22 <sup>nd</sup> December 2011	£653.16	Case closed by Legal Jun 2015, however no action on Timebase since Jan 2013 and no trace of email to AR. Now outside of limitation period and should be written off.	No
60144331	31 <sup>st</sup> January 2012	£470.25	Case closed Jun 2015 but no action by Legal since 2013 and no trace of email to AR. Now outside of limitation period and should be written off.	No
60163106	31 <sup>st</sup> October 2012	£400.00	Case closed Jan 2016 and no trace of email to AR.	No
60164277	20 <sup>th</sup> November 2012	£793.50	Case closed Jan 2016 and no trace of email to AR	No
60152278	8 <sup>th</sup> June 2012	£417.17	Oracle last updated Oct 2013, unable to trace on Timebase. Now outside of limitation period and should be written off.	No
60294894	5 <sup>th</sup> June 2018	£1066.39	Debt being progressed as expected	Yes
60296999	10 <sup>th</sup> July 2018	£2525.80	Debt being progressed as expected	Yes

3.6.8 An attempt was made to reconcile the number of invoices recorded as “Referred to Legal” on the AR system to the number being progressed by Legal. As at February 2020, 471 invoices were recorded as being “Referred to Legal” on AR, but officers in Legal advised that they only held 171. During 2019, both AR and Legal started a reconciliation process, but this had been suspended due to other work commitments within AR.

3.6.9 We were advised that meetings between the Cash Management & Accounts Receivables Manager and the Deputy Head of Legal to discuss debt recovery have not taken place for some time.

3.6.10 It was stated that unpaid invoices with large values are prioritised for recovery by officers in AR. However, it was noted that there was large backlog of approximately 3,700 overdue invoices with a value exceeding £3m that are likely to be eligible to be sent to officers in Legal. Before these invoices can be forwarded to Legal, officers in AR must confirm with officers in the Service that raised the invoice that there is evidence available to substantiate the debt. This is a time consuming process and we were advised that this was unable to be addressed due to a lack of staff resources in the AR team.

### 3.7 Write-offs

3.7.1 Invoices which are eligible to be written-off are submitted to the Chief Finance Officer periodically. A sample of ten Write-Off Pro-Forms was selected to ensure that they had been properly authorised and that all recovery avenues had been exhausted. This test proved satisfactory.

3.7.2 A sample of ten requests for write-off received from officers in the Service that created the invoice was reviewed. These were checked to ensure that they were being processed promptly and that the write-off was appropriate. All proved satisfactory however in the case of invoice 60287714 it was found that officers in AR had not updated Oracle to enable the invoice to be included in the next batch of write-offs.

3.7.3 A sample of ten write-offs that had been approved by Chief Finance Officer were selected to ensure that they had been written-off on the AR Oracle system. This tested was satisfactorily.

3.7.4 While reviewing write-offs processed, it was noted that invoice 60257343 had been written-off but three other invoices for the same debtor had not been written-off even though instruction had been received from Legal in 2015.

3.7.5 An analysis of write-offs by financial year was carried out and the following was found:

Financial Year	Value of write-offs approved	Number of invoices written-off.
2016/17	£68,312	370
2017/18	£98,045	343
2018/19	£169,647	524
2019/20	£176,842	1170
<b>Totals</b>	<b>£512,848</b>	<b>2407</b>

3.7.6 The total number of invoices written-off since 2016/17 was also analysed by category of write-off and details are shown below:

WO Category	Number of invoices from 2016-2020
WO Legal/AR Protocol	1013
WO Service Provider	724
WO Legal advice	316
WO < £5 / uneconomical to pursue/WO < £50	201
WO Liquidation/Bankrupt	58

WO Category	Number of invoices from 2016-2020
WO Rely on Charge	44
WO Pre-action protocol	25
WO Gone No Trace	11
WO Deceased	9
WO Insufficient evidence	3
Statue Barred	3
<b>Total</b>	<b>2407</b>

3.7.7 A review was also undertaken of the number of write offs over £10k. It was noted at the time of the audit that there are currently 15 invoices, with a total value of £238,387, that were waiting for relevant Cabinet Member approval.

### 3.8 Refunds

3.8.1 Written procedures for processing refunds have been compiled and it was confirmed that there is an adequate division of duty for the creation of refunds. A sample of ten refunds was selected to ensure that they had been processed in accordance with these procedures.

3.8.2 All ten cases tested satisfactorily with it being confirmed that a credit balance existed on the account in question, and the debtor did not have any other accounts which were overdue.

### 3.9 Monitoring and Reporting

3.9.1 It was confirmed that monthly reports of Disputed debts/total debt over 60 days were being sent to all Heads of Services and the relevant managers to review at PFM.

3.9.2 The overall total debt on the system as at January 2018, 2019 and 2020 was as follows:

Debt level	2017/18 (Jan 2018)	2018/19 (Jan 2019)	2019/20 (Feb 2020)
Total debt.	£7.6m	£8.2m	£10.7m
Average monthly overdue debt.	£8.8m	£10.1m	£14.7m
Overdue more than 4 months.	£0.9m	£1.2m	£1.4m
Overdue more than 12 months.	£1.8m	£1.9m	£3.7m

3.9.3 There are no performance targets for the AR section although reports on debt recovery performance are presented to senior management within Financial Services and Service Centre and then forwarded to the Chief Finance Officer on a quarterly basis.

### 3.10 Security of Data/Business Continuity

3.10.1 All officers in AR are aware of the principles of General Data Protection Regulation 2016 (GDPR) requirements and the Council is registered on the Information Commissioner's website. At the time of the audit, a review was carried out to ensure

that the new AR staff had completed the mandatory training for GDPR. This test was satisfactorily.

3.10.2 There is a Business Continuity Plan in place which has been compiled by the Service Centre Manager.

#### **4 Conclusion**

- 4.1. The Internal Audit Section operates a system of Assurance levels which gives a formal opinion of the achievement of the service's/system's control objectives. The Assurance levels vary over four categories: 'High', 'Substantial', 'Moderate' and 'Limited'.
- 4.2 Recommendations arising from this review are detailed in the attached Management Action Plan. Each recommendation has been prioritised according to perceived risk – High, Medium, Low and Good Practice. The overall Assurance level is based on the recommendations made in the report.
- 4.3 The description of each type of recommendation and also the basis for each of the assurance levels is noted in **Appendix 1**.
- 4.4 It was found during the course of our review that although some procedures were working satisfactorily there were key areas that require attention and improvement. These relate to invoices on a 'referred to Legal' status and the escalation of unpaid invoices.
- 4.5 As a result, an Assurance Level of "**Moderate**" has been awarded. This indicates that the ineffective controls represent a significant risk to the achievement of system objectives.
- 4.6 We will contact you in due course to confirm that you have implemented the agreed recommendations.
- 4.7 This audit was conducted in conformance with the Public Sector Internal Audit Standards.

**Appendix 1****Classification of Audit Recommendations**

<b>Recommendation</b>	<b>Description</b>
High Risk (HR)	Action by the client that we consider <b>essential</b> to ensure that the service / system is not exposed to <b>major risks</b> .
Medium Risk (MR)	Action by the client that we consider <b>necessary</b> to ensure that the service / system is not exposed to <b>significant risks</b> .
Low Risk (LR)	Action by the client that we consider <b>advisable</b> to ensure that the service / system is not exposed to <b>minor risks</b> .
Good Practice (GP)	Action by the client where we consider <b>no risks</b> exist but would result in better quality, value for money etc.

**Audit Assurance Levels**

<b>Assurance Level</b>	<b>Basis</b>	<b>Description</b>
High Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High or Medium Risk. Any recommendations are mainly Good Practice with few Low Risk recommendations.	There is a sound system of internal control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	Recommendations for ineffective controls affecting the material areas of the service are not High Risk. Occasional Medium Risk recommendations allowed provided all others are Low Risk or Good Practice.	There is a sound system of internal control but there is some scope for improvement as the ineffective controls may put the system objectives at risk.
Moderate Assurance	Recommendations for ineffective controls affecting the material areas of the service are at least Medium Risk.	The ineffective controls represent a significant risk to the achievement of system objectives.
Limited Assurance	Recommendations for ineffective controls affecting the material areas of the service are High Risk.	The ineffective controls represent unacceptable risk to the achievement of the system objectives.

**SWANSEA COUNCIL  
MANAGEMENT ACTION PLAN  
FINANCIAL SERVICES & SERVICE CENTRE  
ACCOUNTS RECEIVABLE 2019&20**

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
<b>Other Services – Raising of Invoices</b>					
2.1.2	All AR users who create invoices should be reminded that they must check to ensure further credit is not allowed to debtors who have existing unpaid invoices (unless the service being provided is required by statute).  <i>(Previous audit recommendation)</i>	LR	Reminder to be sent to all Oracle AR users to carry out credit checks prior to provision of non-statutory additional goods or services.	Michelle Davies	May 2020
2.1.3	A reminder should be sent to all AR users stating that invoices should be raised promptly.	GP	Reminder to be sent to all Oracle AR users to advise that invoices must be raised promptly for all goods and services.	Michelle Davies	May 2020
<b>Other Services - Disputes</b>					
2.2.3 2.2.5	Efforts should continue to be made to address invoices that have been classed as “Dispute”. Income should be clawed back from a Service if a “Dispute” is not resolved within six months.  <i>(Previous Audit Recommendation)</i>	LR	An old dispute review will be carried out 6 monthly to ensure that invoices with old unresolved disputes are cancelled.	Michelle Davies	May 2020 & November 2020
<b>Access Rights</b>					
3.2.3	Access rights to AR should be reviewed for Cashiers staff and Invoice User access removed where not required.	LR	User access to be reviewed and updated accordingly.	Michelle Davies	May 2020

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
<b>Invoice Cancellations</b>					
3.4.1	A record of the officer in AR who actioned the cancellation should be maintained.	LR	AR Team to be reminded that all invoice cancellation and reduction records are to be saved.	Laura Bombroffe	May 2020
3.4.2	Sample checking of invoice cancellations should be carried out on a monthly basis.	LR	Invoice cancellation sample checking to be completed on a monthly basis.	Laura Bombroffe	May 2020
<b>Receipt of Income</b>					

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
3.5.4	Measures should be taken to continue to reduce the number and value of unapplied credits.	GP	This area of work is being prioritised as a data cleansing exercise ready for Oracle system upgrade. Staff are currently working on this area and good progress is being made (45% reduction to date)	Michelle Davies/ Laura Bombroffe	October 2020 current project go live date (may be subject to change if project plan revised)



Appendix A

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
3.6.2 3.6.10	<p>All debts should be escalated on a timely basis. Where payment is not received within the timescales allowed, a decision should be made on whether to refer to Legal or write-off the debt.</p> <p><b>(Previous audit recommendation)</b></p>	HR	<p>All efforts will be made to review and progress outstanding debts to the furthest possible process point. Previous strategies implemented during 2019/2020 delivered progress in this area however the scale of the backlog is too large to be dealt with quickly by the current resource.</p> <p>[NB: Current global pandemic situation (CV19) impacts this area and will continue to do so for an extended period of time. There are no certainties within this situation and decisions made around this are outside of the Authority's control. The situation will be reviewed and activities will be adjusted to the situation at that point.]</p>	Michelle Davies / Laura Bombroffe	<p>March 2021</p> <p>[NB: this date is subject to change –see notes in Agreed Action / Comments column]</p>
3.6.3 a)	<p>Very old unpaid invoices should be prioritised to ensure limitation period does not expire.</p> <p><b>(Previous audit recommendation)</b></p>	MR	<p>These will be reviewed and prioritised.</p> <p>[NB: This action is subject to the caveat in the notes in 3.6.2 / 3.6.10 above]</p>	Michelle Davies / Laura Bombroffe	<p>August 2020</p> <p>[NB: this date is subject to change –see notes in Agreed Action / Comments column]</p>

Appendix A

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
2.1.4 3.6.3 b)	Diary entry dates should be used in all instances to ensure debt recovery is pursued.	LR	Reminder to be given to AR Team	Michelle Davies/ Laura Bombroffe	May 2020
3.6.5	Invoices subject to IVA's should be reviewed regularly checked on a monthly basis to ensure payments are being received.  <i>(Previous audit recommendation)</i>	LR	This will be included in the next Debt Recovery Activities review – to be scheduled (see above)  [NB: This action is subject to the caveat in the notes in 3.6.2 / 3.6.10 above]	Michelle Davies/ Laura Bombroffe	March 2021 [NB: this date is subject to change –see notes in Agreed Action / Comments column] as per 3.6.2/3.6.10
Page 40 3.6.6	Invoices subject to HCE agreements should be should be checked on a monthly basis to ensure payments are being received.	LR	Agreed. These will be included in the monthly ad-hoc agreement monitoring process. However it should be noted that HCE payments are sometimes sporadic, dependent on third party set up (HCE) and payments can only be taken by HCE.	Laura Bombroffe	May 2020
3.6.7	a) Officers in Legal should ensure that AR are informed of the closure of each case promptly to ensure the appropriate action is taken ongoing.  b) Cases on a 'Referred to Legal" status identified as outside of the limitation period, should be reviewed by Legal and AR.	MR  GP	Agreed. Debt recovery officers are to be reminded of this requirement.  Cases to be reviewed	Debbie Smith  Debbie Smith / Michelle Davies	May 2020.  June 2020

REPORT REF	RECOMMENDATION	CLASS (HR; MR; LR; GP)	AGREED ACTION/ COMMENTS	RESPONSIBILITY FOR IMPLEMENTATION	IMPLEMENTATION DATE
3.6.8	A reconciliation should be carried out to confirm the status of all debts categorised as "Referred to Legal" and this reconciliation should be carried out periodically in the future.  <i>(Previous audit recommendation)</i>	LR	Some progress has been made in this area, however this has halted following commencement of the Oracle Project. This project is ongoing and will continue to impact progress. Efforts will be made to make further progress when resources allow.	Michelle Davies / Debbie Smith	March 2021
3.6.9	Meetings between Cash Management & Accounts Receivable Manager and the Deputy Head of Legal should be re-introduced to discuss caseload and problem debts.	GP	Agreed	Michelle Davies / Debbie Smith	March 2021
<b>Write-offs</b>					
3.7.2	Oracle should be updated accurately when approval for write-offs are received from Services.	GP	Reminder to be issued to AR staff that invoices are updated correctly following receipt of a write off instruction	Michelle Davies	May 2020
3.7.4	It should be ensured that all write-offs are actioned for all invoices instructed by Legal.	GP	Reminder to be issued to AR staff that invoices are updated correctly following receipt of a write off instruction	Michelle Davies	May 2020

### Invoicing & Debt Recovery Process

AR = Accounts Receivable Team / SD = Service Department / LD = Legal Department

Responsibility	Activity
SD	Invoice raised
AR	Print & issue invoice
AR	Issue system generated letters on 29 <sup>th</sup> & 43 <sup>rd</sup> days (Reminder and Final Reminder)
AR	Invoice disputes received > put hold on recovery action > notify SD of dispute details. AR Section sends individual notifications for each dispute at the point it is received and, in addition sends monthly dispute lists to Heads of Service for cascading to officers in SDs. AR also monitors old disputes every 6 months (with full liaison with SDs) and cancels any disputed invoices where there is no action or response from the SD.
SD	Resolve all invoice disputes. Accounting Instruction 7 requires that disputes are resolved within 14 days or as soon as possible.
AR & SD	Monitor outstanding debt. Engage with customer to chase up outstanding invoices to obtain payment. Instalment plans managed only by AR. AR has encouraged SDs to do more of this to try and maximise recovery due to the severely diminished resource in AR. Activities by both AR & SD will include reviewing outstanding debt lists, phone calls and emails to the debtor, diarising follow up action, liaison between AR & SD and ensuring that further credit is not given where possible. AR sends 60 day debt lists (list of all invoices over 60 days old) to Heads of Service on a quarterly basis for cascading down to officers in SDs. SDs are requested to review and follow up outstanding debts appropriately. AR promotes SD engagement with the debtor by liaising with SD officers and educating them on how to access system reports and advising on monitoring processes. The limited AR staff resource means that this a selective approach is taken so that SDs where high value invoices, recurring services/credit is being supplied or SDs where there is very little pro-active activity taking place are targeted. AR will seek to escalate debts to the Legal Dept for further action wherever possible. 'Ownership' of the debt ultimately lies with the SD as they engage with the debtor and provide the services. AR recognises that a 'whole council' approach is needed for successful debt recovery as SDs, AR and LD all play a vital role in the recovery process. It is not just one Depts responsibility. If debts are not recovered successfully then it will result in lost revenue reflected through increased debt write off.
AR	Customer with outstanding debts is vetted against a range of internal databases and against external sources such as Experian and Companies House to establish that all debtor information is correct.
AR	Review individual outstanding invoices to apply the AR/Legal Protocol. Invoices that cannot be referred to Legal are placed on 'awaiting write off' status. Invoices that cannot be written off under the protocol are prepared for referral to Legal. The Pre-Action protocol legislation requires that evidence of the debt must be submitted to Legal Debt Recovery Section before any legal action can be taken against individual debtors through the courts. Swansea Council Legal Section has decided that this will be applied to all Swansea Council customers, including businesses and organisations, as best practice. AR Section requests the documents as evidence of the debt from the Service Dept. 2 requests are sent. If the value is less £1000 and there is no response from the SD the debt is put onto write off. If the value is over £1000 an email is also sent to the HOS highlighting the lack of response.
SD	Evidence of debt supplied to AR
AR	Refers debt to Legal Dept for court action. Referral is via a digital form and supporting docs are attached.
LD	Court Warning Notice issued by Legal Dept
LD	Legal action instigated by entering debt into court, usually through the High Court Enforcement Office (HCE). Other action may include a Third Party Debt Order or a Charging Order to secure a debt against a property
LD	Instruction sent to AR to notify outcome – write off, (irrecoverable or rely on charge), monitor an instalment agreement or the debt may be paid in full.
AR	Progresses outcomes from Legal by changing the invoice status to write off or monitors the instalment plan

# Agenda Item 6



## Report of the Section 151 Officer

Audit Committee – 8 September 2020

### Draft Statement of Accounts 2019/20

<b>Purpose:</b>	The report presents the Draft Statement of Accounts for 2019/20 and is presented to the Audit Committee for Information and Review.
<b>Report Author:</b>	Amanda Thomas
<b>Finance Officer:</b>	Amanda Thomas
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Catherine Window
<b>For Information</b>	

#### 1. Background

- 1.1 Legislation requires the Council to produce an annual Statement of Accounts in respect of each Financial year as follows:-
- **By 15<sup>th</sup> June** following the year to which the Accounts relate – Accounts to be drafted and signed by the Section 151 Officer
  - **By 15<sup>th</sup> September** following the year to which the Accounts relate the Accounts are required to be audited and approved by Council
- 1.2 The Draft Accounts for 2019/20 have been prepared and were signed by the Section 151 Officer on 18<sup>th</sup> May 2020. A copy is appended at Appendix 'A' to this report.
- 1.3 The Accounts have been formally presented to the Council's auditors – Audit Wales – who have completed the audit of the Accounts.
- 1.4 As part of the audit process the Accounts were made available for inspection by the public for a four week period from 3<sup>rd</sup> August 2020 to 28<sup>th</sup> August 2020.

## **2. Form and content of the Statement**

- 2.1 The form and content of the report is largely set out in the CIPFA code of practice which forms the basis of best practice in accordance with legislation.

## **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 issues associated with this report; any relevant items within the budget for the past three years have been subject to the Equality Impact Assessment process.

## **4. Legal Implications**

- 4.1 Production of the Statement of Accounts is required in accordance with the provisions of the Accounts and Audit (Wales) Regulations 2014.

## **5. Financial Implications**

- 5.1 There are no financial implications.

**Background papers:** *Accounts and Audit Regulations*  
*Cipfa Accounting Code of Practice*

**Appendices:** Appendix 'A' – Draft Statement of Accounts 2019/20.

# Statement of Accounts 2019/20



Swansea Council | Cyngor Abertawe

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## Introduction



Swansea Council is located on the South Wales Coast and is one of twenty two current unitary local authorities providing local government services in Wales.

The area of the Council includes the Gower peninsula, designated as Britain's first area of outstanding natural beauty.

Approximately 246,500 people live within the boundaries of the Council of which:

- 42,000 are aged under 16
- 55,500 are of pensionable age
- 22,300 are aged 75 years and over



The County has a mixed agricultural and industrial economy. The City sits at the mouth of the River Tawe, from which its Welsh name, Abertawe, derives.

This Statement of Accounts is one of a number of publications, which include the revenue and capital budgets, produced to comply with the law and designed to provide information about the Council's financial affairs.

Copies of these accounts can be obtained from:

Chief Finance Officer  
Swansea Council  
Guildhall  
Swansea  
SA1 4PE

## Narrative Report

The main elements of this Statement of Accounts comprise:-

- \* The Expenditure and Funding Analysis which shows how annual expenditure is used and funded from resources by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates.
- \* The Comprehensive Income and Expenditure Statement, which shows the income from, and spending on, Authority services for the year. It also shows how much money we get from the Welsh Government, business ratepayers and Council taxpayers together with the net deficit/surplus for the year.
- \* The Movement in Reserves Statement which shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.
- \* The Balance Sheet, showing a snapshot of the Authority's financial position at the 31st March 2020.
- \* The Cash Flow Statement, which shows transactions for the year on a cash basis rather than on an accruals basis.
- \* The notes to the accounts, incorporating the main accounting policies which show the basis on which we have prepared the accounts and the accounting principles the Authority has adopted. The notes also offer further analysis of items appearing in the main financial statements.
- \* The Housing Revenue Account (HRA) Income and Expenditure Statement, which shows income from, and spending on, Council housing for the year. This account is stated separately as required by statute although the overall results are incorporated into the Authority's Comprehensive Income and Expenditure Statement.
- \* The Group Accounts, which show the consolidated accounts of the Authority and its group companies.
- \* The Certificate and Statement of Responsibilities of the Chief Finance Officer who is the responsible officer for the production of the statement.
- \* The Annual Governance Statement, which gives an indication of the arrangements for and effectiveness of internal control procedures within the Authority.
- \* The auditor's opinion and certificate relating to the Statement of Accounts.

## *Narrative Report*

We incur two main types of expenditure – revenue expenditure and capital expenditure.

**Revenue expenditure** covers spending on the day to day costs of our services such as staff salaries and wages, maintenance of buildings and general supplies and equipment. This expenditure is paid for by the income we receive from Council taxpayers, business ratepayers, the fees and charges made for certain services, and by the grants we receive from Government.

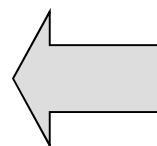
**Capital expenditure** covers spending on assets such as roads, redevelopment and the major renovation of buildings. These assets will provide benefits to the community for several years and the expenditure is largely financed by borrowing, capital grants and the sale of fixed assets. Amounts borrowed for capital purposes are repaid in part each year as part of our revenue expenditure.

Sources of borrowing utilised include the Public Works Loan Board (PWLB) and capital markets. The PWLB is a Government agency which provides longer-term loans to local authorities.

## Narrative Report

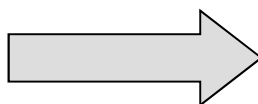
### Revenue spending in 2019/2020

	£'m	%
Revenue support grant	242.2	30
Non domestic rates	80.0	10
Council tax (including Reduction Scheme)	123.7	15
Other income (rents, fees and charges, specific grants)	373.8	45
	<b>819.7</b>	<b>100</b>



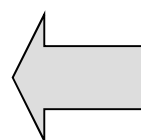
*Where our money comes from*

*What we spend it on*



	£'m	%
Employees	372.5	45
Capital charges	36.4	4
Running costs	364.7	44
Precepts/Levies	37.7	5
Reserve transfers	8.4	2
	<b>819.7</b>	<b>100</b>

	£'m	%
Resources	108.9	13
People - Social Services	194.5	24
People - Education	251.7	31
Place	191.8	23
Housing Revenue Account (HRA)	34.4	4
Reserve transfers	8.4	2
Other	30.0	3
	<b>819.7</b>	<b>100</b>



*And the services it provides*

The reserve transfers of £8.4m are the revenue reserve transfers in 2019/20 which include the General Fund, Housing Revenue Account and Earmarked Reserves.

## *Narrative Report*

### **Authority services**

The revenue outturn position of the Authority for 2019/20 resulted in a decrease in expenditure on services of £7.474m compared to adjusted budget, boosted especially by a one off settlement of outstanding debts with the local health board over shared care responsibilities. In addition, the revenue outturn position reflects a further £1.695m of one off expenditure on an invest to save basis, that was partly met from the Authority's contingency and restructuring funds primarily to fund early retirement and voluntary redundancy costs as the Authority seeks to reduce its underlying operating costs and adjust to future likely grant levels.

The underlying spend on Services reflects forecast and known pressures, within especially both Social Services and Education budgets, which have been partly reflected in 2020/21 budget proposals.

The 2020/21 budget proposals have been rapidly overtaken by events given the Covid-19 pandemic and short term spending has increased substantially, savings plans put on hold, and income will be materially lower than forecast across all Council functions. The financial outlook thus remains incredibly uncertain for the Council.

### **Other budget variations**

Other budget savings during the year arose from reductions in capital repayments and interest charges (£7.412m). The MRP (Minimum Revenue Provision) Policy was reviewed in 2018-19 and Council approved a change in MRP Policy which helped lower capital repayment charges in the short to medium-term. In line with the Council's agreed reserve policy, the whole capital financing underspend has been transferred to a capital equalisation reserve.

For all supported borrowing, including capital expenditure incurred before 1st April 2008, the charge to revenue will be over 40 years by the straight line method, which is commensurate with the average of existing asset useful economic lives. In essence this replaces the 4% reducing balance method with a 2.5% straight line method. This can be considered a more prudent approach than the current provision because it introduces a more certain period for eliminating the debt liability in full.

### **Housing Revenue Account**

The Housing Revenue Account of the Authority is a ring fenced account dealing exclusively with income and expenditure arising from the Authority's housing stock. For 2019/20 there was a net decrease in HRA reserves at year end of £0.815m (2018/19 net decrease £0.625m).

Details of the annual Revenue, Capital and HRA outturn reports can be found on the agenda of the Council's Cabinet for the meeting on 16th July 2020.

## Narrative Report

### Capital spending in 2019/2020

	£'000
External borrowing	49,314
Government grants	37,894
Other grants/contributions	1,761
Capital receipts	5,142
Revenue and reserves	31,243
Financing of previous years	1,205
	<b>126,559</b>

*Where our money comes from*

*What services we spend it on*

	£'000
Resources	1,792
Place Services	113,050
People Services	11,717
	<b>126,559</b>

*Some of the assets it provided*

	£'000		£'000
<b>People Services: Education</b>		Kingsway Digital Offices	903
Pentrefafod Comp remodelling	539	Palace Theatre	578
EOTAS new build	3,777	<b>Housing (General Fund)</b>	
Gorseinon Primary	3,887	Housing Disabled Facilities Grants	4,600
<b>Place Services: Housing (HRA)</b>		Sandfields Renewal Area	655
HRA More Homes programme	3,871	<b>Highways and Transportation</b>	
HRA refurbishment (includes kitchens and bathrooms)	25,068	Carriageways & Footways	4,518
HRA Adaptation works	3,137	Local Transport Network fund schemes and Local Transport Fund	1,100
HRA Energy Efficiency and Fire Safety	2,357	Active Travel Schemes	3,210
HRA Wind & Weatherproofing (includes Hi-rise flats)	6,170	Bascule Bridge	745
HRA Regeneration	3,833	<b>Other Services</b>	
HRA landscaping and enhancement	5,666	Leisure Centre improvements	3,453
<b>Economic Development</b>		Other Buildings Capital Maintenance	1,790
The Kingsway Urban Park	3,404	School capital maintenance	5,697
City Centre Redevelopment - Swansea Central Phase 1	20,789	<b>Resources</b>	
TRI regeneration schemes	2,442	Digital - laptops and accessories	1,140



## Narrative Report

The Authority maintains a number of provisions and reserves. Provisions are disclosed in Note 21 on pages 96 and 97. The information regarding reserves are disclosed in the Movement in Reserves Statement on pages 20 to 24 and Note 10 on page 68.

Provisions are amounts included in the accounts as liabilities where there has been a past event which is likely to result in a financial liability but where there is uncertainty over timing and the precise value of the liability that has been incurred. It is therefore the Authority's best estimate of the financial liability as at 31st March 2020.

The Council holds Earmarked Reserves for specific purposes, together with a level of General Reserves which are available to support overall Council expenditure. However, due to the nature, size and complexity of the Council's operations, and in particular the potential for short term volatility in terms of elements of income and expenditure, it is prudent to maintain a level of General Reserves sufficient to meet anticipated and known financial risks.

At the end of the year, the Authority's revenue reserve balances amounted to £99.093m (2018/19 £83.178m).

### International Accounting Standard 19 Employee Benefits (IAS 19)

The Accounts comply with the requirements of the above standard in that they reflect in the revenue accounts the current year cost of pension provision to employees as advised by the Authority's actuary. The Statements also contain, within the Balance Sheet, the actuary's assessment of the Authority's share of the Pension Fund liability as at 31st March 2020 and the reserve needed to fund that liability.

The pension fund liability that is disclosed within the Balance Sheet is the total projected deficit that exists over the expected life of the fund. This deficit will change on an annual basis dependent on the performance of investments and the actuarial assumptions that are made in terms of current pensioners, deferred pensioners and current employees.

The fund is subject to a 3 yearly actuarial valuation which assesses the then state of the pension fund and advises the various admitted bodies on the appropriate rate of employers contributions that needs to be made in order to restore the fund to a balanced position over a period of time. The contribution rate used in 2019/20 relates to the valuation undertaken on 31st March 2016.

The Local Government Pension Scheme is a statutory scheme and, as such, benefits accruing under the scheme can only be changed by legislation. The Department for Communities and Local Government legislated for a new scheme which commenced in April 2014 which was designed to have a material and beneficial effect on the projected cost of the scheme over future years.

The Government is currently consulting on a public sector exit cap, which includes the LGPS, which if implemented would reduce some departure costs.



The Pension Fund Deficit at 31st March 2020 is £840.950m (31st March 2019 £823.404m).

### **Group Accounts**

Group Accounts are prepared where Local Authorities have material interests in subsidiaries, associated companies and joint ventures. Group Accounts have been prepared to include the National Waterfront Museum and the Wales National Pool. The Group Accounts comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and associated disclosure notes.

### **Leisure Trust**

On 1st October 2018, the management of the Authority's leisure centres was transferred to Wealden Leisure Ltd (T/A Freedom Leisure), a not for profit leisure trust.

### **Plantasia**

On 1st February 2019, the management of Plantasia was transferred to Parkwood Leisure Limited.

### **Changes in the form and content of the Statement**

The Statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. The code is published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Statement also complies with the requirements of the Accounts and Audit (Wales) (Amendment) Regulations 2018.

The Authority has changed the disclosure notes for short term debtors and short term creditors to provide a detailed analysis across public sector organisations. The disclosure notes for 2018/19 have been restated to reflect these changes.

During the year, the Authority has changed the internal management reporting structure. The reporting segments in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement, Group Comprehensive Income and Expenditure Statement and notes to the Expenditure and Funding Analysis have been amended to reflect the new internal management reporting structure. The main statements and disclosure notes for 2018/19 have been restated to reflect the changes.

### **Financial outlook for the Authority.**

On 5th March 2020 the Authority approved a medium term financial plan which highlighted potential revenue shortfalls rising from £13.4m in 2021/22 to £34.3m in 2023/24 reflecting higher expected future grant settlements.

That report also contained a range of potential future savings options including continued focus on a range of cross cutting reviews as the pace and scale of transformative change needed to fit to forecast reducing real terms resources levels continues. These include reviews of asset use, greater commercialism, continued transformative business support and concluding the final wave of commissioning reviews.

Notwithstanding the information contained within the medium term financial plan, it is clear that the financial outlook for the Authority is hugely dependent upon the scale of Central Government funding and support for both Revenue and Capital expenditure. The Authority is likely to still be under pressure in real terms in the short/medium term, despite UK Government comments indicating an end to austerity. We await with interest the outcome of the delayed Comprehensive Spending Review in 2020. Equally the Authority continues to have ambitious plans to invest substantially in its capital infrastructure, a significant part of which will need to be financed from its own revenue resources, as well as from wider stakeholders including, but not limited to, the Swansea Bay City Region Deal.

Whilst the precise details of funding available for 2021/22 and beyond have not been announced current indications are that some continued reduction in real terms funding is quite feasible when price, pay and demand pressures are factored in. Equally if sustained substantial cash funding increases are replicated, then there will be investment and service enhancement choices to be made. The Authority is already undertaking work to plan for all scenarios.

The Authority continues to face a challenging agenda following the introduction of an equal pay compliant pay and grading structure, development of regional partnership arrangements in line with Welsh Government policy, and compliance with any legislative and other changes, especially around the Wellbeing of Future Generations, the Environment Act and Education Additional Learning Needs.

Local Government regionalisation, driven by the Welsh Government and Local Government collectively, will continue to evolve and change. Whilst a range of future options remain, there is continued expectation of a degree of likely increasing mandatory regional working on a range of services in the future.

## *Narrative Report*

At this stage, it is still too early to form a view as to the overall impact of these proposals, nor what any final outcome may eventually be, but is clearly of some significance for the Authority as a whole.

Intrinsically linked to part of this regionalisation agenda is the shared vision between four councils (including Swansea), the Welsh Government, the UK Government and other public sector partners (NHS, University sectors) as well as the private sector in delivering the £1.3bn Swansea Bay City Region deal. Overall funding obligations for the Council and delivery expectations will become clearer as the City Deal project develops, following the conclusion of the rapid independent review by government.

Furthermore there may be impact as a result of ongoing options around the proposed Swansea Bay Tidal Lagoon project. Whilst the UK Government has formally decided not to proceed, this Council and a range of stakeholders remain committed through the Swansea Bay Tidal Lagoon Task Force to explore all alternative delivery models and vehicles. Whilst it does not manifestly directly involve the Local Authority in the same way as the city region deal, nonetheless it offers a scale and significance to the local area and economy whose potential impact ought to be initially recognised.

There remains inherent uncertainty arising from the prolonged Brexit transition process at national level. This has the potential to leave greater uncertainty over future prices, interest rates, value of investments, financial obligations and a wide range of regulatory and contractual arrangements. The European Union (Withdrawal Agreement) Act 2020 passed parliament and the UK left the EU on 31st January 2020. Under the negotiated withdrawal agreement, the UK–EU relationship will enter a transition period from 1st February. The transition period ends on 31st December 2020 and new rules will take effect on 1st January 2021. It can be extended once, by up to one to two years. Such a decision must be taken jointly by the EU and United Kingdom before 1st July 2020. During the Transition Period, the United Kingdom is no longer a Member State of the European Union, however all EU law is still applicable to the United Kingdom. The United Kingdom continues to participate in EU programmes and to contribute to the Union's budget covering the period 2014-2020.

Towards the end of the financial year the Authority in line with actions around the whole world was repurposed to respond to the growing Covid-19 pandemic as an emergency responder to save lives and keep essential services running.

Costs incurred at this stage, future costs, plus income foregone now, and for the immediate future, and the impact across all operations, and partners, including UK and Welsh Governments cannot be assessed with any accuracy at year end but are bound to be very substantial for Swansea Council alone (expected to be many tens of millions of pounds). It will have a profound and material impact on the coverage of the accounts, their completeness, timeliness and accuracy.

### **Further information**

You can get more information about the accounts from the Chief Finance Officer, Swansea Council, Guildhall, Swansea, SA1 4PE.

## **Chief Finance Officer's Certificate & Statement of Responsibilities for the Statement of Accounts**

I hereby certify that the statement of accounts on pages 4 to 141 presents a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2020.

Ben Smith  
Chief Finance Officer



18.05.2020

### **The Authority's Responsibilities**

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer, namely the Chief Finance Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the statement of accounts.

### **The Chief Financial Officer's Responsibilities**

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Date of Authorisation for Issue**

The 2019/20 Statement of Accounts was authorised for issue on xx xxxxxxxx 2020 by Ben Smith, Chief Finance Officer who is the Section 151 Officer of the Council. This is the date up to which events after the Balance Sheet date have been considered.

The 2019/20 Statement of Accounts was formally approved by Council on xx xxxxxxxx 2020.

Des Thomas  
Chairman

## Expenditure and Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices are presented more fully in the Comprehensive Income and Expenditure Statement.

	Restated 2018/19				2019/20		
	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments (Note 6a)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments (Note 6a)	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000		£'000	£'000	£'000
	44,301	20,121	64,422	Resources	43,967	-12,402	31,565
	118,695	6,263	124,958	People - Social Services	115,215	8,968	124,183
	166,480	20,095	186,575	People - Education	171,813	24,612	196,425
	53,952	26,991	80,943	Place	53,050	40,038	93,088
	-38,460	6,773	-31,687	Housing Revenue Account (HRA)	-40,442	6,908	-33,534
	<b>344,968</b>	<b>80,243</b>	<b>425,211</b>	<b>Net Cost of Services</b>	<b>343,603</b>	<b>68,124</b>	<b>411,727</b>
	-352,931	-45,472	-398,403	Other Income and Expenditure	-359,518	-56,385	-415,903
	<b>-7,963</b>	<b>34,771</b>	<b>26,808</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>-15,915</b>	<b>11,739</b>	<b>-4,176</b>

## *Expenditure and Funding Analysis*

General Fund and HRA				General Fund and HRA		
-75,215			Opening Balance as at 1 April	-83,178		
-7,963			Less/Plus Surplus or Deficit	-15,915		
<b>-83,178</b>			<b>Closing Balance as at 31 March *</b>	<b>-99,093</b>		

\* For a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement.

## Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Restated 2018/19				Note	2019/20		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
148,766	-84,344	64,422	Resources		108,871	-77,306	31,565
188,064	-63,106	124,958	People - Social Services		194,488	-70,305	124,183
236,315	-49,740	186,575	People - Education		251,667	-55,242	196,425
178,276	-97,333	80,943	Place		191,817	-98,729	93,088
34,225	-65,912	-31,687	Housing Revenue Account (HRA)		34,361	-67,895	-33,534
<b>785,646</b>	<b>-360,435</b>	<b>425,211</b>	<b>Cost of Services</b>		<b>781,204</b>	<b>-369,477</b>	<b>411,727</b>
34,671	0	34,671	Other operating expenditure	11	36,468	0	36,468
74,508	-38,794	35,714	Financing and investment income and expenditure	12	79,923	-36,613	43,310
0	-468,788	-468,788	Taxation and non-specific grant income	13	0	-495,681	-495,681
		26,808	<b>(Surplus)/Deficit on Provision of Services</b>				<b>-4,176</b>
		31,173	(Surplus)/Deficit on revaluation of Property, Plant and Equipment assets	22			-11,825
		49,260	Remeasurement of the net defined benefit liability/(asset)	22			-23,210
		80,433	<b>Other Comprehensive Income and Expenditure</b>				<b>-35,035</b>
		107,241	<b>Total Comprehensive Income and Expenditure</b>				<b>-39,211</b>

The service expenditure analysis has been restated for 2018/19 following changes to how the Authority reports internally on budget, budget monitoring and revenue outturn.

## Group Income and Expenditure Statement

Restated 2018/19				2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
148,766	-84,344	64,422	Resources	108,871	-77,306	31,565
188,064	-63,106	124,958	People - Social Services	194,488	-70,305	124,183
236,315	-49,740	186,575	People - Education	251,667	-55,242	196,425
178,307	-97,332	80,975	Place	191,817	-98,729	93,088
34,225	-65,912	-31,687	Housing Revenue Account (HRA)	34,361	-67,895	-33,534
<b>785,677</b>	<b>-360,434</b>	<b>425,243</b>	<b>Cost of Services</b>	<b>781,204</b>	<b>-369,477</b>	<b>411,727</b>
34,671	0	34,671	Other operating expenditure	36,468	0	36,468
74,508	-38,794	35,714	Financing and investment income and expenditure	79,923	-36,613	43,310
0	-468,788	-468,788	Taxation and non-specific grant income	0	-495,681	-495,681
		26,840	<b>(Surplus) or Deficit on Provision of Services</b>			-4,176
		308	Share of the surplus or deficit on the provision of services by associates and joint ventures			362
		27,148	<b>Group (Surplus)/Deficit</b>			-3,814
		30,328	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			-13,982



## Group Income and Expenditure Statement

Restated 2018/19				2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
		49,260	Actuarial losses / gains on pension assets / liabilities			-23,210
		79,588	Other Comprehensive Income and Expenditure			-37,192
		106,736	Total Comprehensive Income and Expenditure			-41,006

## *Movement in Reserves Statement*

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year.

The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

## Movement in Reserves Statement

2018/19	Note	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2018 carried forward</b>		<b>9,352</b>	<b>59,082</b>	<b>6,781</b>	<b>6,454</b>	<b>13,474</b>	<b>95,143</b>	<b>255,178</b>	<b>350,321</b>
<b><u>Movement in reserves during 2018/19</u></b>									
(Deficit) on the provision of services		-58,300	0	31,492	0	0	-26,808	0	-26,808
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	-80,433	-80,433
<b>Total Comprehensive Income and Expenditure</b>		<b>-58,300</b>	<b>0</b>	<b>31,492</b>	<b>0</b>	<b>0</b>	<b>-26,808</b>	<b>-80,433</b>	<b>-107,241</b>
Adjustments between accounting basis & funding basis under regulations	8	66,888	0	-32,117	2,856	1,981	39,608	-39,608	0
<b>Net Decrease/Increase before Transfers to Earmarked Reserves</b>		<b>8,588</b>	<b>0</b>	<b>-625</b>	<b>2,856</b>	<b>1,981</b>	<b>12,800</b>	<b>-120,041</b>	<b>-107,241</b>
Transfers from/to Earmarked Reserves	10	-8,588	8,588	0	0	0	0	0	0
<b>Increase/Decrease in 2018/19</b>		<b>0</b>	<b>8,588</b>	<b>-625</b>	<b>2,856</b>	<b>1,981</b>	<b>12,800</b>	<b>-120,041</b>	<b>-107,241</b>
<b>Balance at 31 March 2019 carried forward</b>		<b>9,352</b>	<b>67,670</b>	<b>6,156</b>	<b>9,310</b>	<b>15,455</b>	<b>107,943</b>	<b>135,137</b>	<b>243,080</b>

## Movement in Reserves Statement

2019/20	Note	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2019</b>		<b>9,352</b>	<b>67,670</b>	<b>6,156</b>	<b>9,310</b>	<b>15,455</b>	<b>107,943</b>	<b>135,137</b>	<b>243,080</b>
<b><u>Movement in reserves during 2019/20</u></b>									
Surplus on the provision of services		-28,914	0	33,090	0	0	4,176	0	4,176
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	35,035	35,035
<b>Total Comprehensive Income and Expenditure</b>		<b>-28,914</b>	<b>0</b>	<b>33,090</b>	<b>0</b>	<b>0</b>	<b>4,176</b>	<b>35,035</b>	<b>39,211</b>
Adjustments between accounting basis & funding basis under regulations	8	45,644	0	-33,905	-2,937	5,588	14,390	-14,390	0
<b>Net Decrease/Increase before Transfers to Earmarked Reserves</b>		<b>16,730</b>	<b>0</b>	<b>-815</b>	<b>-2,937</b>	<b>5,588</b>	<b>18,566</b>	<b>20,645</b>	<b>39,211</b>
Transfers from/to Earmarked Reserves	10	-16,730	16,730	0	0	0	0	0	0
<b>Increase/Decrease in 2019/20</b>		<b>0</b>	<b>16,730</b>	<b>-815</b>	<b>-2,937</b>	<b>5,588</b>	<b>18,566</b>	<b>20,645</b>	<b>39,211</b>
<b>Balance at 31 March 2020 carried forward</b>		<b>9,352</b>	<b>84,400</b>	<b>5,341</b>	<b>6,373</b>	<b>21,043</b>	<b>126,509</b>	<b>155,782</b>	<b>282,291</b>

## Group Movement in Reserves Statement

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2018/19	Note	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	Authority's Share of Subsidiaries, Associates and Joint Ventures £'000	Total Group Reserves £'000
<b>Balance at 31 March 2018</b>		9,352	59,082	6,781	6,454	13,474	95,143	255,178	350,321	21,402	371,723
<b>Movement in reserves during 2018/19</b>											
(Deficit) on the provision of services		-58,300	0	31,492	0	0	-26,808	0	-26,808	-340	-27,148
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	-80,433	-80,433	845	-79,588
<b>Total Comprehensive Income and Expenditure</b>		-58,300	0	31,492	0	0	-26,808	-80,433	-107,241	505	-106,736
Adjustments between group accounts & authority accounts		0	0	0	0	0	0	0	0	0	0
Adjustments between accounting basis & funding basis under regulations	8	66,888	0	-32,117	2,856	1,981	39,608	-39,608	0	0	0
<b>Net Decrease/Increase before Transfers to Earmarked Reserves</b>		8,588	0	-625	2,856	1,981	12,800	-120,041	-107,241	505	-106,736
Transfers from/to Earmarked Reserves	10	-8,588	8,588	0	0	0	0	0	0	0	0
<b>Increase/Decrease in 2018/19</b>		0	8,588	-625	2,856	1,981	12,800	-120,041	-107,241	505	-106,736
<b>Balance at 31 March 2019 carried forward</b>		9,352	67,670	6,156	9,310	15,455	107,943	135,137	243,080	21,907	264,987

## Group Movement in Reserves Statement

2019/20	Note	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	Authority's Share of Subsidiaries, Associates and Joint Ventures £'000	Total Group Reserves £'000
<b>Balance at 31 March 2019</b>		<b>9,352</b>	<b>67,670</b>	<b>6,156</b>	<b>9,310</b>	<b>15,455</b>	<b>107,943</b>	<b>135,137</b>	<b>243,080</b>	<b>21,907</b>	<b>264,987</b>
<b><u>Movement in reserves during 2019/20</u></b>											
Surplus on the provision of services		-28,914	0	33,090	0	0	4,176	0	4,176	-362	3,814
Other Comprehensive Income and Expenditure		0	0	0	0	0	0	35,035	35,035	2,157	37,192
<b>Total Comprehensive Income and Expenditure</b>		<b>-28,914</b>	<b>0</b>	<b>33,090</b>	<b>0</b>	<b>0</b>	<b>4,176</b>	<b>35,035</b>	<b>39,211</b>	<b>1,795</b>	<b>41,006</b>
Adjustments between group accounts & authority accounts		0	0	0	0	0	0	0	0	0	0
Adjustments between accounting basis & funding basis under regulations	8	45,644	0	-33,905	-2,937	5,588	14,390	-14,390	0	0	0
<b>Net Decrease/Increase before Transfers to Earmarked Reserves</b>		<b>16,730</b>	<b>0</b>	<b>-815</b>	<b>-2,937</b>	<b>5,588</b>	<b>18,566</b>	<b>20,645</b>	<b>39,211</b>	<b>1,795</b>	<b>41,006</b>
Transfers from/to Earmarked Reserves	10	-16,730	16,730	0	0	0	0	0	0	0	0
<b>Increase/Decrease in 2019/20</b>		<b>0</b>	<b>16,730</b>	<b>-815</b>	<b>-2,937</b>	<b>5,588</b>	<b>18,566</b>	<b>20,645</b>	<b>39,211</b>	<b>1,795</b>	<b>41,006</b>
<b>Balance at 31 March 2020 carried forward</b>		<b>9,352</b>	<b>84,400</b>	<b>5,341</b>	<b>6,373</b>	<b>21,043</b>	<b>126,509</b>	<b>155,782</b>	<b>282,291</b>	<b>23,702</b>	<b>305,993</b>

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2019 £'000		Note	31 March 2020 £'000
373,917	Council Dwellings	14	431,332
645,285	Other Land and Buildings	14	614,700
7,311	Vehicles, Plant, Furniture and Equipment	14	10,359
240,766	Infrastructure Assets	14	237,329
9,383	Community Assets	14	8,995
82,483	Surplus Assets	14	82,534
21,393	Assets under Construction	14	72,272
<b>1,380,538</b>	<b>Property, Plant &amp; Equipment</b>		<b>1,457,521</b>
30,303	Heritage Assets	15	31,733
57,758	Investment Properties	16	55,805
225	Intangible Assets		456
119	Long Term Investments	17	114
3,724	Long Term Debtors	17	4,067
<b>1,472,667</b>	<b>Long Term Assets</b>		<b>1,549,696</b>
121,772	Short Term Investments	17	67,603
4,800	Assets Held for Sale		4,200
2,156	Inventories		2,444
49,212	Short Term Debtors	18	81,970
47,237	Cash and Cash Equivalents	19	56,933
<b>225,177</b>	<b>Current Assets</b>		<b>213,150</b>
-6,870	Short Term Borrowing	17	-10,891
-55,636	Short Term Creditors	20	-60,571
-2,263	Provisions	21	-2,691
0	Capital Grants Receipts in Advance		-352
<b>-64,769</b>	<b>Current Liabilities</b>		<b>-74,505</b>

## Balance Sheet

31 March 2019 £'000		Note	31 March 2020 £'000
-2,516	Long Term Creditors	17	-2,602
-9,702	Provisions	21	-10,105
-554,373	Long Term Borrowing	17	-552,393
-823,404	Other Long Term Liabilities	34	-840,950
<b>-1,389,995</b>	<b>Long Term Liabilities</b>		<b>-1,406,050</b>
<b>243,080</b>	<b>NET ASSETS</b>		<b>282,291</b>
	<b>Financed by:</b>		
9,352	Balances - General Fund		9,352
6,156	Balances - Housing Revenue Account	10	5,341
9,310	Capital Receipts Reserve		6,373
15,455	Capital Grants Unapplied Account		21,043
67,670	Earmarked Reserves	10	84,400
<b>107,943</b>	<b>Usable Reserves</b>		<b>126,509</b>
379,632	Revaluation Reserve	22	373,016
-823,404	Pensions Reserve	22	-840,950
589,739	Capital Adjustment Account	22	635,519
-2,252	Financial Instrument Adjustment Account		-2,303
-8,578	Accumulated Absences Account	22	-9,500
<b>135,137</b>	<b>Unusable Reserves</b>		<b>155,782</b>
<b>243,080</b>	<b>TOTAL RESERVES</b>		<b>282,291</b>



## Group Balance Sheet

31 March 2019 £'000		Note	31 March 2020 £'000
373,917	Council Dwellings	14	431,332
645,285	Other Land and Buildings	14	614,701
7,311	Vehicles, Plant, Furniture and Equipment	14	10,359
240,766	Infrastructure Assets	14	237,329
9,383	Community Assets	14	8,995
82,483	Surplus Assets	14	82,534
21,393	Assets under Construction	14	72,272
<b>1,380,538</b>	<b>Property, Plant &amp; Equipment</b>		<b>1,457,522</b>
30,303	Heritage Assets	15	31,733
57,758	Investment Properties	16	55,804
225	Intangible Assets		456
119	Long Term Investments	17	114
21,907	Investments in Associates and Joint Ventures		23,702
3,724	Long Term Debtors	17	4,067
<b>1,494,574</b>	<b>Long Term Assets</b>		<b>1,573,398</b>
121,772	Short Term Investments	17	67,603
4,800	Assets Held for Sale		4,200
2,156	Inventories		2,444
49,212	Short Term Debtors	18	81,970
47,237	Cash and Cash Equivalents	19	56,933
<b>225,177</b>	<b>Current Assets</b>		<b>213,150</b>
-6,870	Short Term Borrowing	17	-10,891
-55,636	Short Term Creditors	20	-60,571
-2,263	Provisions	21	-2,691
0	Capital Grants Receipts in Advance		-352
<b>-64,769</b>	<b>Current Liabilities</b>		<b>-74,505</b>
-2,516	Long Term Creditors	17	-2,602
-9,702	Provisions	21	-10,105
-554,373	Long Term Borrowing	17	-552,393
-823,404	Other Long Term Liabilities	34	-840,950
<b>-1,389,995</b>	<b>Long Term Liabilities</b>		<b>-1,406,050</b>
<b>264,987</b>	<b>NET ASSETS</b>		<b>305,993</b>

## Group Balance Sheet

31 March 2019 £'000		Note	31 March 2020 £'000
	<b>Financed by:</b>		
20,927	Balances - General Fund		20,565
6,156	Balances - Housing Revenue Account	10	5,341
9,310	Capital Receipts Reserve		6,373
15,455	Capital Grants Unapplied Account		21,043
67,670	Earmarked Reserves	10	84,400
<b>119,518</b>	<b>Usable Reserves</b>		<b>137,722</b>
389,964	Revaluation Reserve	22	385,505
-823,404	Pensions Reserve	22	-840,950
589,739	Capital Adjustment Account	22	635,519
-2,252	Financial Instrument Adjustment Account		-2,303
-8,578	Accumulated Absences Account	22	-9,500
<b>145,469</b>	<b>Unusable Reserves</b>		<b>168,271</b>
<b>264,987</b>	<b>TOTAL RESERVES</b>		<b>305,993</b>

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2018/19 £'000		Note	2019/20 £'000
-26,808	Net surplus or (deficit) on the provision of services		4,176
107,826	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	23	65,975
-34,775	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	23	-47,044
<b>46,243</b>	<b>Net cash flows from operating activities</b>		<b>23,107</b>
-89,802	Purchase of property, plant and equipment, investment property and intangible assets		-118,051
-1,063,151	Purchase of short-term and long-term investments		-1,259,477
3,896	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		2,118
966,884	Proceeds from short-term and long-term investments		1,313,651
34,775	Other receipts from investing activities		47,044
<b>-147,398</b>	<b>Net cash flows from investing activities</b>		<b>-14,715</b>
124,114	Cash receipts of short-term and long-term borrowing		1,953
-29,675	Repayments of short-term and long-term borrowing		-649
<b>94,439</b>	<b>Net cash flows from financing activities</b>	24	<b>1,304</b>
<b>-6,716</b>	<b>Net (decrease) or increase in cash and cash equivalents</b>		<b>9,696</b>
53,953	Cash and cash equivalents at the beginning of the reporting period		47,237
<b>47,237</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	19	<b>56,933</b>

## Group Cash Flow Statement

2018/19 £'000		Note	2019/20 £'000
-26,840	Net surplus or (deficit) on the provision of services		4,176
107,827	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	23	65,975
-34,775	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	23	-47,044
<b>46,212</b>	<b>Net cash flows from operating activities</b>		<b>23,107</b>
-89,802	Purchase of property, plant and equipment, investment property and intangible assets		-118,051
-1,063,151	Purchase of short-term and long-term investments		-1,259,477
3,896	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		2,118
966,884	Proceeds from short-term and long-term investments		1,313,651
34,775	Other receipts from investing activities		47,044
<b>-147,398</b>	<b>Net cash flows from investing activities</b>		<b>-14,715</b>
124,114	Cash receipts of short-term and long-term borrowing		1,953
-29,675	Repayments of short-term and long-term borrowing		-649
<b>94,439</b>	<b>Net cash flows from financing activities</b>	24	<b>1,304</b>
<b>-6,747</b>	<b>Net (decrease) or increase in cash and cash equivalents</b>		<b>9,696</b>
53,984	Cash and cash equivalents at the beginning of the reporting period		47,237
<b>47,237</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	19	<b>56,933</b>

## Notes to the Accounts

### 1. Accounting Policies

#### i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020.

The Authority is required to prepare an annual Statement of Accounts by virtue of the Accounts and Audit (Wales) (Amendment) Regulations 2018. These regulations require the Accounts to be prepared in accordance with proper accounting practices.

These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS).

The Accounts have been prepared on a historical cost basis, with the exception of certain categories of non-current assets that are measured at current value, and financial instruments which are now carried within the balance sheet at fair value as defined by the Code.

The Group Accounts consolidate Swansea Council's accounts with the accounts of companies in which the Authority has an interest and are considered to be part of our group.

The CIPFA Code of Practice on Local Authority Accounting 2019/20 requires that Group Accounting Statements have to be prepared, consolidating the accounts of the parent and any subsidiary, associate or joint undertakings. An assessment of the activities and interests of Swansea Council has been undertaken, which has determined that the Swansea Council Group consists of the Local Authority as the parent, and the following companies:

Wales National Pool Swansea (WNPS)	Joint Venture
National Waterfront Museum Swansea (NWMS)	Joint Venture
Swansea Community Energy & Enterprise Scheme (SCEES)	Associate

Notes have been provided to the Group Accounting Statements only where the disclosure for the Group differs from that required for the Local Authority due to the combination of the accounts of the various entities.

IAS 19 requires that entries are included in the Group Balance Sheet for the Group's share of assets and liabilities of the Local Authority Pension Scheme.

The Accounts are prepared on a going concern basis.

## *Notes to the Accounts*

### **ii. Accruals of Income and Expenditure**

The Accounts are maintained on an accruals basis in accordance with the Code. This means that sums due to or from the Authority, where the supply or service was provided or received during the year, are included in the Accounts whether or not the cash has actually been received or paid in the year.

Accruals are made in respect of grants claimed or claimable for Revenue and Capital purposes. Some grant claims are finalised after the Accounts have been completed and in this case the grant is accrued on the basis of the best estimate available, and any differences are accounted for in the following year.

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure in the main on the basis of the effective interest rate for the relevant financial instrument.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **iii. Cash and Cash Equivalents**

Cash or cash equivalents will be any cash investment which is held for short-term cash flow purposes which can be readily realised without a significant change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

## Notes to the Accounts

### iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### v. Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

As part of a review of Property, Plant and Equipment changes in assumptions have been made regarding the remaining useful lives of some other land and building assets during 2019/20.

Where appropriate, consideration has been given to the estimated useful life of individual asset components (primarily electrical, mechanical, and fabric); revenue charges for depreciation reflect the differing useful lives of asset components for other land and building assets revalued as per the Authority's rolling programme between 1st April 2010 and 31st March 2016. Revenue charges for depreciation on assets, revalued as per the rolling programme from 1st April 2016, will be charged on the building component of Other Land and Buildings assets. Annual depreciation has been charged on opening balances from 1st April 2017.

### vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service.
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- amortisation of intangible assets attributable to the service, based on any intangible asset held subject to the de minimis policy on capitalisation set out in note xvi.

## *Notes to the Accounts*

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **vii. Employee Benefits**

#### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and bonuses. Any non-monetary benefits for current employees are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi leave) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. Costs relating to termination benefits are charged on an accruals basis to the relevant Cost of Service lines in the Comprehensive Income and Expenditure Statement only when the Authority is demonstrably committed to the termination of the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

#### **Post Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by CAPITA on behalf of the Department for Education.
- The Local Government Pensions Scheme, administered by Swansea Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned by employees during their period of employment with the Authority.



## Notes to the Accounts

However, the arrangements for the teachers' scheme means that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The People - Education line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pensions in the year.

### The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Swansea Council pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds as required by IAS 19.
- The assets of the Swansea Council pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - industry accepted techniques
  - unitised securities - current bid price
  - property - market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
  - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

## Notes to the Accounts

- Remeasurements comprising:
  - the return on plan assets - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- contributions paid to the Swansea Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme. No such discretionary powers were used during the year.

### viii. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

## Notes to the Accounts

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### ix. Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

#### Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost,
- fair value through profit or loss, and
- fair value through other comprehensive income.

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

## Notes to the Accounts

### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Authority has made loans to voluntary organisations and third parties at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income Expenditure line in the Comprehensive Income and Expenditure Statement.

### Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Authority.

## Notes to the Accounts

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Authority has a portfolio of a significant number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to support the measurement of lifetime expected losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at fair value through profit or loss are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - the market price.
- other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

Any gains and losses that arise on the rerecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## *Notes to the Accounts*

### **x. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **xi. Heritage Assets**

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Authority, principally for their contribution to knowledge and culture.

Subject to specific requirements, Heritage Assets are accounted for in accordance with the Authority's policies of Property, Plant and Equipment (including the treatment of revaluation gains and losses and de minimis policy).

The Authority does not normally purchase fixed assets of a heritage nature; all assets disclosed have been donated into the Authority's possession. All assets are open to access by members of the public, with no restrictions other than those resulting from the normal operational limitations of venues (opening and closing times, and public safety).

## *Notes to the Accounts*

Management of these assets is undertaken by designated specialists and other personnel employed by the Authority. These personnel are responsible for the maintenance of all historical records relating to the assets the Authority is in possession of, access to which can be granted through local arrangement. Any preservation works required, either enhancing or non-enhancing in nature, will be undertaken through the Authority's main capital program, with minor works undertaken ad-hoc per the standard Authority internal systems for revenue expenditure.

No heritage assets disposals are actively undertaken by the Authority. Under such circumstance that asset disposal is required, it shall be undertaken in accordance with the Authority's standard asset disposal procedures.

Valuation of heritage assets may be made by any method that is appropriate and relevant. The Authority's assets are mostly valued at insurance valuation and replacement cost (based on construction methods and materials used).

Depreciation is not required on heritage assets which have indefinite lives. Impairment reviews will only be carried out where there is reported physical deterioration or new doubts as to the authenticity of a heritage asset.

Where information on the cost or value is not available, and the cost of obtaining the information outweighs the benefits to users of the financial statements, the asset is not recognised on the balance sheet. Items such as Hafod Copperworks, memorials and some museum and library collections have been considered but not recognised as value/cost information is unavailable.

### **xii. Interests in Companies and Other Entities**

The Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Authority's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **xiii. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.



## *Notes to the Accounts*

Investment properties are measured initially at cost (in accordance with the Council's de minimis policy for capitalisation as set out in note xvi) and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xiv. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of assets and resources rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

### **xv. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.



## *Notes to the Accounts*

### **The Authority as Lessee**

#### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Authority as Lessor

#### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## Notes to the Accounts

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Most leases granted by the Authority as lessor relate to commercial properties.

### xvi. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council maintains a de minimis value of £20,000 for any asset (or group of similar assets) to be capitalised within the General Fund.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price,
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

## Notes to the Accounts

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income and expenditure line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and community assets - depreciated historical cost,
- council dwellings - current value, determined using the basis of existing use value for social housing (EUV-SH),
- school buildings - current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value,
- surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective,
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- for a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

## Notes to the Accounts

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- for a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their estimated useful lives. No charge is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). From 1st April 2017 the Authority charges depreciation based on opening balances.

Depreciation is calculated on the following bases:

- dwellings - straight-line allocation over the estimated useful life of the property (30 to 80 years),
- non traditional dwellings - straight-line allocation over the estimated useful life of the property (30 years),
- other buildings - straight-line allocation over the estimated useful life of the property and, where applicable, its significant components (1 to 60 years),
- vehicles, plant, furniture and equipment - straight line allocation over the estimated useful life of the asset (2 to 10 years),

## Notes to the Accounts

- infrastructure / community assets - straight-line allocation over the estimated useful life of the asset (20 to 40 years),
- surplus assets - per original allocated estimated useful life from original categorisation unless indication of amendments required to this assessment is apparent.

Each accounting period the estimated useful life assigned to individual assets is assessed. Where there is evidence to indicate the departure from a standard useful life the asset's estimated useful life will be amended.

### Component Accounting

In recognition that single assets may have a number of different components each having a different estimated useful life, two factors are taken into account to determine whether a separate valuation of components is to be recognised in the accounts in order to provide an accurate figure for depreciation of the Authority's other land and building assets revalued since 1st April 2010.

#### 1. Suitability of assets.

To 31st March 2016, the Authority deemed assets revalued during the year to be of a suitable significant nature. Asset valuation therefore reflected assessment of component apportionment of Building Fabric 79%, Mechanical 13%, Electrical 8% and respective remaining estimated useful economic life. From 1st April 2016, the Authority has deemed assets revalued under the 5 year rolling programme to be apportioned between land and buildings.

#### 2. Difference in rate of depreciation compared to the overall asset.

Only those elements that normally depreciate at a significantly different rate from the non land element as a whole, had been identified for componentisation. From 1st April 2016, the whole building element will be depreciated using the building fabric's useful life (unless evidence suggests this is to be amended).

Assets that fall below the de-minimis levels and tests above are disregarded for componentisation on the basis that any adjustment to depreciation charges would not result in a material mis-statement in the accounts.

Professional judgement will be used in establishing materiality levels: the significance of components and apportionment applied, useful lives, depreciation methods and apportioning asset values over recognised components.

Where there is a major refurbishment of an asset, a new valuation will be sought in the year of completion and a reassessment of the useful life.

## *Notes to the Accounts*

### **Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Such receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### **xvii. Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the obligation arises, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provisions carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

#### **Provision for Back Pay Arising from Unequal Pay Claims**

The Authority implemented an equal pay compliant pay and grading structure from 1st April 2014.

In 2019/20 the Council settled £27k of unequal pay claims (including composite payments to HMRC). During 2018/19 the Council settled unequal pay claims totalling £53k (including composite payments to HMRC). These were funded from existing provisions.

#### **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.



## *Notes to the Accounts*

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **xviii. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

### **xix. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **xx. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income.

## Notes to the Accounts

The Authority undertakes an annual review of its de-minimus VAT position under s33 of the VAT Act 1993 as required by HMRC. For the year ended 31st March 2020 the Authority believes that it will be below the de-minimus level in respect of exempt related input tax and hence will be entitled to recovery of input tax in full.

### **xxi. Fair Value Measurement of non-financial assets**

The Authority's accounting policy for fair value measurement of financial assets is set out in note ix. The Authority also measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or takes place either :

- a) in the principal market for the asset, or
- b) in the absence of a principal market, in the most advantageous market for the asset.

The Authority measures the fair value of an asset or using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date,

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly,

Level 3 - unobservable inputs for the asset.

### xxii. Group Accounting Policies

The accounting policies for both City and County of Swansea and City and County of Swansea Group are materially aligned except for the valuation of assets in respect of the Wales National Pool Swansea. The assets of the Wales National Pool Swansea have been valued on a different basis within the company's accounts to that used by the Council for assets of this nature. For the purposes of the Group accounts, the National Pool has been separately valued by the Council in accordance with its own accounting policies. Full disclosure of the different valuations have been included on page 118 to the financial statements.

### 2. Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) has introduced accounting policy changes in relation to the following:

- a) Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- b) Annual Improvements to IFRS Standards 2015-2017 Cycle
- c) Amendments to IAS 19 Employee Benefits: Plan amendment, Curtailment or Settlement.

The adoption of the accounting standards mentioned above may incur amendments that can be made retrospectively by prior period restatement (if possible) or through the adjustment of opening balances as at 1st April 2020.

Opening balances will be adjusted in the Authority and Group Accounts where the changes are material.

Accounting policy changes that are material will require the Authority to publish a third Balance Sheet for the beginning of the earliest comparative period for the Authority and Group Accounts.

### 3. Critical judgements in applying accounting policies

In applying the accounting policies set out in note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:-

- The medium term financial plan approved by the Authority on 5th March 2020 detailed significant ongoing uncertainty over forecast revenue funding shortfalls over the medium term. Indications were that there were a range of scenarios for funding which range from significant real terms reductions in support to broadly maintained real terms support from Central Government from 2021/22 onwards, following the national Spending Review. All spending and funding assumptions were set before the full substantial economic scale of the Covid 19 pandemic was fully apparent. Whilst the Authority will consider future spending plans in line with projected funding announcements there is no indication at present that any of the assets of the Authority may be impaired as a result of a need to close facilities and reduce the level of service provision.
- It remains entirely unclear as to the scale of additional spending, the loss of income, and the funding arrangements for reimbursement in part, or in full, that the Authority faces in responding both locally, with partners, and supporting the national strategic response to the Covid 19 pandemic. The impact was not directly financially material on the 2019-20 accounts but the national lock down arrangements and the prioritisation of the response to Covid 19 may have impaired our ability to fully prepare the accounts to our normally exceptionally high standards in line with accounting standards. Any necessary deviation caused will be disclosed separately throughout these accounts. The impact will be very financially material for the 2020-21 accounts (many tens of million of pounds) but its net impact is less clear: by way of exemplification our increased costs, and lost income, will far exceed available reserves so the presumption is that all, or the very vast bulk of all costs will be reimbursed by partners, Welsh Government or UK government through contributions or grant. The S151 officer triggered the necessary mechanisms for the Emergency Financial Assistance Scheme with Welsh Government in March 2020.
- The Authority implemented an equality compliant pay and grading structure for its employees from 1st April 2014. At the same time, the Authority continues to face a small and dwindling residual number of claims from past and existing employees based on equal pay grounds. In determining the extent of the resources to be set aside the Authority has made assumptions regarding the number of potential claimants and the potential value of their respective claims. The Authority is confident that it has sufficient resource to meet the remaining liabilities arising from equal pay issues.

- The Government has made fundamental changes in respect of the provision of public sector pensions. Changes to employer contribution rates in the Teachers' Pension Scheme rose to 23.68% from September 2019. Welsh Government block grant has helped alleviate this substantial pressure in 2019/20 and 2020/21, with future support dependent upon the Spending Review. A re-modelled Local Government Pension scheme was introduced from 1st April 2014 but there is no indication that the finances of the Authority will be adversely affected by any of the changes. The LGPS triennial valuation in 2019 has confirmed the affordability of future contribution rates. There remains significant uncertainty as to the impact of the UK Government losing the McCloud judgement and a prudent sum has been factored in by the actuary in the valuation results for the pension fund and individual employer contribution rates.
- In line with accounting standards the Authority has made a significant provision in respect of final remedial work and future maintenance/monitoring of its major waste disposal site at Tir John. Assumptions regarding remediation and aftercare costs have been based on legal requirements to monitor the site for a period of 60 years following closure and have been calculated taking into account commitments currently within the Council's Capital Programme.
- The Authority undertook a fundamental review in 2012/13 of its Schools portfolio with a view to both rationalising and significantly improving the quality of school premises available across the City and County (21st Century Schools Programme). In the light of this scheme and the outline timescale for implementation, the useful lives of some school buildings have been re-evaluated and considerably reduced from that previously used. The effect of this is to accelerate residual depreciation affecting both the Comprehensive Income and Expenditure Statement and the net book value as shown on the Balance Sheet. As the Schools Programme has progressed there has been further re-evaluations however there are no adjustments in 2019/20.

#### **4. Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## Notes to the Accounts

The items in the Authority's Balance Sheet as at 31st March 2020 for which there is a significant risk of material adjustment in the forthcoming year are as follows:-

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependant upon assumptions over the specific life expectancy of those assets. As stated in note 3 a review has been undertaken of a significant number of school buildings and in particular the impact of the Council's strategic 21st Century Schools Programme plan for asset replacement.</p> <p>In addition revised useful lives have been applied to a number of assets during 2019/20 in line with professional judgement.</p>	<p>To the extent that useful lives have been determined inappropriately the result could be:-</p> <p>a) In the event of a further reduction in useful lives there would be an additional charge to revenue and a reduction in the carrying value of the asset.</p> <p>b) In the event that useful lives have been underestimated this would result in a substantially reduced revenue charge and an increase in the carrying value of such assets as and when the useful life is deemed to be extended.</p> <p>In any event the effect of depreciation is reversed out of the Comprehensive Income and Expenditure Statement to have nil effect on the Council taxpayer.</p>
Provisions	<p>The Authority has made a significant capital provision for the future remediation and maintenance of major land refuse disposal sites. Uncertainty arises because of the 60 year timescale for liability on this issue.</p>	<p>Any shortfall in future years will have to be funded via the capital programme.</p>

## Notes to the Accounts

Item	Uncertainties	Effect if actual results differ from assumptions
Pension liabilities	<p>The Authority's share of the Local Government pension fund liability as at 31st March 2020 is £840.95m. However, the fund is subject to a triennial valuation which at present reviews the level of employers contributions in order to ensure the long term sustainability of the fund. Changes to the Local Government Pension Scheme introduced on 1st April 2014 were designed to ensure the long term affordability of the scheme.</p>	<p>The Pension Fund is designed to be sustainable over the long term and it is unlikely that there will be any significant short term impact on the Authority's finances arising from any assumptions currently made or decisions that are likely in the coming financial year.</p>
Insurance Provisions and Reserves	<p>The Authority has set aside provisions to meet contractual excess amounts from known and existing insurance claims. In deciding the level of provision to make in respect of ongoing claims, the Authority has taken advice from its legal advisers and/or its contracted loss adjusters. The Authority also maintains an insurance reserve which is used to meet the cost of future unforeseen events based on previous experience.</p>	<p>Should the sums set aside prove insufficient to meet these payments there would be an immediate revenue effect in the year that the available sums were exhausted. Equally, the Authority regularly reviews the level of both provisions and reserves with a view to releasing funds back to revenue if appropriate.</p>

## Notes to the Accounts

Item	Uncertainties	Effect if actual results differ from Assumptions
Fair value measurements	<p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model).</p> <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Authority's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the Authority employs experts to identify the most appropriate valuation techniques to determine fair value (for example for surplus assets and investment properties, the Authority's internal property valuation team).</p> <p>Information about the valuation techniques and inputs used in determining the fair value of the Authority's assets and liabilities is disclosed in notes:</p> <p>14. Non-operational PPE (Surplus Assets) 16. Investment Properties 17. Financial Instruments</p>	<p>The authority uses the discounted cash flow (DCF) model to measure the fair value of some of its financial assets / liabilities.</p> <p>The significant unobservable inputs used in the fair value measurement include assumptions regarding rent levels, vacancy levels (for investment properties), investment yields and discount rates - for some financial assets.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the surplus assets, investment properties and financial assets.</p>



## Notes to the Accounts

### 5. Material items of income and expense

There are no material items of income and expenditure in 2018/19 and 2019/20.

### 6a) Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2019/20						
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net Change for Pension Adjustments (Note 2) £'000	Other Statutory Adjustments (Note 3) £'000	Total Statutory Adjustments £'000	Other (Non-statutory) Adjustments (Note 4) £'000	Total Adjustments £'000
Resources	6,923	2,508	-418	9,013	-21,415	-12,402
People - Social Services	1,774	7,087	107	8,968	0	8,968
People - Education	20,941	2,542	1,076	24,559	53	24,612
Place	28,014	8,191	108	36,313	3,725	40,038
Housing Revenue Account (HRA)	5,664	1,248	-4	6,908	0	6,908
<b>Net Cost of Services</b>	<b>63,316</b>	<b>21,576</b>	<b>869</b>	<b>85,761</b>	<b>-17,637</b>	<b>68,124</b>
Other income and expenditure from the Expenditure and Funding Analysis	-93,251	19,180	49	-74,022	17,637	-56,385
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>-29,935</b>	<b>40,756</b>	<b>918</b>	<b>11,739</b>	<b>0</b>	<b>11,739</b>

## Notes to the Accounts

### Adjustments between Funding and Accounting Basis Restated 2018/19

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note 1) £'000	Net Change for Pension Adjustments (Note 2) £'000	Other Statutory Adjustments (Note 3) £'000	Total Statutory Adjustments £'000	Other (Non-statutory) Adjustments (Note 4) £'000	Total Adjustments £'000
Resources	5,499	34,888	-76	40,311	-20,190	20,121
People - Social Services	2,008	4,153	102	6,263	0	6,263
People - Education	20,652	-386	-225	20,041	54	20,095
Place	18,369	4,832	23	23,224	3,767	26,991
Housing Revenue Account (HRA)	5,938	719	8	6,665	108	6,773
<b>Net Cost of Services</b>	<b>52,466</b>	<b>44,206</b>	<b>-168</b>	<b>96,504</b>	<b>-16,261</b>	<b>80,243</b>
Other income and expenditure from the Expenditure and Funding Analysis	-79,674	17,910	31	-61,733	16,261	-45,472
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>-27,208</b>	<b>62,116</b>	<b>-137</b>	<b>34,771</b>	<b>0</b>	<b>34,771</b>

The service expenditure analysis has been restated for 2018/19 following changes to how the Authority reports internally on budget, budget monitoring and revenue outturn.

### Adjustments for Capital Purposes

1) Adjustments for capital purposes - this column adds in depreciation and impairment and revaluation gains and losses in the service line, and for:

- **Other operating expenditure** - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- **Financing and investment income and expenditure** - the statutory charges for capital financing i.e. Minimum Revenue Provision (MRP) and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- **Taxation and non-specific grant income and expenditure** - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Net Change for Pension Adjustments

2) Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

For **services** this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

### Other Statutory Adjustments

3) Other statutory adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For **Financing and investment income and expenditure** the other statutory adjustments column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## Notes to the Accounts

### Other Non-statutory Adjustments

- 4) Other non-statutory adjustments represent amounts debited/credited to service segments which need to be adjusted against the 'Other income and expenditure from the Expenditure and Funding Analysis' line to comply with the presentational requirements in the Comprehensive Income and Expenditure Statement:

For **Financing and investment income and expenditure** the other non-statutory adjustments column recognises adjustments to service segments e.g. for interest income and expenditure and changes in the fair values of investment properties.

For **Taxation and non-specific grant income and expenditure** the other non-statutory adjustments column recognises adjustments to service segments e.g. for unringfenced government grants.

### 6b) Segmental Income

Income received on a segmental basis is analysed below:

Services	2019/20 Income from Services £'000	Restated 2018/19 Income from Services £'000
Resources	-77,254	-84,301
People - Social Services	-70,001	-62,803
People - Education	-53,861	-49,183
Place	-106,862	-106,396
Housing Revenue Account (HRA)	-67,918	-65,965
<b>Total income analysed on a segmental basis</b>	<b>-375,896</b>	<b>-368,648</b>

The service expenditure analysis has been restated for 2018/19 following changes to how the Authority reports internally on budget, budget monitoring and revenue outturn.

## Notes to the Accounts

### 7. Expenditure and Income Analysed by Nature

The Authority's expenditure and income is analysed as follows:

Expenditure/Income	2018/19 £'000	2019/20 £'000
<b>Expenditure</b>		
Employee expenses	382,868	372,523
Premises	49,468	48,467
Transport	28,420	28,575
Supplies & Services	100,721	104,244
Other Costs	229,272	228,899
Depreciation, amortisation and impairment	47,625	55,625
Interest payments	21,780	22,794
Precepts and levies	35,127	37,716
Gain or loss on the disposal of assets	-456	-1,248
<b>Total expenditure</b>	<b>894,825</b>	<b>897,595</b>
<b>Income</b>		
Fees, charges and other service income	-240,808	-238,804
Interest and investment income	-760	-1,107
Income from council tax	-115,904	-123,652
Government grants and contributions	-510,545	-538,208
<b>Total income</b>	<b>-868,017</b>	<b>-901,771</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>26,808</b>	<b>-4,176</b>

The £238.80m (18/19 £240.81m) of fees, charges and other service income reported in the Comprehensive Income and Expenditure Statement includes £192.325m (18/19 £189.007m) of revenue recognised from contracts with service recipients.

### 8. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

#### General Fund Balance

The General Fund is the statutory fund into which all the receipts of an Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

## Notes to the Accounts

### Housing Revenue Account Balance

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2019/20				
	Usable Reserves			
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Revenue Resources</b>				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
- Pensions costs (transferred to (or from) the Pensions Reserve)	38,549	2,207	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	49	0	0	0
- Holiday pay (transferred to the Accumulated Absences Reserve)	926	-4	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	19,674	-3,546	0	5,588
<b>Total Adjustments to Revenue Resources</b>	<b>59,198</b>	<b>-1,343</b>	<b>0</b>	<b>5,588</b>

## Notes to the Accounts

2019/20				
	Usable Reserves			
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-1,248	0	2,118	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-10,587	-3,038	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-1,719	-29,524	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>-13,554</b>	<b>-32,562</b>	<b>2,118</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>				
Use of Capital Receipts Reserve to finance capital expenditure	0	0	0	0
Cash payments in relation to deferred capital receipts	0	0	-5,055	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>-5,055</b>	<b>0</b>
<b>Total Adjustments</b>	<b>45,644</b>	<b>-33,905</b>	<b>-2,937</b>	<b>5,588</b>

## Notes to the Accounts

2018/19 Comparative Figures				
	Usable Reserves			
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to the Revenue Resources</b>				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
- Pensions costs (transferred to (or from) the Pensions Reserve)	60,501	1,615	0	0
- Financial instruments (transferred to the Financial Instruments Adjustments Account)	31	0	0	0
- Holiday pay (transferred to the Accumulated Absences Reserve)	-123	7	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	20,820	-3,247	0	1,981
<b>Total Adjustments to Revenue Resources</b>	<b>81,229</b>	<b>-1,625</b>	<b>0</b>	<b>1,981</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	-456	0	3,896	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-10,946	-2,992	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-2,939	-27,500	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>-14,341</b>	<b>-30,492</b>	<b>3,896</b>	<b>0</b>



## Notes to the Accounts

2018/19 Comparative Figures				
	Usable Reserves			
	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000
<b>Adjustments to Capital Resources</b>				
Use of Capital Receipts Reserve to finance capital expenditure	0	0	0	0
Cash payments in relation to deferred capital receipts	0	0	-1,040	0
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>0</b>	<b>-1,040</b>	<b>0</b>
<b>Total Adjustments</b>	<b>66,888</b>	<b>-32,117</b>	<b>2,856</b>	<b>1,981</b>

### 9. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

The Covid 19 Pandemic will have a material effect on the Council's financial position throughout 2020/21 and beyond. The immediate direct revenue financial impact on the 2019/20 accounts was minimal and already reflected. In producing the statement of accounts the explicit assumption has been made that the Council remains a going concern, that physical asset closures are temporarily only and that they are not permanently impaired, and that financial assets and liabilities (especially in relation to property and the pension fund) may be subject to wider than usual uncertainty over valuation assumptions, estimate accuracy and formal certification by third parties.

## Notes to the Accounts

### 10. Movements In Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2019/20.

	Balance at 1st April 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 31st March 2019 £'000	Transfers Out 2019/20 £'000	Transfers In 2019/20 £'000	Balance at 31st March 2020 £'000
<b>General Fund:</b>							
Balances held by schools under the scheme of delegation	7,101	-1	1,500	8,600	-996	125	7,729
Primary School Sickness Scheme Reserve	158	-158	180	180	-180	93	93
Information technology reserves	1,483	-989	900	1,394	0	248	1,642
Development reserves	4,670	-293	180	4,557	-17	81	4,621
Insurance reserves	16,801	-14	608	17,395	-1,081	18	16,332
Restructuring Costs reserve	7,678	-4,678	0	3,000	0	0	3,000
Other earmarked revenue reserves	12,371	-2,584	1,830	11,617	-970	11,903	22,550
Revenue reserve earmarked to fund future capital expenditure	8,820	0	12,107	20,927	0	7,506	28,433
<b>Total</b>	<b>59,082</b>	<b>-8,717</b>	<b>17,305</b>	<b>67,670</b>	<b>-3,244</b>	<b>19,974</b>	<b>84,400</b>
<b>HRA:</b>							
Housing Revenue Account	6,781	-625	0	6,156	-815	0	5,341
<b>Total</b>	<b>6,781</b>	<b>-625</b>	<b>0</b>	<b>6,156</b>	<b>-815</b>	<b>0</b>	<b>5,341</b>

## Notes to the Accounts

### 11. Other Operating Expenditure

2018/19 £'000		2019/20 £'000
1,403	Community Council precepts	1,464
21,008	South Wales Police Authority precept	23,195
12,716	Levies and Contributions	13,057
-456	Gains/losses on the disposals of non-current assets	-1,248
<b>34,671</b>		<b>36,468</b>

### 12. Financing and Investment Income and Expenditure

2018/19				2019/20		
Gross Exp £'000	Gross Income £'000	Net Exp £'000		Gross Exp £'000	Gross Income £'000	Net Exp £'000
21,780	0	21,780	Interest payable and similar charges	22,794	0	22,794
46,560	-28,650	17,910	Net interest on the net defined benefit liability (asset)	48,000	-28,820	19,180
0	-760	-760	Interest receivable and similar income	0	-1,107	-1,107
3,920	-9,384	-5,464	Income and expenditure in relation to investment properties and changes in their fair value	4,770	-6,686	-1,916
2,248	0	2,248	Impairment losses	4,359	0	4,359
<b>74,508</b>	<b>-38,794</b>	<b>35,714</b>		<b>79,923</b>	<b>-36,613</b>	<b>43,310</b>

The income generated from investment properties during the year amounted to £4.767m (2018/19 £4.720m) and changes to the fair value of investment properties amounted to -£1.953m (2018/19 £1.558m).

### 13. Taxation and Non Specific Grant Income

2018/19 £'000		2019/20 £'000
-115,904	Council tax income (note 36)	-123,652
-79,141	Non domestic rates	-80,013
-239,946	Non-ringfenced government grants	-242,197
-33,532	Capital grants and contributions	-47,876
-265	Other grants	-1,943
<b>-468,788</b>		<b>-495,681</b>

## Notes to the Accounts

### 14. Property, Plant and Equipment

Movements in 2019/20:								
	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or valuation</b>								
At 1 April 2019	390,620	666,171	24,675	399,115	15,989	83,866	21,393	1,601,829
additions (Cap Exp)	48,091	9,848	2,220	8,366	0	1,092	47,090	116,707
additions (Other)	18	0	2,828	0	0	1,941	0	4,787
revaluation increases / (decreases) recognised in the Revaluation Reserve	-7,458	-7,493	0	0	0	471	0	-14,480
revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	284	-1,493	0	0	0	-3,403	0	-4,612
impairment losses recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	-1,232	-26	-113	0	0	0	-1,371
derecognition - disposals	0	-564	-62	0	0	-237	0	-863
assets reclassified to/from Held for Sale	0	0	0	0	0	-300	0	-300

## Notes to the Accounts

### Movements in 2019/20 (continued):

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
assets under construction reclassified	0	882	7	16	0	5	-1,829	-919
other reclassifications	-223	-6,293	0	0	0	882	5,634	0
<b>At 31 March 2020</b>	<b>431,332</b>	<b>659,826</b>	<b>29,642</b>	<b>407,384</b>	<b>15,989</b>	<b>84,317</b>	<b>72,288</b>	<b>1,700,778</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2019	-16,703	-20,886	-17,364	-158,349	-6,606	-1,383	0	-221,291
depreciation charge	-5,819	-26,916	-1,981	-11,706	-388	-1,058	0	-47,868
depreciation written out to the Revaluation Reserve	22,525	2,156	0	0	0	547	0	25,228
depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	81	0	81
impairment losses recognised in the Revaluation Reserve	0	0	0	0	0	0	0	0
impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
derecognition - disposals	0	520	62	0	0	11	0	593
other movements in depreciation and impairment	-3	0	0	0	0	19	-16	0
<b>At 31 March 2020</b>	<b>0</b>	<b>-45,126</b>	<b>-19,283</b>	<b>-170,055</b>	<b>-6,994</b>	<b>-1,783</b>	<b>-16</b>	<b>-243,257</b>
<b>Net Book Value</b>								
At 1 April 2019	373,917	645,285	7,311	240,766	9,383	82,483	21,393	1,380,538
At 31 March 2020	431,332	614,700	10,359	237,329	8,995	82,534	72,272	1,457,521

## Notes to the Accounts

### Comparative Movements in 2018/19:

	Council Dwellings £'000	Other Land and Buildings £'000	Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or valuation</b>								
At 1 April 2018	389,718	657,942	37,962	389,664	15,989	87,592	29,905	1,608,772
additions(Cap Exp)	42,535	9,234	1,988	11,882	0	213	15,505	81,357
additions(Other)	0	0	511	0	0	100	0	611
revaluation increases / (decreases) recognised in the Revaluation Reserve	-54,726	-15,525	-18	0	0	809	0	-69,460
revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	0	10,077	-14,196	-2,445	0	-1,822	0	-8,386
impairment losses recognised in the Revaluation Reserve	0	0	0	0	0	-737	0	-737
impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	-1,488	-52	0	0	-1,043	0	-2,583
derecognition - Disposals	0	0	-1,584	0	0	-1,345	0	-2,929
assets reclassified to/from Held for Sale	0	-4,200	0	0	0	-580	0	-4,780
assets under construction reclassified	13,014	10,889	64	14	0	0	-24,017	-36
other reclassifications	79	-758	0	0	0	679	0	0
<b>At 31 March 2019</b>	<b>390,620</b>	<b>666,171</b>	<b>24,675</b>	<b>399,115</b>	<b>15,989</b>	<b>83,866</b>	<b>21,393</b>	<b>1,601,829</b>

## Notes to the Accounts

### Comparative Movements in 2018/19 (continued):

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2018	-11,541	-26,659	-30,057	-150,145	-6,218	-500	0	-225,120
depreciation charge	-5,755	-23,880	-2,378	-11,173	-388	-1,451	0	-45,025
depreciation written out to the Revaluation Reserve	593	29,619	15	0	0	328	0	30,555
depreciation written out to the Surplus/Deficit on the Provision of Services	0	34	13,557	2,969	0	79	0	16,639
impairment losses recognised in the Revaluation Reserve	0	0	0	0	0	93	0	93
impairment losses recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	68	0	68
derecognition - disposals	0	0	1,499	0	0	0	0	1,499
<b>At 31 March 2019</b>	<b>-16,703</b>	<b>-20,886</b>	<b>-17,364</b>	<b>-158,349</b>	<b>-6,606</b>	<b>-1,383</b>	<b>0</b>	<b>-221,291</b>
<b>Net Book Value</b>								
At 1 April 2018	378,177	631,283	7,905	239,519	9,771	87,092	29,905	1,383,652
At 31 March 2019	373,917	645,285	7,311	240,766	9,383	82,483	21,393	1,380,538

## Notes to the Accounts

### Capital Commitments

As at 31st March 2020 the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 and future years budgeted to cost £99.206m. Similar commitments at 31st March 2019 were £12.54m.

The major commitments are:

	£'000
Education other than at School new build premises	4,170
Gorseinon new build primary School	2,153
HRA Environmental Facilities schemes	2,672
HRA Enveloping schemes	1,348
HRA More Homes scheme	965
Swansea Central Phase 1 - construction phase	83,123
Kingsway Digital Village	987
Kingsway Infrastructure works	1,423
Leisure Centres	884
Adapted minibuses	490
Oracle Fusion	665
Palace Theatre design phase	326

### Revaluations

The Authority carries out a rolling programme that ensures that all property, plant and equipment required to be measured at current value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The valuation dates for 2019/20 were 30th June 2019, 30th September 2019, 31st December 2019 and 31st March 2020.

The Authority has been following a 4 year rolling programme since 2016/17 and has not deviated from this which will ensure that all assets have been revalued in that time.



## Notes to the Accounts

The main asset groups revalued during 2019/20 and the remaining groups to be revalued under the current rolling programme are as follows:

Asset Category	2017/18	2018/19	2019/20
Other Land and Buildings	Schools, Community Centres, Changing Rooms, Pavilions, Homes for Older Persons and Car Parks	Offices, Libraries, Industrial (e.g. Depots), Civic Amenity Sites and Leisure Facilities	-
Surplus Assets	City Centre, Residential shared % and Agricultural	Industrial Estates and Residential Freehold	-
Council Dwellings	-	-	Council Houses / Flats and Sheltered Housing Complexes

Assets transferred from Assets Under Construction are also revalued each year.

In 2020/21, the rolling programme will be revised.

## Notes to the Accounts

### Non-operational Property, Plant and Equipment (Surplus Assets)

#### Fair Value Hierarchy

Details of the Authority's surplus assets and information about fair value hierarchy as at 31 March 2020 and 31 March 2019 are as follows:

	Quoted prices in active markets for identical assets	Other significant observable inputs	Significant unobservable inputs	Fair Value as at 31st March 2020	Fair value reclassified from Surplus prior to 31st March 2020	Fair Value reclassified to Surplus Assets prior to 31st March 2020			Fair value adjusted prior to IFRS 13 as at 31st March 2020	Fair value adjusted prior to IFRS 13 as at 31st March 2020 - Reclassified from Surplus Assets prior to 31st March 2020	Total Surplus Assets Value as at 31st March 2020
	(Level 1)	(Level 2)	(Level 3)			(Level 1)	(Level 2)	(Level 3)			
Recurring fair value measurements using:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Agricultural	0	0	537	537	0	0	0	0	0	0	537
City Centre	0	5,562	13,911	19,473	0	0	0	0	0	0	19,473
Industrial Units	0	0	3,190	3,190	0	0	0	0	0	0	3,190
Land only	0	1,237	41,384	42,621	0	0	0	0	0	0	42,621
High Value	0	0	260	260	0	0	0	0	0	0	260
Residential Freeholds (LRA)	0	205	0	205	0	0	0	0	0	0	205
Residential shared %	0	0	913	913	0	0	0	0	0	0	913
Miscellaneous	0	5,121	11,997	17,118	0	0	0	0	0	0	17,118
<b>Total</b>	<b>0</b>	<b>12,125</b>	<b>72,192</b>	<b>84,317</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>84,317</b>

## Notes to the Accounts

### 2018/19 Comparative Figures

	Quoted prices in active markets for identical assets	Other significant observable inputs	Significant unobservable inputs	Fair Value as at 31st March 2019	Fair value reclassified from Surplus prior to 31st March 2019	Fair Value reclassified to Surplus Assets prior to 31st March 2019			Fair value adjusted prior to IFRS 13 as at 31st March 2019	Fair value adjusted prior to IFRS 13 as at 31st March 2019 - Reclassified from Surplus Assets prior to 31st March 2019	Total Surplus Assets Value as at 31st March 2019
	(Level 1)	(Level 2)	(Level 3)			(Level 1)	(Level 2)	(Level 3)			
Recurring fair value measurements using:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Agricultural	0	0	537	537	0	0	0	0	0	0	537
City Centre	0	5,381	11,474	16,855	0	0	0	0	0	0	16,855
Industrial Units	0	0	3,485	3,485	0	0	0	0	0	0	3,485
Land only	0	1,236	44,476	45,712	-600	0	0	207	0	0	45,319
High Value	0	0	260	260	0	0	0	0	0	0	260
Residential Freeholds (LRA)	0	236	0	236	0	0	0	0	0	0	236
Residential shared %	0	0	1,012	1,012	-47	0	0	0	0	0	965
Miscellaneous	0	4,551	11,038	15,589	0	0	0	606	14	0	16,209
<b>Total</b>	<b>0</b>	<b>11,404</b>	<b>72,282</b>	<b>83,686</b>	<b>-647</b>	<b>0</b>	<b>0</b>	<b>813</b>	<b>14</b>	<b>0</b>	<b>83,866</b>

## Notes to the Accounts

### Valuation Techniques used to Determine Level 2 and 3 Fair Values for Surplus Assets

#### Significant Observable Inputs - Level 2

The fair value for some properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local Authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

#### Significant Unobservable Inputs - Level 3

The surplus land located in the local authority are measured using a value per acre of land derived from sale transactions of comparable parcels of land in similar locations. The approach has been developed using the Authority's own data requiring it to factor in assumptions such as the location, date of sale and size of land sold.

The Authority's surplus land is therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

#### Highest and Best Use of Surplus Assets

In estimating the fair value of the Authority's surplus assets, the highest and best use of the properties is sometimes their current use and sometimes, as in the case of vacant land and buildings, is the value assuming planning permission would be granted for development / or refurbishment.

#### Recognition of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

Agricultural categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	537	537
Transfers In - Fair Value adjustment prior to IFRS13	0	0
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	0	0
<b>Closing Balance</b>	<b>537</b>	<b>537</b>

## Notes to the Accounts

City Centre categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	11,474	12,555
Transfers In - Fair Value adjustment prior to IFRS13	0	0
Transfers into Level 3	0	452
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	157	-792
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-471	-1,115
Transfers to/from Property, Plant and Equipment	535	0
Additions	2,216	374
<b>Closing Balance</b>	<b>13,911</b>	<b>11,474</b>

Industrial Units categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	3,485	2,152
Transfers into Level 3	0	154
Transfers In - Fair Value adjustment prior to IFRS13	0	0
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	-44	629
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-251	0
Transfers to/from Property, Plant and Equipment	0	0
Additions	0	550
<b>Closing Balance</b>	<b>3,190</b>	<b>3,485</b>

Land Only categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	44,083	45,226
Transfers In - Fair Value adjustment prior to IFRS13	0	0
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	58	-105
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-2,427	-1,462
Transfers to/from Property, Plant and Equipment	-300	-393
Additions	95	1,962
Disposals	-125	-1,145
<b>Closing Balance</b>	<b>41,384</b>	<b>44,083</b>

## Notes to the Accounts

High Value categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	260	260
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	0	0
Transfers to/from Property, Plant and Equipment	0	0
<b>Closing Balance</b>	<b>260</b>	<b>260</b>

Residential shared % categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	965	1,021
Transfers In - Fair Value adjustment prior to IFRS13	0	0
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	0	-9
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	0	0
Transfers to/from Property, Plant and Equipment	-52	-47
<b>Closing Balance</b>	<b>913</b>	<b>965</b>

Miscellaneous categorised with Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	11,644	13,712
Transfers In - Fair Value adjustment prior to IFRS13	14	0
Transfers into Level 3	0	184
Total gains [or losses] for the period included in Revaluation Reserves resulting from changes in the fair value	20	6
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	0	-78
Transfers to/from Property, Plant and Equipment	400	606
Additions	0	0
Disposals	-81	-2,786
<b>Closing Balance</b>	<b>11,997</b>	<b>11,644</b>

Any gains or losses arising from changes in the fair value of Surplus assets included in the Comprehensive Income and Expenditure Statement are recognised in Surplus or Deficit on the Provision of Services.

## Notes to the Accounts

### Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs - Level 3

	As at 31/03/2020 £'000	Valuation technique used to measure fair value	Unobservable inputs	Range (weighted average used)	Sensitivity
Agricultural	537	Market Approach	Land Value per acre	£2,000 - £5,000 per acre	Significant changes in land value and yield will result in significantly lower or higher fair value
City Centre	13,911	Market Approach	Rents	Zone A £150 to £1,000 per sq m	Significant changes in rent and yields will result in significantly lower or higher fair value
			Yield	4 - 8%	
Industrial Units	3,190	Market Approach	Yield	6 -12%	Significant changes in rent and yields will result in significantly lower or higher fair value
			Rents	Various	
Land Only	41,384	Market Approach	Land Value per acre	£100,000 to £600,000 per acre	Significant changes in rent and yields will result in significantly lower or higher fair value
			Yield	Various	
High Value	260	Market Approach	Rents	Various	Significant changes in rent and yields will result in significantly lower or higher fair value
			Yield	Various	
Residential shared %	913	Market Approach	Capital Value	£115,000 - £135,000	Significant changes in capital value will result in a change to the fair value
Miscellaneous	11,997	Market Approach	Yield	5 - 12%	Significant changes in rent and yields will result in significantly lower or higher fair value
			Rents	Various	
<b>TOTAL</b>	<b>72,192</b>				

## Notes to the Accounts

### Valuation Process for Surplus Assets

The fair value of the Authority's surplus assets is measured under a rolling programme. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The Authority's valuation experts works closely with finance officers reporting directly to the Chief Finance Officer on a regular basis regarding all valuation matters.

### 15. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority.

	Heritage Land, Buildings & Infrastructure £'000	Art & Museums £'000	Furniture, Fixtures & Fittings £'000	Other £'000	Total Assets £'000
<b>Cost or Valuation</b>					
At 1st April 2018	4,137	21,206	2,955	1,578	29,876
Additions (Cap Exp)	103	13	0	13	129
Additions (Other)	451	16	0	0	467
Revaluations recognised in the Revaluation Reserve	0	-6	0	0	-6
Revaluations recognised in the Surplus/Deficit on the Provision of Services	0	-17	0	-30	-47
Impairments recognised in the Surplus/Deficit on the Provision of Services	-139	0	0	-13	-152
Reclassifications	36	0	0	0	36
<b>At 31st March 2019</b>	<b>4,588</b>	<b>21,212</b>	<b>2,955</b>	<b>1,548</b>	<b>30,303</b>
<b>Cost or Valuation</b>					
At 1st April 2019	4,588	21,212	2,955	1,548	30,303
Additions (Cap Exp)	1,055	0	0	4	1,059
Additions (Other)	0	680	0	226	906
Revaluations recognised in the Revaluation Reserve	0	-47	0	0	-47
Revaluations recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Impairments recognised in the Surplus/Deficit on the Provision of Services	-1,361	0	0	-4	-1,365
Reclassifications	877	0	0	0	877
<b>At 31st March 2020</b>	<b>5,159</b>	<b>21,845</b>	<b>2,955</b>	<b>1,774</b>	<b>31,733</b>



## Notes to the Accounts

### Heritage Land, Buildings and Infrastructure

The Authority's heritage land, buildings and infrastructure assets are reported in the Balance Sheet at historic cost (e.g. Oystermouth Castle) and at valuation (e.g. Swiss Cottage, Singleton Park or Morfa Bridge - off Normandy Road, Landore). Valuations have been carried out internally by the Authority's internal RICS valuer and internal highways engineer.

### Art & Museums

The Authority's art and museums assets are mainly included at insurance valuation by external valuers. This category includes the Brangwyn Hall panels and other paintings also various exhibitions held by the Authority.

### Other

Most of the remaining assets included are reported in the Balance Sheet at insurance valuation (e.g. Brangwyn Hall Organ). However, there are some held at historic cost (e.g. Cenotaph) and others valued internally by the Authority's internal County Archivist (e.g. West Glamorgan owned collections).

## 16. Investment Properties

The following items of income and expenses have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2018/19 £'000		2019/20 £'000
4,720	Rental income from investment property	4,767
-814	Direct operating expenses arising from investment property	-898
<b>3,906</b>	<b>Net gain</b>	<b>3,869</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

2018/19 £'000		2019/20 £'000
<b>47,958</b>	<b>Balance at start of the year</b>	<b>57,758</b>
	Additions:	
8,242	- Construction (Current)	0
1,558	Net gains/losses from fair value adjustments	-1,953
<b>57,758</b>	<b>Balance at end of the year</b>	<b>55,805</b>

## Notes to the Accounts

### Fair Value measurement of investment property - Fair Value Hierarchy

Details of the Authority's investment properties and information about fair value hierarchy as at 31 March 2020 and 31 March 2019 are as follows:

2019/20												
	Quoted prices in active markets for identical assets	Other significant observable inputs	Significant unobservable inputs	Fair value as at 31st March	Fair value reclassified from Investment Properties prior to 31st March	Fair value reclassified to Investment Properties prior to 31st March	Fair value adjusted prior to IFRS13 as at 31st March	Fair value adjusted prior to IFRS13 - Reclassified from Investment Properties prior to 31st March	Total Investment Property Value as at 31st March			
Recurring fair value measurements using:	(Level 1)	(Level 2)	(Level 3)	Fair value as at 31st March	(Level 2)	(Level 3)	(Level 1)	(Level 2)	(Level 3)	Fair value adjusted prior to IFRS13 as at 31st March	Fair value adjusted prior to IFRS13 - Reclassified from Investment Properties prior to 31st March	Total Investment Property Value as at 31st March
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Enterprise Park	0	10,879	9,289	20,168	0	0	0	0	0	0	0	20,168
High Value	0	2,350	33,287	35,637	0	0	0	0	0	0	0	35,637
<b>Total</b>	<b>0</b>	<b>13,229</b>	<b>42,576</b>	<b>55,805</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>55,805</b>

2018/19 Comparative Figures												
Recurring fair value measurements using:	(Level 1)	(Level 2)	(Level 3)		(Level 2)	(Level 3)	(Level 1)	(Level 2)	(Level 3)			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Enterprise Park	0	10,596	8,504	19,100	0	0	0	0	0	0	0	19,100
High Value	0	2,360	36,298	38,658	0	0	0	0	0	0	0	38,658
<b>Total</b>	<b>0</b>	<b>12,956</b>	<b>44,802</b>	<b>57,758</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>57,758</b>

## Notes to the Accounts

### Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

#### Significant Observable Inputs - Level 2

The fair value of some of the commercial portfolio has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local Authority area. Sometimes market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

#### Significant Unobservable Inputs - Level 3

Some of the Authority's commercial portfolio is categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

#### Highest and Best Use of Surplus Assets

In estimating the fair value of some of the Authority's investment properties, the highest and best use of the properties is their current use. In some cases, alternative uses have been assumed (subject to planning permission being granted).

Enterprise Park categorised within Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	8,504	8,528
Transfer into Level 3	0	0
Transfers In - Fair Value Adjusted prior to IFRS13	0	0
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	785	-24
Transfers to/from Property, Plant and Equipment	0	0
<b>Closing Balance</b>	<b>9,289</b>	<b>8,504</b>

## Notes to the Accounts

High Value categorised within Level 3	31 March 2020 £'000	31 March 2019 £'000
Opening balance	36,298	25,701
Transfer into Level 3	0	1,665
Total gains [or losses] for the period included in Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-3,011	1,634
Transfers to/from Property, Plant and Equipment	0	0
Addition	0	7,298
<b>Closing Balance</b>	<b>33,287</b>	<b>36,298</b>

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure line.

### Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs - Level 3

	As at 31/03/2020 £'000	Valuation technique used to measure fair value	Unobservable inputs	Range (weighted average used)	Sensitivity
Enterprise Park	9,289	Market Approach	Yield	8 - 12%	Significant changes in rents and yields will result in significantly lower or higher fair value
			Rent	Various	
High Value	33,287	Market Approach	Yield	Various	Significant changes in rents and yields will result in significantly lower or higher fair value
			Rent	Various	
<b>TOTAL</b>	<b>42,576</b>				

## Notes to the Accounts

### 17. Financial Instruments

#### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

#### Financial Assets:

	Non-Current				Current				Totals	
	Investments		Debtors		Investments		Debtors		31st March 2020	31st March 2019
	31st March 2020	31st March 2019	31st March 2020	31st March 2019	31st March 2020	31st March 2019	31st March 2020	31st March 2019		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair value through profit or loss	0	0	0	0	0	0	0	0	0	0
Amortised cost	24	24	4,067	3,724	67,603	121,772	79,999	47,958	151,693	173,478
Fair value through other comprehensive income - designated equity instruments	0	0	0	0	0	0	0	0	0	0
Fair value through other comprehensive income - other	90	95	0	0	0	0	0	0	90	95
<b>Total financial assets</b>	<b>114</b>	<b>119</b>	<b>4,067</b>	<b>3,724</b>	<b>67,603</b>	<b>121,772</b>	<b>79,999</b>	<b>47,958</b>	<b>151,783</b>	<b>173,573</b>
Non-financial assets	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>114</b>	<b>119</b>	<b>4,067</b>	<b>3,724</b>	<b>67,603</b>	<b>121,772</b>	<b>79,999</b>	<b>47,958</b>	<b>151,783</b>	<b>173,573</b>

#### Financial Liabilities:

	Non-Current				Current				Totals	
	Borrowings		Creditors		Borrowings		Creditors		31st March 2020	31st March 2019
	31st March 2020	31st March 2019	31st March 2020	31st March 2019	31st March 2020	31st March 2019	31st March 2020	31st March 2019		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair value through profit or loss	0	0	0	0	0	0	0	0	0	0
Amortised cost	552,393	554,373	2,602	2,516	10,891	6,870	51,219	48,430	617,105	612,189
<b>Total financial liabilities</b>	<b>552,393</b>	<b>554,373</b>	<b>2,602</b>	<b>2,516</b>	<b>10,891</b>	<b>6,870</b>	<b>51,219</b>	<b>48,430</b>	<b>617,105</b>	<b>612,189</b>
Non-financial liabilities	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>552,393</b>	<b>554,373</b>	<b>2,602</b>	<b>2,516</b>	<b>10,891</b>	<b>6,870</b>	<b>51,219</b>	<b>48,430</b>	<b>617,105</b>	<b>612,189</b>

## Notes to the Accounts

### Income, Expense, Gains and Losses

	2019/20		2018/19	
	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£'000	£'000	£'000	£'000
<b>Net gains/losses on:</b>				
Financial assets measured at fair value through profit or loss	0	0	0	0
Financial assets measured at amortised cost	0	0	0	0
Investments in equity instruments designated at fair value through other comprehensive income	0	0	0	0
Financial assets measured at fair value through other comprehensive income	0	0	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Financial liabilities measured at amortised cost	0	0	0	0
<b>Total net gains/losses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Interest revenue:</b>				
Financial assets measured at amortised cost	1,151	0	846	0
Other financial assets measured at fair value through other comprehensive income	0	0	0	0
<b>Total interest revenue</b>	<b>1,151</b>	<b>0</b>	<b>846</b>	<b>0</b>
<b>Interest expense</b>	<b>-22,699</b>	<b>0</b>	<b>-21,621</b>	<b>0</b>
<b>Fee income:</b>				
Financial assets or financial liabilities that are not at fair value through profit or loss	0	0	0	0
Trust and other fiduciary activities	0	0	0	0
<b>Total fee income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fee expense:</b>				
Financial assets or financial liabilities that are not at fair value through profit or loss	0	0	0	0
Trust and other fiduciary activities	0	0	0	0
<b>Total fee expense</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Notes to the Accounts

### Fair Values of Assets and Liabilities that are not measured at Fair Value

Except for the financial assets carried at fair value, all other financial liabilities and financial assets held by the authority are carried in the Balance Sheet at amortised cost. We have calculated fair values for all instruments in the portfolio, but only disclose those which are materially different from the carrying value. The fair values calculated are as follows:

#### Financial Liabilities

	2019/20		2018/19	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£'000	£'000	£'000	£'000
Financial liabilities held at amortised cost	542,082	744,681	542,083	774,352
Long-term creditors	51,219	51,219	48,430	48,430
<b>Total</b>	<b>593,301</b>	<b>795,900</b>	<b>590,513</b>	<b>822,782</b>

The fair value of borrowings is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

#### Financial Assets

	2019/20		2018/19	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£'000	£'000	£'000	£'000
Financial assets held at amortised cost	67,603	67,603	121,773	121,773
Long-term debtors	84,066	84,066	51,682	51,682
<b>Total</b>	<b>151,669</b>	<b>151,669</b>	<b>173,455</b>	<b>173,455</b>

The fair value of the financial assets is equivalent to the carrying amount because the authority's portfolio of investments comprises of short dated investments whose fair value is equivalent to the carrying value as at 31st March 2020.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

## Notes to the Accounts

Fair Value hierarchy for financial assets and financial liabilities that are not measured at fair value

	31 March 2020			
	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
<b>Recurring fair value measurements using:</b>				
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Loans/borrowings	0	0	0	0
Long-term creditors	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financial assets</b>				
<i>Financial assets held at amortised cost:</i>				
Other financial assets	0	11,708	0	11,708
<b>Total</b>	<b>0</b>	<b>11,708</b>	<b>0</b>	<b>11,708</b>

	31 March 2019 Comparative Year			
	Quoted prices in active markets for identical assets (Level 1) £'000	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
<b>Recurring fair value measurements using:</b>				
<b>Financial liabilities</b>				
<i>Financial liabilities held at amortised cost:</i>				
Loans/borrowings	0	0	0	0
Long-term creditors	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financial assets</b>				
<i>Financial assets held at amortised cost:</i>				
Other financial assets	0	1,770	0	1,770
<b>Total</b>	<b>0</b>	<b>1,770</b>	<b>0</b>	<b>1,770</b>



## Notes to the Accounts

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the previous table have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Financial Assets	Financial Liabilities
- no early repayment or impairment is recognised	- no early repayment is recognised
- estimated ranges of interest rates at 31 March 2020 of 0.65% to 1.50% for loans receivable, based on new lending rates for equivalent loans at that date	- estimated ranges of interest rates at 31 March 2020 of 2.12% to 2.85% for loans payable based on new lending rates for equivalent loans at that date
- the fair value of trade and other receivables is taken to be the invoiced or billed amount	- the fair value of WG loans are taken at nominal value

## Notes to the Accounts

### 18. Short Term Debtors

Restated 31st March 2019 £'000		31st March 2020 £'000
28,689	Central government bodies	50,141
1,727	Other local authorities	1,227
8,072	NHS bodies	13,046
3	Public corporations and trading funds	1
23,499	Other entities and individuals	26,234
2,267	Payments In Advance	9,718
-15,045	Impairment losses	-18,397
<b>49,212</b>	<b>Total</b>	<b>81,970</b>

The short term debtors figure of £81.970m (18/19 £49.212m) includes £9.868m (18/19 £5.750m) for the impairment losses recognised on receivables arising from contracts with service recipients.

The 2018/19 short term debtors have been restated to provide a detailed analysis of short term debtors across public sector organisations.

### 19. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

31st March 2019 £'000		31st March 2020 £'000
-785	Cash held by the Authority	-217
48,022	Bank current accounts	57,150
<b>47,237</b>	<b>Total Cash and Cash Equivalents</b>	<b>56,933</b>

### 20. Short Term Creditors

Restated 31st March 2019 £'000		31st March 2020 £'000
10,327	Central government bodies	7,847
2,130	Other local authorities	3,078
791	NHS bodies	1,331
2	Public corporations and trading funds	0
35,180	Other entities and individuals	38,963
7,206	Receipts In Advance	9,352
<b>55,636</b>	<b>Total</b>	<b>60,571</b>

The 2018/19 short term creditors have been restated to provide a detailed analysis of short term creditors across public sector organisations.

## Notes to the Accounts

### 21. Provisions

#### Short - term

	Outstanding Legal Cases £'000	Injury and Damage Compensation Claims £'000	Employee Benefits £'000	Other Provisions £'000	Total £'000
<b>Balance at 1 April 2019</b>	30	1,697	0	536	2,263
Additional provisions made in 2019/20	0	959	0	938	1,897
Amounts used in 2019/20	0	-1,374	0	0	-1,374
Unused amounts reversed in 2019/20	-30	-1,566	0	-303	-1,899
Transfer from long term to short term	0	1,804	0	0	1,804
<b>Balance at 31 March 2020</b>	<b>0</b>	<b>1,520</b>	<b>0</b>	<b>1,171</b>	<b>2,691</b>

#### Long - term

	Outstanding Legal Cases £'000	Injury and Damage Compensation Claims £'000	Employee Benefits £'000	Other Provisions £'000	Total £'000
<b>Balance at 1 April 2019</b>	0	3,503	50	6,149	9,702
Additional provisions made in 2019/20	0	1,848	99	600	2,547
Amounts used in 2019/20	0	0	0	-340	-340
Unused amounts reversed in 2019/20	0	0	0	0	0
Transfer from long term to short term	0	-1,804	0	0	-1,804
<b>Balance at 31 March 2020</b>	<b>0</b>	<b>3,547</b>	<b>149</b>	<b>6,409</b>	<b>10,105</b>

#### Outstanding Legal Cases

The Authority has incurred legal costs in defending its position across a number of issues and will seek to defray those costs against third parties if appropriate. To the extent that this is considered unlikely this provision is intended to quantify and provide for the expected extent of irrecoverable costs.

## Notes to the Accounts

### Injury and Damage Compensation Claims

This is in respect of excess charges and uninsured costs on all known outstanding insurance claims made against the Authority in respect of all injury and compensation claims outstanding at the Balance Sheet date.

### Employee Benefits

This is in respect of the potential costs of settling all reasonably expected equal pay compensation claims as they exist at the Balance Sheet date on the basis that following the implementation of an equal pay compliant pay structure a significant element of the potential liability will be settled by way of compensation payment rather than as backpay. It is envisaged the majority of this will be settled within 1 year.

### Other Provisions

These amounts are to cover a variety of potential liabilities including land compensation claims following compulsory purchase, potential sums arising out of grant reclaims and obsolete stock. Other provisions include a significant capital provision (£4.452m) for the future remediation and maintenance of major land refuse disposal sites. Of the £4.452m, £1.669m is likely to be settled within the next ten years and the remaining £2.783m over the next forty years.

### 22. Unusable Reserves

Authority	Group		Authority	Group
31st March	31st March		31st March	31st March
2019	2019		2020	2020
£'000	£'000		£'000	£'000
379,632	389,964	Revaluation Reserve	373,016	385,505
589,739	589,739	Capital Adjustment Account	635,519	635,519
-2,252	-2,252	Financial Instruments Adjustment Account	-2,303	-2,303
-823,404	-823,404	Pensions Reserve	-840,950	-840,950
-8,578	-8,578	Accumulated Absences Account	-9,500	-9,500
<b>135,137</b>	<b>145,469</b>	<b>Total Unusable Reserves</b>	<b>155,782</b>	<b>168,271</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

## Notes to the Accounts

Authority	Group		Authority	Group
2018/19	2018/19		2019/20	2019/20
£'000	£'000		£'000	£'000
<b>429,264</b>	<b>438,751</b>	<b>Balance at 1st April</b>	<b>379,632</b>	<b>389,964</b>
		Upward revaluation of assets -		
601	1,446	Cost	45,213	47,370
33,222	33,222	Depreciation	23,525	23,525
		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services -		
-70,253	-70,253	Cost	-58,710	-58,710
5,257	5,257	Depreciation	1,799	1,799
<b>-31,173</b>	<b>-30,328</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>11,827</b>	<b>13,984</b>
-16,227	-16,227	Difference between fair value depreciation and historical cost depreciation	-18,249	-18,249
-2,232	-2,232	Accumulated gains on assets sold or scrapped	-194	-194
<b>-18,459</b>	<b>-18,459</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>-18,443</b>	<b>-18,443</b>
<b>379,632</b>	<b>389,964</b>	<b>Balance at 31st March</b>	<b>373,016</b>	<b>385,505</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or subsequent costs of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

## Notes to the Accounts

2018/19 £'000		2019/20 £'000
<b>548,857</b>	<b>Balance at 1st April</b>	<b>589,739</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
-47,692	Charges for depreciation and impairment of non-current assets	-50,604
243	Revaluation losses on Property, Plant and Equipment	-4,940
-175	Amortisation of intangible assets	-81
-6,299	Revenue expenditure funded from capital under statute (REFCUS)	-8,169
-3,440	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-870
<b>-57,363</b>		<b>-64,664</b>
18,459	Adjusting amounts written out of the Revaluation Reserve	18,443
<b>-38,904</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>-46,221</b>
	<b>Capital financing applied in the year:</b>	
1,040	Use of the Capital Receipts Reserve to finance new capital expenditure	5,055
32,811	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	44,031
13,938	Statutory provision for the financing of the capital investment charged against the General Fund and HRA balances	13,625
30,439	Capital expenditure charged against the HRA and General Fund balances	31,243
<b>78,228</b>		<b>93,954</b>
1,558	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-1,953
<b>589,739</b>	<b>Balance at 31st March</b>	<b>635,519</b>

## Notes to the Accounts

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £'000		2019/20 £'000
<b>-712,028</b>	<b>Balance at 1st April</b>	<b>-823,404</b>
-49,260	Remeasurements of the net defined benefit liability/(asset)	23,210
-73,040	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-88,790
-35,350	Past service cost adjustment	-1,520
46,274	Employer's pensions contributions and direct payments to pensioners payable in the year	49,554
<b>-823,404</b>	<b>Balance at 31st March</b>	<b>-840,950</b>

## Notes to the Accounts

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2018/19 £'000		2019/20 £'000
-8,694	<b>Balance at 1st April</b>	-8,578
8,694	Settlement or cancellation of accrual made at the end of the preceding year	8,578
-8,578	Amounts accrued at the end of the current year	-9,500
116	<b>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>	-922
-8,578	<b>Balance at 31st March</b>	-9,500

### 23. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2018/19 £'000		2019/20 £'000
760	Interest received	1,107
-21,780	Interest paid	-22,794
-21,020		-21,687

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2018/19 £'000		2019/20 £'000
47,449	Depreciation	55,544
-1,558	Impairment and downward revaluations	1,953
175	Amortisation	81
6,704	Increase/(decrease) in creditors	3,683
-4,896	(Increase)/decrease in debtors	-34,341
-178	(Increase)/decrease in inventories	-288
62,116	Movement in pension liability	40,756



## Notes to the Accounts

2018/19 £'000		2019/20 £'000
-3,440	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	-870
1,454	Other non-cash items charged to the net surplus or deficit on the provision of services	-543
<b>107,826</b>		<b>65,975</b>

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2018/19 £'000		2019/20 £'000
-34,775	Any other items for which the cash effects are investing or financing cash flows	-47,044
<b>-34,775</b>		<b>-47,044</b>

### 24. Reconciliation of Liabilities arising from Financing Activities

	2019/20	Financing cash flows	Changes which are not financing cash flows		2019/20
	1 April		Acquisition	Other non-financing cash flows	31 March
	£'000		£'000	£'000	£'000
Long-term borrowings	554,373	-2,717	0	0	551,656
Short-term borrowings	6,870	4,021	0	0	10,891
Lease liabilities	0	0	0	0	0
<b>Total liabilities from financing activities</b>	<b>561,243</b>	<b>1,304</b>	<b>0</b>	<b>0</b>	<b>562,547</b>

	2018/19	Financing cash flows	Changes which are not financing cash flows		2018/19
	1 April		Acquisition	Other non-financing cash flows	31 March
	£'000		£'000	£'000	£'000
Long-term borrowings	460,982	93,391	0	0	554,373
Short-term borrowings	5,822	1,048	0	0	6,870
Lease liabilities	0	0	0	0	0
<b>Total liabilities from financing activities</b>	<b>466,804</b>	<b>94,439</b>	<b>0</b>	<b>0</b>	<b>561,243</b>

## Notes to the Accounts

### 25. Trading Operations

In accordance with the Service Reporting Code of Practice (SeRCOP) which has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) the Authority undertakes a number of activities which are defined as trading activities within the meaning of the Code.

All the Authority's trading operations are an integral part of one of the Authority's services to the public and are incorporated into the Comprehensive Income and Expenditure Statement.

2019/20			
	Turnover	Expenditure	Surplus/- Deficit
	£'000	£'000	£'000
Council Car Parks	4,480	2,247	2,233
Grand Theatre	2,879	3,989	-1,110
Indoor Market	986	712	274
Council Catering including school meals	7,254	8,562	-1,308
Trade Waste	2,283	1,771	512
Swansea Marina	305	272	33
	<b>18,187</b>	<b>17,553</b>	<b>634</b>

2018/19			
	Turnover	Expenditure	Surplus/- Deficit
	£'000	£'000	£'000
Council Car Parks	4,966	1,854	3,112
Grand Theatre	3,404	4,685	-1,281
Indoor Market	1,052	893	159
Council Catering including school meals	7,081	7,886	-805
Trade Waste	2,281	1,789	492
Swansea Marina	296	262	34
	<b>19,080</b>	<b>17,369</b>	<b>1,711</b>

### 26. Members' Allowances

The Authority paid the following amounts to members of the Council during the year.

	2018/19	2019/20
	£'000	£'000
Allowances	1,540	1,580
Expenses	23	12
<b>Total</b>	<b>1,563</b>	<b>1,592</b>

## Notes to the Accounts

### 27. Officers' Remuneration

(a) The following tables set out the remuneration for Senior Officers whose salary is less than £150,000 but equal to or more than £60,000 per year.

**Table 1 - 2019/20**

	Remuneration (including Fees & Allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Pension contributions (25.8%) £	Total remuneration including pension contributions £
Chief Executive (a) *	148,584	0	148,584	19,167	167,751
Deputy Chief Executive & Director of Resources	117,550	0	117,550	30,263	147,813
Director of Education	105,941	0	105,941	27,333	133,274
Director of Place	109,853	0	109,853	28,067	137,920
Director of Social Services	111,439	0	111,439	28,751	140,190
Chief Transformation Officer	94,813	0	94,813	24,462	119,275
Monitoring Officer & Chief Legal Officer	92,355	0	92,355	23,740	116,095
Section 151 Officer & Chief Finance Officer	100,467	0	100,467	25,835	126,302
Head of Vulnerable Learner Service (b) (c)	43,055	0	43,055	10,997	54,052
Head of Education Planning & Resources	68,877	0	68,877	17,770	86,647
Head of Achievement & Partnership Service	80,790	0	80,790	20,844	101,634
Head of Building Services	73,072	0	73,072	18,853	91,925
Head of Cultural Services	86,604	0	86,604	22,344	108,948
Head of Highways & Transportation	86,604	0	86,604	22,344	108,948
Head of Housing & Public Health	73,072	0	73,072	18,853	91,925
<b>Balance c/f</b>	<b>1,393,075</b>	<b>0</b>	<b>1,393,075</b>	<b>339,623</b>	<b>1,732,698</b>

## Notes to the Accounts

**Table 1 - 2019/20 continued**

	Remuneration (including Fees & Allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Pension contributions (25.8%) £	Total remuneration including pension contributions £
<b>Balance b/f</b>	<b>1,393,075</b>	<b>0</b>	<b>1,393,075</b>	<b>339,623</b>	<b>1,732,698</b>
Head of Planning & City Regeneration	86,604	0	86,604	22,344	108,948
Head of Property Services	73,611	0	73,611	18,853	92,464
Head of Waste, Cleansing & Parks	86,604	0	86,604	22,344	108,948
Head of Commercial Services	75,778	0	75,778	19,551	95,329
Deputy Monitoring Officer & Deputy Chief Legal Officer	65,291	0	65,291	16,758	82,049
Interim Deputy Section 151 Officer & Interim Deputy Chief Finance Officer (d)	25,635	0	25,635	6,614	32,249
Head of Communications & Marketing	75,778	0	75,778	19,551	95,329
Interim Head of Adult Services (e)	48,911	0	48,911	12,619	61,530
Head of Adult Services (f)	36,373	0	36,373	11,929	48,302
Head of Child & Family	86,604	0	86,604	22,344	108,948
Interim Chief Executive (g)	13,833	0	13,833	0	13,833
Deputy Section 151 Officer & Deputy Chief Finance Officer (h)	33,905	0	33,905	8,747	42,652
Interim Director of Education (i)	17,140	0	17,140	4,422	21,563
<b>Balance c/f</b>	<b>2,119,143</b>	<b>0</b>	<b>2,119,143</b>	<b>525,698</b>	<b>2,644,841</b>

## Notes to the Accounts

\* In 2019/20 the Chief Executive received additional remuneration of £5,702 for Returning Officer Fees relating to General and European Elections. There is no additional remuneration to the Chief Executive for any local elections.

No bonus payments or benefit in kind payments were made to the Officers detailed in these notes.

- (a) The Chief Executive returned to work following long term sickness on 2nd June 2019.
- (b) The Head of Vulnerable Learner Service was the Interim Director of Education until 1st June 2019.
- (c) The Head of Vulnerable Learner Service retired on 31st December 2019.
- (d) The Interim Deputy Section 151 Officer & Interim Deputy Chief Finance Officer is the Deputy Section 151 Officer & Deputy Chief Finance Officer since 6th September 2019.
- (e) The Interim Head of Adult Services post came to an end on the 2nd December 2019.
- (f) The Head of Adult Services returned to work following maternity leave on 12th November 2019.
- (g) The Interim Chief Executive post came to an end on 31st May 2019.
- (h) The Deputy Section 151 Officer & Deputy Chief Finance Officer commenced on 6th September 2019.
- (i) The Interim Director of Education reverted back to the Head of Vulnerable Learner Service since 1st June 2019.

## Notes to the Accounts

The following tables set out the remuneration for Senior Officers whose salary is less than £150,000 but equal to or more than £60,000 per year.

**Table 1 - 2018/19**

	Remuneration (including Fees & Allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Pension contributions (24.4%) £	Total remuneration including pension contributions £
Chief Executive (a) *	145,670	0	145,670	35,544	181,214
Deputy Chief Executive & Director of Resources (b)	48,844	0	48,844	11,918	60,762
Director People (c)	32,306	0	32,306	7,883	40,189
Director Place	104,051	0	104,051	25,388	129,439
Head of Education Planning and Resources	66,863	0	66,863	16,314	83,177
Head of Planning & City Regeneration	84,905	0	84,905	20,717	105,622
Head of Communications & Marketing	74,292	0	74,292	18,127	92,419
Interim Director Resources (d)	68,985	0	68,985	16,833	85,818
Chief Transformation Officer (e)	30,071	0	30,071	7,337	37,408
Head of Financial Services & Service Centre (f)	26,446	0	26,446	6,453	32,899
Section 151 Officer & Chief Finance Officer (g)	65,917	0	65,917	16,004	81,921
Head of Legal, Democratic Services & Business Intelligence (h)	26,446	0	26,446	6,453	32,899
Monitoring Officer & Chief Legal Officer (i)	60,611	0	60,611	14,699	75,310
Head of Poverty & Prevention (j)	74,292	0	74,292	18,127	92,419
Interim Head of Digital & Transformation (k)	47,759	0	47,759	11,653	59,413

## Notes to the Accounts

**Table 1 - 2018/19 continued**

	Remuneration (including Fees & Allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Pension contributions (24.4%) £	Total remuneration including pension contributions £
<b>Balance b/f</b>	<b>1,042,364</b>	<b>0</b>	<b>1,042,364</b>	<b>254,167</b>	<b>1,296,531</b>
Head of Cultural Services	84,905	0	84,905	20,717	105,622
Head of Highways and Transportation	85,571	0	85,571	20,717	106,288
Chief Social Services Officer (l)	33,455	0	33,455	8,163	41,618
Director of Social Services (m)	72,344	0	72,344	17,652	89,996
Head of Child and Family	79,599	0	79,599	19,422	99,021
Head of Adult Services (n)	66,092	0	66,092	16,126	82,218
Interim Head of Adult Services (o)	30,072	0	30,072	7,338	37,410
Head of Commercial Services	74,292	0	74,292	18,127	92,419
Chief Education Officer (p)	32,323	0	32,323	7,887	40,210
Director of Education (q) (ab)	69,337	0	69,337	16,918	86,255
Head of Achievement & Partnership Service	87,298	0	87,298	21,301	108,599
Interim Head of Corporate Building Services (r)	28,359	0	28,359	6,919	35,278
Head of Building Services (s)	39,287	0	39,287	9,586	48,873
Interim Head of Corporate Property services (t)	28,339	0	28,339	6,915	35,254
Head of Property Services (u)	39,813	0	39,813	9,585	49,398
Head of Vulnerable Learner Service (ac)	56,190	0	56,190	13,711	69,901
Head of Housing & Public Protection (v)	2,089	70,241	72,330	339	72,669

## Notes to the Accounts

**Table 1 - 2018/19 continued**

	Remuneration (including Fees & Allowances) £	Compensation for loss of office £	Total remuneration excluding pension contributions £	Pension contributions (24.4%) £	Total remuneration including pension contributions £
<b>Balance b/f</b>	<b>1,981,431</b>	<b>70,241</b>	<b>2,051,672</b>	<b>482,838</b>	<b>2,534,510</b>
Head of Housing & Public Health (x)	39,284	0	39,284	9,585	48,869
Deputy Monitoring Officer & Deputy Chief Legal Officer (y)	43,163	0	43,163	10,442	53,605
Interim Deputy Section 151 Officer & Interim Deputy Chief Finance Officer (z)	29,664	0	29,664	7,121	36,785
Interim Chief Executive (aa)	10,869	0	10,869	0	10,869
Interim Director of Education (ad)	18,702	0	18,702	4,563	23,265
<b>Total</b>	<b>2,123,112</b>	<b>70,241</b>	<b>2,193,353</b>	<b>514,549</b>	<b>2,707,902</b>

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\* In 2018/19 the Chief Executive received additional remuneration of £1,777 for Returning Officer Fees relating to General and European Elections. There is no additional remuneration to the Chief Executive for any local elections.

No bonus payments or benefit in kind payments were made to the Officers detailed in these notes.

- (a) The Chief Executive was on long term sick so an Interim Chief Executive was appointed on a short-term basis.
- (b) The Deputy Chief Executive and Director of Resources commenced on 29th October 2018.
- (c) The Director of People left the Authority on 17th July 2018.
- (d) The Interim Director of Resources reverted back to the Chief Transformation Officer since 1st December 2018.
- (e) The Chief Transformation Officer re-commenced on 1st December 2018.



## Notes to the Accounts

- (f) The Head of Financial Services and Service Centre is the Section 151 Officer and Chief Finance Officer since 30th July 2018.
- (g) The Section 151 Officer and Chief Finance Officer commenced on 30th July 2018.
- (h) The Head of Legal, Democratic Services and Business Intelligence is the Monitoring Officer and Chief Legal Officer since 30th July 2018.
- (i) The Monitoring Officer and Chief Legal Officer commenced on 30th July 2018.
- (j) The Head of Poverty and Prevention left the Authority on 31st March 2019.
- (k) The Interim Head of Digital and Transformation post came to an end on 1st December 2018.
- (l) The Chief Social Services Officer is the Director of Social Services since 30th July 2018.
- (m) The Director of Social Services commenced on 30th July 2018.
- (n) The Head of Adult Services is on maternity leave since 12th November 2018.
- (o) The Interim Head of Adult Services was remunerated from 25th October 2018 in a handover period prior to the Head of Adult Services going on maternity leave on 12th November 2018.
- (p) The Chief Education Officer is the Director of Education since 30th July 2018.
- (q) The Director of Education commenced on 30th July 2018.
- (r) The Interim Head of Corporate Building Services is the Head of Building Services since 6th September 2018.
- (s) The Head of Building Services commenced on 6th September 2018.
- (t) The Interim Head of Corporate Property Services is the Head of Property Services since 6th September 2018.
- (u) The Head of Property Services commenced on 6th September 2018.
- (v) The Head of Housing and Public Protection retired on 6th April 2018.
- (w) The Interim Head of Housing and Public Protection is the Head of Housing and Public Health since 6th September 2018.
- (x) The Head of Housing and Public Health commenced on 6th September 2018.
- (y) The Deputy Monitoring Officer and Deputy Chief Legal Officer commenced on 30th July 2018.
- (z) The Interim Deputy Section 151 Officer and Interim Deputy Chief Finance Officer commenced on 1st October 2018.
- (aa) The Interim Chief Executive commenced on 13th February 2019.
- (ab) The Director of Education is on long term sick so an Interim Director of Education has been appointed.
- (ac) The Head of Vulnerable Learner Service is the Interim Director of Education since 25th January 2019.
- (ad) The Interim Director of Education commenced on 25th January 2019.

## Notes to the Accounts

(b) The number of employees (excluding Senior Officers) whose remuneration (excluding employer's pension contributions) was £60,000 or more, in bands of £5,000, were:

2018/19		2019/20
Number of employees	Remuneration Band	Number of employees
48	£60,000 - £64,999	50
21	£65,000 - £69,999	25
13	£70,000 - £74,999	14
6	£75,000 - £79,999	7
8	£80,000 - £84,999	9
8	£85,000 - £89,999	5
3	£90,000 - £94,999	5
1	£95,000 - £99,999	1
1	£100,000 - £104,999	2
1	£125,000 - £129,999	1
<b>110</b>	<b>Total</b>	<b>119</b>

The remuneration bands above include one off payments regarding compensation for loss of office. These payments are not paid in return for services rendered to the Authority and are therefore not strictly remuneration, but the regulations covering disclosure of salary bandings require these amounts to be included in the calculation.

The numbers shown relate to Authority employees which predominantly include teaching staff. Senior Officers' remunerations are shown in the tables on pages 101 to 107.

The Authority is required to disclose the organisation's pay multiple. This is the ratio between the highest paid employee and the median earnings across the organisation.

In 2019/20 the remuneration of the Chief Executive was £148,584k (2018/19 £145,670k). This was 6.5 times (2018/19 6.9 times) the median remuneration of the organisation, which was £22,776 (2018/19 £21,151).

## Notes to the Accounts

(c) The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

2019/20				
Exit package cost band (including special payments)	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band £'000
£0 - £20,000	27	43	70	302
£20,001 - £40,000	1	14	15	161
£40,001 - £60,000	0	14	14	906
£60,001 - £80,000	0	3	3	213
£80,001 - £100,000	1	1	2	172
£100,001 - £150,000	1	2	3	342
<b>Total</b>	<b>30</b>	<b>77</b>	<b>107</b>	<b>2,096</b>

2018/19				
Exit package cost band (including special payments)	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band £'000
£0 - £20,000	35	87	122	1,002
£20,001 - £40,000	2	32	34	912
£40,001 - £60,000	2	13	15	754
£60,001 - £80,000	1	6	7	490
£80,001 - £100,000	0	5	5	439
£100,001 - £150,000	0	1	1	107
<b>Total</b>	<b>40</b>	<b>144</b>	<b>184</b>	<b>3,704</b>

The average payback period against all early retirement / voluntary redundancy packages agreed for 2019/20 is less than 1 year.

## Notes to the Accounts

### 28. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19 and 2019/20:

2018/19 £'000		2019/20 £'000
	<b>Credited to Taxation and Non Specific Grant Income</b>	
115,904	Council Tax Income	123,652
79,141	Non Domestic Rates	80,013
239,946	Revenue Support Grant	242,197
1,294	21st Century Schools Programme	6,087
2,823	Local Transport Fund and Local Transport Network Fund	1,105
2,043	Active Travel Fund	4,410
9,185	Housing MRA Grant	9,210
684	Road Safety/Safe Route in Communities	727
1,556	Targeted Regeneration Investment Programme	2,901
7,497	General Capital Grant	6,085
2,921	Schools Capital Maintenance grant	3,052
1,689	European Regional Development Fund	1,228
234	Coastal Risk Management Programme	346
265	High Street Relief	1,943
1,187	Highways Refurbishment grant	1,190
0	Innovative Housing Programme	1,580
0	Intermediate Care Fund	2,177
0	Reducing Infant Class sizes	725
0	Gifted Assets	4,376
2,419	Other Grants and Contributions	2,677
<b>468,788</b>		<b>495,681</b>
	<b>Credited to Services</b>	
8,694	School Improvement Grant	11,038
43,854	Rent allowance subsidy	39,709
34,693	Rent rebate subsidy	32,250
0	Children and Communities Grant	11,081
3,011	Families First	0
14,092	Housing Support Grant	13,953
5,244	Department for Children, Education, Lifelong Learning and Skills	5,375
190	Environment and Sustainable Development Grant (ESD)	321
896	Housing Benefit Administration	793
6,816	Concessionary fares	6,701
5,995	Flying Start	0
7,160	Pupil Deprivation Grant	6,995
537	Communities First	0
1,758	Communities for Work	421
600	Cynnydd Project (ESF)	448
184	Rural Development Plan	147
5,260	Bus Services Support Grant (BSSG)	4,497

## Notes to the Accounts

2018/19 £'000		2019/20 £'000
	<b>Credited to Services</b>	
1,556	Free Childcare	3,184
1,095	Sustainable Social Services	2,361
630	Funded Nursing Care	151
3,611	Integrated Care Fund	5,574
0	Schools Maintenance Grants (VA schools)	793
367	Sandfields Renewal Area	30
304	ENABLE grant	304
1,305	Sustainable Waste Management Grant (SWMG)	1,454
194	Affordable Housing Grant	346
1,161	Teacher Pay and Pensions	3,104
1,595	ASDL - Education Grant	0
639	Professional Learning Fund	574
1,258	SCWWDP	999
697	Syrian Vulnerable Persons	506
0	Transformation Fund	2,133
46	Winter Pressures	1,052
0	Out of School Childcare	985
253	Youth Support Group	770
390	EAL	617
0	Unaccompanied Asylum Seekers	526
0	Free School Meals	496
291	Pedagogy	463
296	RICS	419
23	Targeted Regeneration Investment Programme	575
8,227	Other Grants	9,040
<b>162,922</b>		<b>170,185</b>

### 29. Related Parties

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

#### a) Central Government

The Authority receives significant funding from the Welsh Government. Details of the sums received in respect of Revenue Support Grant and redistributed Non Domestic Rates are shown in the Comprehensive Income and Expenditure Statement, with details of other grant income being shown in note 28 to the Accounts.

## Notes to the Accounts

### b) Charitable and Voluntary Bodies

The Authority appoints members to represent it on numerous charitable and voluntary bodies which operate primarily within Swansea Council, as well as to a number of national bodies where it is deemed in the Authority's interest to be represented. Any transactions with these bodies are not significant.

### c) Other Bodies

The Authority has appointed members and officers to a number of outside organisations which include the following:-

ERW Joint Committee  
Gower College Swansea  
Mid and West Wales Fire Authority  
Swansea Bay Port Health Authority  
Swansea PSB (Public Services Board)  
University of Wales Swansea – Court of Governors  
Welsh Local Government Association Council

A full listing can be obtained from the Finance department, Civic Centre, Oystermouth Road, Swansea, SA1 3SN and on the Authority's website ([www.swansea.gov.uk/councillors](http://www.swansea.gov.uk/councillors)).

In respect of the Mid and West Wales Fire Authority and the Swansea Bay Port Health Authority, amounts are paid by the Authority in respect of levies and precepts to these bodies. The Section 151 Officer of the Council also acts as the Clerk and Treasurer of the Swansea Bay Port Health Authority.

Levies / Contributions paid to the two bodies were:-

Mid and West Wales Fire Authority:-	£12.971m (2018/19: £12.631m)
Swansea Bay Port Health Authority:-	£0.086m (2018/19: £0.085m)

The Authority is responsible for the collection of Council Taxes on behalf of the South Wales Police Authority. The total collected and paid over to the South Wales Police Authority for 2019/20 was £23.195m (2018/19 £21.008m).

### d) Subsidiary, Associates and Joint Ventures

The Authority has an interest in five companies, details of which are shown on the next few pages:-

## *Notes to the Accounts*

### **The National Waterfront Museum Swansea - Joint Venture**

The National Waterfront Museum Swansea (“the Company”) is limited by guarantee and is a registered charitable trust (charity number 1090512). The Company has seven directors, of which three are appointed by Swansea Council, three by the National Museums and Galleries of Wales, with the seventh director being an independent chairman.

The purpose of the Company was to develop the National Industrial and Maritime Museum at Swansea which opened in Spring 2006. The Company derives its funds from several sources, including the Welsh Government, the National Museums and Galleries of Wales, the former Welsh Development Agency and the Heritage Lottery Fund.

During the 2002/03 financial year the Authority granted a lease to the Company of a substantial portion of the site on which the new museum has been developed. The lease was granted at a peppercorn rental and constitutes the Authority’s commitment to the scheme.

The museum has been leased to the National Museums and Galleries of Wales at a peppercorn rent by the Company. Due to the nature of the Company and its constitution there will be no direct beneficial interest arising to the Authority from its activities.

A contribution of £2,325 was made in 2019/20 (2018/19 £2,575) to National Waterfront Museum Swansea towards 50% of the governance costs of the charitable company. There were an outstanding creditor of £3,236 as at 31st March 2020 (2018/19 zero) . There was an outstanding debtor of £4,825 as at 31st March 2020 (2018/19 £33,287). The charitable company is deemed to be influenced significantly by the Authority through its representation on the Board of Trustees.

The net assets of the National Waterfront Museum Swansea at 31st March 2020 are £18,203,789 (2019 £18,419,304).

Copies of the accounts of the Company are available from the National Waterfront Museum Swansea Project Office, Queens Buildings, Cambrian Place, Swansea SA1 1TW.

## Notes to the Accounts

### The Wales National Pool (Swansea) - Joint Venture

The Wales National Pool (Swansea) (“the Company”) is a company limited by guarantee. The purpose of the company is to operate the Wales National 50 Metre Pool which is located in Swansea.

Swansea Council was responsible for the construction of the pool complex, with the bulk of funding being supplied by the National Lottery Sports Foundation. The pool has been constructed on land owned by the University of Wales, Swansea.

The pool complex is leased to the company at a peppercorn rent. Due to the nature of the facility, which is unlikely to show profitability, the development is not thought to have a high commercial value.

The pool complex was opened in April 2003.

Details of the Authority's transactions with the Company during the year as follows:-

2018/19 £'000		2019/20 £'000
317	Funding provided by the Authority towards operating costs of the pool	363
64	Sum paid for the free use of the pool by schools and other bodies	47
-1,027	Recharges of wages, salaries and other costs to the Company	-1,025

The Company has seven directors, of which three are appointed by Swansea Council, three by the University of Wales (Swansea), with the seventh director being an independent chairman.

By agreement with the University of Wales Swansea, the Authority funds 50 per cent of the operational deficit that the Company makes during its financial year which operates from 1st August to 31st July. There are no other guarantees in place that could increase the Authority's liability in respect of the operations of the Company.

There was an outstanding debtor of £174k (2018/19 £158k) and outstanding creditors of £207k (2018/19 zero) as at 31st March 2020.

The net assets of Wales National Pool (Swansea) Limited at 31st March 2020 were £4,222,000 (2018/19 £4,729,000).

Copies of the accounts of the Company are available from the University of Wales Swansea, Finance Department, Singleton Park, Swansea, SA2 8PP.



## Notes to the Accounts

### Swansea Bay Futures Limited

Swansea Bay Futures Limited ceased to trade on 1st December 2017. On a goodwill basis, the Council injected £12k to extinguish all accumulated predominantly statutory liabilities. The majority shareholder who was acting on behalf of the Council resigned in October 2018.

### Bay Leisure Limited - Associate

The Company was incorporated on 6th August 2007. The principal activity of the Company is to manage and operate the main Leisure Centre within the Authority's area – the 'LC'.

The company is a trust limited by guarantee, and, as such, the Authority has no direct shareholding or financial interest in the Company. The Company is treated as an associate within the group structure of the Authority. There has been no consolidation for Bay Leisure Limited due to the immateriality of the Company's results.

In terms of overall control, the Company has a Board consisting of eleven directors of which the Authority is able to nominate two.

The LC was constructed by Swansea Council and remains classified as an operational asset within the Authority's accounts.

The LC was leased to Bay Leisure Limited until 30th September 2018 with the Company being responsible for all operational matters including day to day maintenance and repairs. As owner of the building the Authority was responsible for major repair/replacement/refurbishment items and, as such, was making an annual contribution to an earmarked reserve for future expenditure in this area.

On the 1st October 2018, the management of the Authority's leisure centres were transferred to Wealdon Leisure Ltd (T/A Freedom Leisure), a not for profit leisure trust. The Authority's two nominated board members for Bay Leisure Limited have resigned so Bay Leisure Limited is no longer an associate company of the Authority.

There was no funding in the Authority's revenue budget for 2019/20. An amount of £0.362m was set aside in the 18/19 revenue budget to reflect the management fee that was payable to the company.

The net assets of Bay Leisure Limited at 31st March 2018 were £2,500,720.

## Notes to the Accounts

### Swansea Community Energy & Enterprise Scheme (SCEES) - Associate

In 2017, Swansea Council purchased 100,000 shares of £1 in Swansea Community Energy & Enterprise Scheme. Swansea Community Energy & Enterprise Scheme is a community owned renewable energy company which was established by Swansea Council but is now run independently by a group of local Directors. The company develops and manages renewable energy projects for the benefit of residents in some of the more deprived areas in Swansea.

By agreement with SCEES £5,000 of the initial investment is repaid each year. The balance of shares now owned by the Authority is 90,000 shares of £1 each.

The Company has 6 Directors and one of the directors is a Cabinet Member of Swansea Council.

There was an outstanding debtor of £5,325 at 31st March 2020 (2018/19 zero) and no outstanding creditors at 31st March 2020 (2019 zero).

The net assets of Swansea Community Energy & Enterprise Scheme at 31st March 2020 were £470,251 (2018/19 £474,767).

There has been no consolidation for Swansea Community Energy & Enterprise Scheme due to the immateriality of the Company's results.

Copies of the accounts of the Company are available from Swansea Community Energy & Enterprise Scheme Limited, The Environment Centre, Pier Street, Swansea, SA1 1RY.

#### e) Other Organisations

Members of the Authority have direct control over the Authority's financial and operating policies.

A relation of a member of the Senior Management Team has provided therapy services to Western Bay Adoption Services via her own business. The amount paid for services provided in 2019/20 was £26,383 (2018/19 £23,852). There was also an outstanding creditor of £1,880. The senior manager's interest in this company was properly recorded in the Register of interests.

During 2019/20 a member was employed by VocalEyes Digital Democracy Ltd in Project Development. A grant was awarded to this company as part of the Swansea Rural Community Voice project. The amount paid in 2019/20 was £11,466 (2018/19 £15,692). The member's interest in this company was properly recorded in the Register of members interests which is available on the Authority's public website.

### f) Duties imposed on Council Directors

It is important to note that where Councillors are appointed to act as Directors of Companies or as Board Members of Statutory Agencies then they must, when carrying out such appointments, seek to act in the best interests of the Company/Statutory Body when acting in that official capacity.

### g) Pension Fund

Swansea Council acts as administering Authority for the Swansea Council Pension Fund (formerly the West Glamorgan Pension Fund).

Transactions between the Authority and the Pension Fund mainly comprise the payment to the Pension Fund of employee and employer payroll superannuation deductions, together with payments in respect of enhanced pensions granted by Former Authorities.

The Pension Fund currently has 39 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a committee. The committee is advised by two independent advisors.

### 30. Group Accounts

The following are the dates of relevant company accounts used for consolidation:

- National Waterfront Museum Swansea - Management Accounts for the year ending 31st March 2020.
- Wales National Pool Swansea - Management Accounts for the year ending 31st March 2020.

In the opinion of the Authority the use of the above information is likely to adequately reflect the extent and nature of group income and expenditure and assets and liabilities that exist as at 31st March 2020 and the use of current information would not be significant in relation to the group position as stated.

In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", all Group activities were classified as 'Continuing' during the year. There were no material acquisitions or discontinuations of services as defined by the Standard.

## Notes to the Accounts

The total net assets of the Group can be analysed according to the relevant entity to which they relate, as follows:

31st March 2018 £'000		31st March 2020 £'000
1,066,484	Swansea Council (Parent)	1,123,241
9,210	National Waterfront Museum Swansea (Joint Venture)	9,102
12,697	Wales National Pool (Joint Venture)	14,600
<b>1,088,391</b>	<b>Net Assets Employed (exc. Pension Fund) *</b>	<b>1,146,943</b>
-823,404	Net Group Pension Fund Liabilities	-840,950
<b>264,987</b>	<b>Net Assets Employed</b>	<b>305,993</b>

\* Some of the component Group assets have been valued on a different basis to that used by the Authority. If the Wales National Pool had been valued at depreciated replacement cost then the asset would have a value of £29.222m.

\* The Wales National Pool currently has a net book value in the region of £4.2m. Given the material scale of the difference in value the Authority has restated their share of the higher valuation which results in an unrealised gain of £12.5m. It is expected that under the terms of the agreement the final value at the end of the lease (24th December 2023) will be zero. Therefore the difference in book valuations will be fully amortised by the 2023/24 Statement of Accounts.

Swansea Council (the Parent company) does not believe that it will receive a material benefit in the form of income or dividends from the related companies, and does not expect to make any contributions over and above the normal budgeted requirement. Since the related companies are limited by guarantee, any losses to the Authority will be limited to the value of the guarantee in each entity.

## Notes to the Accounts

### 31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2018/19 £'000		2019/20 £'000
<b>486,479</b>	<b>Opening Capital Financing Requirement</b>	<b>504,878</b>
	<b>Capital investment</b>	
81,868	Property, Plant and Equipment	121,370
145	Heritage Assets	1,059
8,242	Investment Properties	0
72	Intangible Assets	284
6,299	Revenue Expenditure Funded from Capital under Statute	8,169
0	Investment	0
	<b>Sources of finance</b>	
-1,040	Capital receipts	-5,055
0	Capital receipts - set aside	0
-32,810	Government grants and other contributions	-44,031
	Sums set aside from revenue:	
-30,439	Direct revenue contributions	-31,243
-13,938	MRP/loans fund principal	-13,625
<b>504,878</b>	<b>Closing Capital Financing Requirement</b>	<b>541,806</b>
	<b>Explanation of movements in year</b>	
16,494	Increase in underlying need to borrowing	35,354
511	Assets acquired under finance leases	287
1,394	Other movements in year	1,287
<b>18,399</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>36,928</b>

### **32. Termination Benefits**

During 2019/20 the Authority incurred significant expenditure in terms of redundancy costs paid to leavers together with costs incurred in compensation payments to the Local Government Pension Fund in respect of early access pension costs.

In particular on 17th November 2011, in order to meet significant budget savings required for the financial year 2011/12 and onwards, the Cabinet authorised officers to seek expressions of interest for voluntary redundancy and/or early retirement from within selected employee groups of the Authority in accordance with the Authority's agreed ER/VR policy. The offer remains extant on a rolling basis.

There was an enhanced offer for voluntary early departure from the Authority to accelerate the pace and scale of change and budgetary savings. This offer came to an end on 30th March 2018 for all staff except school based staff where the offer came to an end on 30th June 2018.

Costs were incurred relating to redundancy payments and early access to pension costs totalling £2.096m (2018/19 £3.704m) for the year.

These costs include provision for costs for a limited number of employees whose service will be terminated in 2020/21 but who had been offered - and accepted - severance terms as at 31st March 2020.

All costs relating to termination benefits have been included as part of service definitions within the Comprehensive Income and Expenditure Statement.

The above costs include both teaching and non teaching staff.

### **33. Pension Schemes Accounted For As Defined Contribution Schemes**

Teachers employed by the Authority are members of the Teachers' Pensions Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

## Notes to the Accounts

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as a basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 11,000 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. As a proportion of the total contributions into the Teachers' Pension Scheme during the year ending 31st March 2020, the Authority's own contributions equate to approximately 0.2%.

In 2019/20 the Authority paid £15.7m to Teachers' Pensions in respect of teachers' retirement benefits, representing 20.7% of pensionable pay. The figures for 2018/19 were £12.2m and 16.5%. The March 2020 contributions of £1,502,767 were paid on the 7th April 2020. The contributions due to be paid in the next financial year are estimated to be £18.3m at an employer rate of 23.68%.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34.

The Authority is not liable to the scheme for any other entities' obligations under the plan.

### 34. Defined Benefit Pension Schemes

#### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Authority participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by the City and County of Swansea - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

## Notes to the Accounts

- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The City and County of Swansea pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the City and County of Swansea. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and the committee consist of the Chief Finance Officer, Council members and independent investment advisers.

The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### **Discretionary Post-retirement Benefits**

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

### **Transactions Relating to Post-employment Benefits**

The cost of retirement benefits in the reported cost of services is recognised when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.



## Notes to the Accounts

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Net Cost of Services:</b>				
Current service cost	69.61	55.13	0.00	0.00
Past service costs	1.52	35.35	0.00	0.00
<b>Financing and Investment Income and Expenditure</b>				
Net interest expense	16.86	15.40	2.32	2.51
<b>Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services</b>	<b>87.99</b>	<b>105.88</b>	<b>2.32</b>	<b>2.51</b>
<b>Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>				
<b>Remeasurement of the net defined benefit liability comprising:</b>				
Return on plan assets	145.14	-57.54	0	0
Actuarial gains and losses arising on changes in demographic assumptions	-68.43	0	-3.25	0
Actuarial gains and losses arising on changes in financial assumptions	-37.95	101.23	-0.91	2.95
Other	-57.34	2.33	-0.47	0.29
<b>Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>69.41</b>	<b>151.90</b>	<b>-2.31</b>	<b>5.75</b>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-87.99	-105.88	-2.32	-2.51
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employers' contributions payable to the scheme	43.55	40.42		
Retirement benefits payable to pensioners			6.00	5.85

## Notes to the Accounts

### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m
Present value of the defined benefit obligation	1,838.96	1,919.58	91.20	99.51
Fair value of plan assets	1,089.20	1,195.68	0.00	0.00
<b>Net liability arising from defined benefit obligation</b>	<b>-749.76</b>	<b>-723.90</b>	<b>-91.20</b>	<b>-99.51</b>

### Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m
Opening fair value of scheme assets	1,195.68	1,093.97	0.00	0.00
Interest income	28.82	28.65	0.00	0.00
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	-145.14	57.54	0.00	0.00
Contributions from employer	43.55	40.42	6.00	5.85
Contributions from employees into the scheme	10.67	10.32	0.00	0.00
Benefits paid	-44.38	-35.22	-6.00	-5.85
<b>Closing fair value of scheme assets</b>	<b>1,089.20</b>	<b>1,195.68</b>	<b>0.00</b>	<b>0.00</b>

## Notes to the Accounts

### Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits Arrangements	
	2019/20 £m	2018/19 £m	2019/20 £m	2018/19 £m
Opening Balance at 1st April	1,919.58	1,706.39	99.51	99.61
Current service cost	69.61	55.13	0.00	0.00
Interest cost	45.68	44.05	2.32	2.51
Contributions from scheme participants	10.67	10.32	0.00	0.00
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	-68.43	0.00	-3.25	0.00
Actuarial gains/losses arising from changes in financial assumptions	-37.95	101.23	-0.91	2.95
Other	-57.34	2.33	-0.47	0.29
Past service cost	1.52	35.35	0.00	0.00
Benefits paid	-44.38	-35.22	-6.00	-5.85
<b>Closing balance at 31st March</b>	<b>1,838.96</b>	<b>1,919.58</b>	<b>91.20</b>	<b>99.51</b>

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	
	2019/20 £'000	2018/19 £'000
Cash and cash equivalents	43,669	65,017
	<b>43,669</b>	<b>65,017</b>
Pooled Equity Investment Vehicles		
- UK	0	181,491
- Global *	1,393,278	1,313,749
	<b>1,393,278</b>	<b>1,495,240</b>
Property	99,854	69,519
	<b>99,854</b>	<b>69,519</b>

## Notes to the Accounts

	Fair value of scheme assets	
	2019/20 £'000	2018/19 £'000
Fixed Interest:		
- Fixed Interest	223,917	213,992
- Index-Linked	35,111	34,385
	<b>259,028</b>	<b>248,377</b>
Hedge Funds	49,971	54,168
	<b>49,971</b>	<b>54,168</b>
Private Equity	100,080	86,625
	<b>100,080</b>	<b>86,625</b>
Infrastructure	33,635	18,501
	<b>33,635</b>	<b>18,501</b>
Private Debt	11,563	0
	<b>11,563</b>	<b>0</b>
Derivatives	1,811	3,598
	<b>1,811</b>	<b>3,598</b>
Cash Funds	773	767
	<b>773</b>	<b>767</b>
Net Current Assets	1,933	2,226
	<b>1,933</b>	<b>2,226</b>
<b>Total Assets</b>	<b>1,995,595</b>	<b>2,044,038</b>

\* Note - The three segregated equity funds with JP Morgan, Aberdeen and Schroders UK were transitioned in January 2019 to the Wales Pension Partnership Global Opportunities Fund, a Pooled Equity Investment Vehicle.

## Notes to the Accounts

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31st March 2019.

The significant assumptions used by the Actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2018/19	2019/20	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners: (years)				
- Men	22.2	23.0	22.2	23.0
- Women	24.2	24.6	24.2	24.6
Longevity at 65 for future pensioners: (years)				
- Men	23.2	24.7		
- Women	25.7	26.4		
Rate of inflation %	2.0	2.2	2.0	2.2
Rate of increase in salaries %	3.5	3.7		
Rate of increase in pensions %	2.0	2.2	2.0	2.2
Rate for discounting scheme liabilities %	2.3	2.4	2.3	2.4

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

## Notes to the Accounts

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £m	Decrease in Assumption £m
Longevity (increase or decrease in 1 year)	1,779.54	1,898.99
Rate of increase in salaries (increase or decrease by 0.1%)	1,845.20	1,832.79
Rate of increase in pensions (increase or decrease by 0.1%)	1,872.65	1,806.00
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,801.12	1,877.59

### Asset and Liability Matching (ALM) Strategy

The pensions committee of the City and County of Swansea has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments.

As is required by the pensions and investment regulations the suitability of various types of investment has been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (78.4% of scheme assets) and bonds (11%). These percentages are materially the same as the comparative year. The scheme also invests in properties as a part of the diversification of the scheme's investments. There is a limited use of derivatives to manage the bond risk for the shorter-term instruments. The ALM strategy is monitored annually or more frequently if necessary.

### Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 25 years. Funding levels are monitored on an annual basis. The next triennial valuation is as at 31st March 2022.

## Notes to the Accounts

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31st March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Authority expects to pay £43.15m contributions to the scheme in 2020/21.

The weighted average duration of the defined benefit obligation for scheme members is 20.8 years (2018/19 17.9 years).

### 35. Contingent Liabilities

The Authority has identified a number of contingent future liabilities arising from current and past activities.

Nature of Liability	Potential Financial Effect £'000	Comment	Timing
Personal Social Services	Unknown	<p>Relates to potential negligence claims relating to those cared for by the Council or its contractors. The Authority is not currently aware of any major claims.</p> <p>The Employment Appeal Tribunal has previously ruled that the National Minimum Wage applies to overnight sleep in personal care support. Whilst this ruling was overturned by the Court of Appeal last year, the case will be heard by the Supreme Court in 2019. In line with previous custom and practice in the sector, the Council paid a flat rate night time allowance to direct carers and via providers. Should the tribunal hearing be upheld by the Supreme Court, this arrangement would not be compliant with National minimum Wage legislation. Whilst the Council has already changed its payment arrangements in light of the initial ruling, retrospective claims by individuals and HMRC enforcement action could be made going back 6 years.</p>	Unknown

## Notes to the Accounts

Nature of Liability	Potential Financial Effect £'000	Comment	Timing
Infrastructure and retaining walls	Unknown	There are potential claims regarding infrastructure and retaining walls which may be taken against the Authority - such claims will be rigorously defended through the Authority's insurers and any successful claims will be met from future capital or revenue funding.	Unknown
Equal pay and Equal Value claims	Unknown	<p>During 2008/2009 and 2009/10, in common with many other local authorities, the Authority made payments to certain staff in full settlement of potential equal pay claims. However, a number of claims remained unsettled and a considerable number of additional claims were subsequently received. The Authority has settled the majority of the liabilities by the 31st March 2016 but there are still some costs yet to be incurred.</p> <p>There is a potential for further (as yet unknown) claims in respect of equal pay claims and in respect of equal value claims which are not provided for in these accounts.</p>	2020/21
Landlord / Tenant Liability Claims	Unknown	There is potential risk around lease/HRA properties where there are disputes as to whether it is a tenant or landlord property maintenance obligation.	Unknown
Retention or Clawback on Grant and Contract Claims	Unknown	The Council undertakes a range of activities under which payment is made specifically on evidenced performance over an extended period. Full receipt is not guaranteed until the end of the grant or contract period. There is potential risk that grant clawback may arise if not all grant terms and conditions are fulfilled.	Unknown
Flooding	Unknown	There are potential claims regarding flooding which may be taken against the Authority - such claims will be rigorously defended through the Authority's insurers and any successful claims will be met from future capital or revenue funding.	Unknown



## Notes to the Accounts

Nature of Liability	Potential Financial Effect £'000	Comment	Timing
Legal and Insurance related matters	Unknown	The Council is regularly challenged on a range of issues that are either subject to litigation or insurance claims. The Council at all times will vigorously defend such claims, and in cases where claims are identified, the result can be anticipated and the potential financial effect evaluated then adequate provision is made with the Accounts for any such liabilities. There remains the possibility however of future claims arising as a result of past actions that are either unknown at the Balance Sheet date or where the outcome is so unpredictable in terms of outcome or financial liability that no reliable estimate of liability can be made.	Unknown
City Deal	£11.487m	The Council has incurred, and continues to do so, significant initial work up costs on a range of regeneration and redevelopment schemes within the City Centre using a mix of its own funds and Welsh Government support. These continue to be considered capitalisable and thus treated as capital where appropriate but the final build out of schemes is heavily contingent upon decisions by the UK and Welsh Government over individual business cases under the City Deal and the terms and conditions of any final City Deal grant offer, and further funding flexibilities. If schemes were not to progress, for any reason, the costs incurred to date would potentially need to be written back to revenue.	2018/19 and then up to 15 years thereafter
Client care costs	Circa £1m	The interface between local authority social care, and to a much lesser extent some specialist education provision, and local health boards and other local authorities is a complex one involving discussion and decisions on lead responsibility for payment of client care costs, and in some cases appropriate sharing of costs.	Ongoing

## Notes to the Accounts

Nature of Liability	Potential Financial Effect £'000	Comment	Timing
Covid-19	Unknown	Towards the end of the financial year the Authority in line with actions around the whole world was repurposed to respond to the growing Covid-19 pandemic as an emergency responder to save lives and keep essential services running. Costs incurred at this stage, future costs, plus income foregone now, and for the immediate future, and the impact across all operations, and partners, including UK and Welsh Governments cannot be assessed with any accuracy at year end but are bound to be very substantial for Swansea Council alone (expected to be many tens of millions of pounds). It will have a profound and material impact on the coverage of the accounts, their completeness, timeliness and accuracy.	2020/21

### 36. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been grouped into nine valuation bands using 1st April 2003 values for this specific purpose. Charges are calculated by taking the amount of Income required for the Council, police authorities and community councils for the forthcoming year and dividing the amount by the Council Tax base.

The Council Tax base is the number of properties in each band adjusted by a multiplier to convert the number to band 'D' equivalent and adjusted for discounts. The base was 90,069 in 2019/2020 (89,962 in 2018/2019).

Analysis of the net proceeds from Council Tax:

2018/19 £'000		2019/20 £'000
137,096	Council tax collectable	146,406
-884	Less:- Provision for non payment of Council tax	-1,295
-20,308	Less:- Council Tax Support Scheme	-21,459
<b>115,904</b>	<b>Net proceeds from Council Tax</b>	<b>123,652</b>

Application of Council Tax proceeds:

2018/19 £'000		2019/20 £'000
135,137	City & County of Swansea precept	144,310
1,403	Community Council precept	1,465
<b>136,540</b>	<b>Council Tax requirement</b>	<b>145,775</b>
-20,308	Less:- Council Tax Support Scheme	-21,459
-328	Transfer to reserves (Surplus/Deficit)	-664
<b>115,904</b>	<b>Net application of proceeds</b>	<b>123,652</b>

### 37. National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Welsh Government specifies an amount of the rate per pound of rateable value which for 2019/20 was 0.526p (0.514p in 2018/19) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from ratepayers in its area but pays the proceeds into the NNDR Pool administered by the Welsh Government. The Welsh Government redistributes the sums payable back to local authorities on the basis of a fixed amount per head of population.

### 38. Nature and extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks, including:

- credit risk - the possibility that other parties might fail to pay amounts due to the Authority.
- liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.
- market risk - the possibility that financial loss might rise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

#### Credit Risk

Credit risk arises from deposits with banks, building societies and other local authorities as well as credit exposures to the Authority's customers.

The risk is minimised through the Annual Investment Strategy which outlines the minimum credit criteria required for the Authority. The full details of the credit criteria are outlined in the previously published Treasury Management Strategy report available on the Council's website.

#### Credit Risk Management Practices

The Authority's credit risk management practices are set out in the Annual Treasury Management Investment Strategy presented to Council in February 2020.

## Notes to the Accounts

### Amounts Arising from Expected Credit Losses

The changes in the loss allowance during the year are as follows:

#### Loss allowance by Asset Class

Asset Class (amortised cost)	12-month expected credit losses £'000	Lifetime expected credit losses – not credit impaired £'000	Lifetime expected credit losses – credit impaired £'000	Lifetime expected credit losses – simplified approach £'000	Purchased or originated credit impaired financial assets £'000	Total £'000
<b>Opening balance as at 1 April 2019</b>	0	0	0	2,989	0	2,989
Transfers:						
• Individual financial assets transferred to 12-month expected credit losses	0	0	0	0	0	0
• Individual financial assets transferred to lifetime expected credit losses	0	0	0	0	0	0
• Individual financial assets transferred to lifetime expected credit losses credit impaired	0	0	0	0	0	0
New financial assets originated or purchased	0	0	0	3,411	0	3,411
Amounts written off	0	0	0	-175	0	-175
Financial assets that have been derecognised	0	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0	0
Changes in models/risk parameters	0	0	0	0	0	0
Other changes	0	0	0	0	0	0
<b>Balance as at 31 March 2020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,225</b>	<b>0</b>	<b>6,225</b>

## Notes to the Accounts

### Loss allowance by Asset Class - Comparative year information

Asset Class (amortised cost)	12-month expected credit losses £'000	Lifetime expected credit losses – not credit impaired £'000	Lifetime expected credit losses – credit impaired £'000	Lifetime expected credit losses – simplified approach £'000	Purchased or originated credit impaired financial assets £'000	Total £'000
<b>Opening balance as at 1 April 2018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,567</b>	<b>0</b>	<b>2,567</b>
Transfers:						
• Individual financial assets transferred to 12-month expected credit losses	0	0	0	0	0	0
• Individual financial assets transferred to lifetime expected credit losses	0	0	0	0	0	0
• Individual financial assets transferred to lifetime expected credit losses credit impaired	0	0	0	0	0	0
New financial assets originated or purchased	0	0	0	607	0	607
Amounts written off	0	0	0	-185	0	-185
Financial assets that have been derecognised	0	0	0	0	0	0
Changes due to modifications that did not result in derecognition	0	0	0	0	0	0
Changes in models/risk parameters	0	0	0	0	0	0
Other changes	0	0	0	0	0	0
<b>Balance as at 31 March 2020</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,989</b>	<b>0</b>	<b>2,989</b>

## Notes to the Accounts

### Credit Risk Exposure

The Authority has the following exposure to credit risk at 31 March 2020:

	Credit risk rating	Gross carrying amount £'000
12-month expected credit losses	PPP	0
	PP	0
	P	0
Significant increase in credit risk since initial recognition	QQQ	0
	QQ	0
	Q	0
Credit-impaired at 31 March	RRR	0
	RR	0
	R	0
Simplified approach	SSS	0
	SS	0
	S	0

### Liquidity Risk

The Authority has a cashflow management system to ensure cash is available when needed. If unexpected movements happen, the Authority has ready access to the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk may be bound to replenish a proportion of its borrowings at times of unfavourable interest rates. The Authority sets limits on the proportion of its fixed borrowing during specific periods and seeks to ensure an even maturity profile through a combination of planning when to take new loans and where economic when to make early repayments.

The maturity structure of financial liabilities at nominal value is as follows:

On 31 March 2019 £'000	Loans outstanding	On 31 March 2020 £'000
55,017	Less than 1 year	62,111
3,001	Between 1 and 2 years	1
730	Between 2 and 5 years	6,094
53,824	Between 5 and 10 years	66,331
495,497	More than 10 years	478,362
<b>608,069</b>	<b>Total</b>	<b>612,899</b>

All trade payables are included in less than one year.

## Notes to the Accounts

### Market Risk

#### Interest rate risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. A rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance.

The Authority has a number of strategies for managing interest rate risk. The policy is to have up to a maximum of 40% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to inform budget monitoring during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2020, if interest rates had been 1% higher than market rate with all other variables held constant, the financial effect would be:

	2019/20 £'000
Increase in interest payable on variable rate borrowings	401
Increase in interest receivable on variable rate investments	0
Increase in government grant receivable for financing costs	246
<b>Impact on Surplus or Deficit on the Provision of Services</b>	<b>647</b>
<b>Share of overall impact debited to the Housing Revenue Account</b>	<b>120</b>
Decrease in fair value of fixed rate investment assets	0
<b>Impact on Other Comprehensive Income and Expenditure</b>	<b>0</b>

## Notes to the Accounts

	2019/20 £'000
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive I&E)	122,328

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Price Risk

The Authority does not generally invest in traditional equity shares.

### Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.



## *Housing Revenue Account Income and Expenditure Statement*

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2018/19 £'000		Note	2019/20 £'000
13,811	Repairs and maintenance		13,519
13,589	Supervision and management		14,335
817	Rent, rates, taxes and other charges		772
5,938	Depreciation and impairment of non-current assets	3	5,664
70	Debt management costs		71
<b>34,225</b>	<b>Total Expenditure</b>		<b>34,361</b>
-61,631	Dwelling rents		-63,268
-117	Non-dwelling rents		-99
-2,884	Charges for services and facilities		-3,169
-1,280	Contributions towards expenditure		-1,359
<b>-65,912</b>	<b>Total Income</b>		<b>-67,895</b>
<b>-31,687</b>	<b>Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement</b>		<b>-33,534</b>
715	HRA services' share of Corporate and Democratic Core		754
<b>-30,972</b>	<b>Net cost for HRA services</b>		<b>-32,780</b>
	<b>HRA share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:</b>		
6,744	Interest payable and similar charges		6,860
-62	Interest and investment income		-32
1,088	Impairment Losses		1,113
895	Net interest on the net defined benefit liability (asset)		959
-9,185	Capital grants and contributions receivable		-9,210
<b>-31,492</b>	<b>Surplus(-)/Deficit for the year on HRA services</b>		<b>-33,090</b>

## *Movement on the HRA Balance*

2018/19 £'000		2019/20 £'000
6,781	Balance on the HRA at the end of the previous year	6,156
31,492	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	33,090
-32,117	Adjustments between accounting basis and funding basis under statute	-33,905
<b>-625</b>	<b>Net decrease before transfers to or from reserves</b>	<b>-815</b>
0	Transfers to/(from) earmarked reserves	0
<b>-625</b>	<b>Increase or (decrease) in the year on the HRA</b>	<b>-815</b>
<b>6,156</b>	<b>Balance on the HRA at the end of the current year</b>	<b>5,341</b>

### Adjustments between accounting basis and funding basis under statute

#### Adjustments to Revenue Resources

Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:

1,615	Pension costs (transferred to (or from) the Pensions Reserve)	2,207
0	Financial instruments (transferred to the Financial Instruments Adjustment Account)	0
7	Holiday pay (transferred to the Accumulated Absences Reserve)	-4
-3,247	Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	-3,546
<b>-1,625</b>	<b>Total Adjustments to Revenue Resources</b>	<b>-1,343</b>

#### Adjustments between Revenue and Capital Resources

-2,992	Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	-3,038
-27,500	Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	-29,524
<b>-30,492</b>	<b>Total Adjustments between Revenue and Capital Resources</b>	<b>-32,562</b>
<b>-32,117</b>	<b>Total Adjustments</b>	<b>-33,905</b>

## Notes to the Housing Revenue Account

### 1. Housing Stock

As at 31st March 2020 the Authority owned a total of 13,530 properties, made up of different types of dwelling including detached houses, semi-detached houses, bungalows, low level flats, high rise accommodation and sheltered accommodation.

The change in stock numbers can be summarised as follows:

31/03/2019		31/03/2020
Units		Units
13,528	Stock at 1 <sup>st</sup> April	13,525
3	Additions	5
-6	Taken out of income	0
<b>13,525</b>	<b>Stock at 31<sup>st</sup> March</b>	<b>13,530</b>

### 2. Capital expenditure

During 2019/20 £53.438m (2018/19 £42.070m) was spent on HRA Properties.

This was financed as follows:-

2018/19		2019/20
£'000		£'000
9,185	Grants – Major Repairs Allowance	9,210
0	Grants - Other	1,754
96	Capital Contributions	54
27,500	Revenue and Balances	29,524
5,289	Borrowing	12,896
<b>42,070</b>	<b>Total</b>	<b>53,438</b>

The Major Repairs Allowance was used in full in 2019/20 and 2018/19.

### 3. Depreciation charges and impairment

The total charge for depreciation and impairment made to the HRA for 2019/20 amounted to £5.664m (2018/19 £5.938m) and is analysed as follows:-

2018/19		2019/20
£'000		£'000
	Depreciation on operational assets	
5,754	- dwellings	5,818
32	- other property	19
	Revaluation Losses	
141	- dwellings	-177
11	- other property	0
	Impairment	
0	- dwellings	0
0	- other property	4
<b>5,938</b>	<b>Total</b>	<b>5,664</b>

The depreciation charge in respect of HRA assets is not an actual charge against the HRA Balance. It is reversed out in the Movement on the HRA Statement, and replaced with HRA Minimum Revenue Provision specified in the Item 8 Determination, via a transfer to or from the Capital Adjustment Account.

### 1. Scope of Responsibility

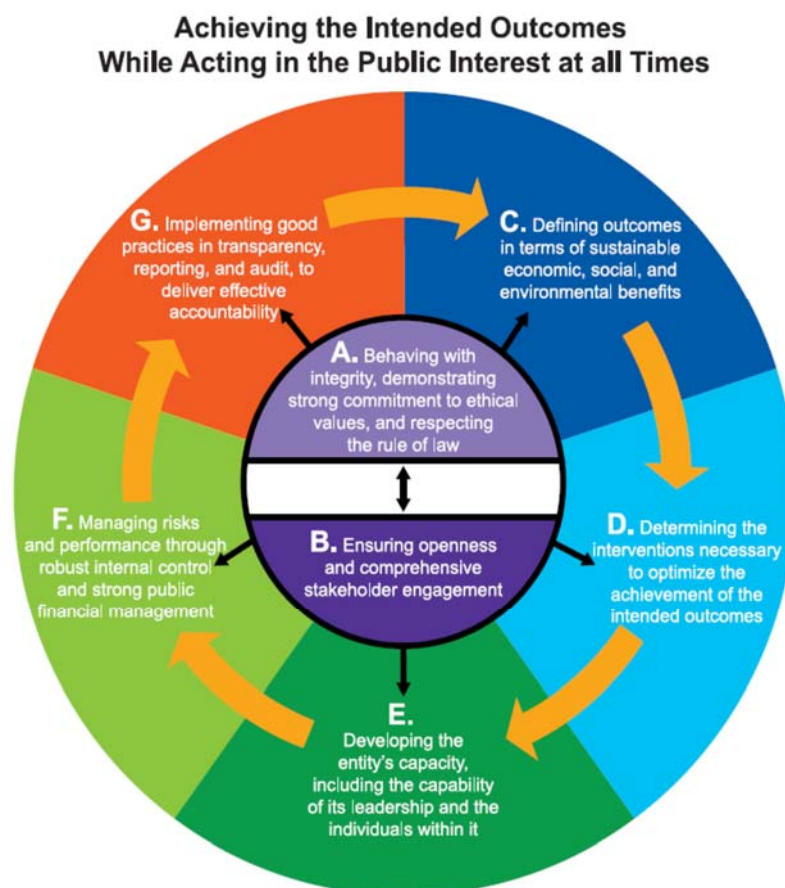
- 1.1 The City and County of Swansea is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the City and County of Swansea is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 The City and County of Swansea adopted a Code of Corporate Governance on 24 August 2017, which is consistent with the principles of the new CIPFA/SOLACE Framework '*Delivering Good Governance in Local Government 2016*'. A copy of the Code can be found on the Council's website.

### 2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the City and County of Swansea throughout the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

## 3. The Governance Framework

- 3.1 The Council has adopted a Code of Corporate Governance based on the “*Delivering Good Governance in Local Government*” framework published by CIPFA and SOLACE in 2016.



- 3.2 This Statement explains how the Council has complied with the Governance Framework and meets the requirements of the Accounts and Audit (Wales) Regulations 2014 (as amended by the Accounts and Audit (Wales) (Amendment) Regulations 2018). The Council aims to achieve a good standard of governance by adhering to the 7 key principles of the CIPFA/Solace 2016 Guidance.

- 3.3 The 7 key principles are:

- A) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B) Ensuring openness and comprehensive stakeholder engagement.
- C) Defining outcomes in terms of sustainable economic, social and environmental benefits.
- D) Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E) Developing the entity's capacity, including the capability of its leadership and the individuals within it.

- F) Managing risks and performance through robust internal control and strong public financial management.
  - G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.
- 3.4 The application of the principles of good governance is summarised below which sets out supporting information for the 7 key principles.
- 3.5 **Note - This Governance Statement and the issues set out within are likely to continue to be materially affected by the COVID-19 pandemic. The full-scale of the impact that the Authority faces responding locally and nationally to the crisis remains unclear. In addition, the national lock down arrangements and the prioritisation of the response to COVID-19 has affected the preparation of the Statement. However, it should be noted that the Statutory Governance Chief Officers are resolved to maintain appropriate corporate grip to ensure that sufficient governance is maintained throughout this unprecedented crisis and during the recovery.**

## Principle A

**Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

### Sub Principles:

**Behaving with Integrity**

**Demonstrating strong commitment to ethical values**

**Respecting the rule of law**

### How we do this:

- The behaviour and expectations of officers/members is set out in the Constitution, Officer and Member Code of Conduct and Protocol.
- The Monitoring Officer provides training on the code of conduct and ensures the highest standards of conduct by the authority, members and officers – including use of Council email protocol.
- The Standards Committee is responsible for monitoring and scrutinising the standards of Members.
- Member led authority principles with training to senior officers and Cabinet members.
- Compliance with a suite of policies/rules set out in the Constitution.
- The Constitution sets out requirements as to gifts and hospitality and there are regular reminders circulated to both officers and members.
- Adoption of Member Dispute Resolution Protocol.
- Officers/members declarations of interest.
- Officer Secondary Employment Policy.

- The Council's appraisal and recruitment system based on competencies, training and objectives underpin personal behaviours with ethical values.
- Commitment to working to promote high standards of performance based on the Nolan principles.
- Adoption of Welsh Government ethical ways of working.
- The Swansea Pledge.
- The Constitution contains comprehensive Procurement and Financial Procedure Rules.

- The Statutory officers and Members ensure compliance with legislative and regulatory requirements via a robust framework including the scheme of delegation, induction training, standing procedures and rules set out in the Constitution.
- Reports to Committees have legal/finance clearance.
- Robust Scrutiny and Call-In function.
- Robust audit challenge.
- External challenge from auditors, Ombudsman and other external agencies.
- The Monitoring Officer ensures the Council complies with statute and reports on any maladministration.
- An effective anti-fraud and corruption framework supported by a suite of policies i.e. whistleblowing.



Principle B

Ensuring openness and comprehensive stakeholder engagement

Sub Principles:

Openness

Engaging comprehensively with institutional stakeholders

Engaging stakeholders effectively, including individual citizens and service users

How we do this:

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- The Council is committed to ensuring an open culture evidenced by open meetings and publication of agendas and minutes.
- A Forward Plan showing key decisions to be made by Council and Cabinet is published.
- There is appropriate Consultation and Engagement supporting the decision making process including annual budget consultation, co-production, engagement with trade unions and engagement with Disability and LGBT communities.
- There are Public questions at Council and Cabinet.
- There is engagement with children and young people to meet the requirement of the UNCRC.
- There is pre-decision scrutiny of Cabinet decisions and Call-In procedure
- Corporate and Directorate risks are published.

- The Council adopts a Team Swansea approach working as a whole Council and effectively engages with stakeholders to ensure successful and sustainable outcomes by:
  - targeting communications;
  - effective use of social media;
  - formal and informal meetings with key stakeholder groups i.e. External auditors, Welsh Government, Health board.
- The Council has an extensive range of partnerships to support the delivery of the Council’s objectives including:
  - The Public Services Board.
  - The Safer Swansea Partnership.
- The Council has adopted the Community/Town Council Charter and facilitates the Community/Town Council forum meetings with the 24 Councils.

- The Council has appropriate structures in place to encourage public participation which is used to inform proposals and key decisions including:
  - A Consultation and Engagement framework.
  - “Have your Say” consultations on website.
  - The Scrutiny Programme Committee invites stakeholder contributions and participation.
  - An Annual Staff Survey with responses considered by CMT/Senior Management.
  - A Complaints Policy and Annual Report to assess organisational learning and change.
  - The appointment of Councillor Champions who provide a voice for under-represented groups.



Principle C

Defining outcomes in terms of sustainable economic, social and environmental benefits

Sub Principles:

Defining outcomes

Sustainable economic, social and environmental benefits

How we do this:

- The Council has a clear vision which is set out in the Corporate Plan *Delivering a Successful & Sustainable Swansea* which prioritises 6 Well-being Objectives.
- Delivery of the Corporate Plan is monitored through the Council's Performance Management Framework with quarterly and annual performance monitoring by CMT/Cabinet.
- There is an Annual Performance Review.
- Annual Service Plans address the sustainability of service delivery along with key corporate priorities.
- There is monthly Performance and Financial Monitoring meetings held for each Directorate.
- There is a Corporate Risk Management Policy ensuring consistent application of risk registers and terminology and audit scrutiny.

- The Council takes a long term and sustainable view and balances the economic, social and environmental impact of policies and plans by:
  - Medium Term Financial Planning covering 3 financial years approved annually by Council.
  - Refresh of the Corporate Plan annually
  - Annual service planning.
- The Council's *Sustainable Swansea: Fit for the Future* programme seeks to modernise and transform the council to meet the longer term challenges and ensure sustainable provision of services.
- There is public and stakeholder engagement.
- Council has passed a motion on climate change.

Principle D

Determining the interventions necessary to optimise the achievement of the intended outcomes

Sub Principles:

Determining interventions

Planning interventions

Optimising achievement of intended outcomes

How we do this:

- The Council ensures that decision makers receive objective and rigorous analysis of options with intended outcomes and risks by:
  - written reports from Officers;
  - report clearance by legal, finance and Access to Services officers;
  - embedding of impact assessment in decision making process;
  - clear option appraisals reflected in reports detailing impact, risk and any best value considerations.
- The results of consultation exercises are fully considered by decision makers with consultation responses set out in report.
- Consultation on budget proposals is extensive and includes roadshows with staff.
- The Council has a Corporate Risk Management Policy.

- The Council has established robust planning and control cycles covering strategic and operational plans, priorities and targets which is achieved through:
  - A timetable for producing and reviewing plans on an annual basis.
  - Working with a consultation and engagement framework.
  - Quarterly and annual performance monitoring including achievement of national and local performance indicators.
- There is robust Medium Term Financial Planning.
- There is an Annual budget setting process in place including an extensive consultation exercise.

- The Council ensures the Medium Term Financial Strategy integrates and balances service priorities, affordability and other resource constraints by setting out any shortfall in resources and spending requirements in the context of service priorities.
- To ensure that the budget process is all inclusive there is regular engagement with members with robust scrutiny by the Service Improvement & Finance Scrutiny Performance Panel.
- Sustainable Swansea – Fit for the Future.
- The Council ensures the achievement of “social value” through the effective commissioning of service in compliance with CPR’s e.g. Beyond Bricks and Mortar (community benefit clauses in council contracts).

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Sub Principles:

Developing the entity's capacity

Developing the capability of the entity's leadership and other individuals

How we do this:

- The Council aims to ensure that Members and Officers have the right skills, knowledge and mind set to operate efficiently and effectively to achieve intended outcomes by:
  - adopting a comprehensive induction training programme for members and officers;
  - a Councillor Training Programme based on a Training Needs Assessment;
  - annual performance review of staff;
  - adoption of a mentoring scheme.
- Operational capacity is supported by the Transformation & Future Council objective to help tackle rising demand and reducing revenue budget.
- The Organisational Development Strategy aims to develop the right staff with the right skills to work in a sustainable way.
- There is engagement with benchmarking groups such as APSE, CIPFA.
- There is collaborative and partnership working including the Public Service Board, ERW.

- Effective shared leadership and understanding of roles and objectives is supported by:
  - The Leader and Chief Executive have clearly defined leadership roles.
  - The Chief Executive Appraisal and Remuneration Committee have responsibility for the appraisal of the Chief Executive.
  - There has been member led training with both senior officers and cabinet members.
  - There are regular 1-2-1 meetings with the Leader, Cabinet members, Chief Ex, CMT and Heads of Service.
  - The Transformation and Future Council objective and the Organisational Development Strategy.
- The Constitution sets out the Scheme of Delegation which is regularly reviewed.
- Annual appraisal and performance review.

## Principle F

### Managing risks and performance through robust internal control and strong public financial management

#### Sub Principles:

#### Managing risk

#### Managing performance

#### Robust internal control

#### Managing data

#### Strong public financial management

#### How we do this:

- Risk management is an integral part of decision making supported by:
  - A revised Corporate Risk Management Policy with clear nominated officer responsibility.
  - New risk register application.
  - Monthly review of risks by CMT.
  - Monthly review of Directorate Risks at PFM meetings.
  - The publication of Corporate & Directorate Risks allowing greater scrutiny.
  - The Audit Committee regular review of risks (see para 8.11)

- There are quarterly performance monitoring reports to Cabinet.
- Each Head of Service produces an Annual Service Plan setting out clear objectives and SWOT analysis of their service.
- There are regular reports as to performance indicators and milestones against intended outcomes.
- There is robust scrutiny challenge by pre decision scrutiny, inquiries and Call-In.
- Monthly Directorate Performance and Financial Monitoring meetings.

- CIA provides independent assurance on the adequacy of internal control through the IA plan approved by the Audit Committee.
- The Audit Committee provides independent and objective assurance on effectiveness of internal control, risk management and governance arrangements.
- The Council is dedicated to tackling fraud and corruption and has an Anti-Fraud and Corruption Policy and Whistleblowing Policy
- The Audit Committee receives an annual report on the fraud function and Anti-Fraud Plan.
- The Internal Audit Plan is approved by Audit Committee.

- The Council demonstrates effective safeguarding of personal data and information by:
  - The appointment of a Data Protection Officer.
  - The adoption of a Data Protection Policy.
  - An Information Governance Unit and Senior Information Risk Officer.
  - An information asset register
  - The Council is signed up to the Wales Accord for Sharing Personal Information (WASPI).
  - Data Protection training is mandatory.

- The Council ensures both long term achievement of outcomes and short term performance through the delivery of the Medium Term Financial Plan.
- Financial management is integrated at all levels of planning and control by:
  - financial implications are included in all decision making reports;
  - there is a specific Corporate risk around Financial Control and MTFP aspects of Sustainable Swansea owned by the S151 officer.

## Principle G

**Implementing good practices in transparency, reporting and audit to deliver effective accountability**

### Sub Principles:

**Implementing good practice in transparency**

**Implementing good practices in reporting**

**Assurance and effective accountability**

### How we do this

- The Council aims to present understandable and transparent reports for both stakeholders and the public which is supported by:-
  - A Report Authors Protocol which ensures consistency in reports.
  - A Clear Writing guide for Officers.
  - All reports are signed off by Cabinet Member, legal, finance and Access to Services officers.
  - The Council has a Publication Scheme which is available on the website.
  - Where possible exempt reports are split so that the main report can be heard in public with confidential information being a separate exempt report.
  - Reports are published on the website and agendas are published in the Welsh Language.

- The Council reports at least annually on performance as evidenced by:
  - Quarterly and annual reports to Cabinet on performance.
  - An annual Review of Performance report setting out how the Council has performed in meeting its Corporate Objectives.
  - The Annual Statement of Accounts audited by external auditor and approved by Council and published demonstrates how the Council has achieved performance, value for money and the stewardship of resources.
- Senior Managers complete Senior Management Assurance Statements (SMAS) reflecting performance against governance, risk management and internal control. The SMAS contribute to the Annual Governance Statement.
- The Council have adopted the Code of Corporate Governance based on CIPFA framework.

- Through the assurance mechanisms set out below the Council can demonstrate effective accountability:
- The Internal Audit work plan provides assurance on the council's control mechanisms, risk management and governance arrangements which is monitored by the Audit Committee.
- All agreed actions from Internal Audit reviews are monitored.
- Reports and plans to implement WAO and Internal Audit recommendations reported (as relevant) to Scrutiny and Audit Committee.
- Peer Review and inspection from regulatory bodies and external compliance reviews which are reported to CMT/Cabinet and used to improve service delivery.
- There is Scrutiny and audit review of WAO reports and action plans.
- Assurance on risks associated with delivery of services through third parties is achieved by:
  - Commissioning and monitoring arrangements and compliance with Contract Procedure Rules.
  - SMAS reflect risk assessments in relation to partnership/third party working.

Internal Assurance

External Assurance

Annual Governance Statement

Council/  
Cabinet/  
Committee

Internal Audit

External audit

External Regulators/  
Inspections

Monitoring  
officer/S151  
officer

Statutory  
Inspections

CMT -SMAS

Audit  
Committee

Scrutiny

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### 4. Review of Effectiveness

4.1 The City and County of Swansea annually reviews the effectiveness of its governance framework including the system of internal control.

- (a) Statements from Corporate Management Team (CMT), Statutory Officers, the Internal Audit Manager and the Audit Committee.
- (b) External organisations i.e. Wales Audit Office and regulators.
- (c) Core evidence mapped to Council, Cabinet and Committees.

4.2 The following highlights the review of the governance framework in order to compile the Annual Governance Statement and sets out the assurance of CMT, officers and external organisations.

### **INTERNAL SOURCES OF ASSURANCE**

### 5 Corporate Management Team/SMAS

5.1 The Senior Management Assurance Statements (SMAS) form part of the governance assessment framework. Through the SMAS each Director responds to 15 good governance statements covering:

- Risk Management
- Partnership/Collaboration governance
- Compliance with Policies/Rules/Legal & Regulatory requirements
- Programme and Project Assurance
- Budget Monitoring
- Planning and Decision Making
- Internal Control Environment
- Fraud & Financial Impropriety
- Performance Measurement & Management

5.2 The Directors assess assurance using a 5 point maturity scale for their areas of responsibility ranging from “Not in place” to “Embedded”. Directors are expected to consult with their Heads of Service to support a directorate approach to each statement.

5.3 The Four SMAS from the Directors of Corporate Resources, Social Services, Place and Education are challenged and reviewed at CMT. The Director of Social Services submitted a SMAS for the directorate and a further two, one each for Adult Services and Child & Family.

5.4 The assurance statements summarised by 9 categories showed overall that there were no categories that were deemed as being “Not in place” or with “Limited Application”. A small number (4.6%) of categories were regarded as showing “Mixed Application”. These categories were: Performance Reviews (2); Data breaches / security (2); Partnership Governance (1) and Future Generations Act (1). These have been captured in the significant governance



risks for 2020/21 where relevant. However, 69% demonstrated “Strong Application” and 26% were described as “Embedded”.

- 5.5 The Council established an Annual Governance Group for the purpose of challenging the SMASs and assisting and overseeing the development of the Annual Governance Statement. The Group is led by the Deputy Chief Executive and members include the Council’s Section 151 Officer and Monitoring Officer, as well as the Strategic Delivery & Performance Manager and a member of the Audit Committee. The Chief Internal Auditor attends in an advisory capacity. The work of the Group in reviewing the SMASs and finalising the Annual Governance Statement and CMT in reviewing and approving the SMASs and Statement was disrupted by the COVID-19 situation. CMT reviewed the SMAS and draft Annual Governance Statement on 11<sup>th</sup> May 2020. The Significant Governance Issues for 2020/21 as identified by CMT are those set out below.

### 6. The Monitoring Officer

- The Chief Legal Officer is the Monitoring Officer with a specific duty to ensure that the Council, Officers and Members maintain the highest ethical standards of conduct. The Standards Committee has the responsibility for monitoring the ethical standards of conduct and to deal with any breaches of the Code referred to the Committee by the Public Service Ombudsman (PSOW).
- In 2019/20 the Monitoring Officer was notified of 14 complaints relating to members conduct by the PSOW. The PSOW decided not to investigate 10 of those complaints. Three complaints were investigated with no outcome yet and 1 complaint is outstanding. There are regular PSOW bulletins circulated to all councillors as to Code of Conduct issues.
- During 2018 and 2019 the Standards Committee interviewed the Leader, Leaders of the Opposition, the Chairs of Planning, Democratic Services and Licensing Committees and the Chief Executive. All those interviewed indicated their support for the Code of Conduct and their commitment to maintaining the highest ethical standards amongst councillors.
- An audit of officer gifts and hospitality was undertaken in 2018/19 with recommendations to improve consistency across departments. Members and officers are required to register their personal interests, gifts and hospitality with regular reminders sent out by the Head of Democratic Services. A Gifts and Hospitality Policy is currently under review.
- The Monitoring Officer has not had to issue any statutory Section 5 Local Government and Housing Act 1989 reports during 2019/20.
- A number of amendments to the Constitution were adopted by Council including a new Call-In procedure enabling greater scrutiny of Cabinet decisions and changes to the Financial Procedure and Contract Procedure Rules. Further work is being undertaken by the Monitoring Officer and Head of Democratic Services in terms of publication of officer delegated decisions. At the outset of



COVID-19 it was anticipated that emergency decisions would need to be made rapidly and also set in the context of new emerging legislation which would need to be monitored on a daily basis.

- The Deputy Chief Executive has overall responsibility for governance and as part of his strengthening of governance arrangements has presented the assurance framework to audit committee.

### 7. The S151 Officer

- Quarterly **Financial Monitoring Reports** were presented to Cabinet throughout 2019/20. The reports consistently identified some service revenue budget overspends at year end, albeit reducing throughout the year and by third quarter down to a miniscule margin of variation, so that underspend was as likely as overspend based on available information and stressed the need for service expenditure to be if at all possible contained within the budget set by Council. Towards the year-end the local Health Board settled £5m of long standing debt, for which full bad debt provision had been made, enabling Social Services to record a £5m one off underspend. Total service underspending has now been confirmed (at just under £7.5m) and is an extremely good outcome. On even more positive note the equally fully planned substantial continued underspending on capital financing (£7.5m) and contingency and central inflation (around £6m) has enabled sums to be added to the capital equalisation reserve and carried forward on contingency which is a prudent way of planning for and addressing some of, the future certain increased costs of financing the ambitious mid-term capital programme and the uncertainty of COVID-19.
- No **Mid Term Budget Statement 2019/20** was presented this year given the substantially delayed settlement due to the December General Election but the **Review of Reserves** was presented to Council on 24/10/19 which provided a strategic and focussed assessment of the current year's financial performance and an update on strategic planning assumptions over the next 3 financial years. The conclusion of the Statement was that the Council would potentially struggle to deliver within the overall resources identified to support the budget in 2020/21 and beyond unless the local government settlement was much enhanced (which was duly confirmed by February 2020). The likely projected outturn was dependent upon the willingness and ability of the Council to reduce and restrict ongoing expenditure across all areas.
- The Revenue and Capital Budgets were approved by Council on 05/03/20. They continued to set out an ambitious programme of approved capital spending plans and future capital spending plans (partly financed by the Swansea Bay City Deal but predominantly by unsupported borrowing) which would require budget savings to be delivered to help facilitate that major capital investment and economic regeneration stimulus. These plans are likely to be materially affected by COVID-19. It remains entirely unclear as to the scale of additional spending, the loss of income, and the funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the

COVID-19 pandemic. The impact was not directly financially material on the 2019-20 accounts but the national lock down arrangements and the prioritisation of the response to COVID-19 may have impaired our ability to fully prepare the accounts to our normally exceptionally high standards in line with accounting standards. Any necessary deviation caused will be disclosed separately throughout these accounts. The impact will be very financially material for the 2020-21 accounts (many tens of millions of pounds) but its net impact is less clear: by way of exemplification our increased costs, and lost income, will far exceed available reserves so the presumption is that all, or the very vast bulk of all, costs will be reimbursed by partners, Welsh Government or UK government through contributions or grant. The S151 officer triggered the necessary mechanisms for the Emergency Financial Assistance Scheme with Welsh Government in March 2020.

- The **Medium Term Financial Plan 2021/22 – 2023/24** was approved by Council on 05/03/2020. The Plan outlined the range of options around funding faced by the Council over the period, the key reliance on the scale and value of future local government finance settlements and the strategy to be adopted to address the various scenarios as well as the inherent risks to the success of the adopted strategy. All spending and funding assumptions were set before the full substantial economic scale of the COVID-19 pandemic was fully apparent. Whilst the Authority will consider future spending plans in line with projected funding announcements there is no indication at present that any of the assets of the Authority may be impaired as a result of a need to close facilities and reduce the level of service provision.
- Each Corporate Director held monthly **Performance and Financial Monitoring** meetings where Chief Officers and Heads of Service reported on progress in terms of continuous improvement and budgets.
- The **Wales Audit Office Annual Audit Summary 2019** dated March 2020 (and referred to below) noted that the Council has put in place proper arrangements to secure value for money from the resources it uses. Significant challenges remain particularly in terms of delivering timely transformation against the backdrop of a challenging financial position. . This reflected external auditor concerns that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets. The Council is seeking to address this through a refresh of its programme for transformation to ensure that planned actions are of sufficient scale and pace.
- The Council is the Administering Authority for the City and County of Swansea Pension Fund (the Pension Fund) and Swansea Bay Port Health Authority (SBPHA). The governance arrangements detailed in this Annual Governance Statement apply equally to the Council's responsibilities to the Pension Fund and SBPHA. There are further specific requirements for the Pension Fund which are:

- Investment Strategy Statement.

- Internal Dispute Resolution Process.
- Funding Strategy Statement.
- Administration Strategy Statement.
- A full actuarial valuation to be carried out every third year.
- Communications Strategy Statement.

### **8. Chief Internal Auditor's Internal Control Opinion**

- 8.1 The system of internal control is designed to help the Council manage and control the risks which could affect the achievement of the Council's objectives. However it is not possible to eliminate all risks completely.
- 8.2 This means that Internal Audit can only provide 'reasonable' assurance that the systems of internal control within the areas of the Council reviewed are operating adequately and effectively.
- 8.3 There has been a marginal increase in the number of audits receiving a moderate level of assurance since 2018/19. The Audit Committee has been made aware of the various moderate assurance reports that have been issued in 2019/20 as the summary details of these audits have been included in the quarterly monitoring reports. In addition, the committee has received updates from the relevant client department representatives for all of the moderate reports issued in year. A consistent theme running through the majority of the moderate audits issued in year has been in relation to reduced resources, resulting in a failure to adhere to standard control procedures. There has also been a marginal decrease in the number of audits with a high level of assurance. However, it should be noted that in both cases, the variance only represents 1% of the overall audit universe.
- 8.4 There are 14 audits which are classed as fundamental audits. The fundamental audits are the systems that are considered to be so significant to the achievement of the Council's objectives that they are audited either annually or bi-annually. Following the audits completed in 2019/20, 11 of the 14 fundamental audits have a high level of assurance. Two have a substantial level of assurance (Accounts Payable and NNDR/Business Rates) and one has a moderate level of assurance (Accounts Receivable).
- 8.5 Prior to the most recent audit, the NNDR/Business Rates audit had received consistent high assurance ratings and had therefore been subject to an audit every two years. However, as a result of the findings of the most recent audit in 2019/20, a substantial level of assurance was awarded and as a result this audit will be completed on an annual basis going forward.
- 8.6 The Accounts Payable audit received a substantial assurance rating in 2019/20 as was also the case in 2018/19 and so this also continues to be audited on an annual basis.
- 8.7 The Accounts Receivable audit received a moderate assurance rating in both 2018/19 and 2019/20. The Audit Committee have received a number of updates

from the client department in relation to the work that is ongoing within the department to address the issues that have been identified. The Audit Committee will continue to receive updates on this throughout 2020/21. (Please note that due to the timing of the draft reports being issued and the onset of the COVID-19 crisis, the NNDR/Business Rates, Accounts Receivable and the Housing and Council Tax Benefits audit reports remain at draft stage at the time of writing this opinion).

- 8.8 It is disappointing to note that one of the fundamental audits received a second moderate assurance rating in 2019/20. As detailed in updates provided to the Audit Committee from the client department, the reasons for the weaknesses identified in this area are in relation to reduced resources. As noted in previous annual reports, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.
- 8.9 Despite this it should be noted that of the 14 fundamental system audits, 11 have a high assurance level and two have a substantial assurance level. In addition, the results of the work undertaken in 2019/20 shows that as at the 31/03/20, 94% of all of the audits listed in the audit universe have either a high or substantial assurance rating. This provides reasonable assurance that across the Authority the systems of internal control are operating effectively.
- 8.10 Throughout the year, a significant amount of effort has been directed at further strengthening the systems of risk management across the Authority. Audit Committee receive regular update reports from the Strategic Delivery and Performance Manager outlining the status of key risks to further strengthen assurance in this area. The Corporate Management Team and Risk Owners have also reviewed the risk register entries regularly throughout the year to ensure the register is up to date and all mitigating controls have been captured and documented. A new Risk Management System has also been introduced in the year which should ensure monitoring and control of risk is greatly improved.
- 8.11 As per the Terms of Reference, the Audit Committee must be satisfied that they have sufficient information in order to gain assurance over the risk management controls across the Council. Prior to the introduction of the new Risk Management System, the Committee highlighted concerns over the amount of information that was available to Members to allow them to discharge this responsibility. These concerns were also echoed by the Council's External Auditors. It is envisaged that the introduction of the new Risk Management System will facilitate greater scrutiny of the risk management arrangements in place by the Committee. However, it should be noted that at present, the members of the Audit Committee do not have access to the new system.
- 8.12 In addition, further developments in the year have seen a member of the Audit Committee joining the Governance Group which is tasked with overarching responsibility for ensuring existing corporate governance arrangements are effective. However, it should be noted that there have been very few meetings

of the Governance Group throughout 2019/20 and as a result there has been little focus on the Annual Governance Statement throughout the year.

- 8.13 Each of the Corporate Directors has attended Audit Committee meetings throughout the year to outline governance, risk and control arrangements in place within each directorate. These improvements have further strengthened the overall assurance provided to the Audit Committee.
- 8.14 At the time of writing this opinion, it is unclear as to the scale of additional spending, loss of income and funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the COVID-19 pandemic. We are also aware that the Council's emergency response has necessitated some rapid changes to working practices, controls and authorisation channels for approval and decision making by Senior Officers and Councillors. However, it should be noted that the Statutory Governance Chief Officers are resolving to maintain appropriate corporate grip to ensure that sufficient recording and reporting mechanisms are maintained throughout this unprecedented crisis.
- 8.15 The impact of the pandemic was not directly financially or operationally material on the 2019/20 internal audit plan. As a result, the impact of the crisis is not yet reflected in the audit universe as the crisis commenced at the latter end of the financial year. However, it should be noted that the national lock down arrangements and the prioritisation of the response to COVID-19 may have impaired the Council's ability to fully comply with normal operating procedures at all times during March and beyond.
- 8.16 The impact of the crisis will be financially and operationally material for the whole of 2020/21. It will affect council spending, income, controls and even directly affect our ability to meaningfully deliver the audit plan, particularly during the lock down phase. Throughout this period, the audit team is refocusing its efforts to support the Council to deliver its immediate, urgent response to the crisis. It is hoped that once the current restrictions are eased, the audit team can slowly begin prioritising audit work in the subsequent expected recovery phase.
- 8.17 The Audit Committee and the Council's External Auditors have raised a number of concerns throughout the year in relation to risk management arrangements and also in relation to the lack of pace with which Directorates have been able to deliver agreed savings targets. These concerns are echoed by the Chief Auditor and the Chief Finance Officer and the programme of planned audits for 2020/21 will seek to provide the Committee with some clarity on these issues.
- 8.18 Overall, based on the work undertaken in 2019/20, I am satisfied that Internal Audit can provide reasonable assurance that the systems of risk management, internal control and governance established by the Council are operating effectively and that no significant weaknesses were identified in 2019/20 which would have a material impact on the Council's financial affairs or the achievement of its objectives.



### 9. The Audit Committee

- 9.1 At the time of writing this report the Council is facing unprecedented and challenging times as a result of the COVID-19 virus. As a result some Audit Committee meetings have been cancelled to enable valuable staff resource to be deployed to areas of greatest need. The Chair acknowledges that Council are endeavouring to maintain continuity of governance arrangements through this challenging time.
- 9.2 The Chair pays tribute to all staff and officers of the Council as well as the Council Partners' for their commitment and work being achieved to maintain services and support in such challenging circumstances.
- 9.3 On 11th June 2019 the Audit Committee considered the election of Chair for 2019-20 Municipal Year where it was resolved that Paula O'Connor be elected Chair. At the same meeting Councillor P R Hood-Williams was elected Vice-Chair for the 2019-20 Municipal Year.
- 9.4 In the 2018/19 Annual Report the Audit Committee gave an ongoing commitment to progressing the necessary action to address the Wales Audit Office recommendations. The Committee at every meeting reviewed progress against those recommendations with the aim of developing and strengthening the Committee's effectiveness in fulfilling the Committee's terms of reference.
- 9.5 The presentation on the Assurance Framework and the reporting on the Council's Risks was a significant step forward in 2018/19 in improving the Committee's ability to reflect on the effectiveness of governance, risk management and control that supports and informs the Council's Annual Governance Statement. However, the development and roll out of a new electronic risk management system was delayed during the year and the Chair and Audit Committee members have expressed concern that in the absence of a robust system that this will need to be highlighted in the Council's Annual Governance Statement at the year end.
- 9.6 We have reviewed the work programme at each Committee meeting, taking account of risk and priorities.
- 9.7 The Chair and Chief Internal Auditor attended the All Wales Audit Committee Chairs network in October 2019. The Network was established across all local Authorities in Wales, to bring together Chairs in an environment where there is opportunity to network, share ideas and problem solve with peers performing similar roles. The WGLA sponsored the event, and agenda items were delivered by WAO and CIPFA, with contributions from Heads of Internal Audit and Chairs. Within the governance item the Network received a particularly informative overview of the proposed changes to the role of the Audit Committee through the Draft Local Government and Elections (Wales) Bill. The Bill proposes to expand the remit of the Committee, through a renaming of the Committee as Governance and Audit Committee, and expanding its responsibilities into areas of performance management. The Bill also proposes changes to the composition of the Committee, with minimum proportions of lay

members (1/3 of Committee) and the requirement for a lay chairperson. The Committee will be keen to understand how its responsibilities may increase through the Bill, and to ensure it effectively responds and continues to discharge its role comprehensively. The Wales Audit Office will be asked to deliver a session of practical guidance and support to our next Chairs' Network, scheduled for July 2020. The Network will meet again in July 2020.

- 9.8 The Audit Committee terms of reference states that the Committee “oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.”
- 9.9 The Committee received the 2019/20 Internal Audit Plan and Charter on 9th April 2019 and has received reports regularly during the year from the Chief Internal Auditor. The Chair has expressed her gratitude to the Chief Auditor in responding to a request to enhance the detail in the reports to provide further understanding of the work undertaken and the risks identified. During 2019/20 the Chief Auditor reported a number of Moderate Assurance audit reports that resulted in those responsible attending Audit Committee to give assurance that appropriate action was being taken where significant weaknesses in control were identified.
- 9.10 The Wales Audit Office presented their 2019 Audit Plan to the Audit Committee on 9th April 2019, and has provided the Committee with regular updates to their work. In 2017/18 the Chair suggested that consideration be given to developing a tracker to give focus to improved completion of external audit recommendations. This work is yet to be completed but the Chair acknowledges that Scrutiny Committee has the opportunity to challenge non-implementation of recommendations as well as the Audit Committee.
- 9.11 The Chair has met during the period with the Deputy Chief Executive, S151 Officer, Monitoring Officer, Chief Internal Auditor and the Wales Audit Office. A meeting is being arranged with the Chief Executive to communicate Audit Committee concerns in a number of key risk areas that include, robustness of Directorates saving plans, workforce pressures, risk management arrangements and reporting of risk to Audit Committee, production of Annual Governance Statement and the role of the Governance Group.
- 9.12 At the meeting on 9th April 2019 the Committee received the Corporate Fraud Teams Anti-Fraud Plan for 2019/20 that was similar to the plan in 2018/19. The Corporate Fraud Team informed the Committee that the work of the Team was largely reactive due to the limited resource. The Committee endorsed the plan subject to ongoing review of the resource position by the Council's Corporate Management Team and referral to Council for approval.
- 9.13 The Head of Legal, Democratic Services & Business Intelligence (Monitoring Officer) presented the draft Annual Governance Statement 2018/19 at the meeting in August 2019. A final draft was received at a special meeting of the Audit Committee on 16<sup>th</sup> September 2019. The Annual Governance Statement was presented to full Council as part of the Statement of Accounts on 29 August 2019.

- 9.14 The Chair attended the Scrutiny Panel Conference 10th June 2019 and also Scrutiny Panel on 8th July 2019.
- 9.15 The Committee discussed the concern regarding the cost of the capital programme, the level of reserves, the risk to the Authority and the need to scrutinise the risk. Also, it was noted that a recovery plan should be developed on how the Council plans to deal with overspends and that the Audit Committee should be provided with regular budget variation reports. The Chief Finance Officer / Section 151 Officer agreed to provide this information to future meetings.
- 9.16 Looking forward to 2020/21, the unprecedented challenges that are ongoing with the COVID-19 virus will clearly have an impact on the Council's governance and finance arrangements during the early to mid-part of the year. The April 2020 meeting of the Audit Committee was cancelled and the meeting in May 2020 is due to be held remotely. However, it is clear that maintaining performance and managing the financial challenges the Council faces will continue as will the need to address the demands emerging from COVID-19. Within this context, the importance of an effective Audit Committee remains critical and the Committee is committed to enhancing its effectiveness through an ongoing training programme, delivering against the Wales Audit Office efficiency improvements and liaising with Officers to enhance the information that the Committee receives. The Committee will keep the Work Programme under regular review and will ensure that the Work Programme contains the critical challenges that the Council faces.

### **EXTERNAL SOURCES OF ASSURANCE**

#### **10. External Auditors**

- The WAO audit work in 2018-19 included a follow-up review of the Auditor General for Wales 2015 national report 'Delivering with Less – Leisure Services'. Following a commissioning review of the Council's Cultural services, on 1 October 2018, seven Council leisure centres transferred to Freedom Leisure, a not-for-profit organisation to manage and operate these facilities for a period of 19.5 years. Their review looked at the Council's Cultural services commissioning review and decision-making arrangements in transferring these leisure centres to a not-for-profit organisation. The WAO audit concluded that: the Council has contracted out the future management of its leisure centres, but lacks a full strategic plan to evaluate the leisure service's contribution to achieving the Council's objectives.
- WAO audit work in 2018-19 also included a follow-up review of our 2014 report into the Council's arrangements to support safeguarding of children. WAO also considered the Council's progress in implementing the recommendations contained in the Auditor General's report, 'Review of Corporate Safeguarding Arrangements in Welsh Councils' (July 2015). Overall, WAO found that: The Council has addressed most of the recommendations in our previous national and local safeguarding reports but should strengthen some aspects of its



corporate safeguarding arrangements. WAO made further proposals for improvement to the Council in this regard.

- WAO were satisfied the Council has met its legal duties for improvement planning and reporting and is likely to meet the requirements of the Local Government Measure (2009) during 2019-20.
- WAO undertook the Well-being of Future Generations examination in 2018-19 that considered the extent to which the Council has acted in accordance with the sustainable development principle in developing its new approach to employability, called 'Swansea Working'. WAO concluded that the Council is acting in accordance with the sustainable development principle in developing and implementing the 'step' ('Swansea Working' is an explicit element of Council strategies to tackle poverty and prevention), but there are opportunities to further embed the five ways of working.
- **Wales Audit Office Annual Audit Summary 2019** dated March 2020 (and referred to below) noted that the Council has put in place proper arrangements to secure value for money from the resources it uses. Significant challenges remain particularly in terms of delivering timely transformation against the backdrop of a challenging financial position. This reflected external auditor concerns that the Council continues to face a significant financial challenge and needs to deliver its savings plans at the pace and scale required whilst controlling service spending within budgets. The Council is seeking to address this through a refresh of its programme for transformation to ensure that planned actions are of sufficient scale and pace.
- The Wales Audit Office on behalf of the Auditor General for Wales presented the **Audit of Financial Statements Report 2018/19** to Audit Committee on 13/8/19 and to Council on 29/08/19. The report highlighted any significant issues to those charged with governance that needed to be considered prior to the approval of the financial statements. The Auditor General issued an unqualified audit report on the financial statements and the report concluded that the financial statements for both the City & County of Swansea and the City and County of Swansea Pension Fund, (which was presented to the Pension Fund Committee on the 12/9/19), gave a true and fair view of the financial position of the Council and had been properly prepared.

### 11. Statutory external inspections/regulators

The Council is subject to Statutory External Inspections by various bodies including ESTYN and Care Inspectorate Wales (CIW).

- CIW reported on its inspection of services for children living in Swansea in October 2018. Overall, CIW found good quality practice in Swansea Council children's services, with positive outcomes being achieved for many children and young people. CIW also issued a Local Authority Performance Review and concluded that Swansea Council is a learning organisation and fully aware of its strengths and areas in need of improvements and have a proactive approach

to improvement and ensuring positive outcomes; however this is an ongoing significant challenge due to budgetary and workforce issues.

- The Estyn profile of school inspections for 2019-2020 is very positive in all sectors. Between the summer term 2019 and spring term 2020, 13 schools were inspected by Estyn in Swansea. 12 schools were judged to be good or excellent in all of the five areas that are inspected under the current framework. One school was judged adequate in the area of teaching and learning but good in all other areas. All inspection results and recommendations, as well as other intelligence, is discussed in regular meetings and appropriate support and challenge through the advisory team is identified as a result. Overall the picture for Swansea compared to other authorities is very positive and against the trend of inspection results across Wales.

### **CORE EVIDENCE**

#### **12. Council & Cabinet**

The following provide assurance based on reports covering 2019/20. In some instances reports from 2018/19 are reflected in the Annual Governance Statement as the reports for 2019/20 are not yet available.

- Council adopted a revised Corporate Plan 2019/22 *Delivering a Successful and Sustainable Swansea* on 25 October 2018. The Corporate Plan for 2019/22 was refreshed and approved at Cabinet on 19<sup>th</sup> March 2019 and was refreshed again and approved by Cabinet on 19<sup>th</sup> March 2020. The Corporate Plan sets out the Council's values and principles underpinning the delivery of the objectives and sets out how the Council will monitor progress through quarterly and annual performance monitoring reports.
- Performance on delivery of the Council's Well-being Objectives is monitored quarterly by Cabinet. Quarterly Reports during 2019/20 contain outturn compliance with performance indicators and an overview of performance for each Objective provided by Directors/Heads of Service. The End of Year Performance Monitoring Report for 2018/19 was presented to Cabinet on 15<sup>th</sup> August 2019. End of Year 2019/20 and Quarter 1 2020/21 Performance reporting has been suspended for the time being during the COVID-19 response; reporting will resume as soon as possible in line with the Council's COVID-19 recovery plans.
- The Annual Review of Performance 2018/19 was approved by Cabinet on 17<sup>th</sup> October 2019 in accordance with the publishing requirements of the Local Government (Wales) Measure 2009. The report showed the results of each performance measure for the 6 Objectives set out in the Corporate Plan 2018/22. The results showed that overall the Council has made significant progress undertaking the steps to meet its Well-being Objectives but that there were areas for development and lessons learnt.

- The Corporate Complaints Policy is in line with the Welsh Government Model Complaints Policy and was in place throughout 2019/20. It enables the public to tell the Council what they think about services. The Corporate Complaints Annual Report 2018/19 was presented to Cabinet on 23<sup>rd</sup> January 2020. The report reflects the continued emphasis on prompt resolution of complaints and includes compliments about services. Whilst the total of complaints to the Public Service Ombudsman for Wales increased from 62 to 83 only 1 was upheld, 9 were resolved by quick fix/voluntary settlement, 1 was not upheld and the remaining referrals were either out of jurisdiction, premature or closed after initial consideration. There was an assurance that there were no s 16 Public Interest reports during the year.
- The Audit Committee Annual Report 2018/19 was presented to Council on 24<sup>th</sup> October 2019 and outlined the assurance the Committee had gained over control, risk management and governance from various sources over the course of 2018/19. In particular, the report highlighted the work that had been undertaken throughout the year in line with the Committee's terms of reference. The report also provided an update on the implementation of the actions arising from the Performance Review facilitated by the Wales Audit Office.
- The Equality Review Report 2018/19 was reported to Cabinet on 19<sup>th</sup> September 2019, which highlighted progress against the Equality Objectives. The report highlighted work linked to the core principles i.e. co-production, engagement and embedding of children's rights.
- The Welsh Language Annual Report 2018/19 reflected progress and compliance on the 169 Welsh Language Standards with which the Council has to comply. The report contained an overview of activity and how the Council internally promotes the Welsh Language Standards with tools and information. The report concluded that good progress continued to be made on implementing the Welsh language standards during 2018/19 and general feedback indicated that officers were more educated and much more aware of the need for compliance than they were previously.
- There were a number of key reports presented to Cabinet/Council during 2019/20 including reports relating to the Swansea Bay City Deal and a number of Cabinet responses to Scrutiny reports.

### 13. Committees

- The **Scrutiny Programme Committee (and established Scrutiny Panels and Working Groups)** met throughout 2019/20 and were supported by the Council's Scrutiny Team. The scrutiny function is delivered through the Scrutiny Programme Committee (SPC) together with a number of Scrutiny Inquiry and Performance Panels. The SPC is a group of thirteen Scrutiny Councillors and other members who are co-optees who organise and manage what Scrutiny will look at each year. All scrutiny activity within the council is managed by the committee through a single workplan. Specific work is undertaken both through

the committee and by establishing informal panels (for in-depth activities) or working groups.

- The **Scrutiny Annual Report 2018/19** was presented to Council on 24<sup>th</sup> October 2019. The report highlighted the work carried out by Scrutiny, showed how Scrutiny had made a difference and supported continuous improvement for the Scrutiny function. It shows that the Scrutiny Programme Committee met on 14 occasions. In total, there were 95 panel and working group meetings during that municipal year with 2 Inquiries relating to the Natural Environment (completed) and Equalities (ongoing). Two Inquiry Panels reconvened to follow up actions agreed by Cabinet – CAMHS and Tackling Poverty. There was also pre decision scrutiny undertaken on a number of Cabinet reports and a high level of councillor commitment.
- There is a strong relationship with audit, inspectors and regulators. There are well-established links between the scrutiny function and Estyn, in respect of Education Services and School Improvement, and similarly with CIW (Care Inspectorate Wales), in respect of Audit Services and Child & Family Services. Respective Scrutiny Performance Panels are routinely provided with relevant reports from Estyn and CIW, and are discussed as required. All Wales Audit Office local performance audit reports and relevant national Wales Audit Office reports (those with implications for local government) are also included in the Scrutiny Work Programme (dealt with by the Committee or relevant Performance Panels) and there is co-ordination with the Audit Committee. Scrutiny considers the Council's response / action plans following WAO reports and follows up progress as necessary. Regional scrutiny continues with ERW and Swansea Bay City Region City Deal. The Swansea Scrutiny Team is providing support for the ERW joint scrutiny arrangement.
- There was a positive external assessment of our scrutiny arrangements from the Wales Audit Office Review of Scrutiny 2018, and Care Inspectorate Wales inspection of Child & Family Service and Foster Swansea. A Scrutiny Improvement Action Plan was agreed by Scrutiny Programme Committee following self-evaluation and consideration of WAO Review of Scrutiny findings.
- The **Standards Committee** met on 3 occasions during 2019/20 and the **Standards Committee Annual Report 2018/19** was presented to Council on 27<sup>th</sup> November 2019. The Committee is chaired by an independent person and is responsible for monitoring the ethical standards of the authority and maintaining the highest standards of conduct by elected councillors. The Committee commenced discussions with the Political Group Leaders as to ethical values within the council and this work has been finalised and hopefully will form part of the Annual Report for 2019/20. The Standards Committee were also instrumental in ensuring the Ombudsman's Code of Conduct Casebook was considered and circulated to all members by the Monitoring Officer. The Members Internal Dispute Resolution Process has not yet been utilised, which underpins the strong commitment to, and provides assurance, that the Council's Code of Conduct is adhered to.

- The **Audit Committee** met on 8 occasions during 2019/20 and followed a structured work-plan, which covered all areas of the Committee's responsibilities with the aim of obtaining assurance over the areas included in its terms of reference. The Committee includes a lay member who is also the Chair of the Committee. The Committee receive all Wales Audit Office reports once reported to Scrutiny Programme Committee. The Committee may decide to track or prioritise specific proposals or recommendations in addition to the oversight provided by Scrutiny. This arrangement provides additional assurance that the Council responds and puts in place action plans to address any recommendations. The Committee also receives quarterly updates on the overall status of risk within the Council to give assurance that the risk management process is being followed.
- During 2015/16 a Local Pension Board was established, in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council (and Pension Fund Committee) as Scheme Manager and Administering Authority to secure compliance with LGPS regulations and other legislation relating to the scheme. Terms of Reference for the Board were established and appropriate Board members were appointed. The Board convened meetings on 5 occasions during 2019/20.
- The **Pension Fund Committee** establishes and keeps under review policies to be applied by the Council in exercising its discretions as an administering Authority under the Local Government Pension Scheme (LGPS) Regulations. The Committee is Chaired by a Councillor and membership consists of six elected Members, including the Chair, and two lay members. The Committee met on 5 occasions during 2019/20 and dealt with all issues relating to the governance and administration of the Pension Fund. The Chair of the Pension Fund Committee also represents the Council on the Joint Governance Committee of the Wales Pension Partnership, a collaborative working arrangement between the 8 local government pension funds in Wales.
- The **Democratic Services Committee** reviews the adequacy of provision by the authority of staff, accommodation and other resources to discharge Democratic Services functions. The Committee is Chaired by a Councillor and, along with the Chair, membership consists of thirteen elected Members. The Committee met on 3 occasions and considered the Social Media Guide for Councillors, a review of Councillors' Broadband and Telephone and IT, the Councillors' Handbook and Personal Safety.

### **Significant Governance Issues**

The following table shows the significant governance issues which were identified during the review of effectiveness undertaken when preparing the Annual Governance Statement **2018/19** and the action taken during the year to address the issues.



<b>Significant Governance Issue linked to Framework</b>	<b>Action taken</b>	<b>Status</b>
<p><b>Maintaining sufficient financial discipline (revenue service spending) to deliver Corporate Objectives and Sustainable Swansea (red risk on Corporate Register)</b></p> <p>The Council will continue to face unprecedented financial challenge. It is essential that approved service savings are made in a timely way with full risks and impact being understood.</p>	<ul style="list-style-type: none"> <li>• Re-shaping Board now moved into CMT/Cabinet Away Day so that both the monitoring of savings and the transformation programme activity can be reviewed with both CMT and the Executive</li> <li>• Robust challenge of financial position continued by CMT / Corporate Directors resulting in positive and improving position going into Q3</li> <li>• Annual review of Sustainable Swansea underway with revised programme to deliver future savings in years 3 onwards.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<p><b>Engagement and communication</b></p> <p>The views of the public, service users, staff and external partners must be taken into account in decisions impacting upon them. It is essential that there are sufficient structures in place to encourage and enable public participation.</p>	<ul style="list-style-type: none"> <li>• Co-Production Strategic Framework developed and presented to the Equalities PDC.</li> <li>• Integrated Impact Assessment under development.</li> <li>• The Access to Services team has also produced the Engagement and Consultation Strategy recently approved by CMT. The team also supports all services in ensuring EIAs are completed as part of the budget process and the SDU promotes Future Generations. Services to</li> </ul>	<ul style="list-style-type: none"> <li>• Complete</li> </ul>

## Annual Governance Statement 2019/20

	consider the Act when Service Planning.	
<p><b>Performance Reviews</b></p> <p>Whilst there is a strong performance management system with regular supervision/training of staff evidenced across the authority there is evidence of inconsistency associated with the IT appraisal use.</p>	<ul style="list-style-type: none"> <li>• New appraisal solution being developed, which will be delivered digitally through the new Oracle Cloud solution in November 2021.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<p><b>Project Governance</b></p> <p>It remains the position that significant officer time will need to be dedicated to major projects with which the Council is involved. Consideration will need to be given to adequately resourcing project teams to ensure strong and transparent governance arrangements are in place.</p>	<ul style="list-style-type: none"> <li>• Project leads identified.</li> <li>• Organisational capacity identified and funded.</li> <li>• Business Case to Cabinet and CMT.</li> <li>• Monitored through the Project Board and CMT.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete</li> </ul>
<p><b>Decision to Leave the European Union</b></p> <p>Any consequences of leaving the European Union will have to be planned, monitored and managed.</p>	<ul style="list-style-type: none"> <li>• Formed a Brexit Steering Group and held meetings.</li> <li>• Service areas have completed assessments on preparedness for Brexit. Business Continuity Plans have been reviewed.</li> <li>• Potential implications on service delivery is a standing item on work team agendas, Leadership team and CMT.</li> <li>• Brexit is a Corporate Risk that is reviewed monthly at CMT.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete</li> </ul>
<p><b>Partnership/Collaboration/Regional Working Governance</b></p>	<ul style="list-style-type: none"> <li>• Produced and reported to Council on 25/07/19 the Annual Report 2018/29</li> </ul>	<ul style="list-style-type: none"> <li>• Complete</li> </ul>

## Annual Governance Statement 2019/20

<p>As there is increased drive for partnership/regional working the council will need to focus on ensuring the appropriate governance arrangements and benefit to Swansea residents.</p>	<p>on Regional Working outlining Governance arrangements, including scrutiny; priorities and progress; challenges and areas for further development; future plans and opportunities.</p>
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The following table identifies issues which have been identified during the review of effectiveness, and also highlights any other significant governance issues that need to be considered, together with the proposed actions to be taken during **2020/21** to address the issues. **At the time of writing the COVID-19 crisis occurred and so the timescales and actions will be impacted depending on the severity and longevity of the crisis.**

Significant Governance Issue linked to Framework	Action to be taken
Budget pressures (including external and demand-led pressures and overspends) & problems living within budgets.	<ul style="list-style-type: none"> <li>• Continue robust monitoring of budgets, savings and transformation programme activity at PFM and with both CMT and the Executive.</li> <li>• Annual review of Sustainable Swansea underway with revised programme to deliver future savings in years 3 onwards.</li> </ul>
Lack of workforce capacity, capability and resilience and relying on staff goodwill.	<ul style="list-style-type: none"> <li>• Development of a Workforce Plan to support high performance and enable a skilled, flexible and engaged workforce.</li> </ul>
Performance Reviews, i.e. appraisals system / induction training not fit for purpose.	<ul style="list-style-type: none"> <li>• Continue to develop a new appraisal solution to be delivered digitally through the new Oracle Cloud solution in November 2021.</li> <li>• Address Induction training of new staff as part of the review of the induction process and future policy reviews.</li> </ul>
Embed the Future Generation Act principles into the Council's processes and decision making.	<ul style="list-style-type: none"> <li>• Further development of integrated impact assessments to be undertaken to ensure that legal and regulatory compliance are embedded into the decision making process.</li> </ul>



## Annual Governance Statement 2019/20

	<ul style="list-style-type: none"> <li>• Provision of training/information on the requirements of the Future Generations Act.</li> </ul>
Patchy Partnership Governance, including application of risk management.	<ul style="list-style-type: none"> <li>• Continue to address the challenges and areas for further development as set out within the Annual Report on Regional Working.</li> </ul>
ICT Disaster recovery.	<ul style="list-style-type: none"> <li>• Resolve through the move to cloud services, particularly Oracle Cloud in November 2021.</li> </ul>
Use and governance of social media accounts	<ul style="list-style-type: none"> <li>• Complete the review underway of the use of social media and social media access.</li> </ul>
Continue to improve risk management arrangements	<ul style="list-style-type: none"> <li>• Services and risk owners to continue to improve their compliance to the Council's Risk Management Policy and Framework, including monthly risk reviews and improving the quality of risk controls.</li> <li>• Develop the Council's new risk register application to produce reports to help oversee the status of risk.</li> </ul>

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ..... Chief Executive

Date .....

Signed..... Leader

Date .....

## **Glossary of Terms**

We appreciate that the Statement of Accounts as presented contains a number of technical terms which may be unfamiliar to the lay reader. Wherever possible we have sought to minimise the use of technical terms but in some instances this has not been possible. The following section attempts to explain the meaning of some of those technical terms that are used in the Statements.

### **Accrual**

Sums due to the Authority or payable to external organisations in the financial year irrespective of whether the cash has been received or paid.

### **Actuary**

An actuary is a person who works out insurance and pension premiums, taking into account factors such as life expectancy.

### **Agency Services**

Agency services are services provided for us by an outside organisation.

### **Amortised Cost**

Amortised costs are used to spread the financial impact of depreciation or using an equivalent interest rate or the effect of a premium or discount over a number of years on the income and expenditure account.

### **Associate**

An associate is an entity other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

### **Audit**

An audit is an independent examination of our activities.

### **Balance Sheet**

This is a statement of our assets and liabilities at the date of the balance sheet.

### **Budget**

A budget is a spending plan, usually for the following financial year.

### **Capital Adjustment Account**

This Account represents timing differences between the amount of the historical cost of fixed assets that has been consumed by depreciation, impairment and disposals, and the amount that has been set aside to finance capital expenditure.

### **Capital Expenditure**

Capital expenditure is spending on fixed assets. These are assets which will be used for several years to provide services such as buildings, equipment and vehicles.

## *Glossary of Terms*

### **Capital Receipts**

Capital receipts are proceeds from the sale of fixed assets such as land or buildings.

### **Cash Equivalents**

Cash Equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Cash flow Statement**

This is a statement that summarises the movement in cash during the year.

### **Consolidated Balance Sheet**

This balance sheet combines the assets, liabilities and other balances of all our departments, at our year end date.

### **Corporate and Democratic Costs**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **Credit Risk**

This is the risk of loss due to a debtors inability to make interest or principal repayments on a loan/investment.

### **Creditor**

A creditor is someone we owed money to at the date of the balance sheet for work done, goods received or services rendered.

### **Current Assets**

These are short-term assets which are available for us to use in the following accounting year.

### **Current Liabilities**

These are short-term liabilities which are due for payment by us in the following accounting year.

### **Debtor**

A debtor is someone who owed money to us at the date of the balance sheet.

### **Depreciation**

Depreciation is the theoretical loss in value of assets, which we record, in our annual accounts.

## *Glossary of Terms*

### **Direct Labour Organisation or Direct Service Organisation (DLO or DSO)**

This is our own organisation. It consists of workers we directly employ (including supervisory staff), accommodation, equipment and so on, used to carry out specified tasks for us.

### **Earmarked Reserves**

These are reserves we have set aside for a specific purpose.

### **Financial Year**

This is the accounting period. For local authorities it starts on 1<sup>st</sup> April and finishes on 31<sup>st</sup> March in the following year.

### **Finance Leases**

When we use finance leases, we take on most of the risks (and rewards) of owning the assets.

### **Fixed Asset**

These are long-term assets we use (usually for more than one year).

### **Gilt Edged Stocks**

These are investments in government or local authority stocks. They are regarded as risk-free.

### **Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

### **Housing Revenue Account**

This account contains all our housing income and spending.

### **Investments**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

### **Joint Venture**

A joint venture is an entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement.

### **Leasing**

This is a method of financing capital expenditure by paying the owner to use property or equipment for a number of years.

## *Glossary of Terms*

### **Liability**

A liability is an amount payable at some time in the future.

### **Liquidity Risk**

This is the risk that investments cannot be readily turned into cash or realised because there is no ready market for the instrument or there are restrictive clauses in the agreement.

### **Minimum Revenue Provision (MRP)**

This is the amount we have to set aside to repay loans.

### **National Non-Domestic Rates (NNDR)**

The NNDR, or Business Rate, is the charge occupiers of business premises pay to finance part of local authority spending. The NNDR is set by Government and is a percentage of the rateable values. The percentage is the same throughout Wales. The total collected is split between individual authorities in proportion to their adult populations.

### **Net Realisable Value**

The selling price of the asset, reduced by the relevant cost of selling it.

### **Non Distributable Costs**

These are costs that relate to past activity costs, such as the cost of redundant assets or information technology, or past service pension that cannot be allocated to services.

### **Operating leases**

These are leases where risks (and rewards) of ownership of the asset remain with the owner.

### **Precepts**

This is the amount we pay to a non-billing authority (for example a community council) so that it can cover its expenses (after allowing for its income).

### **Provision**

A provision is an amount we set aside in our accounts for expected liabilities which we cannot measure accurately.

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

This is a Government agency which provides longer-term loans to local authorities. It charges interest rates only slightly higher than those at which Government itself can borrow.

### **Related party transactions**

These are the transfer of assets or liabilities or the performance of services by, to or for a related party no matter whether a charge is made.

## *Glossary of Terms*

### **Reserves**

These are sums set aside to meet future expenditure. They may be earmarked to fund specific expenditure or be held as general reserves to fund non specific future expenditure.

### **Revaluation Reserve**

This reserve represents the difference between the revalued amount of fixed assets in the Balance Sheet and their depreciated historical cost.

### **Revenue**

Income arising as a result of an Authority's normal operating activities.

### **Revenue account**

This is an account which records our day-to-day spending and income on items such as salaries and wages, running costs of services and the financing of capital expenditure.

### **Scheduled organisation**

An organisation whose employees have an automatic right to be members of a pension fund.

### **Service recipient**

A party that has contracted with an Authority to obtain goods or services that are an output of the Authority's normal operating activities in exchange for consideration.

### **Securities**

These are investments such as stocks, share and bonds.

### **Stocks**

Stocks are raw materials we purchased for day to day use. The value of those items we had not used at the date of the balance sheet is shown in current assets in the balance sheet.

### **Subsidiary**

An entity is a subsidiary of the reporting authority if:

- the authority is able to exercise control over the operating and financial policies of the entity, and
- the authority is able to gain benefits from the entity or is exposed to the risk of potential losses arising from this control.

### **Temporary Borrowing or Investment**

This is money we borrowed or invested for an initial period of less than one year.

### **Transfer value**

This is the value of payments made between funds when contributors leave service with one employer and decide to take the value of their pension contributions to their new employer's fund.

## *Glossary of Terms*

### **Trust Funds**

Trust funds hold an individual's or organisation's money on their behalf. Trustees administer the money for the owners.

### **Unit Trusts**

These are investment companies which accept money from many different investors. The money is pooled and used to buy investments.

### **Venture Capital Units**

These are investments we have made in businesses where there is a higher risk but where rewards are also likely to be higher, if the businesses are successful.

### **Work in Progress**

Work in progress is the value of work done on an unfinished project at the date of the balance sheet and which has not yet been recharged to the appropriate revenue account.

# Agenda Item 7



## Report of the Chief Auditor

Audit Committee – 8 September 2020

### Annual Report of School Audits 2019/2020

<b>Purpose:</b>	This report provides a summary of the school audits undertaken by the Internal Audit Section during 2019/2020 and identifies some common issues found during the testing.
<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 2019/2020.
<b>Report Author:</b>	Nick Davies
<b>Finance Officer:</b>	Simon Cockings
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Rhian Millar

#### 1. Introduction

- 1.1 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 audit reviews.



## **2. Annual Report of School Audits 2019/2020**

2.1 The Annual Report of School Audits 2019/2020 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**

4.1 There are no financial implications associated with this report.

## **5. Legal Implications**

5.1 There are no legal implications associated with this report.

**Background Papers:** Internal Audit Plan 2019/2020

**Appendices:** Appendix A - Annual Report of Schools Audits 2019/2020

## Report of the Chief Auditor

### Annual Report of School Audits 2019/2020

#### 1. Introduction

- 1.1 Each year audit resources are dedicated to school audits and this service is paid for by schools from their allocated budget. 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 2019/2020 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. The period of inspection is currently a seven-year cycle and based on the common inspection framework.

- 1.6 On completion of the 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 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 Support Team 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, 1 special school and 4 secondary schools that were audited in 2019/2020, the School Support Team had received minutes confirming that the audit report had been presented for 19 primary schools, 3 secondary schools and the 1 special school. The Team has requested minutes from those schools that have not forwarded them to date, however a small number have replied stating that the Governing Body has been unable to meet due to the current coronavirus restrictions in place.
- 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 during 2019/2020.

## **2. Summary of Findings**

- 2.1 Of the 25 primary schools audited in year, 4 achieved a high level of assurance, 19 achieved a substantial level of assurance and 2 schools were 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 2018/2019.
- 2.2 Of the 4 secondary schools audited and finalised in year, all 4 received a substantial level of assurance. Again, this is generally comparable to the levels of assurance awarded in 2018/2019.
- 2.3 For the one special school that was audited, a moderate level of assurance was awarded.
- 2.4 It is pleasing to note that again this year, the majority of schools audited 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 / expenditure was the main source of the recommendations made across all Schools in 2019/2020. As seen in tables 3.6, 4.4 & 5.4 later in the report, 27% of all recommendations made for Primary, Secondary and Special Schools were in relation to these areas. It should be noted that due to the delegated nature of School budgets, there would inevitably always be some findings in this area however, considerable efforts have been made by the Authority in an attempt to improve Schools awareness of their responsibilities when it comes to procuring goods and services.
- 2.6 As always, periodic financial training is provided to all Headteachers by the School Funding & Information Team, which clearly communicates the procedures that should be followed by schools in relation to ordering and procurement. In addition to this, the unit continues to offer 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 As reported last year, all schools have now decided to opt out of the Procurement SLA as they felt it was not fit for purpose. However, the Procurement Section are still available to give general advice to schools on any compliance related queries they may have, and meet the Authority's statutory and regulatory duties.
- 2.8 It was noted in previous reports that Contract Procedure Rules (CPRs) were in the process of being reviewed and updated. This process is now complete and Procurement have confirmed that the updated CPRs have been approved and received officer sign-off. Now this process has been completed, it is proposed that school specific CPRs and associated guidance notes will be produced detailing how the amended CPRs should be interpreted specifically for schools.
- 2.9 The sections that follow provide a more detailed examination in relation to the findings of our audits across the schools in Swansea for 2019/2020.

### 3. Primary Schools

- 3.1 Twenty five primary school audits were finalised by Internal Audit during 2019/2020. 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 2018/2019</b>	<b>Schools 2019/2020</b>
High	6	4
Substantial	18	19
Moderate	1	2
Limited	0	0
<b>Total</b>	<b>25</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 two of the primary schools audited in year were rated as providing either a High or a Substantial level of assurance.
- 3.4 A total of 272 recommendations were made as a result of the audit process, representing an average of 11 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% 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 2018/2019 based on 25 Schools</b>	<b>2018/ 2019 %</b>	<b>Total Rec's 2019/2020 based on 25 Schools</b>	<b>2019/ 2020 %</b>
Governance	4	2%	6	2%
Management of Delegated Resources	7	3%	7	3%
Income & Bankings (inc Lettings)	30	12%	31	11%
School Funds	41	16%	47	17%
School Meals	15	6%	29	11%
Bank Reconciliations	0	0%	8	3%
Procurement / Expenditure	83	33%	72	26%
Multi-Pay Cards	21	8%	38	14%
Health & Safety / Premises Security	1	0%	0	0%
Inventory	22	9%	18	7%
IT	19	8%	10	4%
Other	7	3%	6	2%
<b>TOTAL</b>	<b>250</b>	<b>100%</b>	<b>272</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 26% 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 (CPRs), Financial Regulations and Accounting Instructions. The Council's Contract Procedure Rules have recently been updated and the contract bands reviewed. For contracts below £10,000 these will now be classified as procurement expenditure and not subject to procurement rules, i.e. four written quotations, however will still be subject to value for money considerations. We are anticipating that once these CPRs have been adapted and rolled out to schools, non-compliance in this area will be reduced.
- 3.8 The main areas where issues have arisen regarding procurement and expenditure 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 (under previous CPR requirements).
  - 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 increased slightly from 10 in 2018/2019 to 11 per school last year. 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 Meals – Since the introduction of sQuid (the school meals online payment system), we have increased our testing in this area and the issues encountered were in relation to the following - The School Meals Dinner Money Policy not being adhered to with regards to child and staff arrears identified over the recommended limit. Also, some schools not allocating meal income correctly and in a timely manner and the correct fund deposit reports not being run periodically allowing reconciliations to be carried out.
- Multipay Cards – Primarily in relation to regular reconciliations not being carried out, VAT receipts not being obtained / retained, cards not being held securely and lack of segregation of duties when reconciling the account to ensure purchases have been appropriately authorised.
- Bank Reconciliations – Not being undertaken regularly, not reviewed and evidenced by an independent person and unreconciled payments not being investigated and corrected in a timely manner.

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 2019/2020. 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.

<i>Level of Assurance</i>	<i>Schools 2018/2019</i>	<i>Schools 2019/2020</i>
High	1	0
Substantial	2	4
Moderate	1	0
Limited	0	0
<b>Total</b>	<b>4</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 2018/2019 based on 4 Schools</b>	<b>2018 /2019 %</b>	<b>Total Rec's 2019/2020 based on 4 Schools</b>	<b>2019 /2020 %</b>
Governance	2	3%	2	3%
Management of Delegated Resources	3	5%	2	3%
Income & Bankings (inc Lettings)	12	19%	10	16%
School Funds	3	5%	10	16%
School Meals (including banking)	0	0%	1	2%
Bank Reconciliations	0	0%	3	4%
Procurement / Expenditure	17	27%	19	30%
Multi-Pay Cards	8	13%	6	10%
Health & Safety / Premises Security	0	0%	0	0%
Inventory	6	10%	6	10%
IT	4	6%	2	3%
Other	8	12%	2	3%
<b>TOTAL</b>	<b>63</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 remained the same when compared to the 2018/2019 figures. Please see comments below for some of the more notable percentage changes:

- School Funds – Has increased from 5% to 16%, mainly due to fund constitutions not being in place, reconciliations not being carried out in a timely manner and by an independent officer, VAT receipts not being obtained and in some cases no evidence retained of an annual audit of the fund.
- Another area where a very small percentage increase has been noted, was in relation to bank reconciliations not being carried out in a timely manner and / or independently reviewed.

## 5. Special Schools

5.1 One Special School was visited by Internal Audit during 2019/2020. The level of assurance awarded can be seen in Appendix 2.

5.2 A total of 26 recommendations were made and the audit report has been finalised at the date of this report, with agreement reached with the Headteacher to implement 25 of the 26 recommendations made.

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

<b>Audit Area</b>	<b>Total Rec's 2019/2020 (based on 1 School)</b>	<b>2019/2020 %</b>
Governance	0	0%
Management of Delegated Resources	1	4%
Income & Bankings (inc Lettings)	0	0%
School Funds	8	30%
School Meals (including banking)	0	0%
Bank Reconciliations	3	12%
Procurement / Expenditure	6	23%
Multi-Pay Cards	4	15%
Health & Safety / Premises Security	0	0%
Inventory	2	8%
IT	1	4%
Other	1	4%
<b>TOTAL</b>	<b>26</b>	<b>100%</b>

5.4 As you can see from the table, over a half of the issues identified relate to the school funds and procurement / expenditure areas. This special school was awarded a moderate level of assurance and the headteacher attended Audit Committee on the 10<sup>th</sup> March to give members a progress update on the recommendations that were made at the time of the audit.

## **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 Information and advice provided to school forums and bulletins on the main reported areas highlighted during routine audits.

6.4 Two follow up visits were undertaken in the year for one primary school and one special school that were awarded a moderate assurance rating. Both schools were re-visited in February 2020, in order to determine whether appropriate action had been taken to implement the recommendations that were made. As required, both Headteachers attended the March 2020 Audit Committee meeting, providing an update on what measures had been taken to address the issues identified during the audit. Our follow up work confirmed that significant progress had been made by the primary school, with the vast majority of recommendations being addressed. It was noted that with regards to the special school, there still remained a number of recommendations that had not been addressed and therefore a second follow up audit has been scheduled, however this follow up has been delayed due to the current Coronavirus situation.

6.5 Internal Audit continue to review the school programme questionnaire and audit scope on an annual basis, ensuring any updated procedures are included in the testing and reflect any changes in the school environment.



## 7. School Self-Assessment Questionnaires

- 7.1 As of April 2020, all schools have now gone through the self-assessment questionnaire process.
- 7.2 Every year since the questionnaire was introduced, we continue to review the audit scope ensuring 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 2020/2021.
- 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 The QCQ results feed into a Performance Indicator, which shows the percentage of schools expressing 'at least satisfaction' with the conduct of audit assignments undertaken by Internal Audit.
- 8.4 The Performance Target for schools, that were 'at least satisfied' with the quality of audit service for 2019/2020 was 98%.
- 8.5 The response rate to our QCQ surveys over the last two years are as follows:

	2018-2019			2019-2020		
	<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	25	25	100%	25	22	88%
Secondary	4	4	100%	4	3	75%
Special	0	0	0	1	1	100%
<b>Overall</b>	<b>29</b>	<b>29</b>	<b>100%</b>	<b>30</b>	<b>26</b>	<b>87%</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 we achieved an 87% return rate, and only 4 of the 30 schools failed to return their QCQ.
- 8.7 It should also be noted that for those QCQ's received for the primary, secondary and special schools, 99% were at least satisfied with the overall usefulness of the audit, which is greater than our internal performance target of 98%.

## **9. Conclusion**

- 9.1 This annual report provides information on School audits undertaken and finalised during 2019/2020, 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. We anticipate that as a result of the recent revision of the Council's Contract Procedure Rules and the aim of updating the school CPRs to mirror the Councils, non-compliance in this area will be reduced.
- 9.3 As noted in previous reports, procurement / expenditure 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 and expenditure compliance issues noted above.

## PRIMARY SCHOOLS AUDITED AND FINALISED 2019/2020

School	Date Report Finalised	Level of Assurance
St. Joseph's Catholic Primary	17/05/2019	High Assurance
Bishopston Primary	01/07/2019	High Assurance
Pontarddulais Primary	23/10/2019	High Assurance
Pentrechwyth Primary	18/12/2019	High Assurance
Morrison Primary	11/06/2019	Substantial Assurance
Wanarlwydd Primary	24/06/2019	Substantial Assurance
Y.G.G. Pontybrenin	04/07/2019	Substantial Assurance
Crwys Primary	08/07/2019	Substantial Assurance
Y. G. G. Felindre	12/08/2019	Substantial Assurance
Penyrheol Primary	20/09/2019	Substantial Assurance
St. David's R.C. Primary	03/10/2019	Substantial Assurance
Cadle Primary	15/10/2019	Substantial Assurance
Pen y Fro Primary	16/10/2019	Substantial Assurance
St. Joseph's Cathedral Primary	21/10/2019	Substantial Assurance
Clwyd Primary	22/10/2019	Substantial Assurance
Pennard Primary	28/10/2019	Substantial Assurance
Glyncollen Primary	28/10/2019	Substantial Assurance
Wan Wen Primary	15/11/2019	Substantial Assurance
Pengelli Primary	20/11/2019	Substantial Assurance
Grange Primary	11/12/2019	Substantial Assurance
Hafod Primary	19/12/2019	Substantial Assurance
Sea View Community Primary	13/01/2020	Substantial Assurance
St. Thomas Primary	27/01/2020	Substantial Assurance
Gwrosydd Primary	08/11/2019	Moderate Assurance
Cwmglas Primary	10/03/2020	Moderate Assurance

**SECONDARY SCHOOLS AUDITED AND FINALISED 2019/2020**

<b>School</b>	<b>Date Report Finalised</b>	<b>Level of Assurance</b>
Olchfa Comprehensive School	13/11/2019	Substantial Assurance
Morrison Comprehensive School	25/11/2019	Substantial Assurance
Ysgol Gyfun Gwyr Comprehensive School	18/12/2019	Substantial Assurance
Bishop Vaughan Catholic Comp.	19/12/2019	Substantial Assurance

**SPECIAL SCHOOLS AUDITED AND FINALISED 2019/2020**

<b>School</b>	<b>Date Report Finalised</b>	<b>Level of Assurance</b>
Ysgol Penybryn School	11/11/2019	Moderate Assurance

**AREAS REVIEWED AT PRIMARY / SECONDARY / SPECIAL SCHOOLS DURING  
2019/2020**

<b>AUDIT AREA</b>	<b>MAIN CATEGORIES REVIEWED IN EACH AUDIT AREA</b>
<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.***



## Report of the Chief Auditor

Audit Committee – 8 September 2020

### Internal Audit Section – Fraud Function Annual Report for 2019/2020

<b>Purpose:</b>	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2019/20.
<b>Policy Framework:</b>	None.
<b>Recommendation(s):</b>	It is recommended that Committee review and discuss the work of the Fraud Function of Internal Audit in 2019/20 and its progress against the Fraud Function Anti-Fraud Plan for 2019/20.
<b>Report Author:</b>	Jonathon Rogers/Jeff Fish
<b>Finance Officer:</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 summary of the activities of the Fraud Function for 2019/20 and reviews achievements compared to target outcomes contained in the Fraud Function Anti-Fraud Plan for 2019/20.
- 1.2 At Section 5 of this report an update is also provided on the Covid 19 Fraud work undertaken so far this year.

#### 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, social housing tenancy fraud, direct payments for social care 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 completed the management of the National Fraud Initiative NFI18. (See section 4.2)
- 2.3 Appendix 1 provides an overview of the activities of the function for 2019/20.
- 2.4 Appendix 2 provides further data for 2019/20 in respect of investigations undertaken by the function in relation to 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 2019/2020**

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

4.1.1 As previously reported since the introduction of the DWP's Single Fraud investigation Service (SFIS), the DWP became solely responsible for investigating all welfare benefit frauds, including Housing Benefit that is still administered by the Local Authority.

- 4.1.2 However the Fraud Function continue to work jointly with DWP where there is also a Council Tax Reduction (CTR) offence.
- 4.1.3 These working practices followed successful pilot that Swansea participated in and 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.
- 4.1.4 Data outcomes for this work are shown at Appendix 1. Although there was a decrease in the number of cases investigated in 2019/20, the value of overpayments realised increased to £232,357.84 compare to £203,019.69 in the prior year. Eight cases were referred to the Crown Prosecution Service, and as at 31<sup>st</sup> March 2020 and four cases have been successfully prosecuted. However the volume of cases subject to joint working has again decreased in 2019/20 and discussions are ongoing with the DWP in relation to this.

## **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 For NFI18 Swansea Council received in excess of 10,000 matches of which 866 were considered High Risk.
- 4.2.5 Internally, the exercise is coordinated by the Chief Internal Auditor and the Fraud Investigators, and matches were allocated to officers based within the authority for scrutiny.
- 4.2.6 NFI18 has now been completed. On a UK level over £244 million in fraud and error has been prevented or detected.
- 4.2.7 At a local level all High Risk matches were reviewed. Additionally 38% of all other matches were reviewed against a NFI minimum expectation of 20%.

- 4.2.8 Overpayments of only £1318.78 were identified (non-fraudulent) as a result of this work. Although significantly low in a national context this should be considered as an extremely positive outcome for Swansea as it means that the Council's systems and processes are routinely robust and resilient and this indicates that fraud and error is not entering the Council in the first instance.
- 4.2.9 However a significant resource is required to undertake the exercise to satisfy ourselves of the outcome. NFI20 data is due to be received in early 2021 when the exercise will again be required to be undertaken.

### **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 has delivered further Banking Fraud Awareness training to corporate users of the potential scams and emerging threats and how to best safeguard themselves against these threats. This and has 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.

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

- 4.4.1 During 2019/20 the team has continued to develop its role in inter-agency working and data exchange.
- 4.4.2 Staff have co-ordinated regular meetings and continued to shape the development of the Local Authority Welsh Anti-Fraud Officers group.
- 4.4.3 Staff have also attended regular inter agency meetings with other government agencies tackling organised crime and sit on the Local Organised Crime Board.
- 4.4.4 As reported in the 2018/19 Annual Report the Function was a consultee to the Auditor General for Wales report to the Public Accounts Committee (PAC) on Counter-Fraud Arrangements in the Welsh Public Sector.
- 4.4.5 Wales Audit were commissioned to further extend this piece of work and the function was again a consultee to this report in late 2019. The findings of the report have recently been released and its recommendations and commentary are being considered. **See Full Report at Appendix 4.**
- 4.4.6 During the year, the function received 469, requests for information from other government agencies, representing just over an 8% increase on 2018/19.

#### **4.5 Review of Outcomes against the Fraud Function Plan for 2019/20**

- 4.5.1 Of the 9 planned Fraud Function activities 6 were fully achieved. Appendix 3 provides commentary against these activities.
- 4.5.2 As in the Annual Report for 2018/19 the teams limited resources and the requirements of reactive work continue to be the main factor in those activities reported as not being achieved. The ability to be proactive in these areas was again limited.

#### **5. Update on Covid 19 Fraud work undertaken so far this year**

- 5.1.1 As reported to Audit Committee on the 1<sup>st</sup> June 2020 there were a number of emerging fraud risks associated with Covid 19 that had not been planned for when the Annual Plan for 2020/21 had been prepared.
- 5.1.2 Significant resources have now been diverted into previously unknown and newly designed areas of expenditure. In particular extensive resources have been diverted to support the effective and timely administration of a multitude of grant support packages and ensuring that fraud prevention processes have been developed to minimise the risk of fraud whilst delivering new products at a pace never previously experienced.
- 5.1.3 The Fraud Function have collaboratively worked with other Local Authorities and other Government departments to ensure that fraud data/intelligence has been shared to prevent fraud occurring where possible.
- 5.1.4 Some post event assurance on a pan Wales level has already commenced but the large scale post event assurance exercise in relation to the payment of Business Support Grants will now be incorporated into the NFI 2020 exercise.
- 5.1.5 Resources continue to be diverted to deter, prevent and detect fraud risks associated with Covid 19 a consequence of which is that limited time has been spent against the 2020/21 Annual Plan to date.
- 5.1.6 Further reports can be brought before the Committee as required.

#### **6. Equality and Engagement Implications**

- 6.1 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.

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

## **7. Financial Implications**

7.1 There are no financial implications associated with this report.

## **8. Legal Implications**

8.1 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 2019/20.

Appendix 2 - Data for 2019/20 in respect of council employees.

Appendix 3 - Review of the Fraud Function Plan for 2019/20.

Appendix 4 – Audit Wales Report – 'Tackling Fraud in Wales'

## Appendix 1 - Overview of activities for 2019/20

### Overview of cases:

Type	Joint Working with DWP	FF only	Total
Brought forward from 2018/19	15 (30)	13 (45)	28 (75)
New cases in 2019/20	4 (9)	242 (172)	246 (181)
<b>Total</b>	<b>19 (39)</b>	<b>255 (217)</b>	<b>274 (256)</b>

(Figure in italics refer to 18/19)

### Status of cases:

Type	Joint Working with DWP	FF only	Total
Cases closed	12 (24)	221 (177)	233 (201)
Cases to be considered	0 (0)	0 (9)	0 (9)
Cases under investigation	7 (15)	34 (31)	41 (46)
<b>Total</b>	<b>19 (39)</b>	<b>255 (217)</b>	<b>274 (256)</b>

(Figure in italics refer to 18/19)

### Overpayments created:

Joint Working with DWP cases				FF only cases
Created via FF		Created via DWP		
CTR	Other	HB & CTB	DWP	
<b>£16,499.54</b> (£16,444.87)	<b>£6,419.00</b> (£466.20)	<b>£88,730.20</b> (£59,132.03)	<b>£120,627.64</b> (£126,976.59)	
<b>£22,918.54</b> (£16,911.07)		<b>£209,357.84</b> (£186,108.62)		
<b>£232,276.38</b> (£203,019.69)				<b>CTR &amp; Other</b>
				<b>£3,261.52</b> (£2,775.17)

(Figures in italics refer to 18/19)

Total of all overpayments
<b>£235,537.90</b> (£205,794.86)

## Appendix 2 - Data for 2019/2020 in respect of council employees

Type	Cases
Brought forward from 2018/19	<b>16</b> (17)
New cases in 2019/20	<b>18</b> (17)
<b>Total</b>	

(Figure in italics refer to 18/19)

Reason	cases
Abuse Of Position	5
Expenses	2
Flexi Abuse	10
False Accounting	1
Theft	8
Secondary Employment	4
Working whilst on sick leave	1
Other	3
<b>Total</b>	<b>34</b>

Employee Outcomes	
Type	Number
Advice Provided	6
Fraud Not Proven	1
Discontinued	3
Resigned	1
Disciplinary – Dismissal	6
Disciplinary – Warning	6
Other Action taken	1
Ongoing investigation	10
<b>Total</b>	<b>34</b>

**Appendix 3 – Review of the Fraud Function Anti-Fraud Plan for 2019/20**

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>Limited 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
2. Tackle social housing tenancy fraud	Continue to work in partnership the Housing Department and Legal Section to combat tenancy fraud: from unlawful subletting to bogus succession claims.	<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>
3. Tackle Council Tax fraud	Utilise internal and external Data Matching products to identify potential discrepancies in Single Person Discounts and other Council Tax discounts, disregards and exemptions.	<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
4. Tackle Council Tax Reduction fraud	National roll-out of joint working commences 29 <sup>th</sup> April 2019, and the joint working with DWP's Counter Fraud Division will become 'business as usual'.	Sharing information and expertise between the Fraud Function & DWP's Counter Fraud Division: <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>	Fully achieved.  Although the national roll-out was delayed until April 2019 'business as usual' function allowed joint working to effectively continue.  Overpayments have been identified and sanction action taken in appropriate cases.  Note – Discussions ongoing with DWP to address fall off in number of joint investigations.

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.	Fraud Function Officers to attain a practicable appreciation of relevant legislation and related processes applied to the application / monitoring of Direct Payments.  Offer advice and guidance to Social Services. For example to ensure that relevant documents such as the Direct Payments Contract are 'criminally robust'.	Not achieved.  Limited resources and the requirements of reactive work, have demonstrably restricted the opportunities for proactive work in this area of activity.

		<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>	
<b>Activity</b>	<b>Detail</b>	<b>Target Outcomes</b>	<b>Outcomes Achieved</b>
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>Limited 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(2018)	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 against offenders</p>	Fully achieved. NFI18 completed.

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/timekeeping</li> <li>• Income collection and banking</li> <li>• Payroll</li> </ul>	<p>During 2019/20, 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</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>	Fully achieved. The team has considered all allegations made.

<ul style="list-style-type: none"> <li>• Pensions</li> <li>• Travel and subsistence</li> <li>• Etc</li> </ul>	<p>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>Instigate disciplinary / criminal proceedings as appropriate.</p> <p>Assist in the recovery of 'losses', financial or otherwise.</p>	
Activity	Detail	Target Outcomes	Outcomes Achieved
9. Raising Awareness	<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>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</p>

		<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>Publicity regarding FF's activities has appeared in the South Wales Evening Post and other media outlets.</p> <p>:</p>
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# 'Raising Our Game' Tackling Fraud in Wales

Report of the Auditor General for Wales

July 2020



This report has been prepared for presentation to the Senedd under the Government of Wales Acts 1998 and 2006 and the Public Audit (Wales) Act 2004.

The Audit Wales study team comprised Rachel Davies, Christine Nash and Ian Hughes, under the direction of Mike Usher.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.



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# Foreword by the Auditor General

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- 1 In June 2019, I published a report giving an overview of the scale of fraud in the Welsh public sector, together with a description of counter-fraud arrangements across the Welsh Government, the NHS and Local Government. I noted that the sums lost annually in Wales to fraud and error are significant – and could be anywhere between £100 million and £1 billion. The Crime Survey for England and Wales recognises fraud as being one of the most prevalent crimes in society today.
- 2 However, some senior public sector leaders are sceptical about the levels of fraud within their organisations. As a result, they are reluctant to invest in counter-fraud arrangements and assign a low priority to investigating cases of potential fraud identified to them by the National Fraud Initiative, even though there are many examples of a good return on investment in this area. Their stance runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the UK Government's Counter Fraud Function. This latest report, which examines the effectiveness of counter-fraud arrangements at over 40 public-sector bodies in Wales, has found that where such scepticism arises, it is not based on any significant local counter-fraud work or robust fraud risk assessments.
- 3 But we also know that fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Fraudsters and scammers were quickly on the scene earlier this year whilst the flooding in South Wales was ruining the homes and lives of local people. There has been an explosion in fraudulent activity, and especially in cyber crime, during the current COVID-19 pandemic. I welcome the proactive steps which the Welsh Government has taken to raise awareness across the public sector in Wales about this risk.

- 4 Public sector bodies can mitigate these risks by having the right organisational culture supported by strong counter-fraud arrangements. Many local authorities have invested so little in counter-fraud arrangements that they have only a few of the key components in place. Whilst the position is generally much more robust across the NHS in Wales, there is still a challenging agenda to make counter-fraud fit for the next decade where globalisation and the advent of digital technology have created new risks, and opportunities, for the fraudsters.
- 5 I was heartened to see the Welsh Government's positive response to my 2019 report and, following the one-day conference organised by the Public Accounts Committee in July 2019, the Permanent Secretary's commitment (see **Appendix 2**) to provide Wales-wide leadership in raising the profile of counter-fraud activity.
- 6 In this latest report, based on a more extensive programme of field work, we identify a significant range of further opportunities to improve on the current national position, including:
  - a strengthening strategic leadership, coordination and oversight for counter-fraud across the Welsh public sector;
  - b increasing counter-fraud capacity and capabilities, especially across local government, and exploring the potential for sharing resources and expertise across public bodies;
  - c getting the right balance between proactive and reactive counter-fraud activities;
  - d improving awareness-raising and staff training in counter-fraud; and
  - e better evaluation of fraud risks and sharing of fraud information, both within and across sectors.
- 7 There is also significant potential for Wales to take advantage, where appropriate, of many of the counter-fraud initiatives underway across the wider UK public sector. These include the recent establishment of a recognised government counter-fraud profession, with defined competencies and career paths, and the increasing focus on tackling fraud by smarter use of data analytics.

- 8 As I publish this report, Wales continues to grapple with the effects of the COVID-19 pandemic. This report contains a timely illustration of some of the ways in which fraudsters have moved rapidly in recent months to exploit the pandemic for criminal gain. I have already taken steps to extend the scope of our National Fraud Initiative (NFI) to enable local authorities in Wales to undertake eligibility checks on applications for COVID-19 support grants. I am also proposing to mandate that all local authorities, together with the Welsh Government, should submit COVID-19 grant and payment data to the NFI, to help identify fraudulent applications.



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**Adrian Crompton**

Auditor General for Wales

# Summary and recommendations

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## Ensuring that the arrangements for preventing and detecting fraud in the Welsh public sector are effective

This report examines seven '**key themes**' that all public bodies need to focus on in raising their game to tackle fraud more effectively:

- leadership and culture;
- risk management and control frameworks;
- policies and training;
- capacity and expertise;
- tools and data;
- collaboration; and
- reporting and scrutiny.

For each theme in turn, the report examines:

- why it is important;
- what our audit fieldwork identified in terms of current working practices and their effectiveness across the 40 Welsh public sector bodies that we examined (listed in **Appendix 1**); and
- what needs to happen next to generate improvement.

Our **recommendations for improvement** which are addressed to all public bodies in Wales within the Auditor General's remit, are as follows:

## Theme

## What needs to happen next?

### Leadership and Culture



- R1** The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a coordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities.
- R2** All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.

### Risk management and Control framework



- R3** All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.
- R4** Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.

### Policies and Training



- R5** All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.
- R6** Staff working across the Welsh public sector should receive fraud awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.
- R7** Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.

## Theme

### Capacity and Expertise



## What needs to happen next?

- R8** All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.
- R9** All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.
- R10** All public bodies should consider models adopted elsewhere in the UK relating to the pooling /sharing of resources in order to maximise the availability of appropriately skilled staff.

### Tools and Data



- R11** All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforces the tone from the top that the organisation does not tolerate fraud.
- R12** All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengthen both the prevention and detection of fraud.

### Collaboration

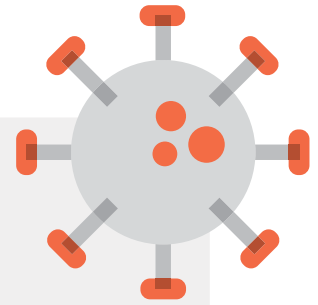


- R13** Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.

### Reporting and Scrutiny



- R14** Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.
- R15** Audit committees must become fully engaged with counter-fraud, providing support and direction, monitoring and holding officials to account.



## **The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis**

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We know from experience that fraudsters appear the very instant that an opportunity presents itself. Fifteen individuals have to date been jailed for fraud in the light of the Grenfell fire tragedy. Fraudsters and scammers were quickly on the scene earlier this year whilst the flooding in South Wales was ruining the homes and lives of local people.

Predictably, there has been an explosion in fraudulent activity, and especially in cyber crime, during the current COVID-19 pandemic.

The first reported positive cases of COVID-19 were reported in the UK on 31 January 2020. By this time the fraudsters and scammers had mobilised and were already hard at work.

The first fraud report relating to COVID-19 was received on February 9 by Action Fraud, the UK's fraud reporting centre. Since that time, the number of reports has increased significantly across the UK – the media reporting an unprecedented number of scams linked to the virus.

We have seen examples of good practice by some public bodies and organisations in Wales in identifying the fraud risks and sharing them with other bodies and citizens. The Welsh Government is liaising with the UK Cabinet Office and is sharing its guidance and learning on counter-fraud with the rest of the public service in Wales, including Local Authority Counter Fraud leads. Welsh Government officials have agreed to maintain and develop this group post-COVID. The intelligence obtained from these meetings has also assisted the Head of Counter Fraud with fraud intelligence sharing with Cabinet Office and the three other devolved administration fraud leads.

But has the Welsh public sector response been more reactive than proactive? What can we do better? Whilst globalisation has benefited the fraudsters it can also be to the advantage of counter-fraud specialists; we had early notice of scams from thousands of miles away a few weeks before the first case of COVID-19 was identified in the UK.



## **The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis**

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We believe that the COVID-19 pandemic provides an important opportunity for the Welsh counter-fraud community to come together (by appropriate means) and reflect on the speed and effectiveness of its response to the scammers and fraudsters.

The key issues and recommendations set out in this report could help set an agenda or framework for such an event. There has never been a timelier opportunity for Welsh public sector leaders and counter-fraud specialists to consider how to:

- create stronger strategic leadership, coordination and oversight for counter-fraud across the Welsh public sector;
- make best use of counter-fraud capacity and capabilities and explore the potential for shared arrangements, resources and expertise;
- get a better balance between proactive and reactive counter-fraud activities;
- raise awareness amongst employees and provide the necessary training to those most likely to come across a fraud; and
- evaluate fraud risks more effectively and share fraud information both within and across sectors.

So, what do we already know about the fraudsters' response to the pandemic?

The mobilisation of fraudsters has benefited from a number of factors, for example:

- more people are spending time online to shop and socially interact. Elderly people are seen as particularly vulnerable, being generally less computer literate and more susceptible to scams such as phishing emails and ordering fake products such as face masks and sanitisers.
- working patterns have changed at short notice which can leave weaknesses in processes and procedures.
- an unprecedented amount of public money has been put into a range of new and innovative financial support schemes to businesses and individuals.

## **The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis**

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Fraudsters and scammers mobilised quickly for a number of reasons:

- they are very good at evaluating risks and exploiting vulnerabilities which can be at a process or at an individual level;
- they have well-established tools and methodologies and can adapt them at short notice to a new opportunity; and
- they do not recognise geographical boundaries and can be effective individually and by collaborating with like-minded individuals.

There are more examples of COVID-19 frauds and scams coming to light than can be mentioned here. There are, however, a number of themes emerging:

- the early reports related to the sale of Personal Protective Equipment such as face masks and hand sanitiser and testing kits. Typically, the items were fake or often failed to arrive after payment had been made<sup>1</sup>.
- the next to emerge were phishing emails. For example, one claiming to be from the Department for Work and Pensions (DWP) asking the individual for debit or credit card details by saying that they are entitled to a council tax refund.
- as the attentions and resources of organisations were diverted to new ways of working and many staff were laid off, the incidence of cyber security attacks to steal business-sensitive and personal data increased.
- with more people working from home following the UK-wide lockdown, phishing campaigns then targeted applications that are being relied upon during remote working, in particular popular conference calling applications and parcel delivery firms.

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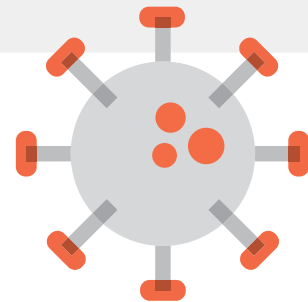
1 NHS in Wales introduced arrangements to mitigate against this fraud risk and it did not become an issue.

### **The COVID-19 pandemic: a case study in how scammers and fraudsters are ready to exploit a crisis**

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- as the national focus turned to test and track, the fraudster's net became wide and indiscriminate, as shown by a fake text message attempting to dupe people into believing they have been in contact with someone who has tested positive for the virus, directing recipients to a website for more information. The link is then used to harvest personal and financial data.

A world-leading counter-fraud response would mean that counter-fraud specialists had identified the risks at least at the same pace as the fraudsters, if not sooner. It would also mean they had the right tools to prevent and detect fraudsters exploiting any new opportunities; and that the counter-fraud response was mobilised rapidly through effective collaboration and information sharing.





# Culture and leadership across the Welsh public sector

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01

## Why is it important?

- 1.1 The Crime Survey for England and Wales recognises fraud as one of the most prevalent crimes in society today. Every pound stolen from the public sector means that there is less to spend on key services such as health, education and social services. Public sector bodies can mitigate the risks from fraud by having the right organisational culture supported by effective counter-fraud arrangements.
- 1.2 Strong leadership sets the appropriate tone from the top of an organisation and plays a crucial part in fostering a culture of high ethical standards. It is important that senior management leads by example and sends a clear message that fraud will not be tolerated either from inside or outside of the organisation. A strong tone at the top can raise the profile of fraud risks and promote the best standards and approaches in counter-fraud work.

## What did we find?

- 1.3 Other than in the NHS there is an absence of any overarching strategic approach, guidance, coordination and oversight.
- 1.4 In NHS Wales, the NHS Counter Fraud Service<sup>2</sup> provides leadership, specialist investigation skills, support and guidance to the sector and a Counter Fraud Steering Group<sup>3</sup> provides strategic direction and oversight. This leadership model delivers a coordinated approach to counter-fraud across the NHS in Wales and a good counter-fraud culture complemented by inbuilt scrutiny of the arrangements. The legal framework specific to the NHS Wales and the levels of investment give counter-fraud a high profile and robust enforcement and recovery mechanisms. At a local level, strategic leadership was evident within Health Boards through the dissemination of a consistent message, both internally and externally, that fraud is not tolerated.

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2 Which is hosted by the NHS Wales Shared Services Partnership

3 A sub-group of the All Wales Directors of Finance Forum

- 1.5 Across local authorities there is an absence of sector-wide strategic leadership, guidance, coordination and oversight of counter fraud. Within the individual authorities we found statements espousing a zero tolerance of fraud in policies and strategic documents. But there is much more that can be done to re-enforce the tone from the top at a practical level. We found examples where the leadership team actively promotes the importance of a good anti-fraud culture through awareness campaigns, newsletters to staff and active engagement with counter-fraud teams. But we also found in many authorities that there was little evidence that the message is driven down from the top and little priority is given to counter-fraud work. There were often competing priorities and, as a result, little time was given to counter-fraud and it often had a low profile.
- 1.6 In Central Government, the position is mixed. Within Welsh Government, we found evidence that counter-fraud is taken seriously, and a small team has achieved many successful outcomes, albeit its emphasis leans towards reactive rather than proactive work. We have been encouraged to see that the Welsh Government has accepted both of the recommendations made by the Public Accounts Committee following our first report. However, there remains a leadership gap that still needs to be addressed.
- 1.7 Across the other central government bodies that we examined, counter-fraud is not always given such a high priority. One reason for this appears to be the very low incidence of fraud being identified and reported; this poses the difficult question of whether this is due to a lack of investment in counter-fraud or a genuine low incidence of crime taking place. However, this latter explanation runs contrary to all the research being done by recognised leaders in the field such as CIPFA and the National Crime Agency.

- 1.8 The threat posed by fraud is also getting greater recognition within the UK. The UK government, for example, is working to make central government, and the public sector more widely, a place where fraud is actively found and robustly dealt with. It is transforming its whole approach to counter-fraud by:
- a establishing a counter-fraud function;
  - b developing and launching a Government Functional Standard (GovS013);
  - c establishing a 'Government Counter Fraud Profession' to develop people and increase capability;
  - d providing expert advice to the rest of government on how to deal with fraud;
  - e delivering specialist services to assist public bodies; and
  - f collaborating with overseas governments to bring further expertise to the UK.

## What can the Welsh public sector do to improve?

### Recommendations

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- R1** The Welsh Government should enhance its strategic leadership of counter-fraud across the public service in Wales, playing a co-ordinating role where it can, while recognising that individual bodies remain responsible for their own counter-fraud activities. In doing so it could consider:
- forming strategic partnerships with the key players nationally and internationally;
  - developing and delivering an all Wales counter-fraud strategy and vision;
  - advocating/promoting minimum standards in terms of public sector counter-fraud arrangements similar to those established by the UK Government;
  - elevating the status of counter-fraud staff by recognising counter fraud as a profession with essential competencies;
  - supporting the other sectors by, for example, providing invest-to-save funding opportunities, and supporting the development of professional competencies across the Welsh public sector; and
  - providing timely advice and guidance on 'hot' issues by gathering and disseminating important information and analysing trends.
- R2** All public bodies should champion the importance of a good anti-fraud culture and actively promote its importance to give confidence to staff and members of the public that fraud is not tolerated.





# Risk management and control frameworks

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02

## Why is it important?

- 2.1 Fraudsters are becoming more sophisticated and are evaluating opportunities and risks on a real-time basis. The management and mitigation of risk in public bodies often fails to keep up with changes in the nature and impact of potential fraud. The recent flooding in South Wales created opportunities for scams within days of the floods. Security experts have reported an explosion in fraudulent activity during the COVID-19 outbreak as the pandemic has created a myriad of opportunities for fraudsters (see **Case Study on page 10**).
- 2.2 A fraud risk assessment should be an honest appraisal of risks using a range of sources such as national intelligence, local intelligence, audit reports, brainstorming exercises and data-matching results. Risk assessments should be live documents and kept under constant review. Having identified the risks, bodies can then evaluate them, assessing their likelihood and the impact if the fraud were to occur. It is only when risks are properly identified and evaluated that public bodies can tackle the risks in a prioritised and proportionate way and put appropriate actions and controls in place to manage or mitigate these risks.
- 2.3 It is important that organisations have an effective control framework to help mitigate the risks identified. A strong internal control environment can help to prevent fraud from happening in the first place and detect fraud if an instance has occurred. Fraudsters will try to circumvent established controls and it is important that controls are regularly reviewed. A strong control programme whereby fraudsters are faced with a real prospect of detection helps mitigate the risk. When frauds are discovered, controls should be reviewed to identify weaknesses and introduce improvements. Internal Audit have expertise in designing and testing controls and they should undertake work on key systems on a risk-based approach.

## What did we find?

- 2.4 The quality of counter-fraud risk assessment and mitigation varies significantly in the Welsh public sector and there is generally scope to improve their quality and timeliness.
- 2.5 In the NHS, National Fraud Risk Alerts are produced by the NHS Counter Fraud Authority. These are routinely circulated to all Local Counter Fraud Specialists (LCFS) and Directors of Finance across NHS Wales. The LCFS are also required to conduct their own local risk assessments. This is a relatively new requirement and we found that these assessments are still being developed and embedded. The NHS Fighting Fraud Strategy recognises that a key challenge for the sector is the need to develop a comprehensive analysis of specific fraud risks to ensure counter-fraud resources are being directed to the most appropriate areas within the sector. The Counter Fraud Steering group has undertaken an overall risk assessment and produced assurance maps in respect of each main area of fraud. These maps will be used to target area of proactive work.
- 2.6 Our work identified that while some local authorities and central government bodies have undertaken fraud risk assessments, there were many who had not prepared a fraud risk assessment for several years. Some bodies in these sectors did not have a fraud risk assessment and therefore had not properly assessed the likelihood or impact of the risk. Without this key component, bodies cannot direct resources appropriately or adequately mitigate the risks of losses due to fraud. As a result, fraud strategies and work programmes are not particularly useful or relevant as they are not targeting the key areas of risk.
- 2.7 Our work also identified that, even where risk assessments were undertaken, they may not be integrated within the wider risk management framework. Fraud is not commonly reflected in corporate risk registers. We did not find many coordinated mechanisms for ensuring that fraud risks are appropriately communicated, owned and monitored within the audited body. Instead, fraud risk assessments are often held as standalone documents without any corporate ownership or active management of the risk. As a result of this approach, fraud risks are not adequately shared across departments.

- 2.8 We did identify some good practice in the sharing of fraud risks. In response to the Coronavirus pandemic, the Welsh Government issued a fraud risk bulletin early in April 2020, highlighting the emerging risks to the Welsh public sector. Ahead of the Welsh Government's bulletin, the UK Government Counter Fraud Function published its own guide: [Fraud Control in Emergency Management – COVID-19 UK Government Guidance](#). The guide highlights the importance of risk assessment, effective payment verification and due diligence arrangements and the need for robust claw-back arrangements to recover funds that are paid out incorrectly. There were also good examples in local authorities of raising awareness of scams with local residents.
- 2.9 We found that, in general, public bodies across all sectors have internal control frameworks that are well established and internal audit teams test controls as part of their annual programmes of assurance work. However, we found that internal audit teams do not always consider the fraud risks associated with systems as part of their work programmes. Furthermore, where new systems and processes are established, we found that organisations are not always using counter-fraud contacts and internal audit teams to try to design fraud out of systems.

## What can the Welsh public sector do to improve?

### Recommendations

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- R3** All public bodies should undertake comprehensive fraud risk assessments, using appropriately skilled staff and considering national intelligence as well as organisation-specific intelligence.
- R4** Fraud risk assessments should be used as a live resource and integrated within the general risk management framework to ensure that these risks are appropriately managed and escalated as necessary.



# Policies and training



## Why is it important?

- 3.1 A sound policy framework enables organisations to direct their approach to counter-fraud and to promote good ethical behaviour. There should be a suite of policies and procedures in place that set out what is expected and what the consequences are for breaking the rules. Codes of conduct should set out the standards expected of employees and highlight the importance of declaring conflicts of interest and establish rules around gifts and hospitality.
- 3.2 Publicising frauds and the recovery action undertaken, helps to re-enforce the message from the top that fraud will not be tolerated. Publicity can help to discourage wrongdoing by others as it can highlight the damaging repercussions of their actions.
- 3.3 Staff are often the first to notice something irregular or potentially fraudulent and are often the first line of defence in the fight against fraud. These staff need easy access to a good counter-fraud policy and whistleblowing policy so they can be clear about their roles and responsibilities and the process they must follow if they suspect a fraud.
- 3.4 Effective training helps staff interpret policies and codes of conduct, giving them the confidence and skills to report suspected fraud. However, training and awareness-raising campaigns should be kept under continual review and must be linked to the live risk assessments so that new frauds or risks facing public bodies are quickly shared amongst staff and contractors if appropriate.

## What did we find?

- 3.5 Generally, we found that public bodies have prepared and approved a range of policies setting out the processes to follow if staff suspect that they have uncovered a fraud. However, we identified that some policies were outdated, some were still in draft form and some were not easily accessible to staff.
- 3.6 Whilst NHS bodies have each developed comprehensive counter-fraud strategies (informed by an over-arching national strategy), we found that only a few other public sector bodies had done so. Such strategies set out clear approaches to managing fraud risks along with responses and actions, they define roles and responsibilities and are cross-referenced to other policies so that they can be readily understood by staff.

- 3.7 The NHS has a policy of proactively publicising successful fraud cases. The NHS Counter Fraud Service does this by issuing press releases and engaging with local media for interviews and promotional opportunities. Publicity helps raise awareness of fraud risks and also deters staff and contractors from committing fraud. By publicising counter-fraud work and raising awareness of the effects of fraud, the NHS involves staff, key stakeholders and the public in the fight against fraud.
- 3.8 We did not identify the same level of proactive publicity work in other sectors. Some local authorities take the view that publicising cases can be reputationally damaging and are therefore reluctant to publish such information. The Welsh Government recognises that more can be done to publicise fraud cases. The very low levels of fraud identified at central government bodies also means there is little publicity that can act as a further deterrent.
- 3.9 Our audit work also identified wide variation in levels of training and awareness-raising specifically relating to counter-fraud across the Welsh public sector. We found that a few public bodies provide fraud awareness training to all their staff. Some others provide training as part of the induction of new staff but do not provide this training for longstanding staff. We found some examples of refresher training sessions and e-learning modules provided for staff, but these are not widespread. There are many bodies that do not provide any counter-fraud training or awareness-raising events.
- 3.10 These findings suggest that there could be a significant proportion of the public sector workforce in Wales who have either received no fraud-awareness training at all or have not received training for several years.
- 3.11 There are good examples of awareness-raising in the NHS where the LCFS has an ongoing work programme to develop and maintain an anti-fraud culture within their health board. These programmes include the preparation of presentations and publications to raise awareness of fraud. There are also examples of LCFS undertaking staff surveys to capture the levels of staff awareness of fraud in order to act if necessary. In addition, the NHS has developed a fraud awareness e learning package for all staff and levels of compliance across organisations is reported the Directors of Finance on a quarterly basis. However, even in the NHS sector, counter-fraud training for new staff is generally not a mandatory requirement.

## What can the Welsh public sector do to improve?

### Recommendations

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- R5** All public bodies need to have a comprehensive and up-to-date set of policies and procedures which together represent a cohesive strategy for identifying, managing and responding to fraud risks.
- R6** Staff working across the Welsh public sector should receive fraud-awareness training as appropriate to their role in order to increase organisational effectiveness in preventing, detecting and responding to fraud.
- R7** Cases where fraud is identified and successfully addressed should be publicised to re-enforce a robust message from the top that fraud will not be tolerated.





## Capacity and expertise



## Why is it important?

- 4.1 It is important that public bodies each designate a counter-fraud champion who understands fraud and leads the organisation's approach and response. Public bodies need access to sufficient appropriately skilled counter-fraud specialists to prevent, detect and investigate suspected fraud and protect their assets. As fraud risks change, public bodies should have resources available to provide a response that is appropriate to the threat.
- 4.2 Skilled and experienced staff will also help to ensure investigations are undertaken properly with evidence being obtained and handled lawfully in order to secure successful sanctions and the recovery of losses.
- 4.3 Investigations, whilst crucial, can be time consuming and costly and the low numbers of successful prosecutions mean that public bodies cannot rely on investigations alone to combat fraud. Public bodies need to have the capacity to undertake both proactive counter-fraud work and reactive investigation work. Proactive work includes fraud awareness campaigns, training, designing policies and strategies and strengthening controls to prevent attacks.

## What did we find?

- 4.4 Insufficient capacity arose frequently as a key challenge faced by public bodies in their efforts to combat fraud. On the ground, capacity and skills in counter-fraud vary widely across and within public sector bodies in Wales. Most of the capacity is allocated to responsive work and investigations with any spare capacity being used in preventative counter-fraud work.
- 4.5 In local government, some officers are sceptical about the levels of fraud within their organisations and question the need for additional resources. However, these same local authorities allocate little resource to counter-fraud arrangements, do not have robust fraud risk assessments and the following up of matches from the National Fraud Initiative is assigned a low priority. Their assumptions about low levels of fraud run contrary to all the research being done by recognised leaders in the field such as CIPFA and the National Crime Agency.

- 4.6 Local authorities suffered a significant loss in counter-fraud capacity when the independent Single Fraud Investigation Service (SFIS) was created in 2014. SFIS is a partnership between the Department for Work and Pensions, HMRC and local authorities and which covers welfare benefit fraud. Most of the counter-fraud specialists left the sector to work for this new organisation. A small number of authorities have retained experienced and skilled counter-fraud staff, but the workload has mostly fallen on Internal Audit teams.
- 4.7 Our work found that the counter-fraud arrangements were generally more advanced in the local authorities that retained a dedicated and specialist counter-fraud resource. Where Internal Audit teams carry out the counter-fraud work we found a trade-off between counter-fraud work and the general programme of assurance work due to limited resources and competing priorities.
- 4.8 We also found that, within some local authorities, several teams play a role in counter-fraud work; for example, Internal Audit, Council Tax, and Human Resources teams all contribute. Whilst helpful in terms of adding capacity, we found that this can result in a lack of coordination and integration between these teams and a lack of clarity in the overall picture of counter-fraud activity.
- 4.9 Counter-fraud is generally better resourced in the NHS than other public sector bodies and there has been an increase in LCFS resource over recent years. There is a central team within the NHS Counter Fraud Service Wales which investigates complex, large scale frauds and provides a financial investigation resource. The team also provides guidance, intelligence and investigative support to the network of finance directors and LCFS at health bodies in Wales. In addition, Welsh Government Directions require that each health body should appoint at least one LCFS who is an accredited counter-fraud professional. These LCFS are the primary points of contact for counter-fraud work at their respective health bodies and have a key role in fraud prevention and detection. Increasing staffing levels above the minimum number is a matter of local discretion.
- 4.10 The mixture of LCFS and support and guidance from the NHS Counter Fraud Service and the Counter Fraud Steering Group has resulted in improved counter-fraud arrangements within the NHS sector in comparison to the other sectors. However, whilst LCFS staff are often shared between individual health boards, they are not pooled across the entire sector. As a result, the relatively low counter-fraud staff numbers in some health boards can cause issues if staff members are absent from work. Even within the NHS Wales, there is a general recognition that more proactive work should be undertaken.

- 4.11 The Counter Fraud Team at the Welsh Government is skilled and experienced and has secured a number of high-profile prosecutions over recent years. However, a recent Government Internal Audit Agency review of the Welsh Government in 2017 concluded that the counter-fraud function could achieve more with increased resources. The Counter Fraud Team is able to draw on resources from within the Welsh Government to assist with investigations where appropriate and there are plans to increase the resource in the team in the near future.
- 4.12 Our audit also found that public bodies in Wales are generally following traditional counter-fraud approaches with a focus on detection and investigation rather than prevention. Most public bodies recognise that more proactive and preventative work should be done, but they acknowledge that the lack of time, resources and expertise are barriers to making this shift of focus.
- 4.13 We did not find many examples of public bodies in Wales outside the NHS pooling resources to help reduce duplication of effort and improve the efficiency and effectiveness of counter-fraud arrangements across sectors. Pooled resources could also help to improve continuity and add flexibility to adapt to changing needs going forward.
- 4.14 In 2018 the UK government launched the Counter-Fraud Profession to enhance overall counter-fraud capability across government. The profession develops the skills of specialist staff and moves beyond the traditional focus of investigations, placing greater emphasis on fraud prevention and the use of data analytics. Membership across UK Government Departments has been steadily increasing, and the Welsh Government is engaged with this initiative. Organisations joining the profession are required to have learning environments that support their staff to develop and maintain professional standards.

## What can the Welsh public sector do to improve?

### Recommendations

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- R8** All public bodies need to build sufficient capacity to ensure that counter-fraud work is resourced effectively, so that investigations are undertaken professionally and in a manner that results in successful sanctions against the perpetrators and the recovery of losses.
- R9** All public bodies should have access to trained counter-fraud staff that meet recognised professional standards.
- R10** All public bodies should consider models adopted elsewhere in the UK relating to the pooling and/or sharing of resources in order to maximise the availability of appropriately skilled staff.



## Tools and data

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05

## Why is it important?

- 5.1 An effective counter-fraud function will ensure that those responsible for it are equipped with up-to-date methodologies and the right tools for the job. Counter-fraud staff must make best use of data and intelligence in order to:
  - a prevent fraud by 'fraud-proofing' systems and processes; and
  - b mounting an effective response to suspicions of fraud.
- 5.2 New fraud threats are continually emerging, both globally and nationally. It is important that public bodies have flexible, cutting-edge counter-fraud approaches that are fit for a digital age and agile enough to keep up with, or better still, ahead of the fraudsters.
- 5.3 Cyber-attacks are an alternative means of committing traditional frauds such as the theft of assets, cash or intellectual property. PricewaterhouseCoopers' most recent global economic crime survey found that cyber crime is now the most common fraud facing UK businesses, overtaking asset misappropriation for the first time since the survey began. We can see this in the explosion in number of cyber scams linked to the COVID-19 pandemic.
- 5.4 Preventing fraud is always preferable to responding to an instance. Many organisations are now looking to 'fraud-proof' systems at the point of entry using the latest developments in data analytics. For example:
  - a the Cabinet Office has developed on-line tools that can look at 10,000 records in seven seconds to provide due diligence checks on grant applications; and
  - b the Department of Work and Pensions have been trialling an Artificial Intelligence system that detects fraudulent claims by searching for certain behaviour patterns, such as benefit applications that use the same phone number or are written in a similar style. Any suspicious activity is then passed on to specialist investigators.
- 5.5 Data analytics provide an increasingly important tool in preventing fraud as well as in its detection. We look at how public bodies can share data to help find fraud in the next section of this report.
- 5.6 Sophisticated technology and data analytics are of little use if they are not used effectively and this requires adequately trained resource to understand it. Therefore, it is important that public bodies have access to staff adept in data analytics in order to achieve better counter-fraud results.

- 5.7 Knowing what to do in the event of a suspected fraud improves the chances of a successful enforcement action. It also re-enforces the tone from the top that the organisation does not tolerate fraud. Fraud response plans need to provide a clear direction to relevant parties so that bodies are able to respond to allegations quickly and appropriately. A response plan should be reviewed regularly to ensure that responses to fraud keep abreast with changing times and emerging risks. They should outline:
- a the fraud investigation process from receipt of allegation to outcome report;
  - b roles and procedures for securing evidence and undertaking interviews;
  - c details of how and when to contact the police;
  - d a commitment to pursuing a range of sanctions;
  - e reporting arrangements; and
  - f how lessons learned will be used to strengthen system and process controls.

## What did we find?

- 5.8 Generally speaking, we found that more work is needed to bring counter-fraud tools and methodologies up to date to reflect the new world of cyber attacks and digitally-facilitated crimes. Many local authorities and central government bodies we looked at as part of our fieldwork did not have information security policies that reflected the risks associated with cyber crime. The situation was more positive in NHS Wales bodies.
- 5.9 Our review identified only a few examples of data analytics being used as a means of preventing fraud. Data analytics are used more widely to detect fraud, in following up on NFI data matches, for example, but our previous audit work<sup>4</sup> has shown that the level of engagement with the NFI varies considerably across Welsh public bodies.
- 5.10 We found that some local authorities and central government bodies did not have a fraud response plan that was communicated to all staff and which made it clear that all allegations of fraud would be investigated. The Welsh Government had a fraud response plan, but this was in draft form at the time of our audit work and was not, therefore, available to staff. Again, the position was much more positive in NHS Wales.

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4 **Our October 2018 NFI report** stated that 'most Welsh public sector bodies participating in the NFI were proactive in reviewing the data matches, but a small number of participants did not review the matches in a timely or effective manner'.



- 5.11 NHS bodies all use the same case management system to record and monitor the progress of potential fraud cases. In other sectors, few bodies have a case management system although some do have a spreadsheet log that records information. The variation in the information collected makes it very difficult to report an all-Wales position on the level of fraud taking place. The reasons that many local authorities and central government bodies do not have a case management system or detailed records was the very low numbers of fraud cases that were being identified and handled.
- 5.12 Most of the public bodies we looked at consider the full range of possible sanctions (disciplinary, regulatory, civil and criminal) against fraudsters and will seek redress including the recovery of assets and money where possible. However, many bodies report such low levels of fraud that it is impossible to substantiate their claims. For any internal frauds identified, most bodies tend to deal with the perpetrators through internal disciplinary procedures.
- 5.13 Most of the public bodies we looked at reflected on the weaknesses revealed by instances of proven fraud and corruption and fed back to departments and teams so that they might fraud-proof their systems. The arrangements at local NHS bodies were particularly robust because fraud cases in their case management system cannot be closed down without providing assurance that any system weaknesses have been considered and remedied if necessary.

## What can the Welsh public sector do to improve?

### Recommendations

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- R11** All public bodies need to develop and maintain dynamic and agile counter-fraud responses which maximise the likelihood of a successful enforcement action and re-enforce the tone from the top that the organisation does not tolerate fraud.
- R12** All public bodies should explore and embrace opportunities to innovate with data analytics in order to strengthen both the prevention and detection of fraud.



# Collaboration



06

## Why is it important?

- 6.1 Fraudsters do not respect geographical or other boundaries. This means that individual public sector bodies cannot establish effective counter-fraud arrangements by themselves. They must work collaboratively to maximise the effectiveness of their response to fraud.
- 6.2 Collaboration is an increasingly important aspect of public service, particularly in the context of reduced funding and the need to do more with less. Collaboration is also one of the 'five ways of working' as defined in the Welsh Government's 'Well-being of Future Generations (Wales) Act 2015: the essentials'<sup>5</sup> document. It is therefore essential that collaboration and the sharing of intelligence and good practice take place between public, private and third-sector bodies across the UK and internationally.
- 6.3 Collaboration can mean sharing people or pooling resources and, more commonly these days, in the sharing of information. This information can be shared between departments, between bodies, across different elements of the public sector and with other key stakeholders such as law enforcement authorities and the private sector. The information shared can be about the nature of a fraud or information about the identities of the perpetrators.
- 6.4 The sharing of data to help find fraud is a rapidly evolving area and is being facilitated by changes in the law. In 2017, the Digital Economy Act became law, enabling public authorities to share personal data to prevent, detect, investigate and prosecute public sector fraud. The Act recognises that the wider use of data-sharing could improve the prevention, detection and investigation of fraud in a number of ways, including:
  - a improved targeting and risk-profiling of potentially fraudulent individuals;
  - b streamlining processes, enabling the government to act more quickly; and
  - c simplifying the legislative landscape.

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5 Well-being of Future Generations (Wales) Act 2015: the essentials', Welsh Government (2015) Page 289

## What did we find?

- 6.5 Our field work across forty public sector bodies in Wales found that collaboration was insufficiently developed, reinforcing the findings of our 2019 review.
- 6.6 Within local authorities and central government bodies there are some good examples of bodies working jointly and some regional networks, but these tend to be informal arrangements and there is no consistency in approach. Formalising arrangements can help improve accountability and governance and can influence commitment and results.
- 6.7 The picture is generally more positive across local NHS bodies and the Welsh Government than in local authorities and central government bodies. However, there is scope for all public bodies to work more closely with each other and with other stakeholders to tackle fraud.
- 6.8 Because of the tiered approach to counter-fraud within NHS Wales and established formal partnerships with the NHS Counter Fraud Authority, there is good access to specialist fraud investigation teams such as surveillance, computer forensics, asset recovery and financial investigations. The NHS Counter Fraud Service Wales provide the surveillance, asset recovery and financial investigations services to NHS Wales, while the NHS Counter Fraud Authority provides forensic computing services and other specialist support services to NHS Wales under the terms of their annual agreement with Welsh Government.
- 6.9 The existence of these formal access arrangements is less well established within other sectors, but most organisations told us that they could access specialist services if required. The low level of fraud being identified was one of the reasons given for the absence of formal partnerships between public sector bodies.
- 6.10 We also found wide variations in the amounts of data that are shared. In most bodies, the sharing of data was typically limited to the National Fraud Initiative (NFI), although not all central government bodies currently take part in NFI. We found that some local authorities do not invest much resource into following up NFI matches and these are often the same authorities in which counter-fraud arrangements were limited.
- 6.11 There were very few examples of organisations working frequently across internal and external boundaries and sharing information. Common reasons for this lack of collaboration was lack of time and resources, and concerns about the sharing of data.

## What can the Welsh public sector do to improve?

### Recommendations

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**R13** Public bodies should work together, under the Digital Economy Act and using developments in data analytics, to share data and information to help find and fight fraud.



# Reporting and scrutiny

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07

## Why is it important?

- 7.1 Arriving at a reliable estimate for the cost of fraud is a difficult task. This is particularly so for the Welsh public sector as our 2019 report highlighted. Whilst the UK Government produces annual estimates, there is no breakdown of this estimate to each of the devolved administrations in the UK. CIPFA's most recent analysis estimates that fraud costs the UK public sector £40.3 billion annually. The Cabinet Office<sup>6</sup> estimates losses due to fraud and error at between 0.5% and 5% of budget. Applying this range to annual public expenditure in Wales of around £20 billion gives a possible estimated value of losses to fraud and error between £100 million and £1 billion per annum. The losses are therefore significant and take valuable funding away from our public services.
- 7.2 Fraud is often under-reported as some suspicious activity identified through NFI matches, for example, is not classified as fraudulent and therefore not reported. Also, some public bodies fail to report fraud as it can attract unwanted publicity and perceived reputational damage. This situation leads to an incomplete national intelligence picture.
- 7.3 The International Public Sector Fraud Forum<sup>7</sup> has recognised that 'finding fraud is a good thing' and this is one of their 'Key Fraud and Corruption Principles'. The Forum noted that, if bodies do not find fraud, then they are unable to fight it, and that a change of perspective is needed so that the identification of fraud is seen as a positive and proactive achievement.
- 7.4 Reporting fraud to those charged with the governance of public sector organisations is important as it provides managers and audit committees, for example, with the information and intelligence they need to challenge and scrutinise. To facilitate accountability, public bodies should provide copies of counter-fraud reports detailing numbers of cases and outcomes to audit committees so that they are fully informed of any issues of concern and can hold management and counter-fraud teams to account. Audit committees can also promote the message that fraud will not be tolerated, supporting the efforts of counter-fraud teams.

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6 Cabinet Office Cross Government Fraud Landscape Report 2018

7 International Public Sector Fraud Forum A Guide to Managing Fraud for Public Bodies in Feb 2019

## What did we find?

- 7.5 The arrangements in NHS Wales to record, collate and share information about fraud losses and recoveries are well established. The NHS Counter Fraud Service collates information on the number of fraud cases and recoveries from each health body as a matter of course. There are quarterly and annual Operational Performance Reports which summarise information about resources, referrals and the work of the Counter-Fraud Service and LCFS based at each health body. These reports are reviewed by the Counter Fraud Steering Group and shared with Directors of Finance and the audit committees of each health body, helping to facilitate meaningful comparisons within the sector. The NHS Counter Fraud Authority also reports to the Welsh Government on a quarterly basis.
- 7.6 In other sectors, audit committees are not generally provided with as much information:
- a in the Welsh Government, the Audit and Risk Assurance Committee is not provided with, nor does it request, detailed information about fraud cases, although information about major cases and anti-fraud activity is included in the regular report from the Head of Internal Audit;
  - b in the local government sector, fewer than half the authorities report information about fraud cases, losses and recoveries to their audit committees on a regular basis; and
  - c even fewer central government bodies report on cases of fraud, reflecting a very low incidence of fraud being identified and managed.
- 7.7 The absence of both the reporting of information and arrangements to collate and share this information across the Welsh public sector is troubling for a number of reasons. It does little to help re-enforce a zero-tolerance message from the top of an organisation to both staff and external stakeholders. It may also send the wrong message to fraudsters that Wales does not see fraud as a priority and makes it difficult to assess the level of risk and how best to respond to it by senior public sector officials and politicians.
- 7.8 When frauds are identified, Internal Audit (or, where they exist, counter-fraud specialists) provide audit committees with reports and updates. On balance, however, audit committees outside of the NHS Wales have not been sufficiently proactive in recognising the increasing risk of fraud and in asking the searching questions necessary about the matching of resources to risk or about the lack of information being supplied about fraud risk.



## What can the Welsh public sector do to improve?

### Recommendations

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- R14** Public bodies need to collate information about losses and recoveries and share fraud intelligence with each other to establish a more accurate national picture, strengthen controls, and enhance monitoring and support targeted action.
- R15** Audit committees must become fully engaged with counter-fraud, providing demonstrable support and direction, monitoring and holding officials to account if insufficient information is being provided about counter-fraud activity.



# Appendices

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- 1 Audit methods
- 2 The Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee

# 1 Audit methods

Our audit was structured around seven key lines of enquiry to help us answer the overall question: 'Are the arrangements for preventing and detecting fraud in the Welsh public sector effective?':

- Does the top tier demonstrate a commitment to counter-fraud and provide the necessary leadership to fight fraud?
- Does the organisation have a suitable structure and sufficient skilled resources to prevent and detect fraud?
- Does the organisation have a sound policy framework to support effective counter-fraud arrangements?
- Does the organisation have an effective fraud risk assessment together with appropriate responses to emerging issues?
- Does the organisation's internal control environment support effective arrangements for preventing and detecting fraud?
- Does the organisation have an appropriate response to fraud?
- Does the organisation have proper reporting and scrutiny in place to ensure its counter-fraud culture and framework is operating effectively?

The audit fieldwork was carried out by our local audit teams between November 2019 and February 2020. Their fieldwork included:

- structured interviews – interviews with key individuals in order to understand the counter-fraud arrangements in place at each audited body; and
- document reviews – where these existed, they typically included the counter-fraud strategy, risk assessment, work plans, corporate risk register, fraud response plan, Codes of Conduct, whistleblowing policy, guidelines and procedures for local fraud investigators and counter-fraud reports/updates provided to Audit Committee.

Teams also issued a core information request in order to gather some information directly from audited bodies.

The project team collated and reviewed the local findings to distil the key messages for inclusion in this report. Our audit teams have been providing tailored feedback on their local findings to relevant staff at each audited body.

The audited bodies included in this study are:

**Local Government bodies:**

- Blaenau Gwent County Borough Council
- Bridgend County Borough Council
- Caerphilly County Borough Council
- Cardiff Council
- Carmarthenshire County Council
- Ceredigion County Council
- Conwy County Borough Council
- Denbighshire County Council
- Flintshire County Council
- Gwynedd Council
- Isle of Anglesey County Council
- Merthyr Tydfil County Borough Council
- Monmouthshire County Council
- Neath Port Talbot County Borough Council
- Newport City Council
- Pembrokeshire County Council
- Powys County Council
- Rhondda Cynon Taf County Borough Council
- City and County of Swansea
- The Vale of Glamorgan Council
- Torfaen County Borough Council
- Wrexham County Borough Council

**NHS Wales bodies:**

- Aneurin Bevan University Health Board
- Betsi Cadwaladr University Health Board
- Cardiff and Vale University Health Board
- Cwm Taf Morgannwg University Health Board
- Hywel Dda University Health Board
- Powys Teaching Health Board
- Swansea Bay University Health Board
- Health Education and Improvement Wales
- Velindre NHS Trust
- Public Health Wales Trust
- Welsh Ambulance Service NHS Trust

**Central Government bodies:**

- Welsh Government
- Welsh Revenue Authority
- Arts Council for Wales
- Higher Education Funding Council for Wales
- National Museums and Galleries Wales
- Natural Resources Wales
- National Library of Wales
- Sport Wales
- Senedd Commission

## 2 The Welsh Government's response to the July 2019 recommendations of the Public Accounts Committee

### PAC Recommendation

**We ask that the Welsh Government consider whether there is scope and potential to support a national counter fraud team to work across Wales to ensure that at least a basic level of counter fraud work is undertaken in each local authority area by suitably trained staff.**

**We ask that the Welsh Government consider whether there is scope and potential to support a national counter fraud team to work across Wales to ensure that at least a basic level of counter fraud work is undertaken in each local authority area by suitably trained staff.**

### Response from the Welsh Government's Permanent Secretary

The Welsh Government recognises and fully supports local authorities addressing fraud within the £8 billion of their general revenue expenditure.

As independent democratically led organisations, the prime responsibility for the detection and prevention of fraud is for each of the 22 councils themselves. As such, we would expect all to be fully engaged in this work and for local politicians to understand and provide leadership.

To make sure that the recommendation is understood and given priority, officials will raise the matter with Ministers to secure an item on the Partnership Council agenda as well as its Finance Sub Committee. Subject to Ministers' agreement, we will agenda an item for the next possible meeting.

I am supportive of any move to increase the understanding of fraud and the consistent application of best practice techniques across the Welsh Public Sector and there exists already a vehicle to bring together counter-fraud practitioners and other interested parties and drive forward a common understanding of this important area.

The Welsh Government's Head of Counter-Fraud is Deputy Chair of the Wales Fraud Forum (WFF), which is a not-for-profit company run by a strategic board of volunteers. Its aims are to help prevent fraud in Wales by raising awareness in the public and private sectors and amongst individuals. In particular, its stated objectives include to:

- bring the public and private sectors together to fight fraud and financial crime and to protect the economy of Wales;

## **PAC Recommendation**      **Response from the Welsh Government's Permanent Secretary**

- promote fraud awareness amongst its membership, organisations and individuals throughout the region;
- create good practice cultures by encouraging and developing anti-fraud strategies for its membership to utilise;
- establish a best practice between its members for fraud prevention, investigation and detection; and
- promote an open and co-operative environment between the membership in both the public and private sectors.

The Forum is held in high regard; in 2017 the current First Minister gave the keynote address at its annual conference and outlined his support for effective counter-fraud arrangements across Wales. Forum membership includes the Audit Wales as well as a number of public and private sector organisations.

Therefore, I believe the Welsh Government can achieve the outcome desired by identifying strategies to support the work of the Forum, raising its profile within the Welsh Public Sector and seek a high level of commitment to support it. I will ask Officials to engage with the Forum to discuss strategies for strengthening its effectiveness by the end of the calendar year.

We agree there is potential in the use of data sharing between Welsh public bodies to improve the impact of counter-fraud activities. The introduction of the Digital Economy Act gives the Welsh Government and certain scheduled Welsh public bodies useful new powers to share data with each other compliantly to identify potential fraud. Officials are working on setting up the appropriate governance for taking forward the use of these new powers in Wales, and are aiming for a panel to be in place by the end of the financial year to consider potential uses of the powers.



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## Audit of Accounts Report – City and County of Swansea

Audit year: 2019-20

Date issued: August 2020

Document reference: 2012A2020-21

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# Contents

We intend to issue an unqualified audit report on your Accounts. There are some issues to report to you prior to their approval.

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# Audit of accounts report

## Introduction

- 1 We summarise the main findings from our audit of your 2019-20 accounts in this report.
- 2 We have already discussed these issues with the Chief Finance Officer.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £9 million for this year's audit.
- 5 There are some areas of the accounts that may be of more importance to the reader and we have set a lower materiality level for these, as follows:
  - Senior Officer pay £1,000
  - Related Parties £10,000
- 6 Although we have completed the majority of our audit work at the time of drafting this report, we have yet to complete:
  - the final review of our audit file; and
  - our final review of the revised 2019-20 financial statements;
- 7 We would also like to draw to the attention of the Council that the date local government electors may exercise their rights under sections 30 and 31 of Public Audit (Wales) Act 2004 to question the Auditor General about or make objections to the accounts for the year ended 31 March 2020, is 1 September 2020. This could result in us receiving questions on the 2019-20 financial statements or an objection to an item of account. We will provide a verbal update on this correspondence and the items reported in paragraph 6 above, to the Audit Committee at its meeting on 8 September 2020.
- 8 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and, our objectivity has not been compromised in any way. There are no relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 9 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. The Council were able to produce the draft statement of accounts by 18 May 2020 which is well ahead of both the 15 June 2020 statutory deadline for this year and the revised deadlines for 2020-21 of 31 May. We are extremely

grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.

10 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year’s audit process.

**Exhibit 1 – impact of COVID-19 on this year’s audit**

<p><b>Timetable</b></p>	<ul style="list-style-type: none"> <li>• The deadline for the completion of the draft accounts was 15 June.</li> <li>• We received the draft accounts on 18 May 2020.</li> <li>• Our deadline for completing our audit was 15 September 2020.</li> <li>• We expect your audit report to be signed on 15 September 2020.</li> </ul> <p>As stated previously, officers should be commended for the timely completion of the draft financial statements.</p>
<p><b>Electronic signatures</b></p>	<p>The Chief Finance Officer provided an electronic signature along with a supporting e-mail to confirm that he had certified the statement of accounts. We will continue to accept the use of electronic signatures and electronic transfer of files during the approval and signing process.</p>
<p><b>Audit evidence</b></p>	<p>As in previous years, we received the majority of audit evidence in electronic format. We have used various techniques to ensure its validity. Where we have been unable to obtain access to paper documents because of COVID-19 restrictions, we have devised alternative audit methodologies to obtain sufficient audit evidence. Specifically:</p> <ul style="list-style-type: none"> <li>• officers provided electronic working papers in accordance with our agreed Audit Deliverables Report;</li> <li>• officers provided audit evidence to the audit team via e-mail or the shared folder accessible by auditors through the C&amp;CS laptops;</li> <li>• officers were available by video conferencing for discussions, and for the sharing of on-screen information/evidence; and</li> <li>• Audit Wales also secured remote read only access to the Oracle ledger and Northgate system which enabled the audit team to run reports and view evidence and hence reduce the burden on officers to provide this information.</li> </ul>

## Other

- Video conferencing has enabled the audit team to correspond effectively with officers throughout the audit.
- Video conference based Audit Committee meetings have enabled us to proficiently discharge our responsibility for reporting to those charged with governance.

- 11 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed audit opinion

- 12 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 13 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 14 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 15 Our proposed audit report is set out in **Appendix 2**.
- 16 This audit report includes an emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to Note 34 in the financial statements. This note includes reference to the material uncertainty clause disclosed in a pension fund manager's year-end valuation report for the UK property fund they manage on behalf of the City and County of Swansea Pension Fund. The total value of this fund as at 31 March 2020 is £51.3 million and City and County of Swansea's share of this fund amounts to £28.9 million (56.3%). **The audit opinion is not modified in respect of this matter.**

## Significant issues arising from the audit

### Uncorrected misstatements

- 17 We set out below the one misstatement we identified in the accounts that is above our trivial level which has been discussed with management but remains uncorrected. After discussions with Council officers, we agreed that the value of the misstatement was not material and therefore the Council have not amended the financial statements.
- 18 The misstatement relates to capital grant funding received during 2019/20, totalling £1.4 million. This has been disclosed incorrectly as a receipt in advance in the

2019-20 financial statements. The terms of the grant prohibit any carry forward of funding into the 2020-21 financial year.

**Corrected misstatements**

19 There were initially misstatements in the accounts that have now been corrected by management. However, we believe that these should be drawn to your attention and they are set out with explanations in **Appendix 3**.

**Other significant issues arising from the audit**

20 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year as shown in **Exhibit 2**:

**Exhibit 2 – significant issues arising from the audit**

<b>Significant issues arising from the audit</b>	
<b>Material uncertainty in relation to pension property assets</b>	<p>I have requested that the Council sets out in Note 34 additional narrative to disclose the material uncertainty in relation to pension property assets.</p> <p>The Council has included the additional narrative disclosure.</p> <p>I have also drawn the reader’s attention to this disclosure in an emphasis of matter paragraph in my audit report.</p> <p>My opinion is not modified in respect of this matter.</p>
<b>Council property valuations</b>	<p>Given the COVID-19 position and the potential impact on property valuations, we made additional enquiries with the Council’s internal valuer to ensure that the property valuations remained appropriate.</p> <p>Responses obtained from the valuer were reasonable and we therefore concluded that property valuations remained appropriate.</p> <p>No further disclosure was considered necessary within the financial statements.</p>
<b>Estimated returns for the March 2020 pension asset valuations (IAS19)</b>	<p>In order to meet the accelerated statement of accounts closure timetable, the Council’s appointed actuary typically uses estimated asset returns to inform the year-end pension asset valuations.</p>

### Significant issues arising from the audit

	<p>Given the impact of COVID-19 and the potential of significant market volatility around the year-end, we compared these figures with the actuals to ensure the original estimate used was materially correct. We identified that the rates of return subsequently experienced were significantly different and therefore the Council requested revised IAS19 asset valuations figures to ensure disclosures in the accounts were materially correct.</p> <p>The adjustment has been made to the financial statements with further detail included in <b>Appendix 3</b>.</p>
<p><b>Impact of McCloud Pension remedy proposals on IAS 19 figures</b></p>	<p>Our audit plan highlighted the impact of the McCloud judgement as a potential audit risk for this year's audit. An estimate for this potential liability was compiled prior to the proposed remedy being known and is included in the 2019-20 financial statements.</p> <p>On 16 July 2020, the UK government proposed its remedy and this had the potential to significantly impact this estimate.</p> <p>We corresponded with management and the actuary to assess whether the estimate for this potential liability was in line with the proposed remedy. We have received confirmation from the actuary that their assumptions were similar to the subsequently proposed remedy. Therefore, we were able to conclude that the estimate included in the 2019-20 financial statements was reasonable.</p> <p>No adjustments were therefore required to be made to the 2019-20 financial statements.</p>

## Recommendations

- 21 The recommendations arising from our audit are set out in **Appendix 4**. Management has responded to them and we will follow up progress against them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.



# Appendix 1

## Final letter of representation

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

10 September 2020

## Representations regarding the 2019-20 financial statements

This letter is provided in connection with your audit of the financial statements of City and County of Swansea and its group for the year ended 31 March 2020 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

## Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The one item that remained uncorrected relates to capital grant funding received during 2019/20, totalling £1.4 million. This has been disclosed incorrectly as a receipt in advance at the year-end.

After discussions with the audit team, it was concluded that the amount was not material and therefore we have not amended the financial statements.

## Representations by the City and County of Swansea

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Members of the City and County of Swansea on 10 September 2020.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Chief Finance Officer (S151 Officer)

Date: 10 September 2020

Signed by:

Chair of the Council – signed on behalf  
of those charged with governance

Date: 10 September 2020

# Appendix 2

## Proposed audit report

### The independent auditor's report of the Auditor General for Wales to the members of City and County of Swansea

#### Report on the audit of the financial statements

##### Opinion

I have audited the financial statements of:

- City and County of Swansea, and
- City and County of Swansea Group

for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

The City and County of Swansea's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement and the related notes, including a summary of significant accounting policies.

The City and County of Swansea's Group financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of City and County of Swansea and City and County of Swansea Group as at 31 March 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

##### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the City and County of Swansea and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I

have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Emphasis of matter**

I draw attention to Note 34 of the financial statements, which describes the impact of a material uncertainty disclosed in a pension fund manager report in their year-end valuation report for the UK property fund they manage on behalf of the City and County of Swansea Pension Fund. The Council has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

## **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's or group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Other information**

The responsible financial officer is responsible for the other information in the statement of accounts. The other information comprises the information included in the Narrative Report and Annual Governance Statement. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

## Report on other requirements

### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

### Matters on which I report by exception

In the light of the knowledge and understanding of the council and the group and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- proper accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

### Certificate of completion of audit

I certify that I have completed the audit of the accounts of City and Council of Swansea and City and County of Swansea group in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

## Responsibilities

### Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, including City and County of Swansea's Group financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of

statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the council's and group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
15 September 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

# Appendix 3

## Summary of corrections made

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 3: summary of corrections made

Value of correction	Nature of correction	Reason for correction
£16.5 million	<p><b>Pension Fund Liability – Various</b>            Given the significant market volatility around the year, we compared the actuarially adopted estimated asset returns for March 2020 with the actuals and identified that the actual rates of return were significantly different. The Council, therefore, requested revised IAS19 asset valuations figures.            The impact of the revised figures has resulted in a decrease in the pension liability by £16.5 million.</p>	To ensure that the value of pension fund assets are correctly valued at the year-end.
£11.7 million	<p><b>Financial Instruments – Note 17 – page 90</b>            The analysis of financial assets and liabilities in the fair value hierarchy for those assets and liabilities not measured at fair value was incorrectly classified. £11.7 million was categorised as financial assets instead of financial liabilities.</p>	To ensure correct classification of assets and liabilities within the financial instruments note.
£9.7 million	<p><b>Contingent Liabilities – page 131</b>            The contingent liability included in the draft statement of accounts relating to the City Deal did not reflect the position as at 31 March 2020. The potential financial effect, commentary and timing has now been updated which includes reducing the potential liability from £11.5 million to £1.8 million.</p>	To ensure that the contingent liabilities disclosures are accurate and up to date as at 31 March 2020.



Value of correction	Nature of correction	Reason for correction
£7.7 million	<p><b>Cash Flow Statement – Operating Activities – Note 23 – page 98</b></p> <p>The analysis of non-cash movements in this note was incorrect. £7.7 million was included within the depreciation classification but this amount related to impairments and downward revaluations and therefore were incorrectly classified. There was no overall impact on the cash position of the Council.</p>	To ensure non-cash movements were correctly classified.
£5.1 million	<p><b>Adjustments between accounting basis and funding basis under regulations – Note 8 – page 65</b></p> <p>A £5.1 million adjustment to the capital receipts reserve has been classified incorrectly. This adjustment was originally classified as cash payments in relation to deferred capital receipts but should be classified as use of capital receipts reserve to finance capital expenditure.</p>	To ensure adjustments to usable reserves were correctly disclosed.
£737,000	<p><b>Cash Flow Statement and Group Cash Flow Statement – pages 29 and 30</b></p> <p>Both the cash receipts and repayments of short term and long-term borrowing were understated by £737,000. There was no overall impact on the cash position of the Council.</p>	To ensure net cash flows from financing activities were correctly disclosed.
Various presentational amendments	Various other minor presentational amendments were made to the narrative report and draft statement of accounts. There was no overall impact on the net expenditure or net assets of the Council.	To ensure accuracy of the financial statements.

# Appendix 4

## Recommendations

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

### Exhibit 4: matter arising 1

<b>Matter arising 1 – Capital accounting</b>	
<b>Findings</b>	<p>During 2019-20, the Council has continued to make progress in improving its arrangements for capital accounting. This was reflected in the high-quality capital notes to the statement of accounts this year. However, there are some areas where further work is required in 2020-21. This is particularly important given the Council's recent decision not to implement Oracle Fusion ERP for capital accounting. The areas of improvement include:</p> <ul style="list-style-type: none"><li>• the Council is unable to fully reconcile its Revaluation Reserve to the net historical cost of its assets; and</li><li>• the Council's asset registers are spreadsheet based which takes significant officer time to maintain.</li></ul>
<b>Priority</b>	Medium
<b>Recommendation</b>	<ul style="list-style-type: none"><li>• The Council should attempt to fully reconcile its Revaluation Reserve to the net historical cost of its assets.</li><li>• The Council should continue to explore more efficient approaches to capital accounting which would help to streamline the production of the Council's financial statements.</li></ul>
<b>Benefits of implementing the recommendation</b>	Implementation of the recommendation would improve capital accounting arrangements.

<b>Matter arising 1 – Capital accounting</b>	
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	<p>Management welcomes the positive comments on the quality of the capital accounting disclosures within this year's accounts. During 2019/20 and 2020/21, The Authority has undertaken extensive work with its appointed IT development partner, Infosys to initialise and configure the capital accounting/ fixed asset module within the Oracle suite of business applications to comply with local government accounting practice in line with the Council-wide Oracle Fusion upgrade scheduled for 2021.</p> <p>Unfortunately, after extensive appraisal, analysis and configuration of the system, there still remains a considerable gap in what the system can deliver and what is required by the accounting code. Therefore, management have determined not to continue the development of the module and use that development time on other deliverable items within the programme. Management shall consider its options to enhance its reporting in the areas identified above</p>
<b>Implementation date</b>	2020/21

**Exhibit 5: matter arising 2**

<b>Matter arising 2 – Declaration of Interests</b>	
<b>Findings</b>	<p>We identified that 17 councillors had not submitted an updated declaration of interests form in 2019-20 with a number of these having not submitted forms since 2017.</p> <p>After making further enquiries, we established that the Council does send bi-monthly reminders to all councillors reminding them of the need to update their interests if any change has taken place or confirm a nil return.</p>

**Matter arising 2 – Declaration of Interests**

	Despite this, councillors must update their declaration of interests on an annual basis to ensure that all interests can be monitored.
<b>Priority</b>	High
<b>Recommendation</b>	We recommend that all councillors submit a declaration of interest form on an annual basis even if there have been no changes to their circumstances.
<b>Benefits of implementing the recommendation</b>	Implementation of the recommendation would improve internal controls and ensure that any conflicts of interest that should arise can be actively managed.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The Head of Democratic Services will monitor to ensure that all councillors submit a declaration of interest form on an annual basis even where a nil declaration is to be submitted.
<b>Implementation date</b>	Immediate





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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

# Agenda Item 10



## Report of the Head of Democratic Services

Audit Committee – 8 September 2020

### Audit Committee Action Tracker Report

<b>Purpose:</b>	This report details the actions recorded by the Audit Committee and response to the actions.
<b>Report Author:</b>	Jeremy Parkhouse
<b>Finance Officer:</b>	N/A
<b>Legal Officer:</b>	N/A
<b>Access to Services Officer:</b>	N/A

#### 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 2018/19 and 2019/20 Municipal years are attached in Appendix 1 and 2. Responses provided in respect of issues raised at previous meetings are attached at Appendix 3.
- 1.5 The Action Tracker is regularly updated and any completed actions will be marked 'Complete' 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** – Audit Committee Action Tracker 2019/20 (Closed actions removed)

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



## Appendix 1

<b>AUDIT COMMITTEE ACTION TRACKER 2019/20</b>				
Date of Meeting	Minute Ref	Action	Nominated Officer(s)	Status
21/07/20	122	<b>Internal Audit Annual Plan 2020/21 – Monitoring Report for the Period 1 April 2020 to 30 June 2020</b>		
		Accounts Receivable Audit 2019/20 - An update report be provided outlining the root cause of the issues identified.	Michelle Davies	<b>Ongoing</b> Update report to be provided to Audit Committee on 8 September 2020.
30/06/20	116	<b>Employment of Agency Staff</b>		
		The Strategic Human Resources and Organisational Development Manager provides details of sickness / absence levels within the service areas that hired Agency Workers.	Adrian Chard	<b>Completed</b> Response circulated to Audit Committee on 20 August 2020. CIA has also agreed to conduct an audit review in this area during 20/21.
		The Committee is kept updated regarding the review of the current Agency Worker policy.	Adrian Chard	<b>Ongoing</b> Update to be provided in January 2021.
30/06/20	113	<b>Audit Committee Annual Report 2019/2020</b>		
		Report to be presented to Council for approval on 10 September 2020.	Huw Evans / Jeremy Parkhouse / Chair	<b>Ongoing</b> Report added to Forward Plan / to be presented to Council.
30/06/20	112	<b>Appointment of Additional Lay Member to Audit Committee</b>		
		Report to be presented to Council for approval on 10 September 2020.	Adam Hill	<b>Ongoing</b> Report added to Forward Plan / to be presented to Council.
30/06/20	111	<b>Review of Partnerships in the City and County of Swansea</b>		
		An update report in respect of progress made on the Welsh Government recommendations be added to the Audit Committee Tracker and provided in November / December 2020.	Adam Hill / Jeremy Parkhouse	<b>Ongoing</b> Update report to be provided in December 2020.
		An update be provided regarding the future Scrutiny of the body that replaces ERW in 2021.		<b>Ongoing</b> Update report to be provided.
		An update report regarding the development of a new Local Transport Plan be added to the Audit Committee Work Plan.	Martin Nicholls / Stuart Davies	<b>Ongoing</b> Update report to be provided.

26/05/20		<b>Meeting Adjourned to 01/06/20</b>		
1404/20		<b>Meeting cancelled due to the Coronavirus Pandemic</b>		
10/03/20	87	<b>Building Services Plant - Findings Update - Internal Audit Report 2019/20</b>		
		The service area further investigates the introduction of a bar reader in respect of stock management.	Nigel Williams / Rob Myerscough	<b>Ongoing</b> Response received 27/04/20 – The Service have been waiting a few years for a bar coding system, it is with IT at present but other large projects such as Oracle / Fusion have been given priority.
10/03/20	86	<b>Fleet Maintenance Audit Report 2019/20</b>		
		The Officers liaise with the Chief Auditor regarding the retrospective nature of checking.	Mark Barrow / Simon Cockings	<b>Ongoing</b>
11/02/20	78	<b>Overview of the Overall Status of Risk - Quarter 3 2019/20.</b>		
		1) the Strategic Delivery & Performance Manager considers the exception reporting format for future meetings;	Richard Rowlands	<b>Ongoing</b> Paused at present whilst risk reporting is currently on hold during the COVID-19 pandemic. Risk reporting will resume at some future point in line with the Council's COVID-19 recovery plans.  Audit Committee concerns relayed to Chief Executive.
		2) the reasons for the closure of a risk be reported to the next ordinary Audit Committee meeting.	Richard Rowlands	<b>Ongoing</b> Paused at present whilst risk reporting is currently on hold during the COVID-19 pandemic. Risk reporting will resume at some future point in line with the Council's COVID-19 recovery plans.  Audit Committee concerns relayed to Chief Executive.

11/02/20	77	<b>Governance Group Update Report</b>		
		The Governance Group will ensure that a six-month update report is provided to the Audit Committee next year.	Adam Hill	<b>Ongoing</b> Update to be provided in December 2020.
11/02/20	73	<b>Scrutiny Work Programme 2019-20</b>		
		The Chair seeks assurance regarding future management of staff and staff resource being an issue throughout the Council;	Chair	<b>Ongoing</b> Chair has met with Chief Executive to discuss Audit Committee concerns over workforce matters.
		Future monitoring of external audit recommendations be discussed further.	CMT	<b>Ongoing</b> Email sent to CMT 02/03/20.
	68	<b>Internal Audit Recommendation Follow-Up Report - Quarter 2 2019/20</b> The need for more robust tracking of External Audit recommendations be referred to the Corporate Management Team for discussion. Combined with action highlighted at Minute No.32 from 16/09/19.	CMT	<b>Ongoing</b> Email sent to CMT 02/03/20.

**Appendix 2**

<b>AUDIT COMMITTEE ACTION TRACKER 2018/19</b>				
<b>Date of Meeting</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Nominated Officer</b>	<b>Status</b>
11/12/18	59	<b>Overview of the Overall Status of Risk – Quarter 2 2018/19</b> The contents of the Risk Register requires enhancement.	Richard Rowlands	<b>Ongoing</b> Roll out of the new risk register application and training / reference resources is nearing completion and work will now shift to embedding and maturing the use and implementation of the new application. Reporting capability is dependent on change request approval and subsequent action by ICT.



## Report of the Head of Democratic Services

Audit Committee – 8 September 2020

### Audit Committee – Workplan 2019/21

<b>Purpose:</b>	This report details the Audit Committee Workplan to May 2021.
<b>Report Author:</b>	Jeremy Parkhouse
<b>Finance Officer:</b>	N/A
<b>Legal Officer:</b>	N/A
<b>Access to Services Officer:</b>	N/A
<b>For Information</b>	

#### 1. Introduction

- 1.1 The Audit Committee's Work Plan to May 2021 is attached at Appendix 1 for information.
- 1.2 The Audit Committee Statement of Purpose is attached for information at Appendix 2.
- 1.3 The completed / outstanding actions from the Performance Review 2017/18 Action Plan are included at Appendix 3. The outstanding actions have also been included in the 2018/19 Action Plan.
- 1.4 The Performance Review 2017/18 and 2018/19 Action Plans are included at Appendix 3. The Plan was drafted following feedback from the workshop annual self-assessment session held on 16 September 2019 and facilitated by the Wales Audit Office. Wales Audit Office also presented a report on their findings at the Committee meeting held on 8 October 2019, which covered regularity and length of Audit Committee meetings; outstanding actions from Audit Committee Performance Review 2017-18; and information provided to Audit Committee Members. The responses provided by Members were detailed in the report.

1.5 The dates included for the meetings in 2019/20 were approved by the Political Group Leaders.

## **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** – Audit Committee Workplan 2019/21

**Appendix 2** – Audit Committee Statement of Purpose

**Appendix 3** – Performance Review 2017/18 and 2018/19 Action Plans

## Audit Committee Plan 2019 – 2020

Terms of Reference	Report Title	Report Summary	Report Author	Date of Meeting
Financial Reporting	<b>Draft Statement of Accounts 2019/20.</b>	The report presents the Draft Statement of Accounts for 2019/20 and is presented to the Audit Committee for Information and Review.	Amanda Thomas	8 Sep 2020
Internal Audit	<b>Annual Report of School Audits 2019/20 &amp; Director of Education Response to the Report.</b>	This report provides a summary of the school audits undertaken by the Internal Audit Section during 2019/2020 and identifies some common issues found during the audits.	Nick Davies	8 Sep 2020
Internal Audit	<b>Cwm Glas Primary School Audit Report 2019/20.</b>	Update report on progress following a moderate audit report.	Neil Craven-Lashley	8 Sep 2020
Internal Audit	<b>Fraud Function Annual Report 2019/20.</b>	This report provides a summary of the work completed by the Fraud Function of Internal Audit in 2019/20.	Jeff Fish, Jonathon Rogers	8 Sep 2020
Internal Audit	<b>Service Centre: Accounts Receivable - Update.</b>	Progress update from Accounts Receivable on the Internal Audit action points with a High Risk or Medium Risk rating. Further clarification on the points raised by the Audit Scrutiny Committee Chair relating to debt recovery procedures and devolved responsibilities.	Michelle Davies	8 Sep 2020

## Audit Committee Plan 2019 – 2020

Terms of Reference	Report Title	Report Summary	Report Author	Date of Meeting
External Audit	<b>Report of Audit Wales - Audit of Accounts Report - City &amp; County of Swansea.</b>	The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the City and County of Swansea at 31 March 2020 and its income and expenditure for the year then ended.	Jason Garcia	8 Sep 2020
Governance & Assurance	<b>Election of the Chair for the 2020-2021 Municipal Year.</b>	To elect the Chair for the 2020-21 Municipal Year.	Jeremy Parkhouse	20 Oct 2020
Governance & Assurance	<b>Election of the Vice-Chair for the 2020-2021 Municipal Year.</b>	To elect the Vice-Chair for the 2020-2021 Municipal Year.	Jeremy Parkhouse	20 Oct 2020
Financial Reporting	<b>Revenue Financial Outturn 2019/20.</b>	To report the detailed Revenue financial outturn for 2019/20.	Ben Smith	20 Oct 2020
Internal Audit	<b>Revenue and Capital Budget Monitoring - 1st Quarter.</b>	To report on financial monitoring of the 20/21 revenue and capital budgets.	Ben Smith	20 Oct 2020
Internal Audit	<b>Internal Audit Annual Plan 2020/21 – Quarter 2 Monitoring Report.</b>	This report summarises the audits finalised and work undertaken by the Internal Audit Section in Quarter 2 2020/21.	Simon Cockings	10 Nov 2020

## Audit Committee Plan 2019 – 2020

Terms of Reference	Report Title	Report Summary	Report Author	Date of Meeting
Internal Audit	<b>Internal Audit Recommendation Tracking Report - Quarter 2 2020/21.</b>	This report provides committee with the status of the recommendations made in those audits where the follow-up has been undertaken in Q2 20120/21, to allow the Audit Committee to monitor the implementation of recommendations made by Internal Audit.	Simon Cockings	10 Nov 2020
Financial Reporting	<b>Revenue and Capital Budget Monitoring - 2nd Quarter.</b>	To report on financial monitoring of the 20/21 revenue and capital budgets.	Ben Smith	8 Dec 2020
Governance & Assurance	<b>Review of Partnerships in the City and County of Swansea.</b>	An update report in respect of progress made on the Welsh Government recommendations.	Adam Hill	8 Dec 2020
Governance & Assurance	<b>Governance Group Update Report</b>	A six-month update report from the Governance Group.	Adam Hill	8 Dec 2020
Governance & Assurance	<b>Employment of Agency Staff Update.</b>	Update report on actions arising from the Employment of Agency Staff Audit report.	Adrian Chard	19 Jan 2021
Internal Audit	<b>Internal Audit Annual Plan 2020/21 – Quarter 3 Monitoring Report.</b>	This report summarises the audits finalised and work undertaken by the Internal Audit Section in Quarter 3 2020/21.	Simon Cockings	9 Feb 2021



**Audit Committee Plan**  
2019 – 2020

Terms of Reference	Report Title	Report Summary	Report Author	Date of Meeting
Internal Audit	<b>Internal Audit Recommendation Tracking Report - Quarter 3 2020/21.</b>	This report provides committee with the status of the recommendations made in those audits where the follow-up has been undertaken in Q3 20120/21, to allow the Audit Committee to monitor the implementation of recommendations made by Internal Audit.	Simon Cockings	9 Feb 2021
Internal Audit	<b>Draft Internal Audit Annual Plan 2021/22.</b>	This report presents the Draft Internal Audit Annual Plan for 2021/22 to the Audit Committee for consideration prior to the final plan coming to committee in April for approval.	Simon Cockings	9 Mar 2021
Internal Audit	<b>Internal Audit Annual Plan Methodology Report 2021/22.</b>	This report provides a briefing to the Audit Committee on the methodology used to prepare the Internal Audit Annual Plan in advance of the Annual Plan 2021/22 being reported to the Committee for approval on 20 April 2021.	Simon Cockings	9 Mar 2021
Financial Reporting	<b>Revenue and Capital Budget Monitoring - 3rd Quarter.</b>	To report on financial monitoring of the 20/21 revenue and capital budgets.	Ben Smith	9 Mar 2021

## Audit Committee Plan 2019 – 2020

Terms of Reference	Report Title	Report Summary	Report Author	Date of Meeting
Internal Audit	<b>Fraud Function Annual Plan 2021/22.</b>	This report sets out the planned areas of activity for the Internal Audit Section's Fraud Function for 2021/22 and is designed to provide a strategic view of the areas that will be subject to examination.	Jeff Fish, Jonathon Rogers	20 Apr 2021
Internal Audit	<b>Internal Audit Charter 2021/22.</b>	This report outlines the background to the Public Sector Internal Auditing Standards (PSIAS) which were introduced with effect from 1st April 2013 and presents the Internal Audit Charter for final approval by Audit Committee following Corporate Management Team approval.	Simon Cockings	20 Apr 2021
Internal Audit	<b>Internal Audit Strategy &amp; Annual Plan 2021/22.</b>	This report presents the Internal Audit Strategy and Annual Plan for 2021/22 to the Audit Committee for approval.	Simon Cockings	20 Apr 2021

### **Audit Committee Statement of Purpose**

- 1) Our audit committee is a key component of the City and County of Swansea's corporate governance. It provides an independent and high level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2) The purpose of our audit committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the City and County of Swansea's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### **Governance, Risk and Control**

- 3) To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- 4) To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances.
- 5) To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 6) To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 7) To monitor the effective development and operation of risk management in the Council.
- 8) To monitor progress in addressing risk related issues reported to the committee.
- 9) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 10) To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- 11) To monitor the counter fraud strategy, actions and resources.

### **Internal Audit and External Audit**

- 12) To approve the internal audit charter and resources.
- 13) To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- 14) To consider summaries of specific internal audit reports as requested.
- 15) To consider reports dealing with the management and performance of the providers of internal audit services.
- 16) To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- 17) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 18) To consider specific reports as agreed with the external auditor.
- 19) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 20) To commission work from internal and external audit.

### **Financial Reporting**

- 21) To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- 22) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Accountability Arrangements**

- 23) To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee is meeting its purpose.

*Note: Audit Committee Statement of Purpose extracted from the Council Constitution (31.01.18).*

**KEY FINDINGS & ACTON PLAN**  
**AUDIT COMMITTEE PERFORMANCE REVIEW 2017/18 & 2018/19**

<b>Key Finding</b>	<b>Proposed Actions</b>	<b>Lead (s)</b>	<b>Target Date</b>	<b>Progress Update</b>
<b>Regularity and Length of Audit Committee meetings</b>	1) If changes are made to the calendar of meetings (monthly) 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.	Chair / Huw Evans/ Jeremy Parkhouse	Completed	1) The Audit Committee Work Programme is presented to each meeting and is regularly reviewed by the Chair / Democratic Services.
<b>Outstanding actions from the Audit Committee Performance Review 2017-18</b>	1) Benchmarking – The Corporate Management team will consider how best to use benchmarking information and provide an update to the Audit Committee.	Corporate Management Team	TBC	<b>Ongoing</b>
	2) Efficiency and Value for Money – Corporate Management Team to consider what information is required for the Audit Committee to enable the Committee to discharge its duties.	Corporate Management Team	TBC	<b>Ongoing</b>