



## **AUDIT COMMITTEE**

**10.00 AM - FRIDAY, 17 FEBRUARY 2017**

**COMMITTEE ROOMS 1/2 - PORT TALBOT CIVIC CENTRE**

### **PART 1**

1. To receive any declarations of interest from Members.
2. To receive the Minutes of the previous Audit Committee held on 25 November 2016 (*Pages 3 - 6*)

#### **Report of the Head of Financial Services**

3. Treasury Management Monitoring (*Pages 7 - 12*)
4. Treasury Management Strategy (*Pages 13 - 42*)
5. Internal Audit Progress Report (*Pages 43 - 58*)
6. Risk Registers Report (*Pages 59 - 72*)
7. Any urgent items at the discretion of the Chairman pursuant to Section 100B(4)(b) of the Local Government Act 1972.
8. Access to Meetings - to resolve to exclude the public for the following items pursuant to Section 100A(4) & (5) of the Local Government Act 1972 and the relevant Exempt Paragraphs of Part 4 of Schedule 12A to the above Act.

### **PART 2**

#### **Private Report of the Head of Financial Services**

9. Special Investigations (Exempt under Paragraph 14) (*Pages 73 - 76*)

**S.Phillips**  
**Chief Executive**

**Civic Centre**  
**Port Talbot**

**Wednesday, 8 February 2017**

**Committee Membership:**

**Chairman: Councillor Mrs.L.H.James**

**Vice Chairman: Councillor J.D.Morgan**

**Members:** Councillors Ms.C.Clement-Williams, D.W.Davies,  
J.S.Evans, M.Harvey, I.B.James, D.Keogh,  
A.R.Lockyer, S.Rahaman, Mrs.R.Davies and  
H.N.James

**Voting Lay  
Member:** Mrs.J.Jenkins

## AUDIT COMMITTEE

(Committee Rooms 1/2 - Port Talbot Civic Centre)

**Members Present:**

**25 November 2016**

**Chairperson:** Councillor J.D.Morgan

**Councillors:** Ms.C.Clement-Williams, Mrs.R.Davies,  
J.S.Evans, M.Harvey and D.Keogh

**Officers In Attendance** D.Rees, Miss A.O'Donnell and Miss.C.Davies

**Representing the Wales Audit Office:** Ms.G.Gillett

**Voting Lay Member:** Mrs.J.Jenkins

### 1. **MEMBER'S DECLARATIONS OF INTEREST.**

The following Member made a declaration of interest at the commencement of the meeting:

- |                               |   |
|-------------------------------|---|
| Councillor R.Davies           | - Report of the Head of Financial Services–Agenda Item 4–Internal Audit Service – Progress Report– as Councillor Mrs.R.Davies is a Governor to Godregraig primary School.                 |
| Councillor C.Clement-Williams | - Report of the Head of Financial Services–Agenda Item 8–Private Item – as Councillor Mrs.C.Clement Williams is related to a member of Staff based at the establishment under discussion. |
| Councillor J.D.Morgan         | - Report of the Head of Financial Services–Agenda Item 4–Internal Audit Service – Progress Report–  |

as Councillor J.D.Morgan is a  
Governor to Ysgol Gynradd  
Gymraeg Cwm-Nedd.

2. **MINUTES OF THE AUDIT COMMITTEE HELD ON THE 23  
SEPTEMBER, 2016**

**RESOLVED:** that the Minute of the meeting held on the 23  
September 2016, be noted.

3. **TREASURY MANAGEMENT MONITORING 2016/17**

Members received an overview of the treasury management action  
and information reported to the Policy and Resources Cabinet Board  
on the 2<sup>nd</sup> November 2016, as detailed within the circulated report.

**RESOLVED:** that the report be noted.

4. **INTERNAL AUDIT SERVICE - PROGRESS REPORT**

Members were provided with an update report outlining internal audit  
work undertaken in the last quarter.

It was noted that the date 1<sup>st</sup> June 2016 should have read 1<sup>st</sup>  
September 2016 on page 13, Paragraph 3 to the circulated report.

Members highlighted that at the last meeting of Audit Committee, the  
Head of Human Resources provided the members with a verbal  
update on Disclosure and Barring Service Checks and it was noted  
that a guide be created and made available to school based staff on  
DBS Checks. Members asked that the guide be created by the next  
meeting of Audit Committee.

Officers informed members that report 37 would be available at the  
next meeting.

**RESOLVED:** that the report be noted

5. **INTERNAL AUDIT SERVICE - CORPORATE RISK REGISTER UPDATE**

Members were provided with the first six monthly (April 2016 to September 2016) progress on the Council's Corporate Risk Register, together with details of the work undertaken by Internal Audit.

The Committee highlighted that reference number NPT15 detailed within Appendix 1 to the circulated report, contained a mitigating action which required Audit committee Members to undertake Systematic Assurance of Arrangements Training which had a target date of 30 November, 2016. Officers informed the Committee that this target had been achieved and that the Corporate Risk register would be updated.

**RESOLVED:** that the report be noted.

6. **URGENT ITEM**

Because of the need to deal now with the matter contained in Minute No. 7 below, the Chairman agreed that this could be raised at today's meeting as an urgent item, pursuant to Section 100B(4)(b) of the Local Government Act 1972.

Reason

Due to the time element.

7. **VERBAL UPDATE - GRANTS**

Members received a verbal update on Grants. It was noted that Wales Audit Office would be piloting a different approach to the auditing of grants.

Members were informed that officers would be working with Wales Audit Office to bring forward the programme for closure of the accounts and production of the Statement of Accounts. This process of earlier closure would begin for the 2016/17 accounts.

**RESOLVED:** that the update be noted.

8. **ACCESS TO MEETINGS**

**RESOLVED:** that pursuant to Section 100A(4) and (5) of the Local Government Act 1972, the public be excluded for the following items of business which involved the likely disclosure of exempt information as defined in Paragraphs 14 of Part 4 of Schedule 12A to the above Act.

9. **INTERNAL AUDIT SERVICE - SPECIAL INVESTIGATIONS**

Members were provided with details of all audits undertaken in the last quarter which had a Risk Rating of 3, 4 or 5 applied, Officers reported to members on all Special Investigation Reports issued and advised members of all current Special Investigations.

**RESOLVED:** that the report be noted.

**CHAIRPERSON**

## NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

### AUDIT COMMITTEE

#### REPORT OF THE HEAD OF FINANCIAL SERVICES – DAVE REES

17 February 2017

#### Matters for Information

#### Wards Affected - All

#### TREASURY MANAGEMENT MONITORING 2016/17

#### 1. Purpose of Report

- 1.1 This report sets out treasury management action and information recently reported to Policy and Resources Cabinet Board (11 January 2017) which also needs to be reviewed by the Audit Committee.

#### 2. Rates of Interest

- 2.1 After remaining at 0.50% for over seven years the Bank of England's Monetary Policy Committee voted on the 4 August 2016 to reduce the bank rate to 0.25%. The cut in rate is intended to reduce borrowing costs in an attempt to stimulate growth in the economy.

<b>Effective Date</b>	<b>Bank Rate</b>
10 April 2008	5.00%
08 October 2008	4.50%
06 November 2008	3.50%
04 December 2008	2.00%
08 January 2009	1.50%
05 February 2009	1.00%
05 March 2009	0.50%
04 August 2016	0.25%

2.2 The following table provides examples of external borrowing costs as provided by the Public Works Loans Board as at 20 December 2016.

	Equal Instalments of Principal		Annuity		Maturity	
	Previous 30Nov16	Current 20Dec16	Previous 30Nov16	Current 20Dec16	Previous 30Nov16	Current 20Dec16
	%	%	%	%	%	%
5-5.5 years	1.34	1.33	1.38	1.33	1.84	1.80
10-10.5 years	1.75	1.80	1.76	1.81	2.49	2.54
20-20.5 years	2.49	2.54	2.54	2.59	3.01	3.08
35-35.5 years	2.95	3.02	3.01	3.07	2.89	2.98
49.5-50 years	3.04	3.12	3.01	3.08	2.77	2.87

### 3. General Fund Treasury Management Budget

3.1 The following table sets out details of the treasury management budget for 2016/17. The budget consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income.

2015/16 Outturn Position £'000		2016/17 Original Budget £'000
14,799	Principal and Interest charges	16,762
	<b>Investment Income</b>	
(740)	- Total	(614)
218	- less allocated to other funds*	260
<b>(522)</b>	<b>Subtotal Income</b>	<b>(354)</b>
(97)	Contribution to/(from) treasury management reserve	
2,900	Contribution to voluntary redundancy reserve	
<b>17,080</b>	<b>Net General Fund</b>	<b>16,408</b>

NB: Other funds include Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.



#### **4. Borrowing**

- 4.1 No long term borrowing has been undertaken since the last report.

#### **5. Investment Income**

- 5.1 In line with the Council's Investment Strategy, the 2016/17 Original Budget for investment income is £614k; treasury management investment income generated on investments made to date is £527k.

The cut in bank rate has led to a reduction in the interest rate paid to the Council on its investments for example the interest paid by the Government's Debt Management Agency has been reduced from 0.25% to 0.15%. Interest paid by Banks and Building Societies has also been reduced. The expectation is that for this financial year interest generated will now be nearer to £550k not the £614k included in the budget.

The Council also pays interest to other funds such as planning bonds (Escrow Accounts), the rate of interest paid on these funds will now reduce from 0.5% to 0.25% which should provide some savings to offset against the reduction in investment interest. This could mean a shortfall of some £60k which if required will be funded from the Council's Base Budget or Treasury Management Reserve.

Members should note that the majority of investments are classified as 'specified' i.e. up to 12 months and are currently deposited with Local Authorities, UK banks including Barclays, Lloyds Group, Bank Santander and Nationwide Building Society.

- 5.2 The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.
- 5.3 No additional long term investments have been carried out since the last report. The Council currently has £10m invested for periods in excess of 12 months:

<b>Counterparty</b>	<b>Value £'000</b>	<b>Period</b>	<b>Maturity</b>	<b>Rate %</b>
Eastbourne Borough Council	4,000	4.5 Years	June 18	2.20%
Peterborough City Council	6,000	5.0 Years	Dec 18	2.10%
<b>TOTAL</b>	<b>10,000</b>			

### **Financial Impact**

6. The report is for information only. All relevant financial information is provided in the body of the report.

### **Equality Impact Assessment**

7. An equality impact assessment was not required for this report.

### **Workforce Impacts**

8. There are no workforce impacts arising from this report.

### **Legal Impacts**

9. There are no legal impacts arising from this report.

### **Risk Management**

10. There are no risk management issues arising from this report.

### **Consultation**

11. There is no requirement under the Constitution for external consultation on this item.

### **Appendices**

12. None

### **List of Background Papers**

Treasury Management Files  
PWLB Notice Number 494/16

## **Officer Contact**

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## **Neath Port Talbot County Borough Council**

### **Audit Committee**

**17 February 2017**

### **Report of the Head of Financial Services – David Rees**

#### **Matter for information**

**Wards Affected: All Wards**

### **TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY**

#### **Purpose of report**

To present to Audit Committee at appendix 1, as required by the Council's scheme of delegation, the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy that was approved by Council on the 1 February 2017.

#### **Background**

All local authorities are required under the Local Government Act 2003 and Supporting Regulations to ensure that they prepare a Treasury Management Strategy, an Annual Investment Strategy and have a Minimum Revenue Provision (MRP) Policy in place for each financial year. The Authority must also have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2009 (as updated for 2011) to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Welsh Government's MRP Guidance, the CIPFA Treasury Management Code and the Welsh Government's Investment Guidance.

#### **Financial Impact**

All financial issues are dealt with in the appendix.

## **Equality impact assessment**

There is no requirement for an equality impact assessment.

## **Workforce impacts**

There are no workforce impacts.

## **Legal impacts**

There are no legal impacts.

## **Risk management**

There are no risk management issues.

## **Consultation**

There is no requirement under the Constitution for external consultation on this item.

## **Recommendations**

This is for information only.

## **Appendices**

Cabinet report

## **List of background papers**

Treasury Management working files.

## **Officer contact**

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Neath Port Talbot County Borough Council

CABINET

Report of the Director of Finance and Corporate Services

31 January 2017

SECTION A – MATTERS FOR DECISION

WARDS AFFECTED: ALL

TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

1. **Purpose of Report**

1.1 This report sets out the Council's Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy for 2017/18.

1.2 Treasury Management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2. **Introduction**

2.1 All local authorities are required under the Local Government Act 2003 and Supporting Regulations to ensure that they prepare a Treasury Management Strategy, an Annual Investment Strategy and have a Minimum Revenue Provision (MRP) Policy in place for each financial year. The Authority must also have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2009 (as updated for 2011) to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Welsh Government's MRP Guidance, the CIPFA Treasury Management Code and the Welsh Government's Investment Guidance.

### **3. Reporting Requirements**

3.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporates a variety of policies, estimates and actuals details of which are outlined below.

#### **3.2 Prudential and Treasury Indicators and Treasury Strategy (this report)**

The first and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organized) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

#### **3.3 A Mid Year Treasury Management Report (prepared after 1<sup>st</sup> October)**

This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

#### **3.4 An Annual Treasury Report**

This provides details of the actual performance for the previous financial year and provides a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This report must be considered by Members by 30<sup>th</sup> September of the following financial year.



#### **4. Compliance with the Revised Code**

4.1 The Council has adopted the following four clauses in order to comply with the requirements of the Revised Code:

- 1) The Council will create and maintain for effective treasury management:
  - a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - suitable treasury management practices (TMPs), setting out the manner in which it will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this Council. Such amendments will not result in any material deviation from the Code's key principles.

- 2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual Treasury Management Strategy Statement for the year ahead, a mid-year Review Report and an Annual Report covering activities during the previous financial year, in the form prescribed in its TMPs (see Scheme of Delegation on next page for further information).
- 3) The Council delegates responsibility for the implementation of treasury management policies to Cabinet, regular monitoring of its treasury management policies and practices to Policy and Resources Scrutiny and Cabinet Board/Audit Committee and for the execution and administration of treasury management decisions to the Director of Finance and Corporate Services (S151), who will act in accordance with the Council's policy statement and TMPs.
- 4) This Council nominates the Policy and Resources Scrutiny and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

This Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code. The aim of these reporting arrangements will ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

#### 4.2 Scheme of Delegation

<b>Area of Responsibility</b>	<b>Council/ Committee</b>	<b>Frequency</b>
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Policy and Resources Cabinet Board	Annually by 30 <sup>th</sup> September after the end of the year
Treasury Management Monitoring and Performance Reports	Policy and Resources Cabinet Board and Scrutiny and Audit Committee	6 Weekly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Amendments to be reported annually
Scrutiny of Treasury Management Strategy	Policy and Resources Scrutiny and Audit Committee	Annually

## **5. Treasury Management Strategy for 2017/18**

5.1 The strategy for 2017/18 in respect of the following aspects of the treasury management function is based upon the Council's treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services.

5.2 The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the MRP strategy

## **6. Balanced Budget Requirement**

6.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

## 7. Treasury Limits for 2017/18 to 2019/20

- 7.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit” or Operational Boundary. In England and Wales the Authorised Limit represents the legislative limit specified in the Local Government Act.
- 7.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’.
- 7.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 1 of this report.

## 8. Current Portfolio Position

- 8.1 The Council’s treasury portfolio position at 31<sup>st</sup> March 2016 comprised:

<b>Table 1</b>	<b>Principal</b>		<b>Ave Rate</b>	
		<b>£m</b>	<b>£m</b>	<b>%</b>
Fixed rate funding	PWLB	150.258		4.56
	Market	75.428		3.69
	Other			
		<u>225.686</u>		<u>4.27</u>
Variable rate funding	PWLB			
	Market	<u>0</u>		
		0		
Other long term liabilities		0		
<b>Gross Debt</b>			<u>225.686</u>	<b>4.27</b>
<b>Total investments</b>			<b>79.870</b>	<b>0.78</b>
<b>Net Debt</b>			<u>145.816</u>	

## **9. Proposed Capital Expenditure**

9.1 The Council's current and future capital spending plans are outlined in the table below:

	2015/16 Actual £'000	2016/17 Revised Estimate £'000	2017/18 Original Estimate £'000	2018/19 Original Estimate £'000	2019/20 Original Estimate £'000
Capital expenditure	62,999	55,093	59,273	32,623	14,990
<u>Resourced by:</u>					
Capital receipts	2,077	1,300	1,300	1,300	1,300
Grants & contributions	24,499	24,811	29,792	11,466	2,698
Reserves + DRF	1,836	4,163	1,721	2,463	2,000
Borrowing	34,587	24,819	26,460	17,394	8,992

## **10. Prudential and Treasury Indicators for 2017/18 – 2019/20**

10.1 Prudential and Treasury Indicators (as set out in Appendix 1 to this report) are relevant for the purposes of setting an integrated treasury management strategy.

10.2 Council adopted the original 2001 Code on 21st March 2002 and the Revised Code was adopted by Council on 3<sup>rd</sup> March 2010 and updated at the Annual Budget setting meeting. Details of this code can be found at Appendix 2 of this report.

## **11. Prospects for Interest Rates**

11.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's projected view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

## 12. **Borrowing Strategy**

12.1 The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However this strategy can only be used as a short term measure therefore consideration will be given to entering into external borrowing during 2017/18.

12.2 The following types of loan arrangement will be considered (in no particular order):

- Temporary borrowing from the money markets or other local authorities.
- Short dated borrowing from the market or PWLB.
- Long term fixed rate market or PWLB loans.

The general aim of this treasury management strategy is to ensure the affordability of capital investment within the ongoing revenue budget, to ensure that the credit risk is managed effectively when comparing borrowing costs and investment holdings and returns.

The Council will continue to examine the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007, which has now been compounded since 20th October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has potentially meant that large premiums would be incurred by such action and such levels of premiums are unlikely to be justifiable on value for money grounds.

This situation will be monitored in case these differentials are narrowed by the PWLB at some future date.

Members should note that during 2016/17 the Council has taken new borrowing of £25m from the PWLB taking advantage of historically low interest rates.

### **13. Proposed Strategy**

- 13.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. The extent of this underborrowed position is outlined in the table below:

	<b>Actual 31<sup>st</sup> March 2016 £'000</b>	<b>Estimate 31<sup>st</sup> March 2017 £'000</b>
Capital Financing Requirement (borrowing need)	270,267	287,793
External Debt	225,686	245,140
Under borrowing	44,581	42,653

- 13.2 It is not anticipated that the Council can meet its borrowing requirement from internal balances. It is proposed that Council Officers monitor the cost of external borrowing and if considered necessary externalise the 2017/18 borrowing requirement during the financial year if considered advantageous to do so.

### **14. Policy on Borrowing in Advance of Need**

- 14.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

14.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on increasing investment cash balances and the consequent increase in exposure to counterparty risk and other risks and the level of such risks given the controls in place to minimise them.
- Consider the impact on resources arising from any grant conditions.

## **15. Debt Rescheduling**

15.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

15.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings,
- helping to fulfil this Treasury Management Strategy, and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

15.3 Consideration will also be given to identify if there is any potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.



15.4 No rescheduling is anticipated in 2017/18. If rescheduling does take place it will be reported to the Policy and Resources Cabinet Board, at the earliest meeting following its action.

## **16. Annual Investment Strategy**

### **16.1 Investment Policy**

- 16.1.1 The Council's investment policy has regard to the WG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.
- 16.1.2 In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 16.1.3 Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.
- 16.1.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 16.1.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

- 16.1.6 The intention of the strategy is to provide security of investment and minimisation of risk.
- 16.1.7 Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices Schedules.

## **17. Creditworthiness Policy**

- 17.1 The Council receives creditworthiness information from Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:
- credit watches and credit outlooks from credit rating agencies
  - Credit Default Swop (CDS) spreads to give early warning of likely changes in credit ratings
  - sovereign ratings to select counterparties from only the most creditworthy countries
- 17.2 All credit ratings are monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 17.3 Council Officers are able to use this creditworthiness information to help support their decision making processes along with other market information and data available.
- 17.4 The approved investment criteria are detailed in Appendix 2 and 3 of this report and have not changed from those previously approved by Members.

## **18. Country Limits**

- 18.1 The Council will only invest in Banks in countries where the sovereignty rating is AA+ or higher, with the exception of the UK which has a AA rating. The list of countries that qualify using this

credit criteria as at the date of this report are shown in Appendix 3. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

## 19. **Investment Strategy**

- 19.1 **In-house funds:** The Council currently manages its surplus funds in-house. The core balance, available for strategic investment is estimated to be in the region of £40m. The remaining cash balances are mainly cash flow derived and available for short term investment only.
- 19.2 Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (up to 12 months). The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.
- 19.3 The Council currently has £10m invested for periods in excess of 12 months (See table).

<b>Counterparty</b>	<b>Value £'000</b>	<b>Start Date</b>	<b>Period</b>	<b>Rate %</b>
Eastbourne Borough Council	4,000	19/12/13	4.5 Years	2.2
Peterborough City Council	2,000	04/12/13	5 Years	2.1
Peterborough City Council	2,000	06/12/13	5 Years	2.1
Peterborough City Council	2,000	18/12/13	5 Years	2.1

- 19.4 The decision was taken to invest for longer than 1 year to achieve a higher return on investments, at a time when short term interest rates are at an all-time low. The £10m is a relatively small proportion of the core balances available for investments, invested with risk free counterparties and has significantly increased the amount of interest received.
- 19.5 **Investment returns expectations.**  
Bank Rate is forecast to stay flat at 0.25% until the second quarter of 2019 and not to rise above 0.75% by quarter 1 of 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

The budgeted investment earnings rates for returns on investments over the next three years are:

2017/18 0.25%  
 2018/19 0.25%  
 2019/20 0.50%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back.

## **20 End of Year Investment Report**

20.1 Members will receive a report on 2016/17 investment activity as part of the Annual Treasury Report by 30<sup>th</sup> September 2017.

## **21. Policy on the Use of External Service Providers**

21.1 The Council uses Capita Asset Services as its external treasury management advisers.

21.2 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

21.3 However it is recognised that responsibility for treasury management decisions remains with the Council.

## **22. Role of the Section 151 Officer**

22.1 The Director of Finance and Corporate Services is the designated Section 151 Officer for the Council. The specific responsibilities of the S151 Officer are set out below:

- to recommend treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommend the appointment of external service providers.

## **23. Minimum Revenue Provision**

### **23.1 Introduction**

23.1.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision.

23.1.2 The council is required to approve its MRP policy for the forthcoming financial year ensuring that “prudent provision” is made.

## **24. Minimum Revenue Provision Policy Statement 2017/18**

24.1 The Council’s MRP policy for 2017/18 is detailed below:

### MRP Policy – Supported Borrowing

24.2 The Council is required to make arrangements for the repayment of debt which it considers to be a ‘prudent provision for the repayment of debt’. In relation to capital expenditure funded by supported borrowing the MRP policy will be to write down the debt over a 50

year period on a straight line basis, this is broadly consistent with the lives of assets funded and maintained by supported borrowing.

### MRP Policy – Prudential Borrowing

- 24.3 Expenditure will be subject to MRP on the basis of asset life and using the equal annual instalment or annuity methods as appropriate.
- 24.4 Estimated life periods will be determined by the Director of Finance and Corporate Services under delegated powers. To the extent that expenditure is not on the creation of an asset e.g. computer software and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.
- 24.5 Where some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure, as determined by the Director of Finance.
- 24.6 The Council will apply the Minimum Revenue Provision to the accounts in the financial year following which the asset becomes operational.

## **25. Capital Financing Budget**

- 25.1 Included at Appendix 4 of this report is a breakdown of the capital financing budget which totals £17.830m for 2017/18.

## **26. Financial Impact**

All financial impacts are detailed within the body of the report.

## **27. Equality impact assessment**

There is no requirement for an equality impact assessment for this report.

## **28. Workforce impacts**

There are no workforce impacts resulting from this report.

## **29. Legal impacts**

The report deals with the Council's legal requirements as set out in Local Government Act 2003.

## **30. Risk management**

Compliance with the strategies outlined in this report should be sufficient in terms of managing risks in this area.

## **31. Recommendations**

It is recommended that Cabinet commend to Council the approval of the Treasury Management Strategy, Annual Investment, Minimum Revenue Provision and Prudential Indicators as set out in this report.

## **32. Reasons for proposed decisions**

To approve the Authority's Treasury Management Strategy, Annual Investment Strategy and MRP Policy as required by the Local Government Act 2003.

## **33. Implementation of decision**

The decisions are proposed for implementation immediately after consultation with the Cabinet Scrutiny Committee and determination by Council.

## **34. Appendices**

Appendix 1 - Prudential and Treasury Indicators

Appendix 2 - Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011

Appendix 3 - Investment Criteria

Appendix 4 – Capital Financing Budget

### **35. List of Background Papers**

CIPFA – Treasury Management in the Public Sector Code of Practice  
Treasury Management Working Papers

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## Prudential and Treasury Indicators

### A4.1 Estimates of Capital Expenditure

The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. The estimates below are based on the latest approved budgets which will be revised when changes to the capital programme are known.

	2015/16 Actual £'000	2016/17 Revised Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Expenditure	62,999	55,093	59,273	32,623	14,990

The Authority expects to supplement its Capital Expenditure Programme in 2017/18 and beyond through additional external grant funding of projects. These figures will be updated in future years.

### A4.2 Estimates of Capital Financing Requirement (CFR)

The term Capital Financing Requirement represents the projected total amount of borrowing needed to fund Capital Expenditure. The sums involved are shown below:

	2015/16 Actual £'000	2016/17 Revised Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
CFR	270,267	287,793	306,079	314,735	314,233

### A4.3 Affordability Indicators

These indicators consider the estimated impact of capital financing costs on the net budget and taxpayers of the Authority.

## Prudential and Treasury Indicators

	2015/16 Actual £'000	2016/17 Revised Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
<b>Estimated ratio of financing cost to net revenue stream:</b>					
- for General Fund	5.80%	6.29%	6.62%	7.00%	7.29%
<b>Estimate of incremental impact of new capital investment decisions on:</b>					
- Council Tax	15.35	28.73	24.46	15.29	13.87

The following Treasury Management Indicators are required:-

A5.1 Operational Boundary & Authorised Limit

The local authority will set for the forthcoming financial year and the following two financial years an operational boundary & authorised limit for its total external debt. The operational boundary should be based on the Authority's estimate of most likely i.e. prudent, but not worst case scenario.

	2016/17 Revised Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Operational Boundary	323,791	335,237	340,053	337,086
Authorised Limit	343,791	355,237	360,053	357,086

### Prudential and Treasury Indicators

A5.2 The following limits to be established to administer interest rate exposure for the next 3 years.

	<b>2016/17 to 2019/20 Estimate £'000</b>
Upper Limit on Fixed Interest Rate Exposure	360,053
Lower Limit on Fixed Interest Rate Exposure	
Upper Limit on Variable Interest Rate Exposure	180,027
Lower Limit on Variable Interest rate Exposure	

The above limits will be measured upon the gross principal invested method. This method takes account of total borrowing outstanding.

Upper Limit for total principal sums invested over 364 days	2015/16 Actual £'000	2016/17 Revised Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
	£25m	£25m	£25m	£25m	£25m

A5.3 The Borrowing Maturity structure will be:

Maturity Structure of Fixed Rate Borrowing	2017/18 Estimate %	Upper Limit %	Lower Limit %
Under 12 months	6	15	0
12 months to 2 years	2	15	0
2 to 5 years	7	40	0
5 to 10 years	7	60	0
10 years +	78	100	15

**The Revised CIPFA Treasury Management Code of Practice 2009 as updated for 2011**

Neath Port Talbot County Borough Council has formally adopted the revised Code, the main proposals of which are:-

- a) All councils must formally adopt the revised Code which must be approved by Full Council.
- b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
- c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
- d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
- e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
- f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- h) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
- i) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named Committee.
- j) Treasury management performance and policy setting should be subjected to scrutiny prior to approval.
- k) Members should be provided with access to relevant training.
- l) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
- m) Responsibility for these activities must be clearly defined within the organisation.  
Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

## Specified Investments

	Minimum 'High' Credit Criteria	Funds Managed	Max Amount	Max Duration
<b>Term deposits</b>				
Term deposits - Debt Management Office	N/A	In-house	Unlimited	1 year
Term deposits – local, police and fire authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1	In-house	£15m	6 months or 185 days
<b>Callable deposits</b>				
Callable deposits – Debt Management Agency deposit facility	N/A	In-house	Unlimited	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F2	In-house	£10m	
Callable deposits - UK banks/Building Societies	Fitch short-term rating F1+ or F1	In-house	£15m *	
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months or 185 days

\* Where necessary this limit may be temporarily exceeded with the Authority's bankers only.

Other specified investments are as follows:

1. The UK Government – in addition to the Debt Management Account facility, there are UK Treasury Bills or Gilts with less than 1 year to maturity.
2. Supranational Bonds of less than 1 year duration – there are two categories:
  - (a) multilateral development bank bonds such as European Investment Bank Bonds
  - (b) a financial institution that is guaranteed by the UK Government such as The Guaranteed Export Finance Company.
3. Pooled Investment Vehicles (such as Money Market funds) that have been awarded a high credit rating agency.

Specified investments are considered low risk assets where the possibility of loss of principal or investment income is small.

The Council has not utilised these types of investments in the past but is currently investigating the merits for doing so.

**Non-Specified Investments:**

A maximum of £25m will be held in aggregate in non-specified investments. All non-specified investments will be sterling denominated, as reflected below:

**Maturities in excess of 1 year**

	<b>Minimum Credit Criteria</b>	<b>Funds Managed</b>	<b>Max. Investment</b>	<b>Max. Maturity Period</b>
<b>Fixed term deposits with fixed rate and fixed maturity</b>				
Debt Management Agency Deposit Facility	N/A	In-house	Unlimited	5 years
Term deposits – local authorities	NA	In-house	£10m	5 years
Term deposits – UK banks/Building Societies	Fitch long-term rating A	In-house	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	In-house	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	In-house	£3m	5 years
<b>Fixed term deposits with variable rate and variable maturities</b>				
Callable deposits	Fitch long-term rating A	In-house	Criteria as above	

**The Monitoring of Investment Counterparties**

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Capita as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.

### Approved Countries for Investments

At present the Council has the ability to invest in the countries as set out below; the Council will take account of all information if making investments in Non-UK banks.

The Council will only invest in Banks where the sovereignty is AA+ or higher, with the exception of the UK which has a AA Sovereign Rating. Should the UK sovereignty rating reduce further the Council will immediately review its investments but will continue to invest in UK institutions in line with the agreed strategy and a report will be forwarded to Members for consideration.

Based on latest available rating:

#### AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- USA

#### AA+

- Finland

#### AA

- UK



**Capital Financing Budget**

<b>2015/16 Outturn Position £'000</b>		<b>2016/17 Original Budget £'000</b>	<b>2017/18 Original Budget £'000</b>
14,799	Principal and Interest charges	16,762	18,084
	<b>Investment Income</b>		
(740)	- Total	(614)	(464)
218	- less allocated to other funds*	260	210
<b>(522)</b>	<b>Subtotal Income</b>	<b>(354)</b>	<b>(254)</b>
(97)	Contribution to/(from) Treasury Management Equalisation Reserve.		
2,900	Contribution to Voluntary Redundancy Reserve		
<b>17,080</b>	<b>Net General Fund</b>	<b>16,408</b>	<b>17,830</b>

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## NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

### AUDIT COMMITTEE

17 February 2017

#### REPORT OF THE HEAD OF FINANCIAL SERVICES – DAVID REES

#### ALL WARDS

#### Matter for Monitoring

#### INTERNAL AUDIT SERVICE – PROGRESS REPORT TO 3 February 2017

##### Purpose of the Report

1. The purpose of this report is to:
  - Provide details of the work undertaken for the last quarter
  - Provide details of Post Audit Reviews undertaken in the last quarter
  - Provide an update on progress against the plan
  - Advise members of any staffing issues within the team

##### Background

2. One of the terms of reference of this Committee is to 'monitor internal (and) external audit performance'. In order to comply with this requirement to monitor the in-house service, a progress report is given below outlining internal audit work undertaken in the last quarter. This work is then set against the original Internal Audit Plan to show what progress has been achieved.

In addition, information is provided for members on the current position regarding staff vacancies and other staffing issues within the team.

##### Audit Assignments Completed

3. A total of 15 formal audit reports have been issued since 14<sup>th</sup> November 2016 in line with normal distribution guidelines. Attached as appendix 1 is a schedule of the reports along with a brief summary of the findings and the risk rating applied following the audit.

The following is a list of those reports issued:

- 2 special investigations
- 1 Comprehensive School – DBS Checks

- 5 Primary Schools
- Interim Employees
- School Passenger Transport DBS Procedures
- Registrars Service
- Purchasing Cards – Environment Directorate
- Safe Recruitment – Pre Employment Checks Adult Service
- DBS Sample Checks – Corporate
- Hillside Secure Centre

### **Post Audit Reviews Undertaken**

4. The following Post Audit Reviews (PARs) have been undertaken.

<b>Audit</b>	<b>Date of PAR</b>	<b>Issues arising</b>
Waunceirch Primary	01.12.2016	None
Eastern Primary	09.12.2016	None
Ysgol Gyfun Ystalyfera	12.12.2016	None
Tywyn Primary	18.01.2017	None

### **Progress against Plan**

5. Appendix 2 gives details of the work carried out to date against the 2016/17 plan. There are currently 5 special investigations in progress.

### **2017/18 Audit Plan**

6. Due to the timing of this meeting it has not been possible to finalise the 2017/18 Audit Plan. The total number of days available for the next financial year is 1239 and will be split as follows: Cross Directorate 610 days; Education, Leisure & Lifelong Learning 200 days; Social Services, Health & Housing 160 days; Environment 90 days; Finance & Corporate Services 159 days and Chief Executives 20 days. The detailed plan will be brought to the June meeting for approval.

### **Staffing**

7. There are no vacancies however one part time auditor is on maternity leave and she will not be back in work this financial year.

### **Grants Audit Pilot**

8. Members were informed at a previous meeting that Neath Port Talbot along with Wrexham are part of a welsh Government/Wales Audit

Office pilot on a new approach to auditing grants. The first year exercise has been completed and feedback provided to Welsh Government. It has been agreed that the pilot will continue in 2017/18 and will again include Neath Port Talbot and Wrexham but will be extended to one or possibly two additional authorities. A verbal update will be provided at the meeting.

### **Financial Impact**

9. There is no financial impact associated with this report.

### **Equality Impact Assessment**

10. There are no equality impacts associated with this report.

### **Workforce Impacts**

11. There are no workforce impacts associated with this report.

### **Legal Impacts**

12. There are no legal impacts associated with this report.

### **Risk Management**

13. There are no risk management impacts associated with this report

### **Consultation**

14. There is no requirement under the Constitution for external consultation on this item.

### **15. Appendices**

Appendix 1 – Published Reports

Appendix 2 – Audit Plan Monitoring 2016/17

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Report Ref	Report Subject & Responsible Head of Service	Report Conclusion	Risk Category
R37	Private Item		4
R39	School Passenger Transport DBS Procedures Head of Engineering & Transport	All taxi drivers and escorts sampled had the appropriate DBS disclosure in place. Recommendations were made which will enhance the ad hoc inspections undertaken.	2
R40	Registrars Service Head of Legal Services	Generally good controls were in place and recommendations were made in relation to income reconciliation and compliance with the Authority’s Driving at Work Policy	2
R41	Private Item		
R42	Ysgol Bae Baglan – DBS Sample Check Head of Transformation	All staff in the sample tested had the appropriate DBS disclosure in place.	1
R43	St Joseph’s Catholic Juniors Head of Transformation	Two members of staff did not have the appropriate DBS portability form in place (this has now been done). Recommendations were made in relation to ordering and payment of goods and services and school meal debt.	2

Report Ref	Report Subject & Responsible Head of Service	Report Conclusion	Risk Category
R44	Creunant Primary School Head of Transformation	All staff tested had the required DBS disclosure on file. Recommendations were made in relation to reclaiming VAT on purchases and ICT agreements.	2
R45	Alltwen Primary School Head of Transformation	All staff tested had the required DBS disclosure on file. Recommendations were made in relation to compliance with the Authority’s Driving at Work Policy and the ordering and payment of goods.	1
R46	Purchasing Cards – Environment Director of Environment	Robust controls are in place.	1
R47	Private Item		3
R48	Blaenbaglan Primary School Head of Transformation	All staff tested had the required DBS disclosure on file. Recommendations were made in relation to school meal debt and operation of the mini-bus. All recommendations were implemented immediately.	2
R49	DBS Sample Checks 2016/17 Cross Directorate	All new starters tested had the required DBS disclosure on file.	1



Report Ref	Report Subject & Responsible Head of Service	Report Conclusion	Risk Category
R50	Llansawel Primary School Head of Transformation	All staff tested had the required DBS disclosure in place. Recommendations were made in relation to school dinner money debt, ICT agreements and health & safety.	2
R51	Hillside Secure Centre Director of Social Services, Health & Housing	Excellent controls were found to be in place in relation to the financial management of the centre	1
R52	Private Item		

### 2016/17 Risk Categories

Category 1 – testing found good controls to be in place

Category 2 – testing found some controls that need enhancing which will be achieved by the implementation of the recommendations

Category 3 – testing revealed a number of areas where improvements in controls are required. A verbal update will be provided

Category 4 – testing revealed areas of concern, the Head of Service will provide a written response to the audit report for consideration by Members of Audit Committee

Category 5 – testing revealed areas of significant concern. The Head of Service and/or Service Manager will attend audit committee

<b>Monitoring Date</b>	<b>3rd February 2017</b>				
<b>Audit Plan Item 2016-17</b>	<b>Risk Factor</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
<b><u>Education, Leisure and Lifelong Learning</u></b>					
<b><u>School Based Audits</u></b>					
20 Primary Schools	M	2 schools audited and reports issued	4 audits completed, 1 final report issued. Awaiting agreement of 3 draft reports	6 reports issued.	3 reports issued, 6 audits arranged for March
3 Secondary Schools	H		2 audits in planning stage	1 audit complete and report issued	2 arranged for March
<b><u>Other Education</u></b>					
IT Replacement Costs	M				Audit in planning stage
Creditor year end cut off	M	Audit in progress	Audit complete report issued		
Education Grants	M	1 grant audited		Pupil Deprivation Grant being audited	ERW* grant audited
Croeserw Community Enterprise Centre	M				
<b><u>Leisure, Culture and Lifelong Learning</u></b>					
None					

<b>Finance and Corporate Services</b>					
<b>Revenue Collection</b>					
Council Tax	L				CRSA* being prepared
NNDR	L				CRSA being prepared
Sundry Debtors	L				CRSA being prepared
Cash Collection	H	Random checks undertaken	Random checks undertaken	Random checks undertaken	Random checks undertaken
<b>Benefits Administration</b>					
Housing Benefits	L				CRSA being prepared
<b>Exchequer</b>					
Payroll	L				CRSA being prepared
Creditor Payments	L				CRSA being prepared
Creditor Cut Off Corporate 2015/16	M	Audit in progress	Audit complete and report issued		
Creditor (FIS) Checks	M	Checks being undertaken	Checks being undertaken	Checks being undertaken	
<b>Accountancy</b>					
Treasury Management	H				
Bank Reconciliation	M			Audit in progress	Draft report issued
<b>Legal Services</b>					

Registrars	M	Audit in planning stage	Audit in progress	Audit complete draft report issued	Final report issued
<b>Other</b>					
Contingency	N/A				

<b>Chief Executive's</b>					
Electoral Registration	M			Work covered during recent special investigation	
Democratic Processess	M				
<b><u>Social Services, Health and Housing</u></b>					
<b>Housing General Fund:</b>					
Social Lettings Agency	M		Audit in planning stage	Audit in progress	
Houses to Homes Loans & Home Improvement Loans	M	Audit complete draft report issued	Final report issued		
<b>Social Services</b>					
PASMS (Professional Abuse Strategy Meetings)	M			Audit in progress	
DBS checks taxi drivers & escorts	H	Audit in planning stage	Audit commenced 90% complete	Audit complete report issued	
DBS checks adult care staff	H		Audit in progress	Audit complete draft report issued	
Escalating Concerns Protocol	M	Audit in planning stage	Audit in progress	Audit complete report issued	
Hillside Secure Unit	M			Audit in progress	Audit complete and report issued
Medication Training CCAs (Community Care Assistants)	H	Audit complete draft report issued	Final report issued		
Safe Recruitment CYPS (Children & Young People Services)	H				
Direct payments	M			Audit in progress	

<b>Environment</b>					
Stores/Equipment attendance at stock takes	H				
Bus service operators grant	M	Audit in progress	Audit complete and report issued		
Workways	M		Request from Directorate to substitute to Road Safety		
Asset Management	M				
Facilities	H				
Road Safety	M			Audit complete and report issued	
<b>Cross Directorate</b>					
Special Investigations	N/A	3 in progress	Of the 3 reported last quarter 2 are complete, 1 still ongoing. 4 new referrals received this quarter 1 is complete and 3 are ongoing.	3 reports issued, 1 investigation currently ongoing	
Risk Registers	N/A		Ongoing	Ongoing, 1 report issued	
Advice and Guidance Requests	N/A	Ongoing	Ongoing		
I.T. Audit	N/A			Merger of Mentor ledger with Main Ledger	Support ongoing

Contract Audit	N/A	Final account work ongoing	Final account work ongoing	Final account work ongoing	Final account work ongoing
Corporate Governance Arrangements	N/A				
Officer Declarations	M	Audit complete			
Settlement Agreements	N/A				Audit in planning stage
NFI	N/A		Preparations underway for next data submission	All data submissions done	Matches returned from NFI
Use of credit notes	M		Audit in planning stage	Audit in progress	Audit in progress
DBS Checks	H	1 audit complete		Audit in progress	Report Issued
Travel & Subsistence	H		Audit in progress	Draft report issued	
Petty Cash	H		1st trawl underway	Report issued	
Mobile phones/landline charges	M			Audit in progress	Audit in progress



<b>Other Commitments</b>					
Attendance at Working Parties	N/A	Ongoing	Ongoing	Ongoing	Ongoing
Servicing/Attendance at Audit Committee	N/A	Ongoing	Ongoing	Ongoing	Ongoing
FOI Requests	N/A	All received have been answered	All received have been answered	All received have been answered	All received have been answered
Banking Administrator	N/A	Ongoing	Ongoing	Ongoing	Ongoing
Contingencies	N/A		1)Direct Payments Support Service audit undertaken and report issued. 2)General Schools report issued	1) Report on use of subscription services issued	
Vision Impaired West Glamorgan	N/A			Audit Complete and report issued	
SWTRA	N/A				
Staff association/lottery	N/A		Annual accounts audited	1st 6 months accounts audited	
* Control Risk Self-Assessment					
* Education through Regional Working					

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## NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

### AUDIT COMMITTEE

17 February 2017

#### REPORT OF THE HEAD OF FINANCIAL SERVICES – DAVID REES

#### ALL WARDS

Matter for Information

#### INTERNAL AUDIT SERVICE – Corporate Risk Register Update

##### **Purpose of the Report**

To report on the work undertaken by Internal Audit in relation to the risks on the Corporate Risk Register relating to Education, Leisure & Lifelong Learning and Environment Directorates as agreed in the November meeting.

##### **Background**

1. One of the roles of Audit Committee is to review and assess the Corporate Risk Management Arrangements and to report and make recommendations to the Cabinet on the adequacy and effectiveness of these arrangements.

##### **Report to Cabinet**

2. In line with the Council's Risk Management Policy a report on the position at the end of the first six months of 2016 was presented to Cabinet on 19<sup>th</sup> October 2016. Copies were provided to members at the November meeting. The second six monthly report is due to be presented to Cabinet in March 2017.

##### **Work Undertaken by Internal Audit**

3. As requested at the meeting in November the risks on the Corporate Risk Register relating to the Education, Leisure & Lifelong Learning and Environment Directorates were examined.

Detailed below are the findings, no recommendations were made.

## **Education, Leisure & Lifelong Learning**

### **ELLL01- Head of Transformation**

#### **Risk**

Inefficient financial/strategic management, in respect of school reorganisation proposals as a result of poorly conceived projects, leading to damage to Council reputation and adverse reaction from local communities.

#### **Mitigating Action**

Robust scrutiny underpinned by sound financial business case development and external (i.e. WG/Wales Audit) approvals for major capital spend; thorough preparation of school reorganisation proposals, with full stakeholder consultation and clearly stated benefits supported by member approval.

#### **Finding**

Welsh Government's School Organisation Code dated 1<sup>st</sup> October 2013 which imposes requirements and guidelines in respect of school organisation proposals is followed whenever school closures, mergers or federations are considered. The Authority has on two occasions been challenged over its school reorganisation proposals and on both occasions the actions of the authority was judged to be in accordance with the Code and legal.

A key objective of the Strategic School Improvement Programme is to ensure the right schools are in the right place and that they are fit for 21<sup>st</sup> Century learning and teaching. Progress is reported monthly to Corporate Directors Group. Capital funding applications are made to Welsh Government and via detailed business cases following the five case business model.

In respect of the latest scheme i.e. Ysgol Newydd Briton Ferry, reports have been presented to Cabinet Scrutiny on 25.06.12, Cabinet on 25.02.12, Cabinet Scrutiny on 01.06.16, Cabinet on 01.06.16, Cabinet Scrutiny on 20.07.16 and Cabinet on 20.07.16.

### **ELLL02 – Head of Transformation**

#### **Risk**

Critical failure in ageing school building estate rendering the Council unable to maintain business continuity and to meet its statutory responsibilities to secure suitable educational provision.

#### Mitigating Action

Identification of prioritised maintenance schemes within the Council's domestic capital programme combined with the Strategic School Improvement Plan that focuses on school reorganisation and rationalisation.

#### Finding

This risk links to ELLL01. There is a planned maintenance programme in place, schools requiring repair and maintenance works are prioritised on the basis of greatest need. Schools are surveyed on a regular basis for condition and accessibility with schools assessed as category grade D being the poorest condition. Tackling category D schools is a key driver in attracting Welsh Government 21<sup>st</sup> Century Schools Programme capital grant funding. Currently there are two schools assessed as condition grade D; one is Dyffryn (lower) school where plans have been developed for a new build replacement, and the other is Cefn Saeson Comprehensive School where a submission to Welsh Government for funding is being developed.

### **ELLL05 – Head of Transformation**

#### Risk

Lack of funding leading to inability to provide statutory SEN Services to vulnerable individuals/groups according to their assessed entitlements.

#### Mitigating Action

Prioritising available resources

Updated Sept 16 - SEN reform due to be considered by WG in the autumn which could increase financial demand.

#### Finding

In order to protect SEN budgets as far as is practically possible budget reductions over time have focussed on non-statutory areas, evidenced by budget reductions in other areas e.g. youth service.

## **Environment Directorate**

### **ENV06 – Head of Engineering & Transport**

#### **Risk**

Adopted bridges/retaining structures – inadequate revenue and capital funding required to meet maintenance needs leading to potential failure resulting in closure, weight and/or highways restrictions – negative impact on residents, communities and businesses.

#### **Mitigating Action**

Enhance programme inspections; identify priority projects for improvement in HAMP and CPSG also links to ENV05 and ENV11.

#### **Finding**

The Highways Asset Management plan 2015 – 18 was approved by members of the Environment & Highways Cabinet Boards on 10th December 2015.

A programme of inspections for 463 bridges and 1,812 structures which NPT are responsible for was sighted all inspections are up to date. The results of the inspections are then fed into the Bridge Assessment & Strengthening Programme and prioritised, copy of programme sighted. The Bridge Strengthening Programme was discussed at the Capital Programme Steering Group Meeting held in December 2016.

All of the above feed into the divisional business plan and service report card which are reported to Policy & Cabinet Resources Cabinet Board.

### **ENV10 – Head of Engineering & Transport**

#### **Risk**

Reduction in Capital and Revenue Programmes of work will affect asset condition and road safety standards.

#### **Mitigating Action**

Asset Management Planning, prioritise work and bid for external funding also links to ENV05 & ENV07

### Findings

There is a Safe Routes Programme which feeds into Welsh Government bid documentations. As a result of bids made to Welsh Government NPT received approx. £900k in the 15/16 financial year. The 17/18 bids were being prepared at the time of this review. Copies of working papers sighted.

### **ENV08 – Head of Engineering & Transport**

#### Risk

Increase in road casualties on County Highway network due to reducing resources

#### Mitigating Action

Maintain current staffing level to target identified vulnerable road user groups through education, training and publicity using resources available

#### Finding

There has been no staffing reduction in the Road Safety Team. A Road Safety Strategy 2015 – 2020, which informs training and education requirements has been developed, it was approved by Environment & Highways Cabinet Board on 28<sup>th</sup> January 2016 and adopted by Council on 17<sup>th</sup> February 2016.

Accident statistics are reported to Welsh Government monthly. Statistics produced by Welsh Government show road accidents in NPT have reduced from 441 in 2006 to 216 in 2015.

A copy of the driver/rider training figures for 2016/17 at end of quarter three was sighted which showed a total 493 drivers/riders had undergone training via one of the eleven training courses available.

### **ENV22 – Head of Engineering & Transport**

#### Risk

Disruption to travellers across the borough and risk to infrastructure arising from Network Rail's electrification programme.

#### Mitigating Action

Work closely with the programme managers to minimise risk and disruption

#### Finding

Meetings are attended by the Head of Engineering & Transport as and when required, delivery of the programme has been delayed.

### **ENV09 – Head of Engineering & Transport**

#### Risk

Impact from changes in service delivery in Social Services on Environment Community Transport Scheme

#### Mitigating Action

Work with Social Services on the rationalisation of Adult Care transport needs

#### Finding

Done in conjunction with social services staff as part of the Improving Lives /Day Opportunities remodel, a rationalisation of routes has been undertaken and surplus vehicles sold. The Management of Change Process was undertaken and 23 staff were redeployed to other roles or left. Savings of £460k have been achieved.

### **ENV07 – Head of Engineering & Transport**

#### Risk

Immediate inability to operate large goods vehicles e.g. refuse trucks, gritter, community buses due to loss of Authority's Operators Licence.

#### Mitigating Action

Driver & Vehicle Risk Management Policy in place, coupled with robust maintenance systems and training regime

#### Finding

80 drivers from the Service Response Centre have recently undergone training in relation to what is expected of them. There is a driving at work group which meets regularly and a fleet audit has recently been undertaken by the Authority's Insurers.

### **ENV05 – Head of Streetcare**

#### Risk

Adopted roads and non-adopted infrastructure (such as countryside bridges/dams) – inadequate capital and revenue funding to meet maintenance needs leading to potential failure resulting in



closure/access restrictions – negative impact on residents, communities and businesses.

#### Mitigating Action

Direct resources from other priorities on an emergency basis as and when required

#### Finding

This risk links to ENV06 and through the mitigating actions detailed there the aim is to reduce occurrences of road closures/access restrictions. A series of defect inspections take place and a winter maintenance plan is in place. There are also plans in place to compile a more extensive list of non-adopted roads and structures which will lessen the risk of disruption as new additions can be added to the inspection plans.

### **ENV01 – Head of Streetcare**

#### Risk

Waste Management – failure to procure replacement longer term residual and food waste treatment/disposal arrangements plus longer term material transfer and disposal arrangements for recyclates.

#### Mitigating Action

Put in place new waste services arrangements.

#### Finding

A report on the current position in relation to the procurement process was presented to Cabinet on 16<sup>th</sup> December 2015, and authorisation was given to the Head of Streetcare in consultation with the Head of Legal Services and Director of Finance & Corporate Services to investigate further procurement routes and a report to be brought back to members for approval.

### **ENV02 – Head of Streetcare**

#### Risk

Updated Sept 16 – Waste management – Failure to meet statutory targets for reuse, recycling, composting (particularly 70% target) and biodegradable waste to landfill, failure of public to participate and accept the necessary changes to meet statutory requirements, plus associated fines and reputational damage .

### Mitigating Action

Further changes to be made to the way we collect waste, including expansion of the “Recycle+” kerbside sort recycling service; put in place longer term arrangements for the treatment of food waste by anaerobic digestion (which means composting food waste to produce energy and fertilizer) and residual waste, plus restrictions on side waste. Updated Sept 16. Some vehicle and service changes took place April/May 2016 with full roll out due Feb/Mar 2017 and a side waste policy came into effect June 2016

### Finding

Currently achieving a recycling rate of 64%, performance is reported quarterly to Environment & Highways Cabinet Board. An update on the recycling trial was reported to members on 14<sup>th</sup> April 2016. A No Side Waste Policy was presented and approved by members on 28<sup>th</sup> January 2016. The Recycle+ Scheme is continuing to be rolled out across the Authority.

## **ENV13 – Head of Property & Regeneration**

### Risk

Abortive maintenance/construction costs as a consequence of changing service delivery strategies

### Mitigating Action

Clear visibility from services on changes in future service delivery; impact statements regarding Property Management Planning included in business plans for 2016/17 – Updated Sept 16

### Finding

Corporate Business Plans now include property management information, issues around property are highlighted and staffing numbers and future requirements included.

## **ENV11 – Head of Property & Regeneration**

### Risk

Inadequate revenue and capital funding to meet building maintenance needs leading to service delivery issues and potential health and safety concerns.

### Mitigating Action

Ongoing programme of reducing the number of maintained buildings

### Finding

Information from ENV13 feeds into this risk, a large number of buildings have transferred to community ownership. Property Performance Report 2016 was reported to Economic & Community Regeneration Board on 20<sup>th</sup> January 2016.

### **ENV14 – Head of Property & Regeneration**

#### Risk

Difficulties in securing public and private investment necessary to deliver town centre regeneration.

#### Mitigating Action

Continue to develop town centre proposals to provide investment opportunities.

### Finding

There is a dedicated officer for grant funding, a report is in draft and will be presented to members shortly for decision on the next steps.

### **ENV20 – Head of Planning & Public Protection**

#### Risk

Failure of the owners/former operators of the Margam opencast coal site to complete an acceptable restoration of the site which is essential to protect the health and safety of surrounding communities which would otherwise be at risk of flooding from the void. The failure to restore will also result in the retention of a scarred landscape which has an unacceptable visual impact up on the character and appearance of the surrounding countryside.

#### Mitigating Action

A working group is established to discuss an alternative restoration scheme which will secure a safe and restored site going forward. This scheme is the subject of a new planning application which is submitted with an agreed and restricted period of time. Should planning permission be granted the escrow fund is used to deliver and implement the approved scheme.

### Finding

Sighted a variety of working papers regarding the ongoing monitoring of this site. Planning was approved on 3<sup>rd</sup> May 2016 and an

amendment to one of the conditions was approved on 2<sup>nd</sup> August 2016 following liaison with the planning applicant.

### **ENV19 – Head of Planning & Public Protection**

#### **Risk**

Planning permission is not implemented in accordance with the approved planning permission for the continuation and extension of the East Pit open cast coal site and/or due to the reduction in coal prices the operator ceases to make regular payments to the restoration bond. This will lead to the retention of an unrestored and insufficiently bonded open cast coal site which could fill with water in an uncontrolled manner to the detriment of the health and safety of local communities.

#### **Mitigating Action**

Ensure that regular and constant monitoring of the site is undertaken to secure compliance with the approved plans. Hold regular meetings with the operator with regard to the financial liabilities associated with delivering completion of coaling and restoration of the site. Take a cautious approach to paying back bond monies until absolute certainty is reached with regard to the completion of the tasks associated with the restoration of the site.

#### **Finding**

Viewed latest working papers updated 5<sup>th</sup> December 2016, updated following a site visit (23.11.16) and correspondence received from The Coal Authority (01.12.16).

### **ENV15 – Head of Planning & Public Protection**

#### **Risk**

Improve air quality within the Port Talbot Air Quality Management Area (AQMA) where there is a potential to breach maximum European limits and prevent the declaration of an additional AQMA in the Neath area – Updated Sept 16 This could result in infraction proceedings being taken by the European Union.

#### **Mitigating Action**

Continued monitoring of air quality within the area to the point where it can be demonstrated that continuous improvement has been achieved and the AQMA is undeclared.

### Finding

NPTCBC 2016 Air Quality Progress Report in fulfilment of Part 1V of the Environment Act 1995 Local Air Quality Management was produced in July 2016 and submitted to Welsh Government together with the Detailed Assessment of nitrogen dioxide. These reports give details of the measurements taken and any resultant measures to be taken. They were presented to the environment & Highways Cabinet Board on 1<sup>st</sup> September 2016. Meetings of the Welsh air Quality Forum are regularly attended.

### **ENV21 – Head of Planning & Public Protection**

#### Risk

Environmental Health – e-coli outbreak occurring due to reduction in staff.

#### Mitigating Action

Audits/staff training – consideration into training up other members of staff which could be transferred into the service if there is an outbreak.

### Finding

Quality Procedures Manual – Notifications and Reports of Infectious Disease updated April 2016. Food & Health Protection Team underwent refresher training during 2016.

### **ENV 17 – Head of Planning & Public Protection**

#### Risk

Failure to reduce nickel emissions to be within the European targets within Pontardawe and Neath could result in infringement proceedings being taken by the European Union with associated fines.

#### Mitigating Action

Working with the industrial operators who are generating the emissions to secure the use of Best Available Techniques (BAT) as required under the regulations; continuous monitoring of nickel levels within and outside the buildings in question.

### Finding

Emissions are captured within the NPTCBC 2016 Air Quality Progress Report which was submitted to Welsh Government in July 2016. In

addition it is presented to Environment & Highways Cabinet Board on 1<sup>st</sup> September 2016.

## **ENV18 – Head of Planning & Public Protection**

### **Risk**

Reduction in staff coupled with an increased workload will result in a drop in performance within the Development Management section and consequential financial penalties.

### **Mitigating Action**

Retain a sufficiently skilled workforce to ensure that there is capacity to deal with planning submissions in accordance with Welsh Government deadlines.

### **Finding**

Budget position being monitored closely and new funding streams being explored to ensure that staffing levels can be maintained.

### **Overall Conclusion**

From the work undertaken it is evident that the risks reviewed on this occasion are being appropriately addressed and the Corporate Risk Register managed in line with policy.

### **Financial Impact**

4. There is no financial impact associated with this report.

### **Equality Impact Assessment**

5. There are no equality impacts associated with this report.

### **Workforce Impacts**

6. There are no workforce impacts associated with this report.

### **Legal Impacts**

7. There are no legal impacts associated with this report.

### **Risk Management**

8. This report supports the arrangements for good corporate governance and addresses the responsibility Audit Committee has in ensuring appropriate risk management arrangements are in place.

### **Consultation**

9. There is no requirement under the Constitution for external consultation on this item.

### **Officer Contact**

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