



GOVERNANCE AND AUDIT COMMITTEE

11.00 AM - FRIDAY, 26 NOVEMBER 2021

VIA MICROSOFT TEAMS

PART 1

1. Welcome and Roll Call
2. Chairs Announcements
3. Declarations of Interest
4. Minutes of Previous Meeting (*Pages 5 - 8*)
5. External Review - Action Plan Update (*Pages 9 - 20*)
6. Internal Audit Charter Update (*Pages 21 - 32*)
7. Internal Audit Progress Report (*Pages 33 - 54*)
8. Register of Regulators Reports & Recommendations (*Pages 55 - 64*)
9. Audit Wales Work Programme and Timetable (*Pages 65 - 74*)
10. Financial Sustainability of Local Government (*Pages 75 - 90*)
11. Financial Sustainability Assessment (*Pages 91 - 104*)
12. Urgent Items
Any urgent items at the discretion of the Chairman pursuant to Section 100B(4)(b) of the Local Government Act 1972.
13. Access to Meetings

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 Paragraph 12 and 15 of Part 4 of Schedule 12A of the above Act.

Part 2

14. Special Investigations (*Pages 105 - 112*)

K.Jones
Chief Executive

Civic Centre
Port Talbot

19th November 2021

Committee Membership:

Chairperson: Councillor J.D.Morgan

**Vice
Chairperson:** Councillor L.M.Purcell

Members: Councillors H.C.Clarke, O.S.Davies,
S.E.Freeguard, S.Lynch, J.Miller, R.Mizen,
S.Renkes, A.J.Richards, R.W.Wood and
A.N.Woolcock

**Voting Lay
Member:** J.Jenkins

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GOVERNANCE AND AUDIT COMMITTEE

(Via Microsoft Teams)

Members Present:

15 September 2021

Chairperson: Councillor J.D.Morgan

Councillors: O.S.Davies, S.E.Freeguard, S.Lynch, J.Miller, R.Mizen, S.Renkes, A.J.Richards, R.W.Wood and A.N.Woolcock

Officers In Attendance: H.Jenkins, A.O'Donnell, C.Furlow-Harris and N.Headon

Representing Audit Wales: G.Gillett

Voting Lay Member: J.Jenkins

1. **CHAIR ANNOUNCEMENTS**

The Chair welcomed Councillor Lynch to Governance and Audit Committee.

2. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

3. **MINUTES OF PREVIOUS MEETINGS**

That the minutes of the 28 July 2021, be approved.

4. **AUDIT WALES / ESTYN / CARE INSPECTORATE WALES (CIW) REPORTS AND RECOMMENDATIONS**

Officers gave an overview of the proposed process by which the Governance and Audit Committee will be provided with assurance

that the Council is actively considering the findings of reports issued to the Council by Audit Wales, Estyn and the Care Inspectorate Wales (CIW).

Officers explained that the diagram attached at Addendum 3 of the circulated report set out the proposed process to provide assurance to the Committee that the Council was actively considering the findings of reports issued to the Council by Audit Wales, Estyn and the Care Inspectorate Wales (CIW).

Officers went onto explain that on a quarterly basis the Register of Regulator Reports and Recommendations would be presented to Governance and Audit Committee which will be the Council's key document to demonstrate how accepted proposals for improvement / agreed recommendations received from regulators are being addressed by the Council (template is attached at Addendum 4 of the circulated report).

It was noted that the Register would be updated with the necessary information from April 2021 (to date) and be presented to the next meeting of the Governance and Audit Committee on 26 November 2021, it was noted officers would attend Governance and Audit Committee to present an updated Register.

Officers explained that on receipt of a report from a regulator the Directorate, Senior Management Team and Officers would consider the report, and if agreed a report and action plan would be produced and put into the Forward Work Programme of Cabinet Board.

The Director of Finance and Corporate Services explained that the report from the relevant inspectorate will be provided with the relevant papers from each meeting and the responsibility for managing improvements and recommendations would be with Cabinet and overviewed by the relevant Scrutiny Committee, and the responsibility of the Governance and Audit Committee was to ensure that progress and arrangements were in place for monitoring and managing responses to the external audit inspections. It was noted that good assurance was required and the Governance and Audit Committee along with statutory Officers have the responsibility of ensuring best practice and arrangements are in place for delivery of the services that have been inspected.

Officers confirmed there was no target date for this to be up and running,

and Audit Wales confirmed they would work with the Officers and Governance and Audit Committee to further develop the process.

RESOLVED: That the Audit Wales / Estyn / Care Inspectorate Wales (CIW) Reports and Recommendations, be noted.

5. **INTERNAL AUDIT UPDATE REPORT**

Members received an overview of the Internal Audit work undertaken since the last Governance and Audit Committee meeting in June 2021.

Officers explained that in relation to School based staff Disclosure and Barring Service (DBS) checks an interim report issued in May 2021 and reported to Members in June 2021, at the time of the interim report being issued it had not been possible to verify if the appropriate DBS clearance had been obtained in the case of ninety-nine school based employees. Further audit work confirmed that in all cases the appropriate DBS certification was now in place for all ninety-nine staff, and all DBS requirements had been complied with.

Officers went onto explain that in regard to agency staff entering Neath Port Talbot schools all necessary checks were undertaken by the agency prior to staff entering schools. The Audit Manager and Head of Participation would be meeting to discuss how to manage the school audits that will need to be undertaken whilst access to schools is restricted due to the pandemic.

RESOLVED: That the Internal Audit Update Report be noted.

6. **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 12, 13 and 14 of Part 4 of Schedule 12A to the above Act.

7. **SPECIAL INVESTIGATIONS**

Members received an update on the private reports issued since the last committee meeting together with details of all current special investigations.

RESOLVED: That the report be noted.

CHAIRPERSON



Cyngor Castell-nedd Port Talbot
Neath Port Talbot Council

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

Governance and Audit Committee

Date: November 26th 2021

Report of the Chief Executive

Matter for Information

Wards Affected: All Wards

Report Title: Independent, External Assurance Reports – Action plan to respond to the findings and recommendations - Update

Purpose of the Report:

To present a report detailing progress made in implementing the action plan that was developed in response to the findings and recommendations of the independent, external assurance work undertaken by Mr Rod Alcott and Mr Jack Straw.

Background:

The Council's Audit Committee received a report from me on 15th March 2021 which advised that I had commissioned an external, independent review of governance arrangements subsequent to an edited audio recording of the former Leader of Council being released on social media platforms.

The Governance and Audit Committee received the report produced by the independent reviewers at the June 2021 meeting together with an action plan that I had developed to respond to the findings.

This report provides details of the progress made in implementing the action plan.

Financial Impacts:

There are no additional financial implications that arise from this report. Costs associated with the delivery of officer and member training have been met by the Welsh Local Government Association.

Integrated Impact Assessment:

There is no requirement to undertake an Integrated Impact Assessment as this report is for monitoring / information purposes.

Valleys Communities Impacts:

No implications.

Workforce Impacts:

Officer training has been completed.

Legal Impacts:

There was no specific legal requirement to undertake this review.

Risk Management Impacts:

The implementation of the actions set out in the action plan mitigate the reputational and governance risks referenced in earlier reports and as set out in the external independent review report.

Consultation:

There is no requirement for external consultation on this item

Recommendations:

1. That Members note the progress report attached at Appendix 1.
2. That Members note that the Internal Audit Service has made provision within the forward audit programme to periodically test

how the changes described in the action plan are being implemented and to support the Governance and Audit Committee in monitoring the progress being made.

Reasons for Proposed Decision:

To enable the Governance and Audit Committee to take assurance that the improvement actions set out in earlier reports have been progressed.

Implementation of Decision:

The decision is proposed for implementation after the three day call in period

Appendices:

Appendix 1 – Action Plan Progress Report

List of Background Papers:

Audit Committee – 15th March 2021

Audit Committee – 24th June 2021

Officer Contact:

Karen Jones, Chief Executive,

[Tel: 01639 763284](tel:01639763284) or e-mail: chief.executive@npt.gov.uk

Appendix 1
Terms of Reference
External Independent Governance Review

Objective:

To provide the Chief Executive and the Council's Governance and Audit Committee with an independent, external assurance in relation to:

- The Council's current systems and processes surrounding the development of school reorganisation proposals;
- The Council's current systems and processes in relation to the programming of highways works and capital investment projects; and
- The appropriateness of the current Member-Officer Protocol contained within the Council's Constitution.

A written report, setting out your findings and any recommendations you feel need to be considered, is required. You may feel it appropriate to issue an interim report.

The report will be shared with the Council's Governance and Audit Committee and the Council's external auditors.

The Council will make available any documentation, e mails or other information that is necessary for sufficient assurance to be taken and will also expect officers and councillors to co-operate with any reasonable request for interviews that will enable the commission to be carried out.

Timescale: This review will commence week commencing 8th March 2021

Rod Alcott is a former senior manager at the Wales Audit Office with extensive experience of undertaking governance audits. He is currently supporting a number of authorities across Wales with their preparations to meet new legislative self-assessment requirements.

Jack Straw is the former Chief Executive of the City and County of Swansea, he has held senior positions in Welsh Local Government and NHS Wales for over 25 years. Jack has recently chaired an Oversight Panel relating to the NHS in North Wales and the Powys County Council improvement board

Action Plan to respond to the findings and recommendations made from the Independent, External Review

Ref	Recommendations Made	Actions	Accountability	Timescale	Progress as at 9 th November 2021
1	<p><u>Allt Y Grug Cemetery and the Highways and Engineering Works Programme</u></p> <p>Develop a comprehensive transparent evidence-based prioritisation matrix based on agreed, objective criteria against which all competing projects can be compared, and decisions regarding their adoption or rejection clearly demonstrated. It is for the Council to determine the criteria for inclusion or non-inclusion (for example in the case of emergencies and the exercising of judgement by officers) of projects within this process along with the judgement criteria upon which decisions are made.</p>	<p>A revised decision making procedure to be developed for capital works which sets out how works will be prioritised within available budgets.</p> <p>A written protocol to be developed setting out how decisions to undertake capital works will be taken, including the arrangements that will apply in the case of urgent works.</p>	Director of Finance and Corporate Services to develop the revised procedure and protocol for subsequent consideration by the Cabinet	30th September 2021	Report prepared for consideration by the Cabinet 15 th December 2021.
2	Develop a Terms of Reference for the CPSG that clearly defines their purpose and delineates their role in the governance and decision-making process.	Terms of reference to be drawn up with a clear line of reporting of the CPS Group to the Corporate Directors Group	Head of Finance	31 st July 2021	Terms of reference prepared and to be included with report to Cabinet on 15 th December 2021 for information

3	It is for the Council to determine the extent to which formal reports are required taking into account the scale of the project.	See first set of actions above			
4	Ensure that the reasons for decisions are recorded in the minutes of meetings.	Terms of reference for the Capital Programme Steering Group to set out requirements in terms of minutes.			Minute taking practice amended – action complete
5	<p>It is the view of the authors that this report and all the documentation that formed the evidence base should be forwarded to the Ombudsman to assist in his determination.</p> <p>The Auditor General has indicated that he does not feel it necessary to undertake specific audit work in respect of the areas reported on, at the present time. He has noted that there are procedural and governance matters that the Council needs to address. He has asked for sight of the action plan and suggested that the Internal Audit Service follows up with some assurance work in due course when any changes have had time to bed in.</p> <p>When the Public Services Ombudsman’s work is complete, the Auditor General will consider whether his findings identify any issues which are relevant to the Auditor General’s audit responsibilities and need audit examination.</p>	All documentation together with the final review report have been shared by the Public Services Ombudsman and the Auditor General	Chief Executive	Completed	<p>N/A</p> <p>Action plan provided to the Auditor General and Internal Audit Service has made provision within its forward plan to take regular assurance that the agreed improvements are being implemented – action complete</p> <p>The Auditor General determined that no further work was needed at this time following the closure of</p>

					the PSO investigation – action complete.
6	<p><u>School Reorganisation</u></p> <p>While the Council can take overall assurance regarding its systems and processes it does need to ensure that: meetings where decisions are made, which have a significant impact on local citizens, are accurately recorded in the interests of openness and transparency</p>	<p>Terms of reference for the Cabinet Members’ Briefing meetings will be refreshed.</p> <p>Guidance supported with refresher training will be put in place to govern the interface between officers and members of the Executive to ensure the effective operation of the Member-Officer Protocol contained within the Constitution and to demonstrate that relationships are open and transparent</p> <p>Further advice to be commissioned to inform consideration of options to mitigate the risk identified at the Godre’r Graig School site to be commissioned</p>	<p>Chief Executive</p> <p>Chief Executive</p> <p>Head of Engineering and Highways</p>	<p>Completed</p> <p>1st July 2021</p> <p>Completed</p>	<p>Action complete</p> <p>Guidance governing the relationship between the Leader/Deputy leader Office and the Chief Executive’s Office has been established. Refresher training is scheduled for all Members. Officer training has been completed</p> <p>Streetscene and Engineering Cabinet Board approved recommendations to commission further specialist advice 21st May 2021. The advice</p>

					has now been received and published and a further report to the Streetscene and Engineering Cabinet Board is to be made prior to the end of 2021 recommending a course of action to deal with the risk represented by the tip.
7	<p><u>Cefn Coed Museum</u></p> <p>The Council needs to: Ensure that decisions to commit public funds, and the rationale for those decisions, are accurately recorded.</p>	<p>Officer and Member refresher training to be delivered</p> <p>Position statement to be prepared and reported to the Cabinet and associated scrutiny committees</p>	<p>Head of Legal and Democratic Services</p> <p>Director of Education, Leisure and Lifelong Learning and Head of Property and Regeneration</p>	<p>31st October 2021</p> <p>Completed</p>	<p>Officer training completed. Member training is scheduled.</p> <p>Position statement considered by joint meeting of the Cabinet, Regeneration and Sustainable Development and the Education, Skills and Culture Scrutiny Committees 2nd June 2021 – action complete</p>
8	<p>It is the view of the authors that this report and all the documentation that formed the evidence base should, if required, be forwarded to the Ombudsman to assist in his deliberations.</p>	<p>The documentation and the final review report has been shared with the Public Services</p>	<p>Chief Executive</p>	<p>Completed</p>	<p>See feedback from the Auditor General and PSO provided above.</p>

		Ombudsman and the Auditor General			
9	<p>Member- Officer Relations</p> <p>An important element of the investigation brief was to examine the member/officer protocol which forms part of the Authority's constitution. The protocol follows a standard format and contains all the elements that would be expected. In that sense it is clearly fit for purpose. As with all such protocols it is behaviour dependent and relies on all parties being aware of its specific content and embedding the principles in day-to-day activity. The Authority has undertaken member training as would be expected and is undertaking refresher awareness training in line with good practice.</p>	<p>Refresher training for Members and Officers will be established</p> <p>The Internal Audit Service will make provision for auditing the operation of revised governance arrangements in the annual Internal Audit Service programme.</p>	<p>Head of Legal and Democratic Services</p> <p>Chief Internal Auditor</p>	<p>31st October 2021</p> <p>From October 2021</p>	<p>Officer training has been completed. Member training is scheduled.</p> <p>Provision has been made in the Internal Audit Service forward plan to test and take assurance that identified improvements have been implemented</p>
10	<p>Implementation, Evaluation and Review</p> <p>The Auditor General has recommended that the Internal Audit Service be asked to follow up the implementation of this action plan with some assurance work when changes have had time to bed in.</p>	<p>The Internal Audit Service to periodically audit the implementation of this action plan and the operation of the revised governance arrangements that arise from this action plan.</p>	<p>Chief Internal Auditor</p>	<p>From October 2021</p>	<p>The Governance and Audit Committee receives details of the assurances taken by the Internal Audit Service and are therefore well placed to maintain an overview of the progress of this action plan and associated work.</p>

Action Plan Updated by: Chief Executive, November 2021



Cyngor Castell-nedd Port Talbot
Neath Port Talbot Council

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

26th November 2021

Report of the Chief Finance Officer – Huw Jones

Matter for Decision

Wards Affected:

All Wards

Updated Internal Audit Charter

Purpose of the Report

To provide Members with an updated Internal Audit Charter following the retirement of the former Director of Finance and Corporate Services on 31st October 2021.

Changes to Roles and Responsibilities

On 23rd April 2021 the Governance and Audit Committee approved an Internal Audit Charter for 2021/22. The Charter contained information regarding various roles and responsibilities in relation to the Internal Audit Service.

Following the retirement of the former Director of Finance and Corporate Services these roles and responsibilities have been updated.

Public Sector Internal Audit Standards require an Officer within the Council to be designated as 'Head of Internal Audit'. Prior to 31st October 2021 this designation sat with the Head of Finance. With effect from 1st November 2021 the Head of Finance role has been deleted, as determined by Council on 30th July 2021. As a result the role of Head of Internal Audit needs to be re-designated. With effect from 1st November 2021 the Head of Internal Audit role will be undertaken by the Chief Accountant –Technical and Governance.

The updated Internal Audit Charter reflects these changes.

Staffing

All staffing implications are detailed in this report.

Financial Impacts

No implications

Integrated Impact Assessment

There is no requirement to undertake an Integrated Impact Assessment as this report is for monitoring/information purposes.

Valleys Communities Impacts

No implications

Workforce Impacts

No implications

Legal Impacts

No implications

Risk Management Impacts

The work of Internal Audit is key in relation to ensuring compliance with internal controls. This work forms part of the Council's overall risk management arrangements.

Consultation

There is no requirement for external consultation on this item

Recommendation

That Members approve the revised Internal Audit Charter appended to this report.

Reasons for Proposed Decision

To ensure compliance with the Public Sector Internal Audit Standards.

Implementation of Decision:

The decision is proposed for implementation after the three day call in period

Appendices

Appendix 1 – Internal Audit Charter

List of Background Papers

None

Officer Contact:

Huw Jones, Chief Finance Officer. h.jones@npt.gov.uk

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

INTERNAL AUDIT CHARTER

Introduction

The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility.

For the purposes of internal audit activity the following terms are defined as follows:

- **“board” – the Governance & Audit Committee**
- **“senior management” - Chief Executive, Corporate Directors and Heads of Service**

Purpose, Scope & Authority

Purpose

The Public Sector Internal Audit Standards (PSIAS), last updated and revised in April 2017, define Internal Audit as:

“... an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

Scope

Financial Regulations 4.9.8 state that it is the responsibility of the Chief Finance Officer to ensure that internal auditors have the authority to:

- **Access Authority premises at reasonable times**
- **Access assets, records, documents, correspondence and control systems**
- **Receive any information and explanation considered necessary concerning any matter under consideration;**
- **Require any employee of the Authority to account for cash, stores or any other Authority asset under their control**
- **Access records belonging to third parties, such as contractors, when required**
- **Directly access the Head of Paid Service, the Executive and Governance & Audit Committee**
- **To ensure that effective procedures are in place to investigate promptly any fraud, irregularity or malpractice.**

Authority

The authority for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit (Wales) Regulations 2014 Regulation 7, more specifically require that (1) a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. (3) “A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.”

Objectives

Internal Audit's main objectives are to:

- **Provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources**
- **Provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures**
- **Provide advice and support to management to enable an effective control environment to be maintained**
- **Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud**
- **Investigate allegations of fraud, bribery and corruption**

Roles and responsibilities

Role of Internal Audit

To meet Internal Audit objectives, Internal Auditors are responsible for:

- **Reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management**
- **Reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate**
- **Reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed**
- **Checking for compliance with legislation, Council policies and procedures**

- **Promoting and assisting the Council in the effective use of resources**
- **Undertaking independent investigations into allegations of fraud and irregularities in accordance with Council policies and procedures and relevant legislation**

Provision of the Internal Audit Function

The Internal Audit Function is provided “in house” and consists of the Audit Manager, 1 Senior Auditor, 4 Auditors, 1 Fraud Officer and 2 Audit Assistants (9 people 8.18 FTE). The role of Head of Internal Audit is undertaken by the Chief Accountant Technical & Governance.

In her role as Chief Accountant the Head of Internal Audit also has responsibility the accountancy team responsible for producing the annual statement of account and all bank related matters, the insurance team and risk management. To maintain her independence in relation to the audit of other functions she has responsibility for she will have no involvement in the scope, timing, or staffing of these audits other than to receive the final report in line with normal reporting arrangements.

Management Structure

Internal Audit is part of the Chief Executive Directorate. However to ensure independence Internal Audit has unfettered access to the Chief Executive (Head of Paid Service) and or the chair of the Governance & Audit Committee should a situation warrant it.

Head of Internal Audit Responsibilities

- In managerial terms to the Chief Finance Officer
- Presenting the internal audit charter to the Governance & Audit Committee for approval.
- Presenting and obtaining approval of the annual plan (produced in conjunction with the Audit Manager) from the Governance & Audit Committee.

- Reporting quarterly to the Governance & Audit Committee on the work undertaken by the service. Reports to committees within NPT are presented in the name of the relevant Chief Officer. Reports to the Governance & Audit Committee will be authored by the HIA in conjunction with the Audit Manager and the Chief Finance Officer will have no influence over their content.
- Reporting to Governance & Audit Committee on any serious weaknesses found in the internal control systems and any instances where recommendations have not been acted upon

Audit Manager's Responsibilities

- In managerial terms to the Chief Finance Officer
- To manage and lead the Internal Audit Team
- For the performance of the Internal Audit Service
- To lead on Whistleblowing investigations and investigations in relation to fraud, theft & malpractice.

Code of Ethics

The Internal Audit Service operates in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS) 2013 updated in 2017 by ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency.

Internal Audit Staff are required to complete a declaration of interests on an annual basis and are aware of the need to make known any changes which may affect their declaration as and when the changes occur.

Each member of the Internal Audit Section receives a copy of the Code of Ethics and signs up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as the Councils standards and policies such as the Code of Conduct. Where potential areas of conflict may arise during the year, the auditor will also be

required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.

Service Standards

What you can expect from us

All internal audit work complies with the mandatory Public Sector Internal Audit Standards.

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

It is essential that Auditors are impartial so that when an audit opinion is given it is unbiased and based on the facts available. Should a situation arise where impartiality could be questioned then another Auditor will be assigned to undertake the audit.

Where an Auditor was previously employed in a service area subject to audit then the Audit Manager will ensure that the Auditor concerned is not assigned audits in that area until at least 2 years have elapsed.

Annual Audit Plan

An annual audit plan is produced using a risk based methodology. During the planning process all Heads of Service are contacted and asked if there are any areas they wish to be included in the plan. The plan is then approved by the Audit & Governance Committee in March each year.

The plan is flexible and includes a contingency to allow for a change in priorities, emerging risks, specific service requests and ad hoc projects. An allowance is also included every year to allow for any special investigations i.e. allegations of fraud, theft of malpractice to be investigated.

In addition to the work carried out in line with the annual audit plan the Audit Manager and Senior Auditor also act as administrators for the Authority's online banking system. This is not deemed by either the Chief Finance Officer in his role as Section 151 Officer, the Head of Internal Audit or the Audit Manager to impair independence or provide any conflict of interest as the duties undertaken on the system are of a "housekeeping" nature and no transactions are undertaken.

Reporting

Audit Reports

Audit reports:

- **Give an opinion of the service as at the time of the audit**
- **Provide an assurance rating of the service audited**
- **Detail the work carried out and subsequent recommendations together with management responses where applicable**

Reporting Standards

Upon completion of the audit a draft report is issued to the service manager for agreement of findings and recommendations made. In accordance with professional standards a post audit review is carried out after an agreed period to ensure that agreed recommendations have been implemented.

Any agreed recommendations not implemented within a reasonable timescale will be reported to Governance & Audit Committee.

Internal Audit works to the reporting quality standards of:

- **Draft report issued within 10 days of field work being completed**

- **Final report issued within 2 working days of draft report being agreed**

Quality Assurance

Internal Review

An internal self-assessment of the effectiveness of internal audit will be undertaken by the Head of Internal Audit annually.

Audits are fully reviewed by senior internal audit staff upon completion of field work, in addition to this all draft reports are reviewed by the Audit Manager prior to issue.

The Head of Internal Audit also monitors/reviews a sample of internal audit work programmes, working papers and reports to provide reasonable assurance that the work conforms to the relevant professional standards.

External Review

It is also a requirement of the PSIAS that all internal audit services are subject to a fully independent review every 5 years by a qualified independent assessor from outside the Authority. The next review is due to be undertaken during January 2023.

Relationships

Internal Auditors will treat all staff with respect, courtesy and professionalism at all times. Any confidential or sensitive issues raised with or reported to Internal Audit staff will be dealt with in an appropriate manner. Where issues are likely to cause embarrassment to or adversely affect the reputation of the Authority these will be raised with senior management promptly and dealt with as a priority.

Internal Auditors will ensure that they explain fully the purpose of the audit and the various stages the audit will follow. Internal Audit will agree with service managers the timing and scope of the audit prior to its commencement.

The normal course of communication with Councillors will be via the Governance & Audit Committee which meets 4 times per year. The Head of Internal Audit and the Audit Manager have access to the Chair of Governance & Audit Committee outside of the normal meetings should this be required in the event of a serious issue coming to light.

Internal audit will liaise with the Authority's external auditors in order to build a co-operative and professional working relationship, eliminate duplication of effort and ensure appropriate sharing of information.

Fraud and irregularities

Internal audit is responsible for investigating and reporting on all instances of suspected fraud, malpractice and theft whether reported directly to them or via the Authority's Whistleblowing Policy.

The Authority also participates in the National Fraud Initiative data matching exercise and Internal Audit investigate a range of the matches and co-ordinates the response to those best dealt with by the service areas.

Updated: November 2021



Cyngor Castell-nedd Port Talbot
Neath Port Talbot Council

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

GOVERNANCE & AUDIT COMMITTEE

26th November 2021

Report of the Chief Finance Officer – Huw Jones

Matters for Information & Decision

Wards Affected:

All Wards

Internal Audit Update Report & Revised Audit Plan

1. Purpose of the Report

The purpose of this report is to provide details of the internal audit work undertaken since the last Governance & Audit Committee meeting in September 2021 and to obtain members approval to revise the Internal Audit Plan.

2. Executive Summary

Appendix 1 of this report details the formal audit reports issued;
Appendix 2 gives details of progress against the plan and
Appendix 3 provides details of a revised audit plan for members' approval.

As previously advised a considerable number of working days have been lost to sickness in this financial year which coupled with the challenges being faced across the authority and the current vacancy has necessitated the

revision of the audit plan. This report provides detail of achievement against the current plan and seeks approval for a revised plan.

3. Background

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, an update is given below outlining internal audit work undertaken since the September 2021 Governance & Audit Committee meeting.

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

4. Staffing Issues

There is currently one Assistant Auditor post vacant due to the postholder leaving to take up a post in one of the accountancy teams. In light of historic problems in filling vacancies and retaining staff at this grade it is deemed an opportune moment to review the structure of the team. It is therefore intended to leave the post vacant until the review is complete and a decision taken on the how best to ensure the team is appropriately resourced.

5. Audit Work Undertaken

Since the last committee meeting a total of 7 formal reports have been issued in line with normal reporting processes.

Reports Issued

1 Private Item

Glamorgan Further Education Trust Fund Independent Examination

Use of Agency Workers

Margam Crematorium

Education Library Resource Centre

National Fraud Initiative – Creditor Invoice Payments

National Fraud Initiative – Blue Badge Parking Permits

In addition to the audits undertaken staff have continued to provide advice and guidance when requested, attended working parties and provided input in relation to the controls operating within the new HR/Payroll IT system and the new Sundry Debtors IT system.

6. Revised Audit Plan

Members of this committee approved a full year Internal Audit Plan at the meeting in April 2021. Since then a number of factors which have been reported throughout the year have meant that achievement of the agreed plan is impossible. It is therefore necessary to revise the agreed plan.

It is proposed to **delete** the following areas from the plan:

Education & Lifelong Learning Directorate

School based audits

- Challenge Advisors Roles & Outcomes
- Home to School Transport
- Education other than at school
- Pupil Exclusions

The reason for these proposed deletions is the continuing pressures faced by headteachers due to the pandemic and the inability of auditors to visit schools due to health & safety risk assessments around the pandemic. It is proposed that these audits will form part of the 2022/23 audit plan.

Other education

- Princess Royal Theatre
- Margam Park Developments
- Leisure Services Contract

The reason for these proposed deletions is, the Princess Royal Theatre is only now beginning to open fully and Margam Park is not currently operating as normal. In respect of the Leisure Services Contract, members are still

deliberating on the way forward. These audits will, unless other higher risk areas are identified, form part of next year's audit plan.

Chief Executive's Directorate

- Compliance with Welsh Language Standards No 1 Regulations
- Cyber Security.

It is proposed that the Welsh Language Standards audit is deleted due to staff resources and the Cyber Security audit deleted to give the recently appointed Chief Digital Officer time to embed his proposed service delivery changes.

Environment Directorate

- Regeneration

It is proposed to delete this audit due to lack of available days.

Finance

- Sundry Debtors
- Payroll
- Asset Valuations
- Capital Programme

The Sundry Debtors and Payroll audits were both incorporated into the original audit plan as both have new operating systems in development. However the new systems are not fully operational and it is therefore proposed to undertake a full audit of both of these areas early in the new financial year when the systems have had time to bed in. Ongoing support has been provided by the team in relation the internal controls within both systems.

With regards to the proposed work in relation to asset valuations this audit was due to be undertaken due to issues raised by Audit Wales during the

accounts closing process for the 2019/20 accounts. Since then Audit Wales have undertaken work with the team and there were no issues reported in the closing process for 2021/21.

The capital programme work will be incorporated into the work being undertaken following the recent external Governance Review.

Social Services, Health & Housing Directorate

- Youth Justice Service

It is proposed to delete this audit from the plan as it has recently been reported to the Social Services, Health & Wellbeing Cabinet Board that the Youth Justice Board Cymru have moved the service out of the service concern protocol and congratulated the team on the work undertaken to improve the service. The official notification from the Youth Justice Board states “The progress that has been made in the delivery of justice services to children since then is significant and we would like to commend Neath Port Talbot on the way in which you have approached your improvement journey and focused on development of the service and the needs of the children, families and the communities you serve.” In light of this it is not deemed that there is a need for an internal audit of the service.

Cross Directorate

- Sickness

Due to the delay in the implementation of the new integrated payroll/HR system it is not deemed worthwhile to undertake this audit until the new reporting systems have been fully rolled out across the authority. This audit will be undertaken in the new financial year.

It is proposed to **add** these audits to the plan:

Education, Leisure & Lifelong Learning

- Statutory policies – primary & secondary schools
- Driver declarations – primary & secondary schools

Social Services, Health & Housing

- Trem Y Mor Complex Needs Service
- Monitoring of child or young person's part 6 care plans

Finance

- Full audit of the Corporate Bank Reconciliations, this is necessary due to ongoing attempted fraudulent cheque encashments
- External Governance Review – follow up work

Cross Directorate

- DBS compliance (non schools)
- Mobile phones – controls & usage

7. Recommendation.

It is recommended that members approve the revised Internal Audit Plan as set out in appendix 3.

8. Reason for proposed decision

To ensure compliance with the terms of reference of the Governance and Audit Committee and the Public Sector Internal Audit Standards.

9. Financial Impacts

No implication

10. Integrated Impact Assessment

A first stage Integrated Impact Assessment has been undertaken and the results indicate that there is no need for a more detailed stage 2 assessment to be undertaken.

11. Valleys Communities Impacts

No implications

12. Workforce Impacts

No implications

13. Legal Impacts

No implications

14. Risk Management Impacts

The work of Internal Audit is key in relation to ensuring compliance with internal controls. This work forms part of the Council's overall risk management arrangements.

15. Consultation

There is no requirement for external consultation on this item

16. Appendices

Appendix 1 – Audit Reports Issued

Appendix 2 – Audit Plan Monitoring

Appendix 3 – Revised Internal Audit Plan

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Appendix 1 – Published Reports

Report Ref	Report Subject & Responsible Head of Service	Report Conclusion	Assurance Rating
R18	Glamorgan Further Education Trust Fund – Independent Examination Chief Finance Officer	The examination did not reveal any matters which gave concerns that in any material respect the requirements to keep accounting records in accordance with 2011 Act and to prepare accounts which accord with the accounting records and comply with the accounting requirements of the act have not been met. Testing revealed good controls to be operating in all areas. One recommendation was made with regard to the need to formally appoint a new honorary treasurer following the retirement of the current honorary treasurer.	Substantial Assurance
R19	Use of Agency Workers All Heads of Service	Testing revealed that there is a contract in place for the procurement of agency workers and all Contract Procedure Rules were followed when the contract was awarded. The majority of agency workers were procured via this contract with the exception of some specialist social services staff who were procured via a specialist agency. It is predominantly the Environment Directorate who use agency workers in the Waste & Neighbourhood Teams and the use of agency workers has not greatly increased since the pandemic as staff were redeployed from other service areas whenever possible to cover staff shortages. Authorisation processes for the engagement of agency workers were found to be robust as were budgetary controls.	Reasonable Assurance

Appendix 1 – Published Reports

Report Ref	Report Subject & Responsible Head of Service	Report Conclusion	Assurance Rating
R20	Private Item		Not applicable
R21	Margam Crematorium Head of Legal & Democratic Services	Core activities of the Crematorium were found to be of a very high standard with robust controls in place for; customer service, cremation procedures, Covid 19 mitigation, record management and scheduling. Recommendations were made and accepted in relation to steaming service; enhancement of the Crematorium’s on line presence and income coding.	Reasonable Assurance
R22	Education Library Resource Centre Head of Support Services & Transformation	The ELRS provides high quality, curriculum focused multi-media loans, bespoke reprographic and advisory services to support the resource needs of schools. Good controls were found to be operating in their core areas of business and recommendations were made in relation to enhancing their service to maximise income which has been declining in recent years.	Reasonable Assurance
R23	National Fraud Initiative – Creditor Payments Chief Finance Officer	Information was provided by NFI in relation to 92 possible duplicate payments for the same goods/services. No instances of fraud were suspected and all issues identified were as a result of human error. Of the 92 issues raised by NFI only 5 duplicate payments totalling £4,080.30 had not been identified via budget	Reasonable Assurance

Appendix 1 – Published Reports

Report Ref	Report Subject & Responsible Head of Service	Report Conclusion	Assurance Rating
		monitoring routines, the service areas concerned have been notified and advised to reclaim the overpayments.	
R24	National Fraud Initiative – Blue Badge Parking Permit	Investigations identified that the Blue Badge Parking Permit System is not up to date regarding deceased badge holders, this is in part due to the pandemic. There is a risk that if blue badges are not returned when the badge holder dies the badges could be used fraudulently. Recommendations have been made to enhance current systems and the Auditor will undertake further work in this area once the service has undertaken the agreed recommendations.	Reasonable Assurance

Risk Categories (With effect from 2021/22)

Substantial Assurance - testing found good controls to be operating.

Reasonable Assurance - testing found some controls which need enhancing which will be achieved by implementing the agreed recommendations.

Appendix 1 – Published Reports

Limited Assurance - testing revealed a number of areas where enhancement to existing controls is required. The Head of Service to provide a written response to the Governance & Audit Committee on actions taken to address the issues raised during the audit.

No Assurance - testing revealed areas of significant concern, the Head of Service and or Accountable Manager will attend the next Governance & Audit Committee to provide members with an update on actions taken to address the issues raised during the audit.

Appendix 2 – Audit Plan Monitoring at 15th November 2021

Audit Plan Item	Risk Rating	Quarter 1	Quarter 2	Quarter 3
Primary Schools	M			
Procurement Card Transactions – Primary Schools	M	Audit in Progress	Audit complete and report issued	
Secondary Schools	H			
DBS – School based staff	H	Audit complete and report issued.	Final report issued.	
Schools Unofficial Funds	H	Audit complete and report issued.		
Schools Data Protection Registration	M	Audit complete and report issued.		
Challenge Advisors Roles and Outcomes	H			
Home to School Transport	H			
Education other than at school	M		Audit in planning stage.	
Pupil exclusions	M		Audit in planning stage.	
Education Library Resource Centre	M		Audit in progress	
Covid Hardship Fund Grants	H	2 Covid-19 Grant Audits in progress (Free School	2 audits completed and reports issued.	

Appendix 2 – Audit Plan Monitoring at 15th November 2021

		Meal Payments and Business Start Up) 2 Covid-19 Grant Audits Complete and reports issued (Self Isolation Support Scheme and Lockdown Discretionary Grant).		
Princess Royal Theatre	M			
Leisure Services Contract	M			
Margam Park Development	H			
Integrated Impacts Assessments	M		Audit in planning stage.	Audit in progress
Compliance with Welsh Language Standards	M	Audit in progress.	Postponed due to staffing availability	
Margam Crematorium	M	Audit in planning stage.	Audit complete & draft report being prepared	Audit complete and final report issued
GDPR/Data Security	M	Audit in progress.	Postponed due to staffing availability	
Stores – Stocktake Assistance	H	Ongoing.	Ongoing	Ongoing
Environment Grants	M			

Appendix 2 – Audit Plan Monitoring at 15th November 2021

Fuel Usage and Control	H			Audit in planning stage
Drainage	M			
Regeneration	M			
Business Support Loans and Grants	M		1 grant audited (Covid grant)	
Crymlyn Burrows Transfer Station	H	Audit in planning stage.	Audit in progress	Audit in progress
Final Accounts	H	Ongoing.	Ongoing	Ongoing
Council Tax	L	Audit for 2020/21 complete and report waiting to be issued.	Audit complete final report issued	
NSDR	L			
Sundry Debtors (New System)	H			Advice being provided in relation to new system development
Housing Benefits	L	Audit in progress in relation to 2020/21	Audit complete and final report issued	
Payroll (new system)	H			Advice being provided in relation to new system development
Creditor Payments	L	Audit complete and report issued for Creditors Transaction Testing 2020/21.		

Appendix 2 – Audit Plan Monitoring at 15th November 2021

Creditors FIS Checks	H	Ongoing.	Ongoing	Ongoing
Treasury Management	M			
3 rd Sector Grants	M			
Capital Programme	H			Audit in progress
Assets Valuations	H			Audit in progress
Cyber Security	H			
Hillside Secure Unit	M	Audit in planning stage.	Audit complete and draft report being prepared	Draft report being agreed
Social Services Grant Certification	M		3 grants certified	
Children's & Adult Services	H		Audit of Monitoring of Child/Young Person Part 6 Care Plan in progress	In progress
Monitoring of External Providers	M			
Youth Offending Team	H			
Covid Recovery	H		Work commenced	Work ongoing advice being provided via a working party
Corporate Debt Recovery	H			
Special Investigations	N/A	4 investigations in progress	1 report issued. 2 investigations currently ongoing.	1 currently in progress.

Appendix 2 – Audit Plan Monitoring at 15th November 2021

Advice & Guidance	N/A	Ongoing.	Ongoing	
Officer Declarations	M	Audit in progress.	Audit complete & report issued	
Procurement	H			
Fraud	H	Ongoing. National Fraud Initiative work in progress.	Work ongoing, 1 report issued.	2 NFI reports issued
Money Laundering	H	Audit in planning stage.	Audit complete, final report issued	
Grants	H			
Sickness	M	Audit in planning stage.		
Use of Agency Workers	M	Audit in progress		Audit complete and final report issued
Banking Administrator	N/A	Ongoing	Ongoing	Ongoing
Attendance at Working Parties	N/A	Ongoing	Ongoing	Ongoing
Servicing Audit Committee	N/A	Ongoing	Ongoing	Ongoing
Vision Impaired West Glam	L			Audit in progress
SWTRA	N/A			
FOI Requests	N/A	Ongoing	Ongoing	Ongoing
Staff Association/Lottery	N/A	Annual Audit Complete and advice ongoing.	Interim audit in progress	

Appendix 2 – Audit Plan Monitoring at 15th November 2021

Procurement during initial working from home period	H	Audit in progress	Audit complete and report issued.	
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Appendix 3 – Revised Internal Audit Plan

Green = new audits

Red = delete audits

Service Area	Days Allocated	Risk Factor												
<u>Education Leisure & Lifelong Learning</u>														
School based audits														
Primary Schools	120	M												
Audit of Statutory Policies		M												
Audit of Driver Declarations														
Secondary Schools	35	H												
Audit of Statutory Policies		M												
Audit of Driver Declarations		M												
<p>The days for these additional audits will come from the days previously allocated to school based audits.</p>														
Other education														
Challenge Advisers Role & outcomes	20	H												
Home to School Transport	20	H												
Education other than at school	15	M												
Pupil exclusions	10	M												
Education Library Resource Service	10	M												
Grants	20	H												
Leisure														
Princess Royal Theatre	10	M												
Leisure Services Contract	10	M												
Margam Park Development	10	H												
<table border="1"> <thead> <tr> <th>Service Area</th> <th>Days Allocated</th> <th>Risk Factor</th> </tr> </thead> <tbody> <tr> <td colspan="3"><u>Chief Executive's Directorate</u></td> </tr> <tr> <td>Integrated Impact Assessments</td> <td>15</td> <td>M</td> </tr> <tr> <td>Compliance with the Welsh Language Standards (No1) Regulations</td> <td>10</td> <td>M</td> </tr> </tbody> </table>			Service Area	Days Allocated	Risk Factor	<u>Chief Executive's Directorate</u>			Integrated Impact Assessments	15	M	Compliance with the Welsh Language Standards (No1) Regulations	10	M
Service Area	Days Allocated	Risk Factor												
<u>Chief Executive's Directorate</u>														
Integrated Impact Assessments	15	M												
Compliance with the Welsh Language Standards (No1) Regulations	10	M												

Appendix 3 – Revised Internal Audit Plan

Legal Services

Margam Crematorium	15	M
GDPR/Data Security	10	M

Finance

Revenue Collection

Council Tax	3	L
NNDR	3	L
Sundry Debtors (new IT system in place)	15	H

Benefit Administration

Housing Benefits	3	L
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Exchequer

Payroll (new IT system in place)	20	H
Creditor Payments	3	L
Creditors (FIS) checks	20	H

Accountancy

Treasury Management	15	M
3 rd Sector Grants	10	M
Capital Programme	15	H
Asset Valuations	10	H
Bank Reconciliation	10	H
Governance Review follow up work	15	H

IT

Cyber Security	15	H
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Environment

Stores – stocktake assistance	2	H
Grants	15	M
Fuel Usage & Controls	15	H
Drainage/Flood risk management	15	M
Pest Control	15	M
Regeneration	10	M
Business Support Loans & Grants	15	M
Crymlyn Burrows Transfer Station	25	H
Final Accounts	5	H

Appendix 3 – Revised Internal Audit Plan

Social Services, Health & Housing

Social Services

Hillside Secure Children's Home	15	M
Grant certification	10	M

Safeguarding:

Children's & Adult Services		
Trem Y Mor Complex Needs Service	25	M
Monitoring of External Providers	20	M
Youth Offending Team	20	H
Monitoring of a child or young person's Part 6 Care Plan	25	M

Cross Directorate

Covid Recovery	15	H
Covid hardship fund grants	25	H
Corporate Debt Recovery	15	H
(Breathing Space Legislation)		
Special Investigations	150	N/A
Advice & Guidance requests	90	N/A
Officer Declarations	15	M
Procurement	30	H
Fraud (to include joint working With DWP & NFI)	210	H
Money Laundering (compliance with policy)	10	H
Grants	10	H
Sickness	25	M
Use of Agency Workers	10	M
DBS Compliance (non-schools staff)	15	H
Mobile Phones – usage & controls	10	M

Other Commitments

Banking Administrator	4	N/A
Attendance at working Parties	20	N/A
Servicing Audit Committee	20	N/A
Vision Impaired West Glam	10	L
SWTRA	15	N/A

Appendix 3 – Revised Internal Audit Plan

FOI Requests	5	N/A
Staff association/lottery	10	N/A

H = High, M = Medium, L=Low

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

GOVERNANCE & AUDIT COMMITTEE

26th NOVEMBER 2021

JOINT REPORT OF CHIEF FINANCE OFFICER – H JONES HEAD OF HUMAN AND ORGANISATIONAL DEVELOPMENT – S REES

Matter for Information

Wards Affected – All wards

Register of Regulators Reports & Recommendations.

Purpose of the Report

To provide the Governance & Audit Committee with an updated Register of Regulators Reports and Recommendations.

Background

On 3rd June 2021, Derwyn Owen, Audit Director, Audit Wales wrote to Chairs of Governance & Audit Committee setting out Audit Wales expectation that all councils' Governance & Audit Committee formally consider reports of external review bodies – principally; Audit Wales, Estyn and the Care Inspectorate Wales (CIW).

In addition to considering the reports, the Audit Director also set out the expectation for committees to assure themselves that there are arrangements in place to monitor and evaluate progress against any recommendations contained in them.

At the meeting of Governance and Audit Committee on 15th September 2021, a proposed process to provide the above assurance to the Committee was presented and noted.

To enable the Committee to formally consider reports of external review bodies, this report presents a summary of reports issued by external review bodies since April 2021 and an updated Register of Regulators

Reports. The Register will be updated and reported on a 6 monthly basis to provide assurance to the Committee that accepted recommendations are being addressed appropriately by the Council.

Update - April 2021 – October 2021

During the above period, 7 national reports and 2 local reports have been received.

National Reports:

1. At Your Discretion - Local Government Discretionary Services (April 21) – This study found financial pressures led to councils reducing spend and cutting services, but the pandemic has highlighted the importance and relevance of local government in serving and protecting people and communities. There were no recommendations in this report.
2. A Picture of Public Services (Sept 21) - This report is part of a series of Picture of Public Services 2021 outputs. It summarises some key trends in public finances and sets out Audit Wales independent perspective on some of the key issues for future service delivery. Underpinning this report is a series of sector-specific summaries setting out some key facts and analysis (listed below 3-5).
3. A Picture of Local Government (Sept 21) - This report summarises key information about local government in Wales including the strategic operating context and funding. It explores capacity in the sector, performance, and key issues or challenges in Audit Wales view.
4. A Picture of Schools (Oct 21) - This report summarises key information about schools in Wales including the strategic operating context and funding. It explores capacity in the sector, performance, and Audit Wales view on the key issues or challenges. It does not consider childcare or post-compulsory education other than school sixth forms. It sets out what Audit Wales consider to be some of the key issues for the sector, recognising that other review bodies and commentators will have their own perspective on the key issues.
5. A Picture of Social Care (Oct 21) - This report summarises key information about social care in Wales including the strategic

operating context, funding, performance and capacity. The report sets out what Audit Wales consider to be some of the key issues for the sector, recognising that other review bodies and commentators will have their own perspective on the key issues.

No recommendations were contained in the above reports (2-5).

6. Financial Sustainability of Local Government – COVID Impact, Recovery and Future Challenges (Sept 21)

During 2020-21 Audit Wales looked at the financial sustainability of each of the 22 councils in Wales, including:

- The financial impact of the pandemic;
- Financial strategies;
- Reserves position;
- Performance against budget; and
- Savings delivery and liquidity (the extent to which current assets are able to cover debt).

This report highlights some key themes and findings from the work, some commentary on funding pressures, and some reflections on how councils' future financial sustainability could be strengthened. The report set out some key steps setting out what councils can do to improve financial sustainability. There were no recommendations in this report.

7. Care Inspectorate (CiW) – Chief Inspectors Annual Report 2020-21. This report reflects on the 2020-21 year and the work that was undertaken by the Inspectorate. There were no recommendations in this report.

Local Reports

8. NPT Annual Audit Summary 2020 (April 21) – This is Audit Wales audit summary for the Council and provides a single summary of the findings of performance and financial audit work undertaken by Audit Wales as well as planned future audit work (this summary included the work completed since September 2019 up to the date of its publication). The summary was presented to Council on 26th May 2021 by Colin Davies (Audit Wales). There were no recommendations in this report.

9. Financial Sustainability Assessment (Sept 21) – Audit Wales undertook this assessment (during January 2021 to March 2021). The assessment found the Council is well placed to maintain its financial sustainability and plans to strengthen some aspects of its financial management. There were no recommendations in this report.

Financial Impact

There are no financial impacts in respect of this item.

Integrated Impact Assessment

There is no requirement for an integrated impact assessment in respect of this item.

Valleys Communities Impacts

There are no impacts in respect of this item.

Workforce impacts

There are no workforce impacts in respect of this item.

Legal Impacts

There are no legal impacts in respect of this item.

Risk Management

There are no risk management issues in respect of this item.

Consultation

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

Recommendation

It is recommended that:

- The Governance & Audit Committee note the reports issued by the Council's external review bodies since April 2021 and the updated Register of Regulators Reports and Recommendations.

Appendix

- Addendum 1 – Register of Regulators Reports & Recommendations.

Background Papers

None

Officer Contact

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Appendix 1

Register of Regulators Reports & Recommendations

1st April 2021 – 31st October 2021

	Name - Inspection / Review	Date noted by Governance & Audit Committee	Status of Report (National / Local)	Scrutiny Committee responsible for monitoring action plan (or other monitoring arrangements)	Target date for update to Governance & Audit Committee on the monitoring of progress (for assurance purposes)	Responsible Officer	Number of accepted recommendations	Date of update received by Governance & Audit Committee on monitoring of progress
1.	A Picture of Schools – October 2021 https://www.audit.wales/sites/default/files/publications/POPS-Schools-Eng.pdf	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a
2.	A Picture of Social Care – October 2021 https://www.audit.wales/sites/default/files/publications/POPS-Social-Care-Eng_1.pdf	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a

	Name - Inspection / Review	Date noted by Governance & Audit Committee	Status of Report	Scrutiny Committee responsible for monitoring action plan (or other monitoring arrangements)	Target date for update to Governance & Audit Committee on the monitoring of progress (for assurance purposes)	Responsible Officer	Number of accepted recommendations	Date of update received by Governance & Audit Committee on monitoring of progress
3.	Financial Sustainability of Local Government – COVID Impact, Recovery and Future Challenges – September 2021 https://www.audit.wales/publication/financial-sustainability-local-government-covid-impact-recovery-and-future-challenges	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a
4.	Neath Port Talbot Council – Financial Sustainability Assessment - September 2021 https://www.audit.wales/publication/neath-port-talbot-council-financial-sustainability-assessment-0	26.11.21	Local	n/a	n/a	n/a	No recommendations	n/a

	Name - Inspection / Review	Date noted by Governance & Audit Committee	Status of Report	Scrutiny Committee responsible for monitoring action plan (or other monitoring arrangements)	Target date for update to Governance & Audit Committee on the monitoring of progress (for assurance purposes)	Responsible Officer	Number of accepted recommendations	Date of update received by Governance & Audit Committee on monitoring of progress
5.	A Picture of Local Government – September 2021 https://www.audit.wales/sites/default/files/publications/POPS-Local-Gov-Summary-Eng.pdf	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a
6.	A Picture of Public Services – September 2021 https://www.audit.wales/sites/default/files/publications/POPS-2021-Eng.pdf	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a
7.	At Your Discretion – Local Government Discretionary Services – April 2021 https://www.audit.wales/sites/default/files/publications/At-your-discretion-English.pdf	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a

	Name - Inspection / Review	Date noted by Governance & Audit Committee	Status of Report	Scrutiny Committee responsible for monitoring action plan (or other monitoring arrangements)	Target date for update to Governance & Audit Committee on the monitoring of progress (for assurance purposes)	Responsible Officer	Number of accepted recommendations	Date of update received by Governance & Audit Committee on monitoring of progress
8.	NPT Annual Audit Summary 2020 - https://www.audit.wales/sites/default/files/publications/nptaas.pdf	26.11.21	Local	Presented to Council 26 th May 2021	n/a	n/a	No recommendations	n/a
9.	Care Inspectorate (CiW) – Chief Inspectors Annual Report 2020-2021 https://careinspectorate.wales/sites/default/files/2021-08/210818-chief-inspectors-annual-report-2020-2021-en.pdf	26.11.21	National	n/a	n/a	n/a	No recommendations	n/a

Audit Wales Work Programme and Timetable – Neath Port Talbot County Borough Council

Quarterly Update: 14 October 2021

Financial Audit work

Description	Scope	Timetable	Status
Audit of the Council's 2020-21 statement of accounts	Audit of the Council's 2020-21 statement of accounts.	July 30 2021	Opinion issued 30 July 2021

Performance Audit work

2020-21 Performance Audit Work	Scope	Timetable	Status
Financial Sustainability	A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges building on work undertaken during 2019-20.	Report issued September 2021	Final report issued National Summary Report published September 2021
Workforce Planning	Review of workforce planning, impact of Covid and future resilience of the workforce	Final	Reporting via workshop November 2021

2021-22 Performance audit work	Scope	Timetable	Status
Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations	We will seek to integrate the delivery of our WFG examinations of steps to deliver wellbeing objectives with our other audit work. We will discuss this with the council as we scope and deliver the audit projects listed in this plan.	Ongoing	Ongoing
	We will examine the extent to which the council has acted in accordance with the sustainable development principle in setting its Well-being Objectives.	Ongoing	Ongoing
Improvement reporting audit	Audit of discharge of duty to publish an assessment of performance.	November 2021	Ongoing
Assurance and Risk Assessment	Project to identify the level of audit assurance and/or where further audit work may be required in future years in relation to risks to the Council putting in place proper arrangements to secure value for money in the use of resources. At NPT Council the project is likely to focus on: <ul style="list-style-type: none"> • financial position • self-assessment arrangements • recovery planning • implications of the Local Government and Elections (Wales) Act • carbon reduction plans • assess the Council's response to its independent investigation and subsequent action plan 	Ongoing	Ongoing

Springing Forward – Examining the building blocks for a sustainable future	As the world moves forward, learning from the global pandemic, this review looks at how effectively councils are strengthening their ability to transform, adapt and maintain the delivery of services, including those delivered in partnership with key stakeholders and communities.	Planned for Autumn 2021 onwards – to be confirmed following scoping.	Project scoping <ul style="list-style-type: none"> • workforce tracers • Asset tracers
Annual Audit Summary	Annual report summarising the performance and financial audit work undertaken in 2021-22 which also includes a summary of the key findings from reports issued by 'relevant regulators'. Also now combined with the Annual Audit Letter	Autumn 2022	Not yet started

Local government national studies planned / in progress

Study	Scope	Timetable	Status	Fieldwork planned at NPT County Borough Council
Direct Payments	Review of how local authorities manage and promote the use of Direct payments	Publication Winter 2021-22	Drawing conclusions mid-October, drafting and publication early 2022	No – work being delivered via Direct Payment Forum and a selection of follow up interviews
Emergency Services	Review of how well emergency services (blue light) collaborate	Publication winter 2021-22	Drafting report	No
Follow up on People	Review of how local authorities responded to the	TBC	Project set up	No – work being delivered via Homelessness

Sleeping Rough	needs of people sleeping rough during the pandemic following up on the AGWs report of July 2020			and Supporting People Forum
Poverty	Understanding how local authorities ensure they deliver their services to minimise or reduce poverty.	TBC	Project brief issued and contacts at councils being collated	TBC
Social Enterprises	Review of how local authorities are supporting and utilising social enterprises to deliver services	TBC	Project brief issued and contacts at councils being collated	TBC
Community Resilience	Review of how local authorities can build greater resilience in communities	TBC	Project brief issued and contacts at councils being collated	TBC

Estyn

Estyn planned work 2021-22	Scope	Timetable	Status
Local Government Education Services Inspections	Estyn have worked closely with Directors of Education to review their inspection guidance for local government education services to reflect the experiences of the pandemic. The updated guidance (published on 1 July) will be piloted on the first inspection and feedback will be sought on whether any further refinements need to be made.	LGES inspections to resume from late Autumn term	N/A
Curriculum Reform thematic review	Regional consortia and local authority support for curriculum reform.	Evidence collecting in Sept/Oct - publish in early February	N/A

Care Inspectorate Wales (CIW)

CIW planned work 2021-22	Scope	Timetable	Status
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Assurance	CIW will be completing its work on Assurance Checks including publication of a national overview report.	July – September 2021	In progress
National review	Support for disabled children and their families.	TBC	In progress - Drafting report
Follow-up	CIW will be following up on areas for improvement identified in the Assurance Checks or through risk based inspection activity with individual local authorities where necessary.	TBC	Not yet started
Inspection	Risk based inspection activity will continue where required.	TBC	No inspections are scheduled at this time

Audit Wales national reports and other outputs published since 1 April 2021

Report title	Publication date and link to report
Financial Sustainability of Local Government	September 2021
NHS summarised accounts infographic	September 2021
Picture of Public Services¹	September 2021
Town Centre Regeneration	September 2021

¹ Main report published 15 September. To be followed over the following four to six weeks by short sector commentaries: A picture of local government, A picture of healthcare, A picture of social care, A picture of schools, A picture of higher and further education.

Student finances	<u>August 2021</u>
NHS finances data-tool 2020-21	<u>June 2021</u>
Rollout of the COVID-19 vaccination programme in Wales	<u>June 2021</u>
Quality governance arrangements at Cwm Taf UHB – follow up	<u>May 2021</u>
Welsh Health Specialised Services Committee governance arrangements	<u>May 2021</u>
At your Discretion - Local Government Discretionary Services	<u>April 2021</u>
Procuring and Supplying PPE for the COVID-19 Pandemic	<u>April 2021</u>

Audit Wales National reports and other outputs due to be published during 2021-22 (and other work in progress/planned)²

Title	Anticipated publication date
Supporting NHS staff well-being	October 2021
Warm Homes Programme	November 2021
Care home commissioning	November 2021
Welsh Government accounts commentary	November 2021

² We will continue to keep our plans under constant review, taking account of the evolving external environment, our audit priorities, the context of our own resourcing and the capacity of audited bodies to engage with us. This includes maintaining some flexibility so that we can respond to developments in Welsh Government policy and areas of possible interest for a new Public Accounts Committee following the Senedd elections.

Unscheduled care – data tool and commentary	By end of 2021
Collaborative arrangements for managing local public health resources	By end of 2021
NHS waiting times data-tool and planned care commentary	By end of 2021
Welsh Government setting of well-being objectives	By end of 2021
Welsh Government workforce	By end of 2021
Orthopaedic services	By end of 2021
Curriculum reform	Spring 2022
Equality impact assessment	Spring 2022
Climate change – baseline review	Spring/summer 2022
COVID response & recovery / Welsh Government grants management	TBC
NHS structured assessment 2021 summary commentary	TBC
Affordable housing	TBC
Broadband infrastructure	TBC
Flood risk management	TBC

Forthcoming Good Practice Exchange events and publications

Title	Anticipated publication/event date
Post event resources including session recordings for both the Part 2 Your Town Your Future town centre regeneration event and the Future Workplace lunch and learn session with Dr Luci Attala and Hywel Dda UHB	Early October 2021
Transatlantic Conversations, Wales and Nova Scotia – discussing Housing	28 October 2021 (3pm)
Organisational Resilience	December 2021 (date tbc)

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Financial Sustainability of Local Government

COVID-19 Impact, Recovery
and Future Challenges

September 2021

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

Contents

Councils have received significant extra funding to deal with the pandemic, but the future sustainability of the sector remains challenging against a backdrop of other financial pressures.

Background – our work on local government financial sustainability over 2020-21	4
The bigger picture – borrowing, spending and demand pressures	5
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Background

Our work on local government financial sustainability during 2020-21

Over 2020-21 we looked at the financial sustainability of each of the 22 councils in Wales, including:

- the financial impact of the pandemic;
- financial strategies;
- reserves position;
- performance against budget; and
- savings delivery and liquidity (the extent to which current assets are able to cover debt).

This report highlights some key themes and findings from our work, some commentary on funding pressures, and some reflections on how councils' future financial sustainability could be strengthened.

Main report

The bigger picture – borrowing, spending, and demand pressures

Extra short-term funding has helped but longer-term challenges and uncertainties remain

- The UK and Welsh Governments put in place major funding streams and grants in response to the pandemic – but these spending patterns are unlikely to be sustained.
- Our Picture of Public Services report published in September 2021 set out further information and analysis of public sector spending and future projections.
- Local government has a key role in supporting and shaping recovery from the pandemic, both as a provider of a wide range of key local services, and also through its community leadership role, including working with a range of partners.

Local government financial sustainability – how the situation in Wales compares with England

- England – the National Audit Office found that the financial position of local government remains a cause for concern with the outlook looking uncertain, and noted the reliance of many councils on using reserves to balance their 2020-21 budgets¹.
- Wales – councils have not generally relied on their reserves to balance their 2020-21 budgets, largely due to the additional funding made available to them to mitigate the impact of the pandemic. But significant future challenges remain.

Exhibit 1: how councils’ usable financial reserves² had changed before the pandemic

All Wales total for unitary authorities, Total usable revenue reserves not protected by law

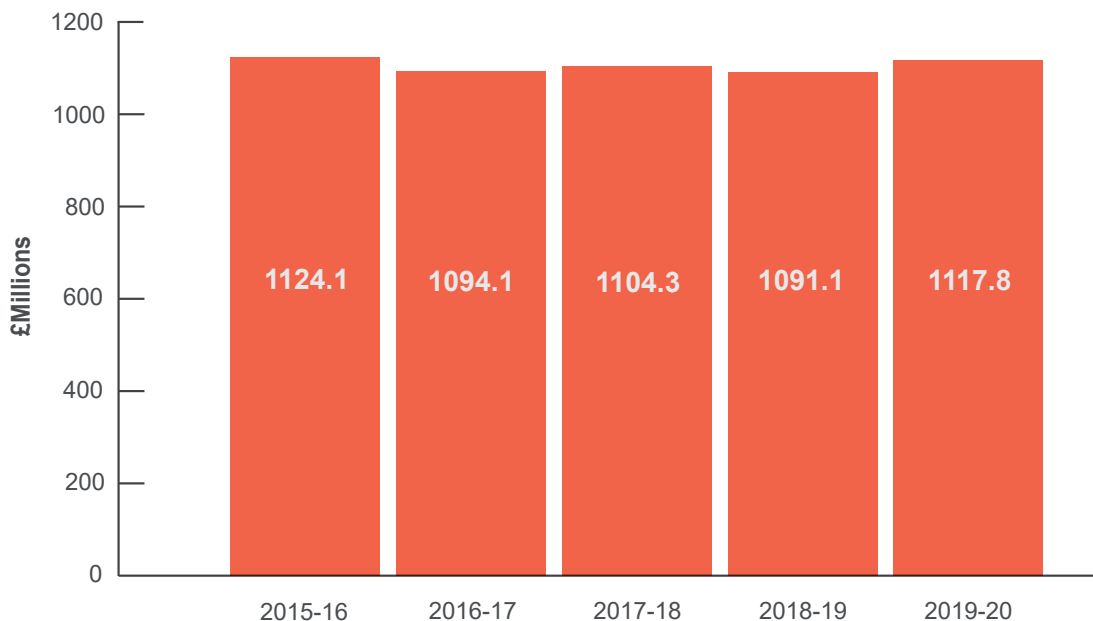
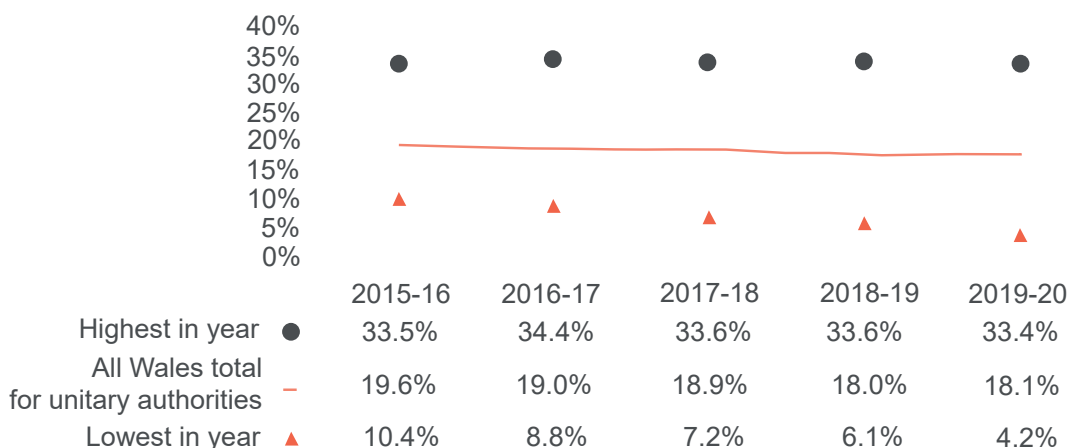


Exhibit 2: amount of usable reserves as a percentage of net cost of services over time

The following exhibit shows the average, highest and lowest values for the principal councils in Wales at the end of each financial year from 2015-16 to 2019-20.

Total Usable Reserves as a % of net cost of services



Lowest and highest refer to the value of an individual council in that particular year.

2 We define usable financial reserves as reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves and schools balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

Public sector borrowing has increased during the pandemic and future funding levels are uncertain

- UK government borrowing has increased significantly during the pandemic³.
- Future funding levels remain uncertain, for example, in March 2021 Cardiff University described the outlook for the Welsh budget as ‘highly uncertain’⁴. The Chartered Institute of Public Finance & Accountancy (CIPFA) have also highlighted the uncertainty around public sector funding in the future.
- There is likely to be significant pressure on local government funding, in particular for those service areas that are not prioritised as part of future budget-setting⁵.

Demand for some services is likely to increase

- Our recent report on discretionary services⁶ highlights rising demand for some council services. The infographic on the following page, from that report, summarises some key demand pressures.
- Demand pressures from the pandemic will potentially continue, for example, for additional education provision to catch up on lost time during school closures. The longer-lasting implications of the pandemic on demand for local government services are as yet unknown.

Spending on discretionary local government services had already reduced before the pandemic

- Reductions in funding had already led to some service cuts before the pandemic⁷. Although the pandemic has raised the profile of local government services and in particular the role they play in helping to keep people safe and healthy.

3 CIPFA, [Local authorities face a financial reckoning](#), November 2020

4 Wales Fiscal Analysis, [Welsh Election 2021 Fiscal outlook and challenges for the next Welsh Government Welsh Election Briefing](#), April 2021

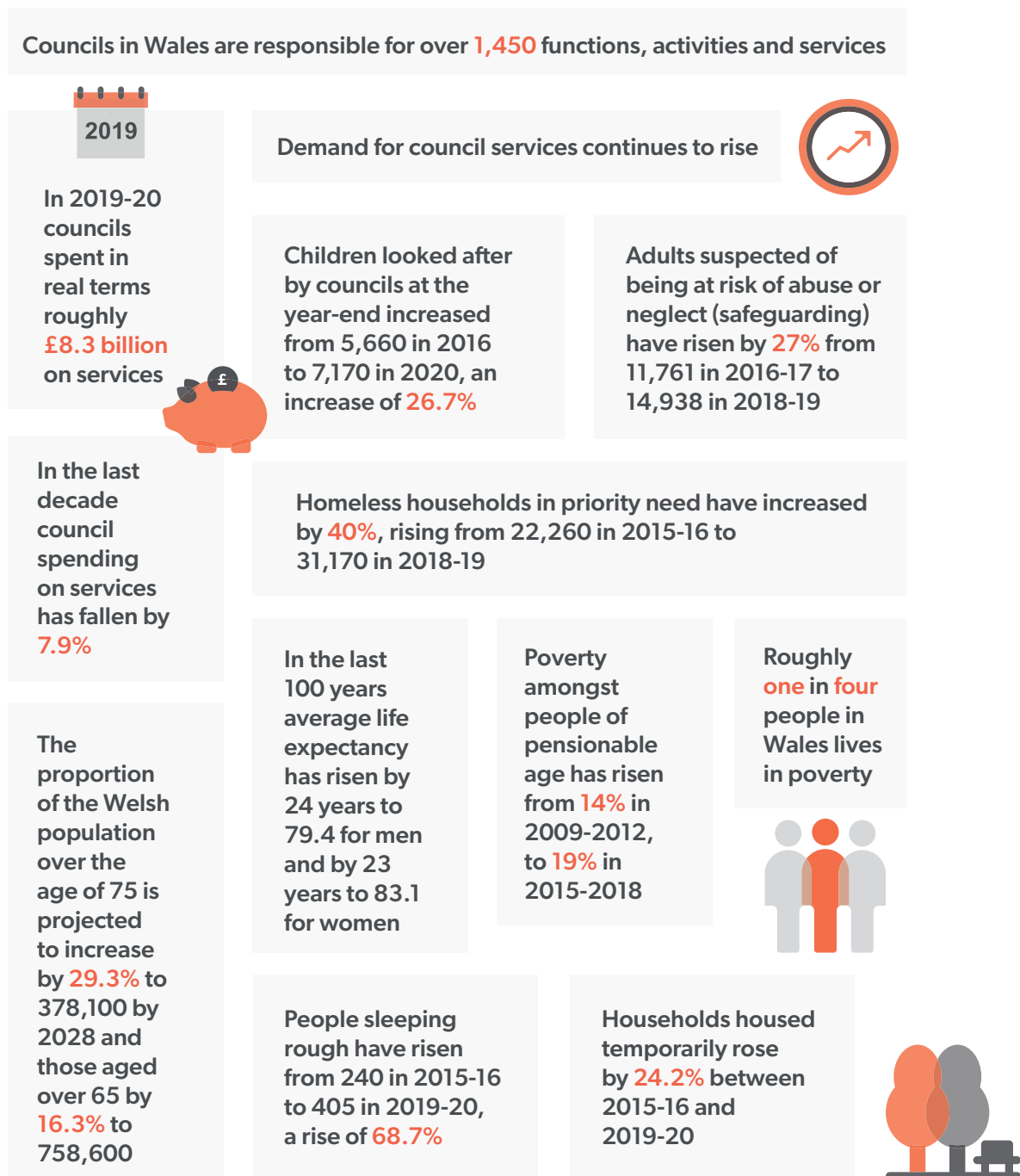
5 Wales Fiscal Analysis, [Local government finance: the state of play in 2021-22](#), March 2021

6 Audit Wales, [At your Discretion - Local Government Discretionary Services](#), April 2021

7 Audit Wales, [At your Discretion - Local Government Discretionary Services](#), April 2021

Exhibit 3: key facts about council services and demand⁸

The following exhibit shows some key facts about council services including some key demand pressures.



Note: The £8.3 billion figure for total council spending covers the total revenue spending on services and includes spending on some non-service areas such as repayment of borrowing, levies pensions and appropriations to reserves. The figure is net of income, such as charges and fees, generated by services. The gross expenditure on services in 2019-20 was £9.2 billion.

Financial sustainability – key findings from our work

Our findings from October 2020

- In October 2020, we said: ‘Councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector is an ongoing challenge.’ We also noted that ‘some Councils were better placed financially than others to deal with the financial challenges posed by the pandemic⁹.’

Overall findings from our work in 2020-21

- We found that Councils have received significant extra funding to deal with the pandemic, but the future sustainability of the local government sector remains challenging against a backdrop of other financial pressures.
- After publishing our national summary report in October 2020, we then looked at the financial sustainability of each principal council in Wales.
- We produced local reports for each council.
- Due to the extra funding councils have received in response to the pandemic, the financial position has improved for all 22 councils this year.
- But the overall picture of councils’ financial sustainability remains mixed, some councils are still better placed than others to respond to future challenges.
- The next section summaries the key themes we identified through this work, including where relevant from our October 2020 report as well as our previous work on financial sustainability.

9 [Audit Wales, Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic, October 2020](#)

Key themes from our 2020-21 work

The financial impact of COVID-19

- We said in October 2020 that some councils were better placed financially than others to respond to the challenges of the pandemic.
- So far, the costs of COVID-19 have been mitigated at each council by extra funding from the Welsh Government.

Exhibit 4: The cost of COVID-19 over 2020-21

The following exhibit sets out the extra funding provided to councils by Welsh Government over 2020-21 in response to the COVID-19 pandemic.

- £660 million additional funding allocated by the Welsh Government to the Hardship Fund to cover councils' lost income and extra expenditure¹⁰.
- Other funding from the Welsh Government such as extra funding for teachers for catch-up support from education and cleaning materials for schools.
- Personal protective equipment (PPE) has also been provided free of charge to most local government bodies by the Welsh Government through NHS Shared Services.



Source: Welsh Government

Financial strategies

- Several councils have only undertaken limited analysis of the longer-term impact of COVID-19 (even in respect of working assumptions or scenarios) or the longer-term impact of changes to demand.
- Most, but not all councils include some council tax assumptions for the next four or five years in their financial strategies. These range from predicted increases of between 3% and 5%.
- Most, but not all, financial strategies also include Aggregate External Funding (AEF)¹¹ assumptions that vary between 0% and 3%. A few councils plan on the basis of best-to-worst-case scenarios.
- Overall, most of our local reports reflect on the ongoing work needed to develop a more sustainable approach to financial planning in the medium to long term.

¹⁰ Although the Welsh Government allocated £660 million, by the end of the financial year it reports having spent £587 million.

¹¹ Aggregate External Funding data includes Revenue Support Grant from the Welsh Government and Non-Domestic Rates.

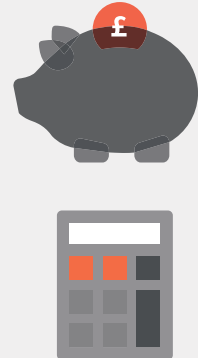
Reserves position

Exhibit 5: usable reserves – what we said in our October 2020 report¹²

The following exhibit summaries our key findings on councils' usable reserves¹³ position from our October 2020 report.

In October 2020 we reported:

- the usable reserves held by councils ranged from around £11 million to over £119 million.
- there was a wide range of usable reserves as a proportion of the net cost of services at each council: from 5% to 33%; and
- that Welsh councils in total held over £1 billion of usable reserves at the end of March 2020.



- Some councils have relatively high level of reserves that will support their ability to respond to challenges, and other councils have much lower levels of reserves, which will make meeting future challenges harder.
- After completing our local work we have also found that all councils increased the amount of reserves they held at the end of 2020-21. Councils have reported an increase of over £450 million in reserves during 2020-21. We will report further on this following our audit of 2020-21 accounts.
- Some councils have a good track record in recent years of avoiding using reserves to balance their budget.
- Some councils have relied on unplanned use of reserves to balance budgets. This approach is unlikely to be sustainable, particularly for those councils whose levels of usable reserves were already relatively low.
- A consistent pattern of using reserves, even in a planned way, to balance revenue expenditure is unlikely to be sustainable as it risks depleting reserves to unsustainable levels.

Performance against budget

- After large transfers to reserves, most councils reported either relatively small underspends or overspends overall in 2020-21, a similar pattern to the previous two financial years.

¹² Audit Wales, [Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic, October 2020](#).

¹³ By usable reserves we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. This is the total of the general fund, earmarked reserves, and schools' balances. It excludes the HRA, Capital receipts and capital grants unapplied.

- Most councils also continued to show significant overspends in some service areas; in many councils, social services were an example of this.
- The pandemic, along with longer-term challenges, means that now more than ever, councils will need to manage budgets effectively and ensure that services or areas of consistent overspends are addressed.

Savings delivery

- Last year we found that most councils delivered the majority of their savings, but very few delivered all of their planned savings in previous years. We found the same pattern over 2020-21, as well as that some councils delivered all of their savings targets, although not as they had planned.
- Savings plans have understandably been affected by the pandemic. Changes in demand for services, workforce re-deployment and other action taken in response to the pandemic are all likely to have had an impact on the achievement of some savings.
- In a number of councils, service areas were still able to deliver their savings targets. Some service areas found it easier to deliver savings because of:
 - additional funding from the Welsh Government;
 - a reduced demand for services during the pandemic and/or;
 - reduced staff costs during the pandemic.
- Delivery of savings is likely to be even more challenging going forward given the scale of the projected funding gaps in some councils in future years, and that the above factors that helped some service areas to deliver savings over 2020-21 are unlikely to be recurring.
- Councils with robust and effective savings planning processes will be better placed to deliver on proposals and fulfil plans within the longer term.


Liquidity¹⁴

- Overall, most councils show a favourable and stable liquidity ratio (the ratio of current assets to its current liabilities) which suggests that those councils are in a good position to meet their current liabilities.
- A few councils show a relatively low liquidity ratio. In itself this is not a particular problem. But if levels of reserves are also relatively low and if savings are not being achieved, taken together this could indicate a lack of resilience.

Four steps to help improve councils' financial sustainability

Exhibit 6: four steps to help with councils' financial sustainability

Based on the findings from our local work, together with the themes and challenges reflected on in this paper, the exhibit below summarises some key steps setting out what councils can do to improve financial sustainability.

1	<p>Financial strategies</p> 	<p>Understand short, medium and long-term challenges and clearly set out the overall priorities for the council's finances</p> <ul style="list-style-type: none"> • The Chartered Institute of Public Finance & Accountancy (CIPFA) highlights the uncertainty around public sector funding in the future, urging councils to use a range of data and forecasting work as part of their financial planning over the medium term¹⁵. • A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. • Given the anticipated funding pressures facing all councils, it is important to identify how to respond to those future pressures, and particularly how they will meet projected funding gaps. • Now is more important than ever to have a robust financial strategy that builds a picture of the council's financial situation over the medium to long term including well-evidenced projections around future demand pressures. • Councils should ensure that members are aware of, and understand, where their council's assumptions originate and where the assumptions sit in relation to those made by other councils. • The pandemic has also shown the benefits of building flexibility into financial strategies, and planning for different scenarios. Councillors should be presented with clear choices based on comprehensive and robust information including: <ul style="list-style-type: none"> - the total levels of reserves available to use; - future funding pressures; and - a full range of planning assumptions.
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2	<p>Reserves</p> 	<p>Plan your approach to, and use of, reserves to ensure that it supports longer-term financial sustainability</p> <ul style="list-style-type: none"> • Healthy levels of usable reserves are an important safety net to support financial sustainability. • As well as being available to meet unexpected funding pressures, usable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the ongoing cost of providing services or for transformation programmes. • Regularly reviewing the levels of reserves and considering if levels are appropriate will help to set priorities around use of reserves. • Councils should ensure that councillors understand the role of both usable and unusable reserves, and how these link to the overall and longer-term financial strategy for the Council.
3	<p>Performance against budget</p> 	<p>Know what’s realistic for services to achieve and then understand and act on areas of consistent overspends</p> <ul style="list-style-type: none"> • It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. • A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. • Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities. • Seek to manage budgets effectively throughout the year, as opposed to one-off budget exercises.

4

Savings delivery

Understand what is realistic for services to deliver on savings or cost reductions and act on areas that do not consistently deliver planned savings

- The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability.
- Where savings plans are not delivered this can result in overspends that require the use of reserves whilst increasing the level of savings required in future years to compensate.
- Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.
- Now is more important than ever to get savings plans right, ensure that plans are realistic, and developed in collaboration between councillors, executive management teams and services.

Audit Wales future work on councils' financial sustainability

- For 2021-22, we will continue to monitor the financial position of individual councils through our ongoing audit work.
- Following completion of our audits of 2020-21 accounts we will also publish a financial sustainability data tool, including data on councils' year-end position for 2020-21, and continue to update this annually.
- We may undertake further work at some councils where we identify specific risks.
- We will return to national work in future where we believe the situation merits it and where we could add value.
- We will also consider the possibility of comparing the financial position of local government bodies in Wales with those across the UK as well as potential national work in relation to specific themes.
- In undertaking any potential future work, we will continue to engage with the Society of Welsh Treasurers.



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Financial Sustainability Assessment – Neath Port Talbot Council

Audit year: 2020-21

Month/Year issued: August 2021

Document reference: 2461A2021-22

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The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding 5

The Council is working towards developing a sustainable medium-term financial strategy 6

The Council has a healthy level of useable reserves 7

The Council has a good track record of delivering services within agreed budgets 9

The Council has a track record of achieving most of its planned savings 11

The Council's liquidity position is sound, enabling it to meet its financial obligations when they fall due 12

What we looked at and why

- 1 We undertook this assessment as financial sustainability continues to be a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services. We undertook a similar project in 2019-20, before the COVID-19 pandemic.
- 2 Our 2020-21 assessment on councils' financial sustainability was in two phases. Phase 1 was a baseline assessment of the initial impact of COVID-19 on local councils' financial position. Phase 1 drew on: the year-end position for 2019-20; the position at the end of quarter 1 for 2020-21; and projections for 2020-21 as at January 2021. Following Phase 1, in October 2020 we published a national summary report – **Financial Sustainability of Local Government as a result of the COVID-19 Pandemic**¹. We found that councils and the Welsh Government have worked well together to mitigate the impact of the pandemic to date, but the future sustainability of the sector is an ongoing challenge.
- 3 The pandemic has had an immediate and profound effect on public sector finances as a whole and, as a consequence, on councils' financial position. The summary report set a high-level baseline position, including the reserves position of local councils before the pandemic. It also set out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward.
- 4 This report concludes phase 2 of our financial sustainability assessment work during 2020-21. As part of this we are producing a local report for each of the 22 principal councils in Wales.
- 5 We undertook this assessment during January 2021 to March 2021.

¹ Audit Wales, [Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic](#), October 2020.

The Council is well placed to maintain its financial sustainability and plans to strengthen some aspects of financial management

The immediate impact of COVID-19 on the Council's financial sustainability has been mitigated by additional Welsh Government funding

- 6 This section sets out the impact that COVID-19 has had to date on the Council's financial position and the extent to which this has been mitigated by additional funding from the Welsh Government.
- 7 We found that:
- the Council incurred significant extra expenditure and lost income in 2020-21 as a result of the COVID pandemic. The majority of this has been reimbursed by the Welsh Government and has not therefore had a detrimental effect on the Council's financial position. The Welsh Government has announced additional COVID-related grant funding for the first six months of 2021-22, but the extent of any further financial support and the longer-term effects of the pandemic on the Council's financial position are uncertain.
 - the Council identified and made provision for a number of the impacts of the COVID pandemic when setting its 2021-22 revenue budget and also included a £2.1 million contingency provision for general cost pressures and pay and pensions.
 - subsequent to agreeing the 2021-22 revenue budget, the Welsh Government provided further COVID-related grant funding at the end of March 2021, and the Council transferred £2.5 million to its earmarked corporate contingency reserve for future years' corporate priorities including COVID recovery costs.

Exhibit 1: the cost to the Council of COVID-19 over 2020-21

The table below shows the Council's additional expenditure and lost income over 2020-21, as a result of COVID-19, and how much of this was mitigated by extra funding from the Welsh Government.

The additional amount the Council spent as a result of COVID-19 over 2020-21.	£14.5 million
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The amount of income the Council lost as a result of COVID-19 over 2020-21.	£9.5 million
The amount of additional funding the Council will receive from the Welsh Government over 2020-21 to mitigate the impact of COVID-19.	£23.6 million
The cost to the Council of COVID-19 over 2020-21 after extra funding from the Welsh Government is taken into account.	£0.47 million

Source: Council's finance department

The Council is working towards developing a sustainable medium-term financial strategy

Why strategic financial planning is important

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

We found that:

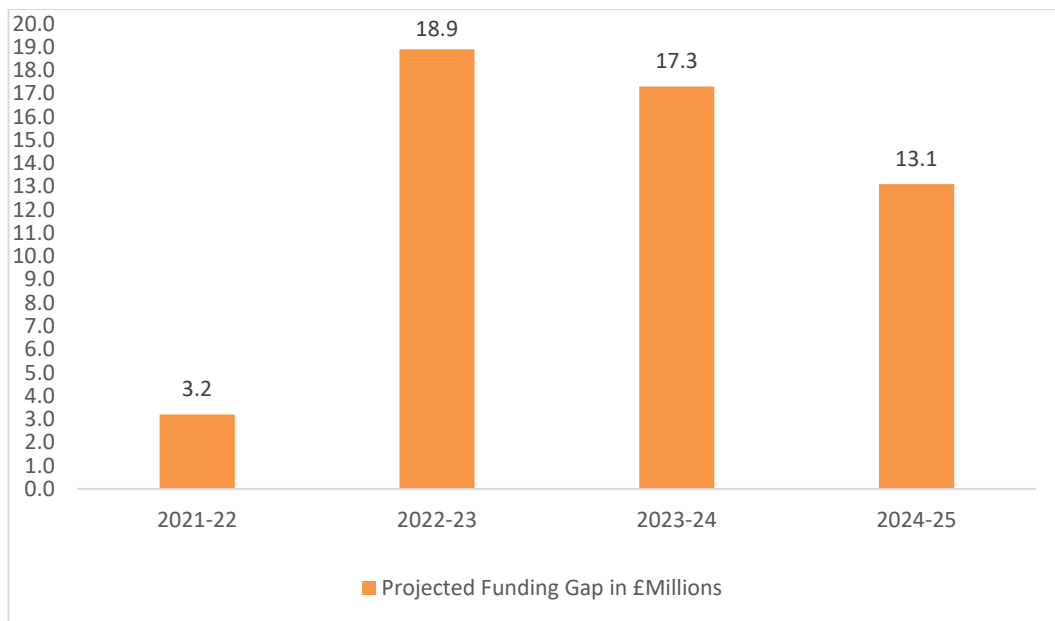
- in 2019-20, we reported that the Council focusses primarily on annual budgeting, did not have a published Medium Term Financial Plan (MTFP) and had scope to strengthen its medium-term financial planning and its links to the achievement of its corporate objectives.
- the Council revises its financial plan annually to help inform the annual budget setting process. The plan sets out the Council's medium-term financial projections and for the three-year period 2022-23 to 2024-25, the Council is projecting a funding gap of £49 million (in addition to the £3.1 million gap funded from general reserves in 2021-22).
- the Council has not made any changes to its approach to developing its medium-term financial projections, as it has prioritised its response to the COVID pandemic. Its projections continue to be based on prudent assumptions for inflation and known cost pressures but only reflect some assumptions in respect of demographic changes and service demand pressures. The Council plans to undertake further work to develop the forward financial plan and identify sustainable efficiency savings with a view

to producing an MTFP linked to the Council's corporate objectives by autumn 2021.

- as the Welsh Government does not provide any indicative funding assessment of future years, the Council's projections do not assume any funding growth in future settlements. In prior years, the Council has received more generous settlements than anticipated (4.5% in 2020-21, 4.2% in 2021-22) and if settlements continue to increase in future years, the financial gap will reduce by an estimated £2.3 million for every 1% variation in the settlement.

Exhibit 2: the Council has a total projected funding gap for the four years 2021-22 to 2024-25 of £52.4 million

This graph shows the funding gap that the Council has identified for the following three years.



Source: 2021-22 budget report to Cabinet

The Council has a healthy level of useable reserves

Why sustainable management of reserves is important

- 9 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support 'invest to save' initiatives designed to reduce the ongoing cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their

revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

10 We found that:

- in 2019-20, we reported that the Council had a healthy level of useable reserves and did not have a history of using reserves to fund revenue budget pressures.
- in setting its 2020-21 budget, the Council planned to use £1.65 million of its general reserves to balance its revenue budget. The Council forecast (at 8 March 2021) that its net revenue budget will underspend and, after receipt of COVID-related grants from the Welsh Government, projects that the general reserve will increase by £1.96 million. Since the forecast outturn position was reported to Members, the Council has received additional COVID-related grant funding from the Welsh Government which will increase its useable reserve balance further.
- the Council's budget for 2021-22 has been balanced with the use of £3.1 million of general reserves and at the time the budget was set, usable reserves were projected to be £53.6 million at 31 March 2022. The Council considers that the general reserve, which is projected to be 5.3% of its net revenue budget, will remain at a reasonable level and does not plan any further use of its general reserve to fund its medium-term financial deficit.
- whilst this use of reserves in 2012-22 will reduce the overall level of reserves available to the Council, these are still projected to remain at a reasonable level.

Exhibit 3: the net cost of services versus the amount of usable reserves

This exhibit shows the amount of usable reserves the Council had during 2020-21 and the previous four years as a proportion of the net cost of the services the Council delivers.

	2016-17	2017-18	2018-19	2019-20	2020-21 Estimate
Net Cost of Services in £ millions ²	283.3	281.8	296.1	307.0	N/A
Total Useable Reserves in £ millions ³	51.3	59.5	61.4	59.1	58.1

² Value used is the net cost of services charged to the general fund from the Expenditure and Funding Analysis plus precepts, levies and debt interest. Source: Statement of Accounts

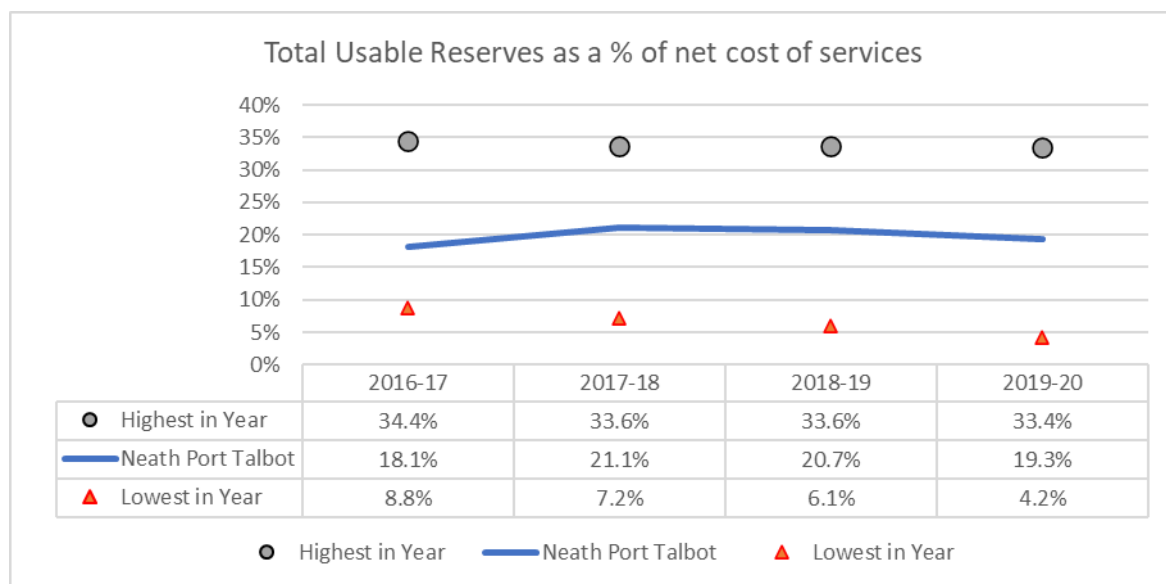
³ By usable reserves, we mean the total general fund balance, together with earmarked reserves that councils are not legally prevented from redirecting to use for another purpose. Source: Statement of Accounts

	2016-17	2017-18	2018-19	2019-20	2020-21 Estimate
Total Useable Reserves as a percentage of the net cost of services ⁴	18.1%	21.1%	20.7%	19.3%	N/A

Source: Annual statements of accounts

Exhibit 4: total useable reserves as a percentage of the net cost of services

The Council has maintained a level of usable reserves between 18.1% and 19.3% over the period 2016-17 to 2019-20.



Source: Audit Wales analysis

The Council has a good track record of delivering services within agreed budgets

Why accurately forecasting expenditure is important

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

⁴ Audit Wales calculation.

What we found

- 12 In 2019-20, we reported that the Council had a good track record of financial management and had consistently delivered its services within agreed budgets, although overspends in some areas were offset by underspends elsewhere.
- 13 The Council underspent its revenue budget each year in the period 2016-17 to 2019-20 and transferred small surpluses to its reserves. For 2020-21, the month 10 revenue budget monitoring report projected a £1 million underspend. However, since this report was prepared, additional COVID-related grant monies have been received from the Welsh Government, which have further improved the outturn position.
- 14 Our 2019-20 report referred to pressures and budget overspends in education (home to school transport, out of county placements), some areas of children's social services and environmental services (refuse collection). The budget monitoring report to Cabinet in March 2021 reported that for 2020-21, education was projected to overspend by £90,000, social services to underspend by £1.15 million and environment to overspend by £994,000. The main causes of these variances are COVID related and due to additional Welsh Government funding; the underlying position is unclear in some areas.

Exhibit 5: amount of overspend/underspend relative to total net revenue budget

The following exhibit shows the amount of overspend or underspend for the Council's overall net revenue budget for the last four years and also the year to date as at 8 March 2021.

	2016-17	2017-18	2018-19	2019-20	2020-21
Original Net revenue budget £ millions ⁵	270.90	274.68	282.86	288.17	304.08
Actual Net Revenue Outturn £ millions ⁶	268.90	273.60	282.85	287.01	303.08
Amount of overall surplus/overspend £ millions ⁷	2.00	1.08	0.01	1.16	1.00
Percentage difference from net revenue budget	0.7%	0.4%	0%	0.4%	0.3%

Source: revenue outturn reports to Cabinet, revenue budget monitoring report as at 31 January 2021 presented to Cabinet 8 March 2021

⁵ Value used is the net cost of services charged to the general fund, plus precepts, levies and debt interest. Source: Council's budget reports to Cabinet

⁶ Value used is the net cost of services charged to the general fund, plus precepts, levies and debt interest. Source: Council's outturn reports to Cabinet

⁷ Audit Wales calculation.

The Council has a track record of achieving most of its planned savings

Why the ability to identify and deliver savings plans is important

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

What we found

- 16 In 2019-20, we reported that the Council had made significant savings in recent years and achieved the majority of its planned savings. Although the Council had a track record of balancing its budgets, it had not delivered all the specific savings it planned and budget underspends had been used to meet the shortfall.
- 17 The Council has made savings of £29.09 million between 2016-17 and 2019-20 (**Exhibit 6**). In 2019-20, the Council balanced its budget through planned savings of £5.8 million to address its budgeted funding gap. In 2020-21, this target was set at £1.97 million.
- 18 The achievement of savings is not separately monitored – individual agreed savings are removed from budgets at the start of the year and are monitored through the budget monitoring process. It is assumed that most of the in-year savings are delivered unless highlighted as a significant variance in the quarterly budget monitoring report to Members. The outturn position for 2019-20 and projected position for 2020-21 confirm that the Council has achieved most of its planned savings.
- 19 In common with other councils, identifying and delivering savings are becoming more challenging. Responding to the COVID pandemic has reduced the Council's opportunities to identify service changes and, for 2021-22, a savings target of only £135,000 has been set. The Council plans to balance its budget by using £3.1 million of general reserves.
- 20 The Council recognises that the use of reserves to balance its budget is not sustainable and further work to update the MTFP to 2024-25 will focus on identifying efficiencies to meet the projected £49 million funding shortfall over the next three years, which is in addition to the £3.1 million gap funded from general reserves in 2021-22.

Exhibit 6: savings delivered as a percentage of planned savings

The following exhibit sets how much money the Council intended to save from its savings plans between 2016-17 and 2019-20 and how much of this it actually saved as well as estimated figures for 2020-21.

	2016-17	2017-18	2018-19	2019-20	2020-21 estimate
Total planned savings in £ millions	11.55	5.78	6.79	5.80	1.97
Planned savings achieved in £ millions	10.72	5.78	5.06	5.33	1.97
Planned savings not achieved in £ millions	0.83	0.00	1.73	0.47	0.00
Percentage of savings achieved	93%	100%	75%	92%	100%

Source: budget reports and annual outturn reports to Cabinet

The Council's liquidity position is sound, enabling it to meet its financial obligations when they fall due

Why the Council's liquidity position is important

- 21 Why gauging current assets to current liabilities (liquidity) is important:
- it is an indicator of how a council manages its short-term finances.
 - while it is commonly used to examine whether organisations are able to pay their debts in the short term, this is unlikely to be a risk for councils given their ability to take short-term borrowing. It does also, however, act as an indicator of how a council manages its short-term finances.
 - councils with low liquidity ratios should ensure they have arrangements in place to meet their liabilities.
 - there may be additional costs for councils that rely on short-term borrowing to pay debts.
 - councils with very high liquidity ratios should consider whether they are managing their current assets in the most effective way.
- 22 We found that:
- the Council's liquidity position has been relatively stable over the period 2015-16 to 2018-19, increasing to 1.9 in 2019-20. This means that current assets were almost double the value of current liabilities and indicates that the Council can meet its financial obligations when they fall due without the need for short-term borrowing.

- the Council adopts a prudent approach to treasury management, prioritising low risk before investment return and only investing surplus monies when adequate liquidity is maintained.
- the level of short-term investments increased significantly by 31 March 2021, which will lead to a further increase in the liquidity ratio to an estimated 2.3. The Council forecasts that the level of short-term investments and its estimated liquidity ratio will reduce to historic levels in 2021-22.
- the Council's liquidity ratio has historically exceeded the average for Welsh councils, which indicates that it is in a comparatively strong financial position.

Exhibit 7: liquidity (working capital) ratio 2015-16 to 2019-20

	2015-16	2016-17	2017-18	2018-19	2019-20
Current Assets £ millions ⁸	114.7	110.9	110.9	95.2	107.4
Current Liabilities £ millions ⁹	72.2	75.3	73.4	61.5	57.4
Liquidity Ratio	1.6	1.5	1.5	1.5	1.9

Source: Annual statements of accounts

⁸ Current Assets: includes Short Term Investments; Assets held for sale; Inventories; Short Term Debtors; and Cash and equivalent. Source: Statement of Accounts

⁹ Current Liabilities: includes Short Term Borrowing; Short Term Creditors; and Provisions due in one year. Source: Statement of Accounts



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

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