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## Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr

### Bridgend County Borough Council



Swyddfeydd Dinesig, Stryd yr Angel, Pen-y-bont, CF31 4WB / Civic Offices, Angel Street, Bridgend, CF31 4WB

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Annwyl Cyngorydd,

#### **PWYLLGOR LLYWODRAETHU AC ARCHWILIO**

Cynhelir Cyfarfod Pwyllgor Llywodraethu ac Archwilio yn O bell trwy Microsoft Teams ar **Dydd Iau, 28 Ionawr 2021 am 14:00.**

#### **AGENDA**

1. Ymddiheuriadau am absenoldeb  
Derbyn ymddiheuriadau am absenoldeb gan Aelodau.
2. Datganiadau o fuddiant  
Derbyn datganiadau o ddiddordeb personol a rhagfarnol (os o gwbl) gan Aelodau / Swyddogion yn unol â darpariaethau'r Cod Ymddygiad Aelodau a fabwysiadwyd gan y Cyngor o 1 Medi 2008.
3. Cymeradwyaeth Cofnodion 3 - 12  
I dderbyn am gymeradwyaeth y Cofnodion cyfarfod y 12/11/2020
4. Cofnod Gweithredu'r Pwyllgor Archwilio 13 - 18
5. Adroddiadau Pwyllgor Llywodraethu ac Archwilio Archwilio Cymru 19 - 52
6. Strategaeth Rheoli'r Trysorlys 2021-22 53 - 86
7. Aseiad Risg Corfforaethol 2021-22 87 - 114
8. Cynnydd yn erbyn y Cynllun Seiliedig ar Risg Archwilio Mewnol (1 Ebrill 2020 i 31 Rhagfyr 2020) 115 - 122
9. Effeithiolrwydd y Pwyllgor Archwilio - Hunanasesiad 123 - 138
10. Adroddiad Archwilio Mewnol - Cyllid Allanol 139 - 154
11. Blaenraglen Waith 2020-21 wedi'i Diweddarau 155 - 158

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12. Materion Brys

I ystyried unrhyw eitemau o fusnes y, oherwydd amgylchiadau arbennig y cadeirydd o'r farn y dylid eu hystyried yn y cyfarfod fel mater o frys yn unol â pharagraff 2.4 (e) o'r Rheolau Trefn y Cabinet yn y Cyfansoddiad.

Nodyn: Sylwch: Yn sgil yr angen i gadw pellter cymdeithasol, ni fydd y cyfarfod hwn yn cael ei gynnal yn ei leoliad arferol. Yn hytrach, bydd hwn yn gyfarfod rhithwir a bydd Aelodau a Swyddogion yn mynychu o bell. Bydd y cyfarfod yn cael ei recordio i'w ddarlledu ar wefan y Cyngor cyn gynted ag sy'n ymarferol ar ôl y cyfarfod. Os oes gennych unrhyw gwestiwn am hyn, cysylltwch â [cabinet\\_committee@bridgend.gov.uk](mailto:cabinet_committee@bridgend.gov.uk) neu ffoniwch 01656 643147 / 643148.

Yn ddiffuant

**K Watson**

Prif Swyddog – Gwasanaethau Cyfreithiol, Adnoddau Dynol a Rheoleiddio

**Dosbarthiad:**

Cynghowrwy

CA Green

JE Lewis

MJ Kearn

B Sedgebeer

Cynghorwyr

RM Granville

LM Walters

A Williams

AJ Williams

Cynghorwyr

PA Davies

P Davies

TH Beedle

A Hussain

Aelod Lleyg:

Mrs J Williams

# Agenda Item 3

PWYLLGOR LLYWODRAETHU AC ARCHWILIO - DYDD IAU, 12 TACHWEDD 2020

COFNODION CYFARFOD Y PWYLLGOR LLYWODRAETHU AC ARCHWILIO A  
GYNHALIWYD YN O BELL TRWY SKYPE FOR BUSINESS DYDD IAU, 12 TACHWEDD 2020,  
AM 14:00

## Presennol

Y Cyngorydd LM Walters – Cadeirydd

|              |             |           |             |
|--------------|-------------|-----------|-------------|
| CA Green     | JE Lewis    | MJ Kearn  | B Sedgebeer |
| RM Granville | AJ Williams | PA Davies | P Davies    |
| TH Beedle    | A Hussain   |           |             |

## Ymddiheuriadau am Absenoldeb

A Williams

## Swyddogion:

|                   |   |
|-------------------|---|
| Deborah Exton     | Dirprwy Bennaeth Cyllid dros dro                              |
| Mark Thomas       | Pennaeth Gwasanaeth Archwilio Rhanbarthol                     |
| Samantha Clements | Swyddfa Archwilio Cymru                                       |
| Mark Jones        | Rheolwr Archwilio Ariannol, Swyddfa Archwilio Cymru           |
| Andrew Rees       | Rheolwr Gwasanaethau Democrataidd                             |
| Gill Lewis        | Pennaeth Cyllid a Swyddog 151 Dros Dro                        |
| Michael Pitman    | Swyddog Gwasanaethau Democrataidd – Pwyllgorau                |
| Nigel Smith       | Rheolwr Cyllid  |
| Eilish Thomas     | Rheolwr Cyllid – Rheoli Ariannol a Chau                       |
| Martin Morgans    | Pennaeth Gwasanaeth - Perfformiad a Gwasanaethau Partneriaeth |
| Simon Roberts     | Uwch Ymchwilydd Twyll   |
| Joan Davies       | Rheolwr Cleient Archwilio                                     |

## Aelod Lleyg:

Josephine Williams

## 209. ETHOL CADEIRYDD

PENDERFYNWYD: Ethol y Cyng. Lyn Walters yn Gadeirydd y Pwyllgor Llywodraethu ac Archwilio am y flwyddyn nesaf.

## 210. ETHOL IS-GADEIRYDD

PENDERFYNWYD: Ethol y Cyng. Altaf Hussain yn Is-Gadeirydd y Pwyllgor Llywodraethu ac Archwilio am y flwyddyn nesaf.

## 211. DATGAN BUDDIANT

Dim

## 212. CYMERADWYO COFNODION

PENDERFYNWYD: cymeradwyo bod cofnodion 10/09/2020 yn wir ac yn gywir.

## 213. COFNOD GWEITHREDU'R PWYLLGOR LLYWODRAETHU AC ARCHWILIO

Cyflwynodd Rheolwr y Gwasanaethau Democrataidd yr adroddiad gerbron y Pwyllgor a restrai'r cofnod gweithredu cyfredol yn atodiad A.

Dywedodd Pennaeth y Gwasanaeth Archwilio Mewnol Rhanbarthol fod a wnelo'r eitem gyntaf ar y Cofnod Gweithredu, sef Cynllun Archwilio Blynyddol ar gyfer Archwilio Allanol 2017-18, â Bargen Ddinesig Prifddinas-Ranbarth Caerdydd. Ers cynnwys yr eitem hon ar y cofnod gweithredu, esboniodd fod nifer o ddatganiadau llywodraethu blynyddol wedi dod i law, sef adroddiadau manwl iawn, ac roedd y gwasanaeth archwilio rhanbarthol wedi cyflwyno argymhellion yn gysylltiedig â hyn. Gyda chymeradwyaeth y pwyllgor, gofynnodd am gael dileu'r eitem o'r cofnod gweithredu. Cytunodd y Pwyllgor â'r argymhelliad hwnnw.

PENDERFYNWYD: Bod y Pwyllgor yn nodi'r adroddiad.

214. DIWEDDARIAD ARCHWILIO CYMRU I'R PWYLLGOR LLYWODRAETHU AC ARCHWILIO

Cyflwynodd y Rheolwr Archwilio Cyllid adroddiad a roddai'r newyddion diweddaraf i'r pwyllgor am y gwaith archwilio ariannol a pherfformiad a gyflawnwyd, ac a fyddai'n cael ei gyflawni, gan Archwilio Cymru, yn ystod 2020-21.

Esboniodd fod Archwiliad o Grantiau a Ffurflenni'r Cyngor ar gyfer 2019-20 wedi dechrau ac yn mynd rhagddo'n dda.

Esboniodd y Rheolwr Archwilio Cyllid fod yr Archwiliad o ddatganiad cyfrifon y Cyngor ar gyfer 2020-21 heb ddechrau eto, ond mai'r bwriad oedd dechrau hwnnw ym mis Rhagfyr.

Amlinellodd Cynrychiolydd Archwilio Cymru waith Archwilio Perfformiad 2019-2020 ac esboniodd fod yr Adroddiad Gwella Blynyddol (AGB) ar y gweill ac y byddai'n cael ei gyflwyno gerbron y Pwyllgor ym mis Ionawr 2021.

Amlinellodd Cynrychiolydd Archwilio Cymru waith archwilio Perfformiad 2020-21 a'r wybodaeth ddiweddaraf. Esboniodd fod y dystysgrif archwilio Perfformiad wedi'i chyhoeddi ar 6 Tachwedd 2020, gan nodi bod y Cyngor wedi cydymffurfio â'r Ddeddf Mesurau Llywodraeth Leol a bod yr adroddiad ar berfformiad wedi'i gyhoeddi cyn 31 Hydref 2020.

Dywedodd Cynrychiolydd Archwilio Cymru fod yr Asesiad Sicrwydd a Risg ar y gweill ar hyn o bryd, ac y byddai cyfarfod yn cael ei gynnal â'r Bwrdd Rheoli Corfforaethol yn fuan ym mis Chwefror ar y cyd ag Arolygiaeth Gofal Cymru (AGC) ac ESTYN.

Esboniodd Cynrychiolydd Archwilio Cymru fod y gwaith ar Gynlluniau Adfer hefyd ar y gweill. Ar y pryd, roedd SAC wedi arsylwi'r Panel Craffu ar Adfer a'r Bwrdd Rheoli Corfforaethol ac roedd y gwaith yn dal i barhau.

Esboniodd Cynrychiolydd Archwilio Cymru fod y gwaith Cynaliadwyedd Ariannol wedi'i rannu'n ddau gam, gyda Cham 1 wedi'i gwblhau a gwaith cwmpasu'n cael ei gyflawni ar gyfer Cam 2. Byddai'r cam hwnnw'n cael ei gwblhau dros weddill blwyddyn ariannol 2020-21.

Esboniodd Cynrychiolydd Archwilio Cymru fod y prosiect â ffocws digidol wedi dechrau ac y byddai briff drafft o'r prosiect yn cael ei anfon ar 22 Hydref 2022. Ychwanegodd fod ymateb wedi dod i law oddi wrth y Prif Weithredwr a'u bod yn llunio ymateb gyda golwg ar gwblhau'r briff terfynol. I gloi, dywedodd fod prosiect dysgu Covid 19 hefyd yn parhau.

PENDERFYNWYD: Bod y Pwyllgor yn nodi Diweddariad Archwilio Cymru i'r Pwyllgor Llywodraethu ac Archwilio yn Atodiad A.

215. DATGANIAD SEFYLLFA - ADRODDIAD 'GWELLA EIN PERFFORMIAD - MYND I'R AFAEL Â THWYLL YNG NGHYMURU'.

Cyflwynodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid adroddiad yn rhoi datganiad ynghylch sefyllfa Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr yng nghyswllt yr argymhellion a wnaed gan Archwilio Cymru yn ei adroddiad diweddar, 'Gwella Ein Perfformiad - Mynd i'r Afael â Thwyll yng Nghymru'. Mae'r adroddiad hefyd yn rhoi amlinelliad o gynlluniau'r Cyngor ar gyfer y dyfodol.

Esboniodd fod yr adroddiad yn rhoi syniad i'r aelodau o weithgarwch y Cyngor wrth fynd i'r afael â thwyll, a hefyd yn rhoi cyfle i aelodau gyfrannu at ymdriniaeth y Cyngor â'r risg o dwyll.

Esboniodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid y prif agweddau yn Adroddiad Archwilio Cymru. Ychwanegodd fod y Cyngor wedi llunio datganiad sefyllfa a oedd yn cymharu'r sefyllfa gyfredol o fewn yr awdurdod â'r argymhellion a wnaed yn adroddiad Archwilio Cymru. Roedd hyn wedi'i gynnwys yn Atodiad A, ac Adroddiad Archwilio Cymru wedi'i gynnwys yn Atodiad B.

Esboniodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid mai argymhellion i Lywodraeth Cymru yn bennaf oedd yr argymhellion gan Archwilio Cymru, ond eu bod yn berthnasol i ni hefyd, am ein bod fel Cyngor yn gyfrifol am ein gweithgarwch Atal Twyll ein hunain.

Amlinellodd y thema'n gysylltiedig â'r Fframwaith Rheoli a Rheolaeth ar Risg, gan nodi y dylai'r holl gyrff cyhoeddus gynnal asesiadau cynhwysfawr o'r risg o dwyll, gan ddefnyddio staff â sgiliau priodol ac ystyried cudd-wybodaeth genedlaethol yn ogystal â chudd-wybodaeth penodol i'r sefydliad. Amlinellodd sefyllfa CBSPO yn hyn o beth, fel y rhestrwyd yn R3 yn atodiad A.

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod gan CBSPO bolisiau, gweithdrefnau a mecanweithiau adrodd i atal, canfod ac adrodd am dwyll, llwgrwobrwyo a llygredd. Roedd y rhain yn cynnwys:-

- Strategaeth a Fframwaith Twyll 2018/19 - 2020/21
- Polisi Chwythu'r Chwiban
- Cod Ymddygiad TGCh
- Polisi Atal Twyll a Llwgrwobrwyo
- Polisi Disgyblu
- Roedd Polisi Atal Efadu Trethi hefyd yn cael ei ddrafftio.

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod y dylai staff sy'n gweithio ar draws sector cyhoeddus Cymru dderbyn hyfforddiant ymwybyddiaeth twyll, fel bo'n briodol i'w rôl er mwyn i sefydliadau fod yn fwy effeithiol wrth atal, canfod ac ymateb i dwyll. Dywedodd y bu nifer o ddatblygiadau yn CBSPO yn dilyn hyn, a restrwyd yn R6 yn Atodiad A.

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod twyll wedi bod ar gynydd ers Covid-19. Dywedodd fod angen i bob corff cyhoeddus adeiladu digon o gapasiti i sicrhau adnoddau effeithiol ar gyfer gwaith atal twyll, fel bod ymchwiliadau'n cael eu cynnal mewn modd proffesiynol, ac mewn modd a oedd yn arwain at gosbi drwgweithredwyr yn llwyddiannus ac at adennill colledion. Ychwanegodd fod CBSPO ar

hyn o bryd yn cyflogi un Uwch Ymchwilydd Twyll amser llawn. Byddai swydd Swyddog Twyll newydd amser llawn yn cael ei hysbysebu y mis hwn. Roedd Archwilio Mewnol hefyd yn ymwneud ag ymchwilio a helpu i atal twyll, gan gynnwys ymchwiliadau mewnol a'r Fenter Twyll Genedlaethol. Roedd gwybodaeth bellach am gapasiti ac arbenigedd wedi'i rhestru yn R8-R10.

Esboniodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod angen i'r holl gyrrff cyhoeddus ddatblygu a chynnal ymatebion atal twyll deinamig ac ystyryth, a oedd yn cynyddu'r tebygolrwydd o gamau gorfodi llwyddiannus, ac y dylent archwilio a choleddu cyfleoedd i arloesi wrth ddadansoddi data er mwyn cryfhau'r trefniadau i atal a chanfod twyll.

Dywedodd y Prif Swyddog Dros Dro, Cyllid, Perfformiad a Newid fod CBSPO yn cael ei weld fel partner cadarnhaol o ran cydweithio i atal twyll ac roedd R13 yn yr adroddiad yn nodi sefyllfa CBSPO ar y pryd.

Esboniodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod adrodd a chraffu yn bwysig, a bod angen i CBSPO gasglu gwybodaeth am symiau a gafodd eu colli a'u hadennill, a rhannu cudd-wybodaeth am dwyll y naill â'r llall i sefydlu darlun cenedlaethol mwy manwl gywir, cryfhau rheolaethau, gwella trefniadau monitro a chefnogi camau wedi'u targedu. Dywedodd fod y Swyddogion Ymchwil Twyll yn CBSPO yn cofnodi gwybodaeth yn gysylltiedig â Chynllun Gostyngiadau'r Dreth Gyngor (CTRS) ac achosion yn gysylltiedig â budd-dal tai, ac roedd unrhyw wendidau a nodwyd mewn systemau wrth ymchwilio yn cael eu hystyried a'u datrys os oedd angen. Rhoddwyd adborth i dimau perthnasol fel bo modd iddynt gryfhau eu systemau ymhellach i atal twyll. Ychwanegodd fod y Pwyllgor Llywodraethu ac Archwilio hefyd yn chwarae rhan hollbwysig wrth adrodd am systemau yn CBSPO a chraffu ar y systemau hynny.

Esboniodd Pennaeth y Gwasanaeth Archwilio Mewnol Rhanbarthol fod yr archwiliadau mewnol arferol yn bwysig fel mesur ataliol i sicrhau bod systemau digonol ar waith er mwyn ymdrin â thwyll. Roedd mesurau ataliol yn cael eu ffafrio bob tro yn hytrach nag ymdrin â thwyll ar ôl i hynny ddigwydd.

Ychwanegodd fod angen newid y dull o ymdrin â thwyll yn barhaus, ac roedd gwella asesiadau risg yn agwedd bwysig ar atal twyll.

Gofynnodd Aelod a ellid trefnu sesiwn Hyfforddiant Datblygu'r Aelodau yn y dyfodol er mwyn derbyn hyfforddiant ar faterion yn gysylltiedig â thwyll a sut i'w atal. Esboniodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod hyn wedi cael ei ystyried, ond nad oedd unrhyw fanylion penodol ar y mater eto.

Ychwanegodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod y cyngor wedi cael ei feirniadu am fod yn araf wrth dalu grantiau am wahanol resymau, ee, y grantiau ardrethi annomestig. Er ei bod yn deall y feirniadaeth, esboniodd fod yr angen i warchod arian y Cyngor ac atal twyll posibl yn bwysicach, felly roedd angen taro cydbwysedd rhwng hynny a brysio i dalu grantiau, a allai achosi mwy o broblemau.

Diolchodd yr Aelod Lleyg i'r Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid am yr adroddiad cynhwysfawr, ac adleisiodd gais yr aelodau am hyfforddiant, yn enwedig ar gyfer y Pwyllgor Llywodraethu ac Archwilio. O gael hyfforddiant ychwanegol, dywedodd hefyd y gallai'r pwyllgor fod yn offeryn effeithiol i ddatblygu asesiadau risg y Cyngor, gan fod gan bob aelod gefndir a phrofiad gwahanol i'w gynnig. Dywedodd Pennaeth y Gwasanaeth Archwilio Mewnol Rhanbarthol y byddai'n ymchwilio i'r hyfforddiant y gellid ei ddarparu.

Adleisiodd Rheolwr Archwilio Ariannol Archwilio Cymru y sylwadau hyn a nodi y byddai Archwilio Cymru yn hapus i weithio gyda'r Gwasanaeth Archwilio Mewnol Rhanbarthol i ymchwilio i hyfforddiant a'i drefnu ar gyfer Aelodau a Swyddogion.

Soniodd Aelod fod Swyddog Heddlu wedi siarad flwyddyn diwethaf mewn Sesiwn Briffio cyn Cyfarfod y Cyngor gan rannu gwybodaeth am dwyll fu'n fuddiol iawn. Gofynnodd a ellid cysylltu â'r swyddog eto ar gyfer unrhyw drefniadau hyfforddi yn y dyfodol.

Esboniodd Ymchwilydd Twyll CBSPO ei fod wedi cael cyfarfod â Heddlu De Cymru yn fuan ym mis Rhagfyr i drafod trefniadau i ddarparu hyfforddiant o bell yn fuan yn 2021.

Gofynnodd y Cadeirydd a fyddai'r asesiad risg twyll yn cael ei gynnal fesul cam, neu ei gynnal unwaith fel cynnyrch gorffenedig.

Esboniodd y Rheolwr Cleient Archwilio nad yw'r broses o asesu risg twyll ond megis dechrau, a'u bod yn ystyried casglu gwybodaeth am arfer da gan awdurdodau lleol eraill, felly byddai'r broses yn cael ei chynnal fesul cam, yn hytrach na chwblhau'r cyfan ar yr un pryd.

Pe ceid unrhyw ddatblygiadau cyn cyfarfod nesaf y Pwyllgor, gofynnodd y Cadeirydd a ellid rhannu'r rhain â'r aelodau er mwyn iddynt allu rhoi unrhyw adborth.

**PENDERFYNWYD:** Bod y Pwyllgor yn nodi'r datganiad sefyllfa yn Atodiad A, ac adroddiad Archwilio Cymru 'Gwella ein Perfformiad - Mynd i'r Afael â Thwyll yng Nghymru yn Atodiad B.

**216. CYNNYDD YN ERBYN CYNLLUN SEILIEDIG AR RISG Y GWASANAETH ARCHWILIO MEWNOL (1 EBRILL 2020 HYD 31 HYDREF 2020).**

Cyflwynodd y Rheolwr Cleient Archwilio adroddiad yn rhoi datganiad sefyllfa i'r aelodau o ran y cynnydd yn erbyn y gwaith archwilio a oedd wedi'i gynnwys a'i gymeradwyo yng Nghynllun Seiliedig ar Risg y Gwasanaeth Archwilio Mewnol 2020-21.

Esboniodd fod Atodiad A yn manylu ar y cynnydd rhwng 1 Ebrill 2020 a 31 Hydref 2020 ac yn manylu ar statws pob adolygiad cynlluniedig, y farn archwilio a nifer yr argymhellion canolig neu uchel a wnaed er mwyn gwella'r amgylchedd rheoli.

Esboniodd y Rheolwr Cleient Archwilio fod 10 darn o waith wedi'u cwblhau, a bod hyn yn cynnwys 6 adolygiad archwilio lle rhodddwyd barn. Roedd 2 adolygiad arall wedi'u cwblhau ac adroddiadau drafft wedi'u cyflwyno; roeddem yn dal i ddisgwyl am adborth gan Adrannau Gwasanaeth ar gyfer y rhain, ac roedd 13 o archwiliadau yn dal ar y gweill. Ychwanegodd y byddai 8 archwiliad arall yn dechrau'n fuan.

Dywedodd y Rheolwr Cleient Archwilio fod adolygiad o brosesau wedi cael ei gynnal ar ôl canfod bod swm bach o arian ar goll o'r tun arian parod Byw Gyda Chymorth. Canlyniad yr adolygiad hwnnw oedd na chadwyd yn llawn at fesurau rheoli a gwiriadau rheolaidd. Ers hynny, roedd staff wedi cael gwybod beth oedd y broses, a byddai adolygiad dilynol yn cael ei gynnal i sicrhau bod y prosesau diwygiedig ar waith, a'r staff yn cadw atynt.

Dywedodd y Rheolwr Cleient Archwilio fod 2 argymhelliad o bwys wedi'u gwneud. 1 ar gyfer Amlogfa Llangrallo, lle nodwyd bod angen i'r staff personol gadw at reolau gweithdrefn ariannol CBSPO yn ogystal â dirprwyaethau'r Cydbwyllgor, ac 1 ar gyfer system Mastergov, a ofynnai am weithredu mesurau diogelwch ychwanegol yn y system fel nad oes modd i ddefnyddiwr gyrchu cofnodion ac iddynt fuddiant personol.

Gofynnodd yr Aelod Lleyg sut y gall y pwyllgor benderfynu pa risgiau sy'n uchel, yn ganolog ac yn isel. Esboniodd y Rheolwr Cleient Archwilio fod yr holl risgiau a oedd wedi'u rhestru yn Atodiad A yn risgiau uchel.

PENDERFYNWYD: Bod aelodau'r Pwyllgor yn nodi cynnwys yr adroddiad a'r cynnydd a wnaed yn erbyn Cynllun Seiliedig ar Risg Blynyddol y Gwasanaeth Archwilio Mewnol ar gyfer 2020-21.

**217. ADOLYGIAD O DDATGANIAD LLYWODRAETHU BLYNYDDOL 2020-21**

Rhoddodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid y newyddion diweddaraf am y Cynllun Gweithredu i gyd-fynd â'r Datganiad Llywodraethu Blynyddol (DLIB, a oedd wedi'i gynnwys yn Natganiad Cyfrifon 2019-20, a'r materion o bwys a oedd yn codi ac a oedd i'w hystyried o ganlyniad i adolygiad o'r DLIB ar gyfer 2020-21.

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod angen i Aelodau a swyddogion o bob rhan o'r Cyngor gymryd rhan yn weithredol er mwyn sicrhau llywodraethu corfforaethol da. Caiff trefniadau llywodraethu eu hadolygu bob blwyddyn, a defnyddir canfyddiadau'r adolygiad i ddiweddarau'r Datganiad Llywodraethu Blynyddol. Mae hyn o gymorth i sicrhau bod diwylliant llywodraethu corfforaethol y Cyngor yn gwella'n barhaus. Mae'r DLIB yn cynnal asesiad cyffredinol o drefniadau llywodraethu corfforaethol y Cyngor, ac arfarniad o'r rheolaethau sydd ar waith i reoli risgiau allweddol y Cyngor, gan nodi agweddau y mae angen eu gwella.

Er mwyn cychwyn y broses o lunio Datganiad Llywodraethu Blynyddol 2020-21, dywedodd y Prif Swyddog Dros Dro, Cyllid, Perfformiad a Newid fod angen adolygu'r Cynllun Gweithredu a oedd yn gysylltiedig â DLIB 2019-20 ynghyd â diweddariad ar gynydd yn erbyn pob mater llywodraethu o bwys.

Esboniodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid wrth y Pwyllgor fod Covid-19 wedi effeithio'n sylweddol ar y modd y mae'r Cyngor yn gweithredu ar draws ei holl wasanaethau. Yn rhan o hyn, y mae wedi parhau i ddarparu prydau ysgol am ddim i blant cymwys, cyflwyno Profi Olrhain Diogelu a chynllunio i frechu niferoedd mawr o ddinasyddion. Maer Cyngor wedi sefydlu Panel Adfer trawsbleidiol i oleuo, cefnogi a herio'r ymarfer adfer. Roedd hawliadau am incwm a gollwyd ac am gynydd mewn costau wedi cael eu cyflwyno i Lywodraeth Cymru, a'r Cyngor wedi llwyddo i sicrhau 70% o'r symiau a hawliwyd. Bu gostyngiad hefyd yn y dreth gyngor a gasglwyd, a chynnydd yn y ceisiadau a wnaed am ostyngiad i'r dreth gyngor. Dywedodd wrth y Pwyllgor am y newidiadau o ran rheoli - bod 2 Gyfarwyddwr Corfforaethol newydd ar gyfer Cymunedau a Gwasanaethau Cymdeithasol a Llesiant, ac nad oedd y Cyngor wedi recriwtio i'w swydd hi eto. Dywedodd fod yr awdurdod yn wynebu sefyllfa ariannol heriol, a bod yr ysgolion yn Chwarter 2 yn rhagweld diffyg o £848k.

Mynegodd aelod o'r Pwyllgor ddiolch i'r aelod lleol am waith y Cydwasanaeth Rheoleiddio yng Nghanolfan Gymuned Westward.

PENDERFYNWYD:/ Bod y Pwyllgor:

- yn nodi Datganiad Llywodraethu Blynyddol 2019-20;
- wedi ystyried Cynllun Gweithredu Datganiad Llywodraethu Blynyddol 2020-21.

**218. RHEOLI'R TRYSORLYS - ADRODDIAD HANNER BLWYDDYN 2020-21**

Cyflwynodd y Rheolwr Grŵp - Prif Gyfrifydd adroddiad yn rhoi'r newyddion diweddaraf i'r Pwyllgor am yr adolygiad canol blwyddyn a'r sefyllfa alldro hanner blwyddyn ar gyfer



gweithgareddau rheoli'r trysorlys a dangosyddion rheoli trysorlys 2020-21. Tynnodd sylw hefyd at gydymffurfiaeth â pholisïau ac arferion y Cyngor a oedd wedi'u hadrodd gerbron y Cabinet a'r Cyngor, a rhoddodd y newyddion diweddaraf am y newidiadau arfaethedig i Strategaeth Rheoli Trysorlys 2020-21 a fyddai'n cael eu cyflwyno i'w cymeradwyo gan y Cyngor.

Esboniodd y Rheolwr Grŵp - Prif Gyfrifydd fod y Pwyllgor yn gyfrifol am sicrhau craffu effeithiol ar y Strategaeth a'r polisïau Rheoli Trysorlys. Dywedodd ei bod hi'n ofynnol i'r Cyngor gymeradwyo Strategaeth Rheoli Trysorlys cyn cychwyn pob blwyddyn ariannol sy'n nodi cyfrifoldebau a threfniadau dirprwyo ac adrodd y Cyngor a'r Prif Swyddog Ariannol. Yn dilyn ymarfer aildendro diweddar i ddewis cynghorwyr rheoli trysorlys y Cyngor, dywedodd wrth y Pwyllgor mai Arlingclose oedd y tendrwr llwyddiannus, ac y byddai'n parhau i gynghori'r Cyngor am y 4 blynedd nesaf.

Dywedodd y Rheolwr Grŵp - Prif Gyfrifydd fod y Cyngor wedi cydymffurfio â'i ofynion deddfwriaethol a rheoleiddio yn ystod hanner cyntaf 2020-21, a bod y Strategaeth Rheoli Trysorlys ar gyfer 2020-21 wedi'i hadrodd gerbron y Cyngor ar 26 Chwefror 2020 a'r Alldro Hanner Blwyddyn yn cael ei adrodd gerbron y Cyngor ar 18 Tachwedd 2020. Yn ogystal â hyn, cafodd adroddiad monitro chwarterol ei gyflwyno gerbron y Cabinet ym mis Gorffennaf 2020. Rhoddodd grynodedeb o'r gweithgareddau rheoli trysorlys ar gyfer hanner cyntaf 2020-21, a hysbysu'r Pwyllgor nad oedd y Cyngor wedi derbyn unrhyw fenthyciadau hirdymor ers mis Mawrth 2012, ac nid oedd disgwyl y byddai angen unrhyw fenthyciadau newydd hirdymor yn 2020-21. Roedd llifau arian ffafriol wedi darparu cyllid dros ben i fuddsoddi, a gweddill y buddsoddiadau ar 30 Medi 2020 oedd £64.29 miliwn ar gyfradd llog gyfartalog o 0.24%.

Dywedodd y Rheolwr Grŵp - Prif Gyfrifydd wrth y Pwyllgor ei bod hi'n ofynnol yn y Cod Rheoli Trysorlys i'r Cyngor bennu ac adrodd ar nifer o Ddangosyddion Rheoli Trysorlys, sydd naill ai'n rhoi crynodeb o'r gweithgarwch disgwylidig neu'n gosod terfynau ar y gweithgarwch hwnnw. Dywedodd ei bod hi'n ofynnol i bob awdurdod lleol gynnal adolygiad canol blwyddyn o'i bolisïau, ei arferion a'i weithgareddau rheoli trysorlys ac mai canlyniad yr adolygiad yw bod angen newid terfynau buddsoddi, sef cynyddu cyfanswm y balans y gellir ei fuddsoddi yng Nghronfeydd y Farchnad Arian (MMFs) o £20 miliwn i £30 miliwn. Bydd hynny'n galluogi'r Cyngor i gynyddu nifer yr MMFs sydd ar gael, gan gynorthwyo'r Cyngor i fuddsoddi balansau arian parod positif mewn portffolio buddsoddi llawer ehangach. Yn ogystal â hynny, bydd diwygio'r terfyn buddsoddi ar gyfer Darparwyr Cofrestredig o £3 miliwn i £5 miliwn yn creu mwy o gyfle i ddefnyddio'r math hwn o fuddsoddiad nag a geir ar hyn o bryd. Gan fod y Cyngor wedi bod â balansau arian parod positif yn ei feddiant bydd hyn yn ei gwneud hi'n fwy posibl i'r Cyngor fuddsoddi ar lefel ymarferol, a hefyd yn creu mwy o amrywiaeth yn yr arian a fuddsoddir. Amlinellodd y Strategaeth Rheoli Trysorlys ddiwygiedig a gynigiwyd, a'r diwygiadau arfaethedig. Mae'r diwygiadau hyn wedi bod yn destun trafodaeth â Chynghorwyr Rheoli Trysorlys y Cyngor.

PENDERFYNWYD: Bod y Pwyllgor:

- Yn nodi gweithgareddau rheoli trysorlys 2020-21 ar gyfer y cyfnod 1 Ebrill 2020 hyd 30 Medi 2020, a'r Dangosyddion Rheoli Trysorlys a ragamcanwyd ar gyfer 2020-21.
- Argymhellir y dylid cyflwyno'r newidiadau arfaethedig i Strategaeth Rheoli Trysorlys 2020-21 i'r Cyngor i'w cymeradwyo ym mis Tachwedd 2020.

219. GRANTIAU CYFLEUSTERAU I'R ANABL - ADRODDIAD AR GYNNYDD A DATGANIAD O'R SEFYLLFA

Rhoddodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid y newyddion diweddaraf am gamau a gymerwyd i fwrw ymlaen â gwelliannau i'r gwasanaeth Grantiau Cyfleusterau i'r Anabl (DFG). Rhoddodd wybodaeth hefyd am y sefyllfa bresennol o ran paratoi i benderfynu ar y model darparu gorau i Ben-y-bont ar Ogwr.

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod adroddiadau blaenorol i'r Pwyllgor wedi amlinellu'r angen hollbwysig i ail-lunio a gwella darpariaeth y gwasanaeth DFG ym Mhen-y-bont ar Ogwr. Gan nad yw'r gwasanaeth wedi llwyddo i gyrraedd ei dargedau dangosydd perfformiad ers cryn amser, ar ôl ystyried ffactorau a godwyd gan yr Aelodau, y swyddogaeth Graffu, y Gwasanaeth Archwilio Mewnol, ac o ymchwilio mewn awdurdodau lleol eraill, casglwyd bod angen newid sylfaenol i'r model darparu ar gyfer y gwasanaeth. Dywedodd nad yw'r amseroedd ar gyfer darparu DFGs, yn enwedig mewn achosion cymhleth a oedd yn cynnwys plant, yn gyson â dull sy'n canolbwyntio ar yr unigolyn, a bod y Cyngor yn chwartzel isaf Cymru o ran amseroedd darparu.

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid fod gwaith ymchwil a dadansoddi yn cael ei gynnal ar amryw o lefelau i fwrw ymlaen â'r newidiadau sydd eu hangen er mwyn gwella darpariaeth y gwasanaeth DFG. Mae hyn wedi cynnwys ymagwedd systemau 'syniadaeth ddarbodus', gan ddysgu oddi wrth awdurdodau lleol eraill fel Castell-nedd Port Talbot a Rhondda Cynon Taf, a thrafodaethau a dadansoddi mewnol. Dywedodd mai nod y gwaith hwn yw penderfynu ar y model gorau i ddarparu'r gwasanaeth o fewn y Cyngor. Cafwyd cydnabyddiaeth fod angen newid sylfaenol ym mhob agwedd ar y gwasanaeth cyfredol er mwyn gwella, ac mae camau wedi cael eu cymryd yn y meysydd a ganlyn hyd yma:

- Rôl yr asiant
- Gwaith dewisol
- Cydweithio a chefnogaeth

Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid wrth y Pwyllgor fod angen gwneud gwaith dadansoddi pellach er mwyn cwblhau'r trefniadau i Ben-y-bont ar Ogwr ar gyfer y dyfodol, a phennu'r model gwasanaeth gorau i ddisodli'r hyn sydd ar waith ar hyn bryd, Bydd y Cabinet yn derbyn adroddiad sy'n amlinellu'r camau nesaf er mwyn newid o'r model cyfredol i unrhyw fodel newydd.

Dywedodd y Pennaeth Gwasanaethau Partneriaeth wrth y Pwyllgor y bydd yr adolygiad yn canolbwyntio ar leoli'r dinesydd wrth wraidd y gwasanaeth, p'un a yw'n gwneud cais am fân waith addasu neu waith addasu graddfa fawr i'w alluogi i aros gartref.

Cyfeiriodd aelod o'r Pwyllgor at y ffaith nad oedd yr adroddiad yn cynnwys unrhyw oblygiadau ariannol, a gofynnodd a fyddai modd i adroddiad arall yn y dyfodol adlewyrchu graddfa ariannol y grantiau, yn ogystal â'r cyfraniad strategol tuag at gyflawni amcanion y Cyngor. Dywedodd Pennaeth y Gwasanaethau Partneriaeth wrth y Pwyllgor fod DGFs gwerth hyd at £36k yn cael eu cynnig a'u bod yn ddibynnol ar brawf modd. Dywedodd fod nifer o gyllidebau'n cael eu defnyddio i gefnogi DFGs, gan gynnwys helpu dinasyddion sy'n gadael yr ysbyty i ddychwelyd adref. Dywedodd y byddai'r adroddiad i'r Pwyllgor yn amlinellu'r modd y defnyddir y cyllidebau hyn i gefnogi'r grantiau hynny.

Pwysleisiodd aelod o'r Pwyllgor yr angen i gydweithio'n well ag ysbytai wrth ryddhau dinasyddion o'r ysbyty, a'r angen i osgoi ail-wneud gwaith wrth asesu'r addasiadau angenrheidiol. Yn ogystal â hyn, roedd angen monitro safon y gwaith er mwyn sicrhau bod contractwyr yn broffesiynol ac yn gymwys i gyflawni'r gwaith, er mwyn osgoi gwaith o safon wael. Dywedodd y Prif Swyddog Dros Dro - Cyllid, Perfformiad a Newid wrth y Pwyllgor fod angen perchnogi'r system gyfan, a bod yr holl brosesau wedi'u cynnwys ar

siart lif. Bellach roedd angen neilltuo arian yn erbyn yr holl brosesau / llifau gwaith hyn i gyflymu a dwyn holl rannau'r broses ynghyd. Dywedodd nad oedd cynnwys asiantau yn y broses wedi bod yn effeithiol, a bod hynny wedi achosi oedi a gwariant yn erbyn y grantiau. Cafwyd hefyd enghreifftiau o ail-wneud gwaith ac o waith gwael. Mae angen sicrhau, wrth ddefnyddio asiant, fod y broses yn mynd rhagddi'n briodol. Sicrhaodd y Pwyllgor fod y pryderon yn cael eu hystyried.

**PENDERFYNWYD:** Bod y Pwyllgor yn nodi'r cynnydd hyd yma i wella'r gwasanaeth DFG a'r sefyllfa gyfredol, ac y dylid cyflwyno adroddiad ar Grantiau Cyfleusterau i'r Anabl gerbron cyfarfod y Pwyllgor ym mis Ebrill.

220. **BLAENRAGLEN WAITH 2020-21 WEDI'I DIWEDDARU**

Gofynnodd y Dirprwy Bennaeth Cyllid Dros Dro am gymeradwyaeth ar gyfer Blaenraglen Waith 2020-21 a oedd wedi'i diweddaru, a thynnu sylw at swyddogaethau craidd Pwyllgor Archwilio effeithiol. Dywedodd fod y Cyngor wedi cymeradwyo ailenwi'r Pwyllgor Archwilio yn Bwyllgor Llywodraethu ac Archwilio yn ei Gyfarfod Cyffredinol Blynnyddol ar 30 Medi 2020, ac wedi cymeradwyo diwygio ei gylch gorchwyl i adlewyrchu'r newid hwnnw.

Cyfeiriodd at yr eitemau ar yr amserlen a oedd i'w cyflwyno gerbron cyfarfod nesaf y Pwyllgor ar 12 Tachwedd 2020, a gofynnodd i'r Pwyllgor ategu'r amserlen honno, cadarnhau'r rhestr y bobl yr hoffent eu gwahodd ar gyfer pob eitem (os oedd hynny'n briodol), a nodi a oedd angen unrhyw wybodaeth neu ymchwil bellach.

Hysbysodd y Pennaeth Gwasanaeth Archwilio Rhanbarthol y Pwyllgor y byddai aelodau'r Pwyllgor yn cael holiadur i'w lenwi ymhen ychydig ynghylch y rhaglen hyfforddi a datblygu ar gyfer y Pwyllgor.

**PENDERFYNWYD:** Bod yr Aelodau wedi ystyried a chymeradwyo'r Flaenraglen Waith a gynigiwyd ar gyfer 2020-21 ac y dylid cyflwyno adroddiadau ar Asesu Risg Twyll, Cynaliadwyedd Ariannol Llywodraeth Leol yn sgil Pandemig Covid-19 a'r Fenter Twyll Genedlaethol gerbron cyfarfod nesaf y Pwyllgor, a chyflwyno adroddiad ar Grantiau Cyfleusterau i'r Anabl gerbron y Pwyllgor yn ei gyfarfod ym mis Ebrill.

221. **EITEMAU BRYD**

Nid oedd unrhyw eitemau bryd.

Daeth y cyfarfod i ben am 15:48

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

#### REPORT OF THE CHIEF OFFICER – LEGAL, HR AND REGULATORY SERVICES

#### GOVERNANCE AND AUDIT COMMITTEE ACTION RECORD

##### 1. Purpose of report

- 1.1 The purpose of this report is to provide Members with an update on the Governance and Audit Committee Action Record.

##### 2. Connection to corporate well-being objectives/other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:-

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great place to do business, for people to live, work, study and visit, and to ensure that our schools are focussed on raising the skills, qualifications and ambitions for all people in the county borough.
2. **Helping people and communities to be more healthy and resilient** - taking steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services. Supporting individuals and communities to build resilience, and enable them to develop solutions to have active, healthy and independent lives.
3. **Smarter use of resources** – ensure that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

##### 3. Background

- 3.1 An Action Record has been devised to assist the Committee in tracking the decisions made by the Committee in the exercise of its functions.

##### 4. Current situation/proposal

- 4.1 In order to assist the Governance and Audit Committee in ensuring that decisions made by the Committee are actioned and implemented, the Action Record is attached at **Appendix A**. The Action Record will be presented to each meeting of the Committee for approval.

##### 5. Effect upon policy framework and procedure rules

- 5.1 There is no impact on the policy framework and procedure rules.

## **6. Equality Impact Assessment**

6.1 There are no equality implications arising from this report.

## **7. Well-being of Future Generations (Wales) Act 2015 implications**

7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial implications**

8.1 There are no financial implications arising from this report.

## **9. Recommendation**

9.1 The Committee is recommended to note the Action Record.

**Kelly Watson**  
**Chief Officer – Legal, HR & Regulatory Services**  
**18 January 2021**

**Contact Officer:**     **Andrew Rees**  
                                  **Democratic Services Manager**

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## **Background Documents**

None

## Governance and Audit Committee Action Record

| Date of Committee / Minute Number | Agreed Action  | Lead  | Target Date   | Progress/ Completed  |
|-----------------------------------|--|---|---------------|--|
| 26 April 2018 / 47                | <p><b>External Audit Annual Audit Plan 2017-18.</b><br/>An audit to be undertaken by the Internal Shared Service, in addition to one carried out by lead authority of Cardiff City Council and/or Cardiff City Deal Joint Committee, to ensure accountability was shown by BCBC as a participating authority.</p>  | <b>Head of Internal Audit</b>   | November 2020 | <p>Awaiting new City Deal projects to be approved as currently only one project is live and then an Internal Audit review can be scoped.</p> <p>The Head of Internal Audit has advised that the Annual Governance Statement of City Deal is publicly available, which included highly detailed reports and the Committee agreed that the action is now complete.</p> |
| 18 April 2019 / 125               | <p><b>Regional Internal Audit Shared Service Charter 2019/20</b></p> <ul style="list-style-type: none"> <li><b>Harmonisation of the Audit Committees Terms of Reference with neighbouring authorities.</b></li> <li><b>Suggested consideration for potential networking initiative – Chairs of Audit Committees of neighbouring authorities to meet up and share best practice.</b></li> </ul> | <p><b>Head of Internal Audit</b></p> <p><b>Head of Internal Audit</b></p> | January 2021  | <p>Harmonisation of the Audit Committees Terms of Reference with neighbouring authorities is in the Forward Work Programme for January 2021 depending on Local Government Bill being published by Welsh Government.</p> <p>All Wales Session for Audit Committee Chair took place on 11<sup>th</sup> October 2019 - Completed.</p>                                   |

| <b>Date of Committee / Minute Number</b> | <b>Agreed Action</b>  | <b>Lead</b>  | <b>Target Date</b>             | <b>Progress/ Completed</b>  |
|--|---|--|--------------------------------|---|
| <b>14 November 2019 / 156</b>            | <b>Disabled Facilities Grant (DFG) - Response To WAO Recommendations</b><br>Head of Performance and Partnership Services to embed new ways of working, and carry out two procurement exercises and also start to recruit staff. | <b>Head of Performance and Partnership Services</b>                | November 2020                  | Head of Partnership Services to report back to a future Committee on improvements made in the performance of DFGs.<br>Completed   |
| <b>10 September 2020 / 200</b>           | <b>Audit Wales Audit Committee Update</b><br>Audit Wales present an update to the next Committee on whether it was undertaking a piece of work on mental health associated with Covid-19.                                       | <b>Audit Wales</b>   | November 2020                  | Information has been provided to the Committee by Audit Wales and the action is now complete.   |
| <b>10 September 2020 / 201</b>           | <b>Corporate Risk Assessment 2020-21</b>  | <b>Chief Officer – Finance, Performance and Change</b>             | November 2020                  | Members be provided with details of unnecessary bureaucratic processes that had ceased as per the CRR.<br><br>Information has been provided to the Committee by Chief Officer – Finance, Performance and Change and the action is now complete. |
| <b>10 September 2020 / 205</b>           | <b>Annual Internal Audit Plan 2020-21</b>   | <b>Head of Internal Audit</b><br><br><b>Head of Internal Audit</b> | November 2020<br>November 2020 | A report be presented to the next Committee on progress with the Internal Audit Plan to date. Completed.<br><br>Members be provided with details of the 12 items which have been deferred and the intended treatment moving forward.            |



| <b>Date of Committee / Minute Number</b> | <b>Agreed Action</b>  | <b>Lead</b>   | <b>Target Date</b>               | <b>Progress/ Completed</b>   |
|--|---|---|----------------------------------|--|
|  |   |   |                                  | Information has been provided to the Committee by Internal Audit and the action is now complete.   |
| <b>10 September 2020 / 206</b>           | <b>Annual Corporate Fraud Report 2019-20</b>                                    | <b>Chief Officer – Finance, Performance and Change &amp; Head of Internal Audit</b> | November 2020                    | A refreshed fraud strategy be presented to the next Committee.   |
| <b>12 November 2020 / 214</b>            | <b>Audit Wales Governance &amp; Audit Committee Update</b>                      | <b>Audit Wales</b>  | January 2021                     | Reports on the Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic and the National Fraud Initiative be brought to the next meeting of the Committee.              |
| <b>12 November 2020 / 215</b>            | <b>Position Statement - ‘Raising Our Game – Tackling Fraud In Wales’ Report</b> | <b>Head of Internal Audit / Audit Wales</b><br><br><b>Head of Internal Audit</b>    | January 2021<br><br>January 2021 | Internal Audit, Audit Wales and Tarian develop training on fraud for the Committee to undertake.<br><br>Officers present a report to the next meeting of the Committee on Fraud Risk Assessment. |
| <b>12 November 2020 / 219</b>            | <b>Disabled Facilities Grant – Progress Report and Position Statement</b>       | <b>Head of Partnership Services</b>   | April 2021                       | A report on Disabled Facilities Grants be brought to the April meeting of the Committee.   |
| <b>12 November 2020 / 220</b>            | <b>Forward Work Programme 2020-21</b>   | <b>Head of Internal Audit</b>   | January 2021                     | A report on Fraud Risk Assessment be brought to the next meeting of the Committee.   |

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

### REPORT OF THE INTERIM CHIEF OFFICER - FINANCE, PERFORMANCE AND CHANGE

#### AUDIT WALES GOVERNANCE AND AUDIT COMMITTEE REPORTS

#### 1 Purpose of report

- 1.1 The purpose of this report is to submit to the Committee a number of updates and reports from Audit Wales, including an update on the financial and performance audit work undertaken, and due to be undertaken, by Audit Wales, during 2020-21.

#### 2 Connections to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:

- Smarter use of resources – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help deliver the Council's well-being objectives.

- 2.2 The Council's performance is an important element in determining the extent to which the well-being objectives can be delivered.

#### 3 Background

- 3.1 Audit Wales undertakes a programme of work during the year to help the Auditor General discharge his duties under the Public Audit (Wales) Act 2004 (the 2004 Act) and the Local Government (Wales) Measure 2009. The Auditor General's functions include auditing accounts and undertaking local performance audit work at a broad range of public bodies, alongside conducting a programme of national value for money examinations and studies. The Auditor General also assesses the extent to which public bodies are complying with the sustainable development principle when setting and taking steps to meet their well-being objectives.

- 3.2 Part 2 of the 2004 Act sets out the powers and duties of the Auditor General to undertake studies in relation to local government bodies in Wales. The most widely used of these provisions is section 41, which requires the Auditor General to undertake studies designed to enable him to make recommendations for, among other things, improving the value for money in the provision of services.

- 3.3 The Local Government (Wales) Measure 2009 includes a general duty that requires Welsh improvement authorities to make arrangements to secure continuous improvement in the exercise of their functions. It requires the Auditor General to carry

out an annual Improvement Assessment to determine whether the Council is likely to comply with the requirements of Part 1 of the Measure.

#### **4 Current situation / proposal**

4.1 Audit Wales has produced a number of reports for the Governance and Audit Committee to consider. These are:

- **The Audit Wales Governance and Audit Committee Update** (Appendix A) - this outlines both financial and performance work undertaken in the Council by and on behalf of the Auditor General under the Local Government (Wales) Measure 2009 and the Public Audit (Wales) Act 2004.
- **Annual Audit Summary** (Appendix B) – this report is a composite of the Annual Improvement Report and the Annual Audit Letter, and it shows the work completed since the last Annual Improvement Report, which was issued in October 2019. The audit summary forms part of the Auditor General for Wales’ duties.
- **Financial Sustainability of Local Government as a Result of the Covid-19 Pandemic** (Appendix C) – this report is the beginning of the work looking at the financial sustainability of local councils during 2020-21, building on the work completed in 2019-20.

#### **5 Effect upon policy framework & procedure rules**

5.1 There is no impact on the policy framework and procedure rules.

#### **6 Equality Impact Assessment**

6.1 There are no equality implications arising from this report.

#### **7 Well-being of Future Generations (Wales) Act 2015 implications**

7.1 The wellbeing goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of wellbeing goals/objectives as a result of this report.

#### **8 Financial implications**

8.1 There are no financial implications arising from this report.

#### **9 Recommendation**

9.1 That the Committee notes the Audit Wales Governance and Audit Committee Reports at Appendices A, B and C.

**Gill Lewis**  
**Interim Chief Officer – Finance, Performance and Change**  
**January 2021**

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**Background Documents:** None

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## Bridgend County Borough Council – Governance and Audit Committee Update 28<sup>th</sup> January 2021

### Financial Audit work

| Description   | Scope  | Status   |
|---|--|--|
| <b>Audit of the Council's 2019-20 Grants and Returns</b>    | The audit of Housing Benefit, Teachers Pension, Non-Domestic Rates and two pooled budgets. | We have completed the audits of all grants and returns. Amendments were required to two claims with one also requiring a qualification letter.                                     |
| <b>Audit of the Council's 2020-21 statement of accounts</b> |  | Our planning work of the audit has commenced. We aim to present our audit plan to the April Audit Committee. We have also commenced our interim testing of income and expenditure. |

## Performance Audit work

| 2019-20 Performance Audit Work  | Scope  | Status   |
|---|--|--|
| <b>Well-being of Future Generations Act (Wales) 2015 (WFG Act) examinations</b> | Examination of the extent to which the Council has acted in accordance with the sustainable development principle when delivering the key programme 'Active Bridgend Plan 2017-21' to meet the Council's well-being objective: Helping people to be more self-reliant. | Complete. Final report issued 18th February 2020.<br><br><a href="#">LINK</a>  |
| <b>Financial Sustainability</b>   | A project common to all local councils that will assess financial sustainability in light of current and anticipated future challenges.  | Complete. Presented report to Audit Committee 16 <sup>th</sup> July 2020. <a href="#">LINK</a>                                       |
| <b>Transitioning to new Health and Social Care Partnership</b>                  | A project to assess the Council's progress in transitioning to a new Health and Social Care Partnership with Cwm Taf Morgannwg Health Board.   | Agreed with Council to defer to 2021-22 work programme. An alternative piece of work for 2020-21 will be discussed with the Council. |
| <b>Annual Audit Summary</b>   | Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'. Also now combined with the Annual Audit Letter.   | Issued 11 <sup>th</sup> January 2021. On January audit committee agenda.   |



| 2020-21 Performance audit work                                       | Scope  | Status   |
|--|--|--|
| <p><b>Improvement Plan audit</b></p> <p><b>Performance audit</b></p> | <p>Checks Council compliance with Local Government Measure (Wales) 2009 requirement to publish a self-assessment of performance in the previous year by 31 October.</p>  | <p>Final Certificates issued 19th May and 6th November 2020</p>  |
| <p><b>Annual Audit Summary</b></p>                                   | <p>Annual report summarising the audit work undertaken in the last year which also includes a summary of the key findings from reports issued by 'relevant regulators'. Also now combined with the Annual Audit Letter.</p>  | <p>June/July 2021</p>  |
| <p><b>Assurance and risk assessment</b></p>                          | <p>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.</p>  | <p>Joint Presentation to Corporate Management Board on 10th February 2021. This informed our 2021 audit plan</p> |
| <p><b>Recovery Planning</b></p>                                      | <p>We intend to support and challenge recovery planning in real-time. Collectively we need assurance that recovery takes due account of the multitude of risks, but also that it grasps the opportunities for a different and sustainable future. We have taken the decision to replace the 'prevention' themed work that we set out in audit plans with this work on recovery planning.</p>   | <p>Ongoing.</p>  |
| <p><b>Financial Sustainability</b></p>                               | <ul style="list-style-type: none"> <li>• <b>Phase 1</b> will be a baseline assessment of the initial impact of Covid-19 on local authorities' financial position that will draw on the year-end position for 2019-20 as well as the position at the end of quarter 1 for 2020-21. The output from phase 1 will be a short national summary report that will include comparative data for year-end 2019-20 as well as a summary of common themes and issues identified by local authorities.</li> <li>• <b>Phase 2</b> will be undertaken over the remainder of 2020-21. This work will draw on the position</li> </ul> | <p>Phase 1 – Published 6th October 2020 Link is found <a href="#">HERE</a>.</p>                                  |

|   |  |  |
|---|--|--|
|   | <p>and themes identified during phase 1 to enable a focus on financial recovery planning. At the conclusion of Phase 2 we will produce a local output for each council and a national summary report.</p>  | <p>Phase 2 – Project Brief issued 15<sup>th</sup> December 2020. Fieldwork Jan/Feb 2021 with report in Spring.</p> |
| <p><b>Review of the Council's arrangements to become a 'Digital Council</b></p> | <p>As a result of our 2019-20 Assurance and Risk Assessment, we agreed with the Council that we would do a piece of work relating to digital.</p>  | <p>Fieldwork underway</p>  |
| <p><b>Covid 19 learning project</b></p>   | <p>To help public bodies capture and share the lessons they are learning, we have established the 'COVID-19 learning project'. Rather than the traditional audit approach of examining actions after the event, our aim here is to get alongside public services to capture and share learning in real time.</p> <p>We have released blogs which can be found on our <a href="#">Wordpress site</a>. We have also put out a series of Tweets under #COVID19learning / #DysguCOVID19. Under this general hashtag, you will find information from various bodies, as well as some Audit Wales have come across. You will find the ones we have shared on our Good Practice team Twitter feed - <a href="https://twitter.com/AuditWales_GPX">https://twitter.com/AuditWales_GPX</a></p> | <p>Ongoing</p>   |

## Recent National Reports

|   |  |
|---|--|
| <b>Procurement and supply of PPE during the COVID-19 pandemic</b> | Published 15 <sup>th</sup> December 2020 Link is found <a href="#">HERE</a>  |
| <b>Providing Free School Meals During Lockdown</b>                | Published 24 <sup>th</sup> November 2020 Link is found <a href="#">HERE</a>  |
| <b>Preparations for the end of Brexit transition</b>              | Published 18 <sup>th</sup> November 2020 Link is found <a href="#">HERE</a>  |
| <b>Covering teachers' absence: Follow-up</b>                      | Published 12 <sup>th</sup> November 2020 Link is found <a href="#">HERE</a>  |
| <b>Welsh Community Care Information System</b>                    | Published 15 <sup>th</sup> October 2020 Link is found <a href="#">HERE</a>   |
| <b>The National Fraud Initiative in Wales 2018-20</b>             | Published 13 <sup>th</sup> October 2020 Link is found <a href="#">HERE</a>   |
| <b>Commercialisation in Local Government</b>                      | Published 6 <sup>th</sup> October 2020 Link is found <a href="#">HERE</a>    |
| <b>Better law making: the implementation challenge</b>            | Published 24 <sup>th</sup> September 2020 Link is found <a href="#">HERE</a> |

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## Bridgend County Borough Council

### Annual audit summary 2020

This is our audit summary for Bridgend County Borough Council. It shows the work completed since the last Annual Improvement Report, which was issued in October 2019. Our audit summary forms part of the Auditor General for Wales' duties.

More information about these duties can be found on our [website](#).



## About the Council

### Some of the Services the Council provides



#### Key facts

The Council is made up of 54 councillors who represent the following political parties:

- Labour 26;
- Independent Alliance 10;
- Conservative 8;
- Independent 4;
- Lynfi Independents 3;
- Plaid Cymru 2; and
- Vacancy 1.

The Council spent £289.2 million on providing services during 2019-20, the ninth highest spend of the 22 unitary councils in Wales.

As at 31 March 2020 the Council had £64.6 million of usable revenue reserves. This is equivalent to 22% of the Council's annual spend on services, the seventh highest percentage of the 22 unitary councils in Wales.

## Key facts

The County Borough has six (7% out of its 88 areas) deemed the most deprived 10% of areas in Wales. This figure makes the borough the tenth highest of the 22 unitary councils in Wales.<sup>1</sup>

The County Borough's population is projected to increase by 7.5% between 2020 and 2040, from a population of 146,417 to 157,328. This projected increase includes a 2% decrease in the number of children, a 1.2% increase in the number of the working-age population, and a 34.4% increase in the number of people aged 65 and over.<sup>2</sup>

## The Auditor General's duties

### We complete work each year to meet the following duties

- **Audit of Accounts**

Each year the Auditor General audits the Council's financial statements to make sure that public money is being properly accounted for.

- **Value for money**

The Council must put in place arrangements to get value for money for the resources it uses, and the Auditor General has to be satisfied that it has done this.

- **Continuous improvement**

The Council also must put in place arrangements to make continuous improvements, including related plans and reports, and the Auditor General has to assess whether the Council is likely to (or has) met these requirements.

- **Sustainable development principle**

Public bodies need to comply with the sustainable development principle when setting and taking steps to meet their well-being objectives. The Auditor General must assess the extent to which they are doing this.

<sup>1</sup> An area in this context is defined as a 'Lower Super Output Area'. Source: Stats Wales

<sup>2</sup> Source: Stats Wales



Since the Spring of 2020, the ongoing pandemic has affected our audit work. We recognise the huge strain on public services and have reshaped our work programme, and found new ways of working to reduce its impact on public bodies' response to COVID-19, while still meeting our statutory duties.



**To meet the Auditor General's duties we complete specific projects, but we also rely on other audit work, and the work of regulators such as Care Inspectorate Wales and Estyn (the education inspectorate). We take the findings of our audit work into account when assessing whether the council has put in place arrangements to secure value for money. Our findings and conclusions are summarised below.**

## What we found

### Audit of the Council's 2019-20 Accounts

Each year we audit the Council's financial statements.

#### For 2019-20:

- the Auditor General gave an unqualified true and fair opinion on the Council's financial statements on 14 September 2020], a day before of the statutory deadline of 15 September;
- the Council's Annual Governance Statement and Narrative Report were prepared in line with the CIPFA Code and relevant guidance. They were also consistent with the financial statements prepared by the Council and with our knowledge of the Council;
- the quality of the draft statements presented for audit on 30 June 2020 was very good;
- Some changes were made to the Council's financial statements due to our audit work, which on 10 September 2020 we reported to the Council's Audit Committee in our Audit of Accounts Report;
- in addition to the Auditor General's responsibilities for auditing the Council's financial statements, he also has responsibility for the certification of certain grant claims and returns. The Council has five 2019-20 claims/returns that require audit. Thus far we have certified four of the five claims/returns, all of which had unqualified audit opinions. Our audit of the final claim is ongoing. We expect to meet the claim's deadline of 31 January 2021;
- the Auditor General issued the certificate confirming that the audit of accounts for 2019-20 has been completed; and
- Key facts and figures from the 2019-20 financial statements can be accessed [here](#).

## **Well-being of Future Generations Examination – an examination of the Active Bridgend Plan (February 2020)**

The examination that we undertook in 2019-20 considered the extent to which the Council has acted in accordance with the sustainable development principle when taking steps to deliver the Active Bridgend Plan. We concluded that the Council has positive examples of how it has applied the sustainable development principle when delivering the Active Bridgend Plan, but recognises that application of the five ways of working could be further strengthened. The report can be viewed [here](#).

## **Continuous Improvement**

The Auditor General certified that the Council has met its legal duties for improvement planning and reporting, and believes that it is likely to meet the requirements of the Local Government (Wales) Measure 2009 during 2020-21.

## **Financial Sustainability (February 2020)**

During 2019-20 we examined the financial sustainability of each Council in Wales. We concluded that the Council has a strong financial position, but aspects of financial planning and its Medium Term Financial Strategy would benefit from strengthening. The report can be viewed [here](#).

## **National Fraud Initiative**

In October 2020, the Auditor General published his report on the findings of the latest National Fraud Initiative (NFI) data-matching exercise in Wales. The exercise helped public bodies in Wales, including the 22 unitary authorities, identify fraud and overpayments amounting to £8 million. The report can be accessed on our website [here](#). NFI continues to be developed and in the forthcoming NFI exercise (NFI 2020-22) local authorities will have access to matches designed to help identify potential fraudulent applications for COVID-19 business support grants.

## **Other Inspectorates**

We also took into account the reports of Care Inspectorate Wales (CIW) and Estyn as well as any subsequent actions taken by the Council in response. CIW published their inspection report of Older Adult Services in January 2020, which identified a number of strengths and priorities for improvement. The full report can be found [here](#). CIW also issued a [Local Authority Annual Performance Review Letter](#) in August 2020.

Estyn did not undertake an inspection of Local Government Education Services in Bridgend during 2019-20.



## **Local Government Studies**

As well as local work at each council, each year we also carry out studies across the local government sector to make recommendations for improving value for money. Since the last annual improvement report we have published the following reports:

### **Review of Public Services Boards (October 2019)**

We inspected how Public Service Boards are operating; looking at their membership, terms of reference, frequency and focus of meetings, alignment with other partnerships, resources and scrutiny arrangements. We concluded that Public Services Boards are unlikely to realise their potential unless they are given freedom to work more flexibly and think and act differently. The full report can be viewed [here](#).

### **Progress in implementing the Violence Against Women, Domestic Abuse and Sexual Violence Act (November 2019)**

We examined how the new duties and responsibilities of the Violence against Women, Domestic Abuse and Sexual Violence (Wales) Act are being rolled out and delivered. We found that victims and survivors of domestic abuse and sexual violence are often let down by an inconsistent, complex and fragmented system. The full report can be viewed [here](#).

### **Rough Sleeping in Wales – Everyone’s Problem; No One’s Responsibility (July 2020)**

We looked at how well public services are responding to the issue of rough sleeping. Overall, we found that responding to COVID-19 is an opportunity for public bodies to start addressing long standing weaknesses in partnership working which has stopped them from tackling rough sleeping in the past. The full report can be viewed [here](#).

## **Better Law Making (September 2020)**

This report draws on five reports published between 2019 and today looking at how local authorities are responding to the challenge of implementing new legislation. Implementation is a complex task which needs to be fully thought through by the Welsh Government and the Senedd whenever they bring forward and make any new legislation. The paper highlights the difficulties faced by local authorities and their public sector partners in implementing their new responsibilities. The full report can be viewed [here](#).

## **Commercialisation in Local Government (October 2020)**

Councils have conducted commercial activity for a long time, and many councils are exploring additional commercial opportunities to mitigate against the financial pressures they face. Our report is specifically targeted at helping elected members and senior officers to examine and judge the potential impact on their organisations when considering whether to undertake commercialisation. It will also help councils to demonstrate how well they are discharging their value for money responsibilities. The full report can be viewed [here](#).

## **Planned work for 2020-21**

We also looked at the key challenges and opportunities facing the Council. These risks could have an effect on the council's ability to meet its legal obligations in relation to the sustainable development principle, the use of its resources and continuous improvement.

The most significant risk and issue facing councils and the wider public sector during 2020-21 is the COVID-19 pandemic. We have shaped our work to provide assurance and challenge in a way which helps to support the Council through this period. Our work for 2020-21 includes:

- Recovery planning in response to the COVID-19 pandemic;
- Covid-learning project – helping to identify and share learning from the way in which public bodies have responded to the pandemic;
- Assurance and risk assessment;
- Financial Sustainability Assessment;
- Review of the Council's arrangements to become a 'Digital Council'; and
- Transitioning to new Health and Social Care Partnership, (carried forward from 2019-20)

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The Auditor General audits local government bodies in Wales, including unitary authorities, police, probation, fire and rescue authorities, national parks and community councils. He also conducts local government value for money studies and assesses compliance with the requirements of the Local Government (Wales) Measure 2009.

Beyond local government, the Auditor General is the external auditor of the Welsh Government and its sponsored and related public bodies, the Senedd Commission and National Health Service bodies in Wales.

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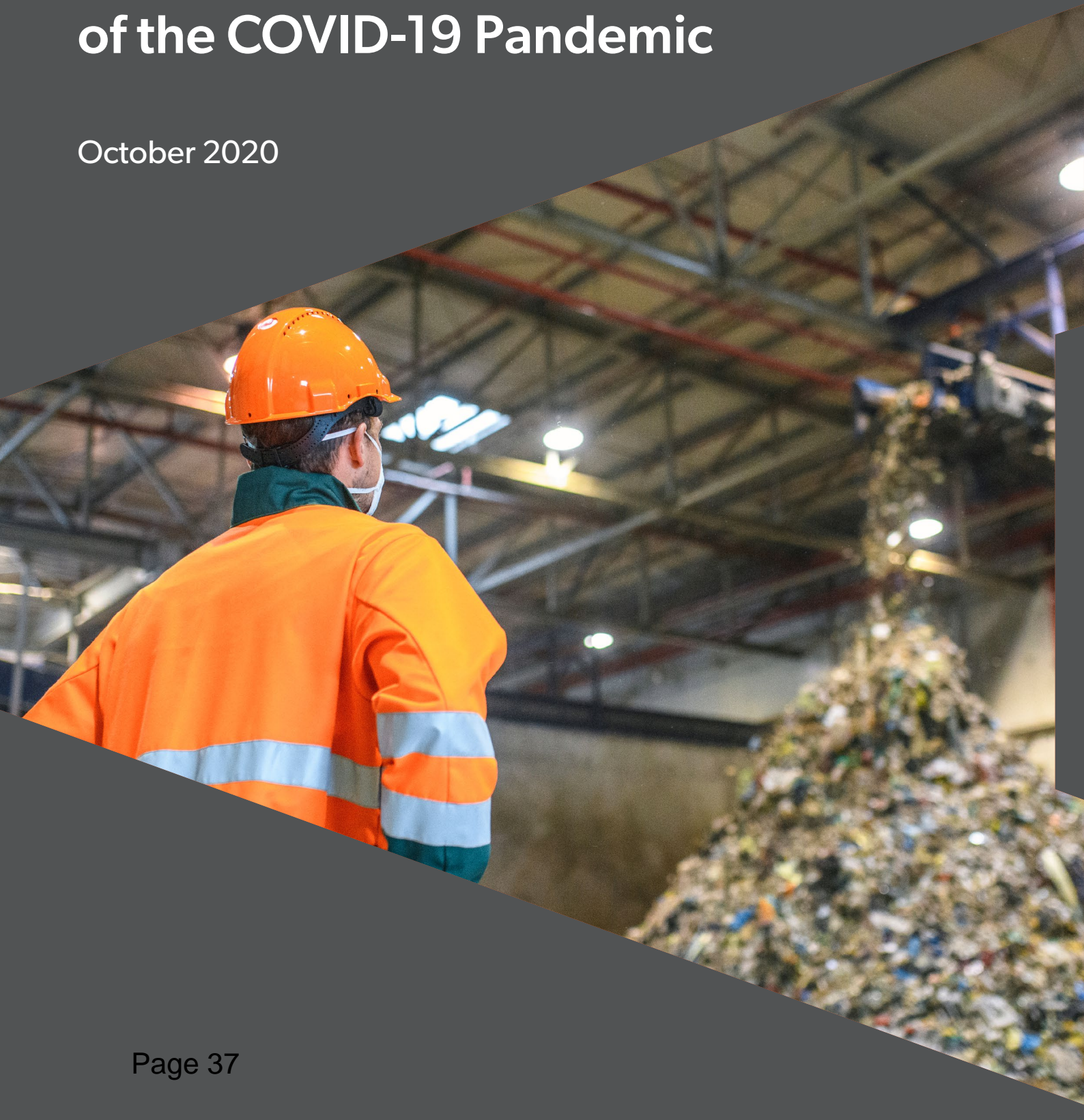
We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document is also available in Welsh.

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# Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic

October 2020



Adrian Crompton  
Auditor General for Wales  
Audit Wales  
24 Cathedral Road  
Cardiff  
CF11 9LJ

The Auditor General is independent of the Senedd and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the Senedd on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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# Summary report

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## Summary

### Why we have produced this report

- 1 We had already identified financial sustainability as a key risk to councils' arrangements before the pandemic occurred. This was, in part, due to the significant pressures on UK and, therefore, Welsh public finances following the financial crisis of 2008-09. We produced a report on the financial sustainability of each local council during 2019-20, and these reports showed that councils were in very different positions in terms of their level of reserves and track record of spending within their agreed budgets.
- 2 Against this backdrop the pandemic has already had an even more profound and immediate effect on public sector finances as a whole and, as a consequence, on councils' financial position. The impact on public sector spending over such a short period of time is unprecedented in modern peace time.
- 3 This report is the beginning of our work looking at the financial sustainability of local councils during 2020-21, building on the work we completed in 2019-20. The report sets a high-level baseline position, including the reserves position, of local councils before the pandemic. It also sets out the initial financial implications of the pandemic for local councils and the scale of the anticipated challenge going forward, as well as some reflections on the preparedness of local government in Wales for such an unprecedented event. Finally, we set out how Audit Wales intends to provide support and constructive challenge to councils and the local government sector, as a whole, over the remainder of 2020-21, in their efforts to maintain financial sustainability against such significant funding pressures.



## Detailed report

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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

### **Against a backdrop of existing funding pressures, the financial costs of the pandemic are unprecedented in modern times**

- 4 Local government funding in Wales has been under significant pressure for over a decade, following the financial crisis in 2008-09 that triggered a severe worldwide recession.
- 5 In response to this, councils have relied on a combination of significant savings for example through efficiencies, transforming services and cuts to services to reduce costs. Councils have also increased their income through council tax and the fees and charges applied to some services. Our previous reports on the financial sustainability and resilience of local councils, including our work on savings planning in local government, includes more detail on this. These reports are [available on the Audit Wales website](#).
- 6 Against this backdrop, the cost to public spending of tackling the pandemic will seemingly dwarf the cost of the financial crisis, affecting health and wellbeing, the wider economy and public spending. Below are just some of the predictions that the Office for Budget Responsibility has made recently (July 2020):
  - net UK public sector borrowing to be between £264 billion and £391 billion for 2020-21;
  - UK GDP will shrink by between 10.6% and 14.3%; and
  - borrowing to fund public spending will rise to between 94.8% and 113.2% of GDP over 2020-21.

- 7 It is highly unlikely that the financial impact of the pandemic will be limited to the current financial year. It will almost certainly affect public sector finances including local government, for many years to come regardless of the future path of the pandemic. In an [earlier blog](#) in June 2020, we set out how £2.5 billion additional funding has been allocated to, and within, Wales in response to COVID-19. This illustrates the scale of the financial response to date. As with many things associated with the pandemic, things continue to change rapidly with further funding announcements from both the UK and Welsh Governments. ‘The Local Government Hardship Fund’ now makes available nearly £500 million in support including an announcement from the Welsh Government of up to £264 million in financial support for local authorities for the remainder of the financial year on 17 August 2020. Other funding available has also been made available for local authorities in addition to the hardship fund, for example in relation to extra funding for teachers for catch up support from education, cleaning materials for schools and part of the cultural fund.

### Some councils were better placed financially than others to respond to the challenges of the pandemic

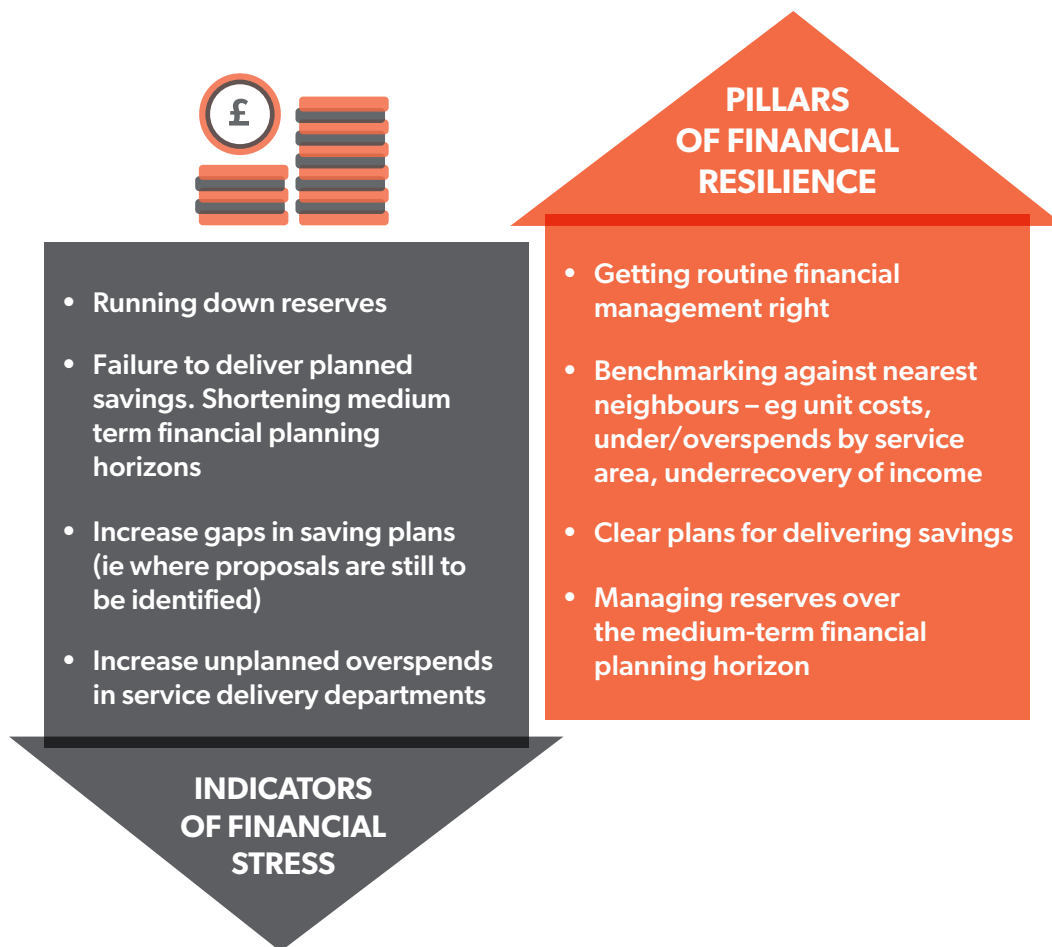
- 8 Over 2019-20 we looked at the financial sustainability of councils in Wales and produced a report on each council. Publication of some of these reports was delayed by the pandemic but most are [now available on our website](#).
- 9 The reports show that some councils were much better placed than others to weather a financial challenge such as the pandemic. This is most clearly illustrated by the varying levels of usable revenue reserves held by councils, their track record of spending within their agreed budgets in recent years and, linked to this, the extent to which their usable revenue reserves have been increasing or decreasing in recent years. We also think that the ability of councils to identify, plan and deliver savings is a key indicator of financial sustainability.
- 10 The report [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#) by Sir Tony Redmond noted that:
- ‘This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely.’<sup>1</sup>
- 11 The report also summarises CIPFA’s pillars of financial resilience and indicators of financial stress<sup>2</sup>. These are presented in **Exhibit 1** below and include several areas that we commented on in our work in 2019-20.

---

1 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond, September 2020

2 building financial resilience: managing financial stress in local authorities, CIPFA, June 2017

**Exhibit 1: CIPFA Pillars of Financial Resilience<sup>3</sup>**



- 12 **Exhibit 2** shows the level of usable revenue reserves held by each council at 31 March 2019 and then at 31 March 2020, together with the amount by which they increased or decreased over that time. **Exhibit 2** shows that, in total, councils held over £1 billion usable reserves at the end of March 2020. We commented above that for 2020-21 additional funding from the Welsh Government has largely mitigated the financial impact of the pandemic on local councils. However should the impact of the pandemic continue into future years, it may be the case that councils will need to increasingly use their reserves to meet additional costs or supplement income losses.
- 13 We would expect differences in the level of reserves held by each council with, for example, those councils with larger net cost of services are likely to hold higher levels of reserves. **Exhibit 3** shows the amount of reserves held by each council as a percentage of their net cost of services. This varies considerably between councils, with the usable reserves as a percentage of the net cost of services varying from 33% to 5%.

<sup>3</sup> Taken from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, Sir Tony Redmond, September 2020

- 14 However, the level of usable reserves should be treated with some caution. Whilst we have defined this as the level of revenue reserves including ‘earmarked’ reserves and ‘general fund’ reserves that could be re-purposed should the council decide to do so, we recognise in practise that some reserves would be easier to re-purpose than others, depending on what they have been earmarked for.
- 15 There are clearly a range of factors that could affect a council’s financial sustainability as we noted above. These also include but are not limited to its balance sheet, level of liabilities and also other funding that it has available that could be re-directed such as contingency funds that are not part of reserves. Nevertheless, clearly a council with significantly higher levels of revenue reserves relative to its net cost of services that have been increasing in recent years, indicates that its financial position is more sustainable than a council with lower reserves that have been reducing over several years. Particularly where reserves have been used to fund unforeseen revenue expenditure.
- 16 The table below sets out the level of usable revenue reserves held by each local council at the end of 2018-19 and 2019-20. 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.

**What we mean by ‘usable reserves’**

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 the HRA, Capital receipts and capital grants unapplied.



**Exhibit 2: amount of usable reserves by local authority 2018-19 and 2019-20**

|                   | <b>Net cost of services 2019-20 in £000<sup>4</sup></b> | <b>Usable revenue reserves at 31 March 2019 in £000<sup>5</sup></b> | <b>Usable revenue reserves at 31 March 2020 in £000<sup>6</sup></b> | <b>Increase/ (decrease) in usable revenue reserves between 2019 and 2020 in £000<sup>7</sup></b> |
|-------------------|---|---|---|--|
| Blaenau Gwent     | £148,762  | £12,725   | £14,056   | £1,331   |
| Bridgend          | £289,242  | £56,883   | £64,562   | £7,679   |
| Caerphilly        | £370,910  | £90,896   | £100,547  | £9,651   |
| Cardiff           | £712,111  | £67,969   | £69,149   | £1,180   |
| Carmarthenshire   | £373,888  | £93,898   | £100,837  | £6,939   |
| Ceredigion        | £155,817  | £24,192   | £27,688   | £3,496   |
| Conwy             | £237,279  | £14,114   | £11,005   | (£3,109)   |
| Denbighshire      | £207,366  | £38,047   | £36,434   | (£1,613)   |
| Flintshire        | £315,765  | £27,334   | £24,318   | (£3,016)   |
| Gwynedd           | £250,149  | £64,885   | £71,090   | £6,205   |
| Isle of Anglesey  | £143,705  | £15,271   | £16,017   | £746   |
| Merthyr Tydfil    | £118,608  | £16,743   | £15,875   | (£868)   |
| Monmouthshire     | £177,834  | £13,741   | £15,246   | £1,505   |
| Neath Port Talbot | £306,961  | £61,394   | £59,093   | (£2,301)   |
| Newport           | £313,904  | £94,742   | £78,806   | (£15,936)  |
| Pembrokeshire     | £240,375  | £46,435   | £45,746   | (£689)   |
| Powys             | £276,153  | £26,758   | £28,584   | £1,826   |
| Rhondda Cynon Taf | £529,390  | £119,470  | £119,873  | £403   |
| Swansea           | £444,555  | £77,022   | £93,752   | £16,730  |
| Torfaen           | £186,602  | £18,690   | £16,738   | (£1,952)   |
| Vale of Glamorgan | £248,602  | £81,161   | £83,008   | £1,847   |
| Wrexham           | £257,842  | £28,944   | £26,205   | (£2,739)   |
| <b>Total</b>      | <b>£6,305,820</b>                                       | <b>£1,091,314</b>   | <b>£1,118,629</b>   | <b>£27,315</b>   |

4 Draft statement of accounts for 2019-20 subject to audit. Value used is the net cost of services charged to the general fund from the Expenditure Funding Analysis, less any Housing Revenue Account cost of services, plus precepts, levies and debt interest

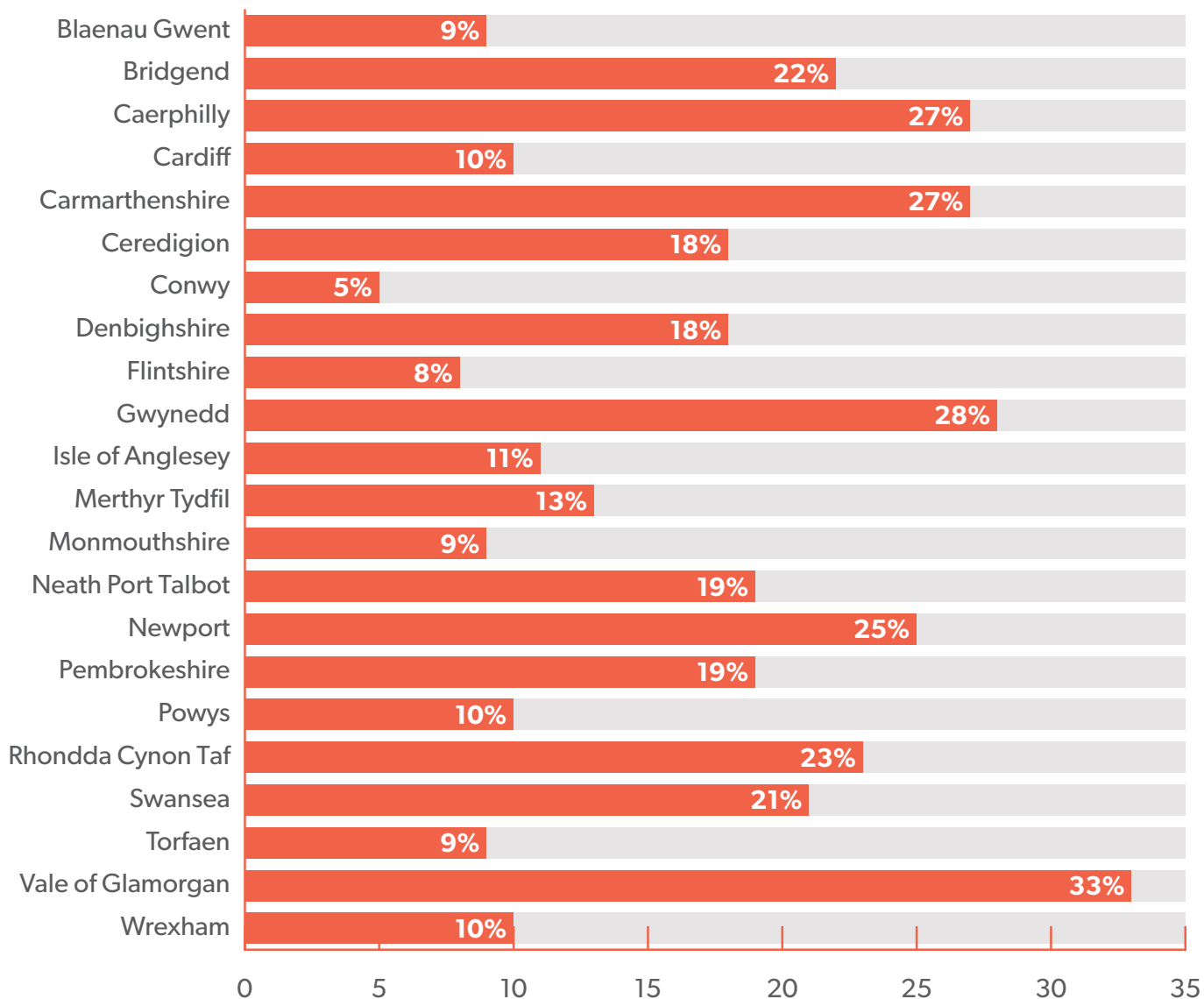
5 Audited Statement of Accounts for 2018-19

6 Draft Statement of Accounts for 2019-20 subject to audit

7 Audit Wales calculations

17 The exhibit below sets out the level of usable revenue reserves held by each local council at the end of 2019-20 as a proportion of the net cost of services of each council.

**Exhibit 3: amount of usable reserves as a proportion of the net cost of services of each council**



■ Usable revenue reserves as a % of net cost of services<sup>8</sup>

<sup>8</sup> Usable reserves at 31 March 2020 as a proportion of net cost of services 2019-20

- 18 As shown above, at the end of the 2019-20 financial year councils held over £1 billion in usable revenue reserves, which equates to 18% of the total net cost of service across all councils. However, this is not evenly spread across councils, and it is also clear that some councils hold significantly more reserves than others relative to their approximate net cost of services. Although this is a relatively simplistic analysis, the level of usable reserves available to a council is one of the key indicators of financial resilience and sustainability.
- 19 From the work we undertook during 2019-20, that largely focused on the position at the end of the 2018-19 financial year, we identified some of the following themes that pre-date the pandemic but may well impact on the ability of councils to respond to it. These include:
- most councils reported either relatively small underspends or overspends overall in 2018-19 and it was a similar picture for 2017-18.
  - some councils relied on the unplanned use of reserves to balance their budgets during 2018-19. This approach is unlikely to be sustainable, particularly in those councils whose levels of usable reserves were already relatively low.
  - some councils relied on planned use of reserves as part of budget setting. Whilst this may have been planned at the start of the financial year, nevertheless, consistently using reserves, even in a planned way, to balance revenue expenditure is unlikely to be sustainable if this contributes to declining levels of reserves.
  - most councils, including those who delivered an overall surplus, still had some significant overspends in some demand-led services, with services such as social services being an area of overspend in many councils. Pressure on many demand-led services is likely to intensify as a result of the pandemic.
  - most councils delivered most of their savings, but very few delivered all of their planned savings in 2018-19.

## The cost of the pandemic to councils is significant, although a large proportion of the short-term impact has been mitigated through the provision of extra funding

- 20 The costs to councils in responding to the pandemic have been unprecedented both in their scale and the speed with which they have arisen. Additional funding has been made available to councils to mitigate these costs, however, the extent to which this will fully fund the cost of dealing with the pandemic, particularly over the medium to long term, is unknown. This is partly inevitable due to the rapidly developing picture in terms of the progress of the pandemic, as well as its economic impact. This picture will also change considerably depending on whether or not there are future waves of the pandemic, and how many and how severe they might be.
- 21 The pandemic has affected local government finances both in terms of increased costs and loss of income. **Exhibit 4** shows the estimated additional net expenditure and income loss that councils have estimated as a result of the pandemic for the first six months of the 2020-21 financial year for quarter 1 and quarter 2.
- 22 The biggest areas of increased cost pressures so far are in social services and education.
- 23 Councils receive income from a range of services including leisure facilities, car parking, school meals and school transport. The largest estimated income losses are in leisure and cultural services.
- 24 It is also clear that the financial impact of the pandemic is likely to continue throughout 2020-21 and into future years.
- 25 **Exhibit 4** sets out the total amount of additional expenditure and income loss that local authorities have estimated as a result of the COVID-19 pandemic, based on submission from local authorities to the Welsh Local Government Association (WLGA).



**Exhibit 4: total estimated additional net expenditure and income loss across the 22 unitary authorities in Wales as a result of the COVID-19 pandemic**

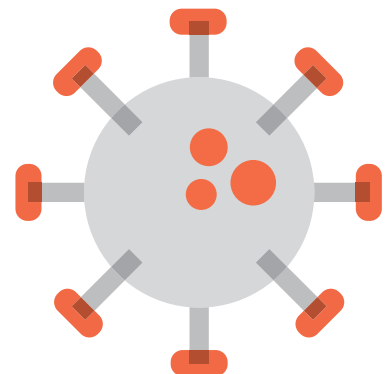
|                      | Estimated additional net<br>revenue expenditure | Estimated revenue<br>income loss as a result of<br>COVID-19 |
|----------------------|---|---|
| Quarter 1 (Apr-Jun)  | £84.2 million                                   | £100.1 million  |
| Quarter 2 (Jul-Sept) | £81.3 million                                   | £59.7 million   |

Source: WLGA

- 26 Public services have been significantly impacted by the pandemic and, in this context, mitigating the impact on councils will not only depend on the actions that they are able to take, but also to a large degree on the amount of resources allocated by governments. We recognise that a key issue for councils in trying to financially plan over the medium term remains uncertainty around both the level of funding they will receive from government, and their own income streams, such as council tax and fees and charges. Added to this is the uncertainty around the potential future costs associated with the pandemic. We note above that Welsh Government made nearly £500 million available for councils through the Local Government Hardship Fund as well as other additional funding.
- 27 This has mitigated local councils additional costs and income losses to date, but depending on the future course of the pandemic, there may still be a significant funding shortfall for local authorities during 2020-21. Welsh Government has also accelerated access to the Revenue Support Grant and other funding streams early in the financial year to help councils' cashflow. Welsh Government also announced in August 2020 an extra £2.8 million for councils to help fund the increase in demand on the Welsh Government's Council Tax Reduction Scheme (CTRS) since the start of the pandemic. There is clearly uncertainty surrounding the future course of the pandemic and therefore the costs and income loss associated with it. This poses a considerable challenge to both local and national governments in supporting the sustainability of the local government sector. We recognise the many uncertainties around the course of the pandemic and the future funding that will be available to councils. This makes it more difficult for councils, and governments, to plan over the medium term. However to ensure the future sustainability of councils, robust medium term financial planning is crucial.
- 28 Our local work on financial sustainability will continue to examine the extent to which councils face a budget shortfall for this and future years, and their plans to mitigate this in the context of future Welsh Government funding.

## The financial challenges arising from the pandemic are numerous and go well beyond the more immediate and obvious costs of responding to the crisis

- 29 The pandemic is likely to affect almost every aspect of local government services, and therefore finances. The income loss and additional expenditure costs noted above are a significant element of this. But even as services re-open in the short to medium term, there will be added costs around the provision of personal protective equipment for staff and for other safety measures. For example, as schools re-open in September, there are likely to be costs associated with the re-introduction of school transport.
- 30 At the same time, it is likely that income streams such as from leisure centres and car parks will continue to be affected, due to safety requirements and/or potentially less demand for services. The economic impact of the pandemic is also likely to have wider repercussions for people's ability to pay for services, particularly those that they may view as 'non-essential'. This could also lead to an increase in eligibility for concessionary pricing schemes, which might also affect the level of income that councils are able to draw in.
- 31 As the economic impact of the pandemic deepens, it is also likely that income from council tax will fall, as well as housing revenue for those councils that still hold their own housing stock.
- 32 The sustainability of some services may be under threat with particular pressures likely to be felt in areas such as leisure services and the social care sector. The WLGA has also identified significant cost pressures in some service areas, most notably social services and education. By 2022-23 it estimates that the combined costs pressures in these services alone will equate to approximately £600 million.
- 33 Given the breadth, and depth, of the impact of the pandemic to date, alongside the uncertainty surrounding its future course, local authorities are likely to face difficult choices over the short and medium term. In this context, good strategic financial planning and robust governance and decision-making arrangements become even more important.



## **Audit Wales future work – supporting financial sustainability and recovering planning**

- 34 Over 2020-21, in keeping with our commitment to support public bodies' response to the pandemic, we will work with councils to gain assurance that they are putting in place proper arrangements to secure financial sustainability. In doing so, we will seek to gather and share real-time learning and practice across the public sector. The focus of our financial sustainability work over 2020-21 will be on the issues identified above and how councils are planning for a sustainable recovery over the medium and long term. This work will also run alongside our support and challenge of recovery planning and the work we are undertaking through our 'COVID-19 learning project'. We will shortly be engaging with councils to discuss the next phase of our financial sustainability work in more detail.



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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

### REPORT OF THE INTERIM CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

#### TREASURY MANAGEMENT STRATEGY 2021-22

#### 1. Purpose of report

1.1 The purpose of this report is to present the draft Treasury Management Strategy 2021-22, which includes the:-

- Borrowing Strategy 2021-22
- Investment Strategy 2021-22
- Treasury Management Indicators for the period 2021-22 to 2023-24.

#### 2. Connection to corporate well-being objectives / other corporate priorities

2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:

- **Smarter use of resources** – ensure that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help deliver the Council's well-being objectives.

2.2 The work of the Governance and Audit Committee supports corporate governance and assists in the achievement of all corporate and service objectives. Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council contribute to smarter use of financial resources and hence assist in the achievement of the Council's well-being objectives.

#### 3. Background

3.1 To ensure effective scrutiny of treasury management in accordance with the Treasury Management Strategy (TMS), the Governance and Audit Committee has been nominated to be responsible for ensuring effective scrutiny of the TMS and policies in accordance with the Treasury Policy Statement and Treasury Management Prudential Indicators.

- 3.2 The Council's treasury management activities are regulated by the Local Government Act 2003 which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 as amended, develops the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities (2017) and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (2017) (TM Code). This includes a requirement for the Council to approve a TMS before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements (**Appendix A**).
- 3.3 In addition the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019, which requires the Council to approve an Investment Strategy prior to the start of each financial year.
- 3.4 Treasury investments covers all of the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2017 includes a requirement for local authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy and TMS will be presented for approval by Council in February 2021. The Capital Strategy and TMS are interlinked as borrowing and investments are directly impacted by capital plans.

#### **4. Current situation/proposal**

- 4.1 The TMS 2021-22 at Appendix A confirms the Council's compliance with the CIPFA Code, which requires that formal and comprehensive objectives, policies and practices, strategies and reporting arrangements are in place for the effective management and control of treasury management activities, and that the effective management and control of risk are the prime objectives of these activities.
- 4.2 The TMS has been updated to reflect the current economic context, not least the holding of interest rates at 0.10% by the Bank of England, but also the challenges of the exit from the European Union and the impact of the coronavirus pandemic.
- 4.3 The maturity of long term debt has been included, and the forecast is that the Council may need to borrow over the next 2 years to support the Capital Programme. To date the Council has been able to use reserves to support its capital expenditure, known as internal borrowing. However this position is a short-term one and as reserves are used and balances reduced, it will be necessary to borrow. This will be closely monitored during the year as changes to the Capital Programme will influence this.

- 4.4 An important amendment to the TMS reflects the revised lending terms for Public Works Loan Board (PWLB) borrowing by local authorities, which sets out that local authorities purchasing assets primarily for yield in the current or future two financial years will be precluded from borrowing from the PWLB. Given the need to support the capital programme through borrowing it is unlikely that that Council would therefore seek to invest in any land or buildings primarily for a financial return.
- 4.5 The approved investment counterparties and limits (Table 6 in the strategy) has been simplified and amended to take account of the latest advice from the Council's Treasury Advisors, Arlingclose. In addition there has been a change to the limits for Money Market Funds, which had been increased to £30 million at the mid-year review of the TMS, and approved by Council in November 2020, with the advice now being an unlimited limit. It is proposed that no more than £6 million would be invested in any single Fund, to minimise any potential impact of default risk to the Council.
- 4.6 The proposed limit to non-Treasury investments has been increased from £1 million to £2 million. This is to support proposed investment in a Special Purpose Vehicle that is to be established to deliver the proposed Bridgend Town Heat Network.
- 4.7 The TMS 2021-22 will be presented to Council for approval in February 2021 and whilst the main body will remain unchanged, there may be variations to some of the figures if there are any changes (such as to the capital programme) to reflect the most up to date information.

## **5. Effect upon policy framework and procedure rules**

- 5.1 Paragraph 20.3 of the Financial Procedure Rules (FPRs) within the Council's Constitution requires that all investments and borrowing transactions shall be undertaken in accordance with the Council's Treasury Management Strategy as approved by Council.
- 5.2 Paragraph 20.8 of the FPRs sets the Governance and Audit Committee's responsibility to ensure effective scrutiny of the Treasury Management policies and practices.

## **6. Equality Impact Assessment**

- 6.1 There are no equality implications arising from this report.

## **7. Well-being of Future Generations (Wales) Act 2015 implications**

- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. The well-being objectives are designed to complement each other and are part of an integrated way of working to improve wellbeing for the people

of Bridgend. In developing the TMS, officers have considered the importance of balancing short term needs for cash flow management and minimising the revenue costs of debt, with longer-term objectives of managing the Council's long term debt maturity profile.

## **8. Financial implications**

8.1 The financial implications are reflected within the report.

## **9. Recommendations**

9.1 It is recommended that the Committee:

- Give due consideration to the draft Treasury Management Strategy for 2021-22 (**Appendix A**); and
- Recommend that it is presented to Council for approval in February 2021.

**Gill Lewis**

**Interim Chief Officer – Finance, Performance and Change**

**28 January 2021**

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### **Background documents:**

CIPFA Code of Practice on Treasury Management in Local Authorities (2017)

CIPFA Prudential Code for Capital Finance in Local Authorities (2017)

Welsh Government Statutory Guidance on Local Government Investments (2019)



# Draft Treasury Management Strategy 2021-22

Bridgend County Borough Council

Cyngor Bwrdeistref Siro



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## 1.0 INTRODUCTION

The Council carries out its treasury management activities in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2017) (the 'Code')*. These require the Council to set out the policies and objectives of its treasury management activities and to manage its treasury risks in accordance with the Code.

CIPFA has adopted the following as its definition of treasury management activities:

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

The definition of 'Investments' above includes:

- Treasury Management investments (held for the prudent management of financial affairs), and
- Non-Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services; or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity

In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in November 2019 that requires the Authority to approve an investment strategy before the start of each financial year. This Strategy fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance. In accordance with the WG Guidance Council would be asked to approve a revised Treasury Management Strategy (TMS) should the assumptions on which it is based change significantly. This might be for example a large unexpected change in interest rates, in the Council's Capital Programme, or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process, or a change in Accounting Standards.

Local authorities are required to separately approve a Capital Strategy for capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy includes the Prudential Indicators along with details regarding the Council's non-treasury investments. The CIPFA Code requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters and enable the Council to measure and manage its exposure to treasury management risks, which are integral to the TMS. The Capital Strategy and TMS should be read in conjunction with each other as borrowing and investments are directly impacted upon by capital plans.

The Council has an integrated TMS where borrowing and investments are managed in accordance with best professional practice, which is assessed either from internal expertise or consultation with our external advisers. The Council borrows money either to meet short term cash flow needs or to fund capital schemes approved within the

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capital programme. Therefore any actual loans taken are not generally associated with particular items of expenditure or assets. The Council is exposed to financial risks including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS. Should these change significantly, a revised TMS will be presented to Council for approval. A half year review of treasury management performance will also be presented to Council for approval as will an annual report for the financial year.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's strategy, Treasury Management Practices (TMP) and CIPFA's *Standard of Professional Practice on Treasury Management*. Quarterly reports will be presented to Cabinet. The Council nominates the Governance and Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies and regular reports will be presented to the committee for their consideration.

## **2.0 ECONOMIC CONTEXT**

**Economic background:** The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Council's Treasury Management Strategy for 2021-22.

The Bank of England (BoE) maintained the Bank Rate at 0.10% in December 2020 following a unanimous vote by the Monetary Policy Committee (MPC), however no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the BOE expects the UK economy to shrink by 2% in quarter 4 of 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until quarter 1 of 2022 to reach its pre-pandemic level, rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

**Credit outlook:** After spiking in late March, as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults led to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for quarter 3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though, in banks and building societies, have tended to be relatively benign, despite the impact of the pandemic. Looking forward, the potential for bank losses to be greater than expected, when government and central bank support starts to be removed, remains a risk, suggesting a cautious approach to bank deposits in 2021-22 remains advisable.

**Interest rate forecast:** : The Council's treasury management adviser, Arlingclose, is forecasting that BoE Bank Rate will remain at 0.10% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year gilts to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

### 3.0 EXTERNAL DEBT AND INVESTMENT POSITION

As at 31 December 2020, the Council held £96.87 million of borrowing and £60.10 million of investments. The external debt and investment position is shown in Table 1 below and more detail is provided in sections 4.0 Borrowing Strategy and 5.0 Investment Strategy.

**Table 1: Council's external debt and investment position as at 31 December 2020**

|   | Principal<br>as at<br>31/12/2020<br>£m | Average<br>Rate<br>31/12/2020<br>% |
|---|--|------------------------------------|
| <b>External Long Term Borrowing:</b>      |  |                                    |
| Public Works Loan Board                   | 77.62                                  | 4.70                               |
| Lender's Option Borrower's Option         | 19.25                                  | 4.65                               |
| <b>Total External Borrowing</b>           | <b>96.87</b>                           | <b>4.69</b>                        |
| <b>Other Long Term Liabilities (LTL):</b> |  |                                    |
| Private Finance Initiative (PFI)*         | 15.75                                  |                                    |
| Other LTL                                 | 0.99                                   |                                    |
| <b>Total Other Long Term Liabilities</b>  | <b>16.74</b>                           |                                    |
| <b>Total Gross External Debt</b>          | <b>113.61</b>                          |                                    |
| <b>Treasury Investments:</b>              |  |                                    |
| Debt Management Office                    | 4.45                                   | 0.00                               |
| Local Authorities                         | 31.50                                  | 0.22                               |
| Banks                                     | 6.15                                   | 0.02                               |
| Building Societies                        | 0.00                                   | 0.00                               |
| Money Market Fund**                       | 18.00                                  | 0.03                               |
| <b>Total Treasury Investments</b>         | <b>60.10</b>                           | <b>0.13</b>                        |
| <b>Net Debt</b>                           | <b>53.51</b>                           |                                    |

\* (PFI) arrangement for the provision of a Secondary School in Maesteg 13 years remaining term

\*\*the funds provide instant access

The current profile of repayment of the Council's long term debt is set out in the chart below. This assumes that all loans will run to their final maturity. However the Council holds £19.25 million of Lender's Option Borrower's Option loans that may be rescheduled ahead of their maturity of 22 January 2054.

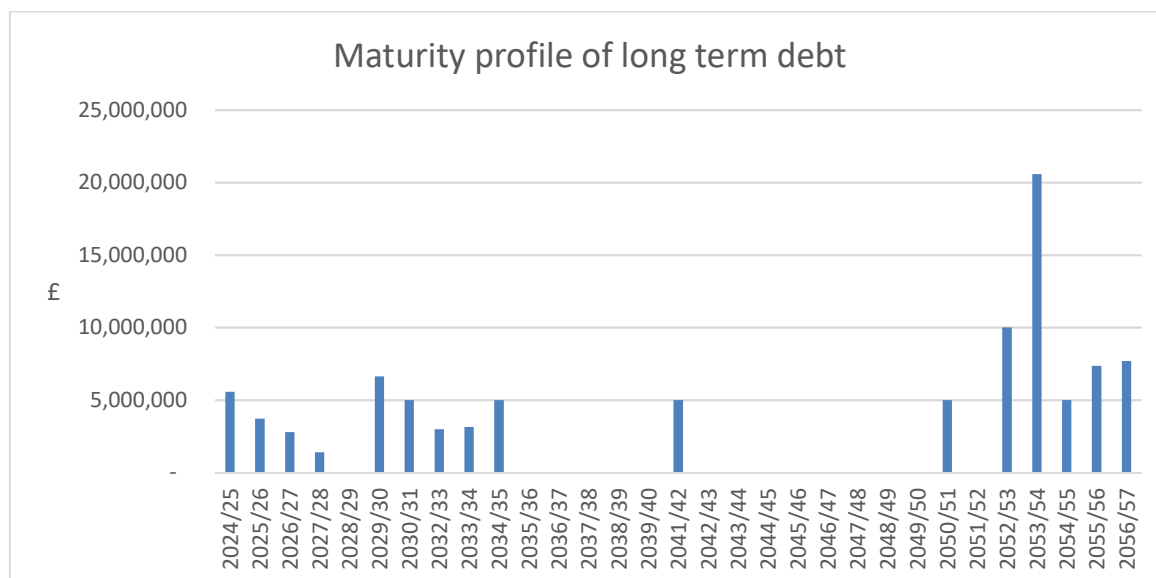


Table 2 below shows forecast changes in borrowing and investments and has been produced using estimates of capital spend and forecasts on useable reserves for the current financial year and the next three years. The Table shows that the Loans Capital Financing Requirement (CFR), which is the Council's need to borrow to fund capital expenditure, is anticipated to increase from current levels moving forward, which is due to additional prudential borrowing needed to support the Capital Programme.

**Table 2: Balance sheet summary and forecast**

|   | 31 March 20<br>Actual<br>£m | 31 March 21<br>Estimate<br>£m | 31 March 22<br>Estimate<br>£m | 31 March 23<br>Estimate<br>£m | 31 March 24<br>Estimate<br>£m |
|---|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Capital Financing Requirement</b>                | 171.78                      | 174.08                        | 178.51                        | 175.81                        | 173.05                        |
| Less: Other Debt Liabilities                        | (17.37)                     | (17.79)                       | (16.83)                       | (15.80)                       | (14.69)                       |
| <b>Loans Capital Financing Requirement</b>          | <b>154.41</b>               | <b>156.29</b>                 | <b>161.68</b>                 | <b>160.01</b>                 | <b>158.36</b>                 |
| Less: External Borrowing                            | (96.87)                     | (96.87)                       | (96.87)                       | (123.56)                      | (126.95)                      |
| <b>Borrowing Requirement</b>                        | <b>57.54</b>                | <b>59.42</b>                  | <b>64.81</b>                  | <b>36.45</b>                  | <b>31.40</b>                  |
| Less: Internal Borrowing - Usable Reserves          | (83.49)                     | (79.07)                       | (48.12)                       | (43.06)                       | (41.71)                       |
| Minimum Investments                                 | 25.10                       | 10.00                         | 10.00                         | 10.00                         | 10.00                         |
| <b>Shortfall/(Surplus) borrowing requirement **</b> | <b>(.85)</b>                | <b>(9.65)</b>                 | <b>26.69</b>                  | <b>3.39</b>                   | <b>(.31)</b>                  |

\*The accounting practice followed by the Council requires financial instruments in the accounts (debt and investments) to be measured in a method compliant with International Financial Reporting Standards (IFRS) so these figures will differ from other figures in the TMS which are based on the actual amounts borrowed and invested

\*\* Any surplus borrowing requirement will be invested in line with the investment strategy

Where a Council finances capital expenditure by borrowing it must put aside revenue resources to repay that debt in later years, known as 'Minimum Revenue Provision' or

MRP. The *Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008* requires the Council to produce and approve an Annual Minimum Revenue Provision (MRP) Statement before the start of the financial year that details the methodology for the charge as detailed in the Council's Capital Strategy. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. This strategy is prudent as investment returns are low and counterparty risk is relatively high. The Council is forecasting an increased CFR due to the level of prudential borrowing in the capital programme. A change to the accounting for leases under International Financial Reporting Standard (IFRS) 16 was anticipated to be effective from 1 April 2021 which would have required the Council to 'bring on' to the balance sheet 'Right of Use' assets and an associated lease liability, for any assets it leases or is presumed to lease through service contract arrangements. The impact of this would be to increase the CFR and therefore MRP. The implementation of the new standard has, however, now been delayed to 1 April 2022.

**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This forecasts the minimum amount of debt the Council could hold if its internal resources are used in lieu of external borrowing. This assumes the same forecasts as Table 2 above, but that cash and investment balances are kept at a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 3 below shows that the Council anticipates that the liability benchmark will be marginally lower than actual borrowing as at 31 March 2021 as a result of higher levels of reserves. For the following two years, as reserves are reduced, our borrowing would likely be lower than the benchmark. More detail is provided in the Capital Strategy.

**Table 3: Liability benchmark**

|  | 31 March 20<br>Actual<br>£m | 31 March 21<br>Estimate<br>£m | 31 March 22<br>Estimate<br>£m | 31 March 23<br>Estimate<br>£m | 31 March 24<br>Estimate<br>£m |
|--|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Loans Capital Financing Requirement</b> | 154.41                      | 156.29                        | 161.68                        | 160.01                        | 158.36                        |
| Less: Usable Reserves                      | (83.49)                     | (79.07)                       | (48.12)                       | (43.06)                       | (41.71)                       |
| Plus: actual/minimum investments           | 25.10                       | 10.00                         | 10.00                         | 10.00                         | 10.00                         |
| <b>Liability Benchmark</b>                 | <b>96.02</b>                | <b>87.22</b>                  | <b>123.56</b>                 | <b>126.95</b>                 | <b>126.64</b>                 |

#### **4.0 BORROWING STRATEGY**

The Council currently holds £96.87 million of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 2 above shows that the Council will have a borrowing need over the next two years as detailed in Table 4 below:

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**Table 4: New Borrowing**

|               | 31 March 20<br>Actual<br>£m | 31 March 21<br>Estimate<br>£m | 31 March 22<br>Estimate<br>£m | 31 March 23<br>Estimate<br>£m | 31 March 24<br>Estimate<br>£m |
|---------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| New Borrowing | 0.00                        | 0.00                          | 26.69                         | 3.39                          | 0.00                          |

This borrowing need will be monitored on an on-going basis and any new borrowing will be considered alongside any changes in the Capital Programme that may affect the level of borrowing required.

The Section 151 Officer will monitor and update the liability benchmark assumptions on an on-going basis and report any significant changes within the treasury management monitoring reports to Cabinet, Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of useable reserves at year end, slippage within the Capital Programme or changes within the working capital assumptions.

The Council's **primary objective** when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Therefore the major **objectives** to be followed in 2021-22 are:

- to minimise the revenue costs of debt
- to manage the Council's debt maturity profile i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing
- to effect funding in any one year at the cheapest cost commensurate with future risk
- to monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movement
- to reschedule debt if appropriate, in order to take advantage of potential savings as interest rates change
- to optimise the use of all capital resources including borrowing, both supported and unsupported, usable capital receipts, revenue contributions to capital and grants and contributions

Given the significant cuts to public expenditure in recent years and in particular to local government funding, the Council's **borrowing strategy** continues to address the key issue of affordability, without compromising the longer-term stability of the debt portfolio. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy. With short term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources or borrow short term instead.

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The Section 151 Officer will take the most appropriate form of borrowing depending on the prevailing interest rates at the time. However, with long term rates forecast to rise modestly in future years, any such short term savings will need to be balanced against the potential longer term costs. The Council's treasury management advisers will assist the Council with this 'cost of carry' and breakeven analysis. The last time the Council took long term borrowing was £5 million from the Public Works Loan Board (PWLB) in March 2012. As detailed above, it is anticipated that there will be a requirement for new long term borrowing in 2021-22 and 2022-23. It is anticipated that this would be from PWLB and for estimate purposes it has been assumed that this will be over 30 years.

HM Treasury issued revised lending terms for PWLB borrowing by local authorities in November 2020. As a condition of accessing the PWLB, local authorities will be asked to confirm that there is no intention to buy investment assets primarily for yield in the current, **or next two** financial years. Local authorities' Section 151 Officers or equivalent will be required to confirm that capital expenditure plans are current and that the plans are within acceptable use of the PWLB. Whilst this in itself does not preclude the Council from investing in commercial activities, investing in assets for yield would preclude the Council from accessing PWLB borrowing. Given the investment and borrowing requirement to support the Capital Programme, the Council is unlikely to consider any investments in commercial assets primarily for yield.

Alternatively, the Council may arrange forward starting loans during 2021-22 where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short term (normally for up to one month) to cover unexpected cash flow shortages.

**Sources of borrowing:** The approved sources of long term and short term borrowing are:

- PWLB and any successor body
- any institution approved for investments (see Investment Strategy below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Council's Pension Fund)
- capital market bond investors
- special purpose companies created to enable local authority bond issues

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised the majority of its long-term borrowing from the PWLB, but will consider long-term loans from other sources such as Welsh Government and local authority loans and bank loans, which may be available at more



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favourable rates. The PWLB lending rates increased by 1% in October 2019, but this rate rise was reversed from 26 November 2020 following the outcome of the Comprehensive Spending Review on 25 November 2020. Alternatively the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

**LOBOs:** The £19.25 million shown in Table 1 above, relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, however these may be re-scheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending upon the prevailing market rates, the lender exercising their option to increase rates at one of the bi-annual trigger points and therefore the Council being given the option to accept the increase or to repay the loan without incurring a penalty. There are two trigger points in 2021-22 and although the Council understands that the lender is unlikely to exercise this option in the current low interest rate environment, an element of refinancing risk remains and the Council would take the option to repay these loans at no cost if it has the opportunity to do so in the future.

**Short term and variable rate loans:** These loans expose the Council to the risk of short term interest rate rises should interest rates change.

**Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

**Treasury Management Indicators:**

The Authority measures and manages its exposures to treasury management risks using the following indicators;

- Maturity Structure of Borrowing (Table 5)
- Principal sums invested for periods longer than a year (Table 8)
- Interest Rate exposures (Table 10)

**Maturity structure of borrowing indicator:** This indicator is set for the forthcoming financial year to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing and has been set to allow for the possible restructuring of long term debt where this is expected to lead to an overall saving or reduction in risk. It is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing. The upper and lower limits on the maturity structure of borrowing will be:

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**Table 5: Treasury Management Indicator Maturity Structure of Borrowing 2021-22**

| <b>Refinancing rate risk indicator<br/>Maturity structure of borrowing 2021-22</b> | <b>Upper limit</b> | <b>lower limit</b> |
|--|--------------------|--------------------|
| Under 12 months  | 50%                | 0%                 |
| 12 months and within 24 months   | 25%                | 0%                 |
| 24 months and within 5 years   | 25%                | 0%                 |
| 5 years and within 10 years  | 40%                | 0%                 |
| 10 years and within 20 years   | 50%                | 0%                 |
| 20 years and above   | 60%                | 25%                |

## **5.0 INVESTMENT STRATEGY**

The preparation each year of an Investment Strategy is central to the Welsh Government Statutory Guidance on Local Authority Investments. It encourages the formulation of policies for the prudent investment of the surplus funds that authorities hold on behalf of their communities. In addition, the need for the Strategy to be approved by full Council ensures that these policies are subject to the scrutiny of elected Members: this is particularly important as since 2004 central government no longer closely regulates local government investment.

The Council holds surplus funds representing income received in advance of expenditure plus balances and reserves and, as shown in Table 1 in Section 3 above, the balance at 31 December 2020 was £60.10 million. Investments are estimated to drop to between £20 and £30 million by 31 March 2021. As in previous years this is partly due to increased expenditure expected to be incurred in respect of the capital programme and the reduction in income collected from council tax in February and March 2021, as the majority of residents continue to pay council tax over 10 months rather than 12. There is also likely to be potential further reductions due to Covid-19 and lower collection rates. The estimated figure for investments above doesn't make any provision for any additional funding received from WG e.g. Business grants or hardship funds as a result of any further Covid-19 lockdown restrictions. Based on its cash flow forecasts, the Council anticipates its investment balances in 2021-22 to range between £10 million to £60 million with an average investment rate of between 0.1% to 1.00% depending on the Bank Rate and investment types, which will be reviewed at half year and reported to Council. The actual balance varies because of the cash flow during the year in respect of when income is received (such as specific grant income, housing benefits subsidy and Revenue Support Grant) and payments are made (such as salaries and wages, major capital expenditure and loan repayments).

The Council holds investment properties with a view to securing a financial return, such as rental income. Given recent changes to the rules for accessing PWLB borrowing, the Council is unlikely to consider any further investment opportunities. As at 31 December 2020, the Council owned £4.635 million of investment properties with an expected return of £0.461 million for 2020-21. This includes rental discounts as a result of Covid-19. Income excluding discounts would normally be £0.478 million and this is what we would anticipate for 2021-22, representing a rate of return of 10.3%. The lessees are responsible for maintenance of the assets.

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Both the CIPFA Code and the Welsh Government Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments while seeking the highest rate of return, or yield. The Council's main objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

The major **objectives** are:

- to maintain capital **security**
- to maintain portfolio **liquidity** so funds are available when expenditure is needed
- to achieve the **yield** on investments commensurate with the proper levels of security and liquidity

**Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at, or below, zero, which is likely to feed through to negative interest rates on all low risk, short-term, investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** The Council's investments have historically been placed in mainly short term bank and building society unsecured deposits and local and central government. However, investments may be made with any public or private sector organisations that meet the credit criteria detailed below. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council will consider further diversifying into more secure and/or higher yielding asset classes during 2021-22, as appropriate, in consultation with the Council's treasury management advisers. The majority of the Council's surplus cash is currently invested in Money Market Funds (MMF) and with other local authorities but the Council will continue to look at investment options in line with the limits detailed below.

With short term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long term borrowing if appropriate options become available as referred to in section 4.0 Borrowing Strategy.

**Business Models:** Under the new IFRS 9 (Financial Instruments), the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore these investments will continue to be accounted for at amortised cost.

**Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types shown in Table 6 below, subject to the cash limits and the time

limits shown. **These cash/time limits are per counterparty and relate to principal only and exclude any accrued interest.**

**Table 6: Approved investment counterparties and limits**

**These limits must be read in conjunction with the notes immediately below the Table. The combined secured and unsecured investments in any one bank must not exceed the cash limit for secured investments:**

| Sector  | Time limit | Counterparty limit | Sector limit |
|---|------------|--------------------|--------------|
| The UK Government                             | 50 years   | Unlimited          | n/a          |
| Local authorities & other government entities | 25 years   | £12,000,000        | Unlimited    |
| Secured investments *                         | 25 years   | £6,000,000         | Unlimited    |
| Banks (unsecured) *                           | 13 months  | £3,000,000         | Unlimited    |
| Building societies (unsecured) *              | 13 months  | £3,000,000         | £6,000,000   |
| Registered providers (unsecured) *            | 5 years    | £5,000,000         | £5,000,000   |
| Money market funds *                          | n/a        | £6,000,000         | Unlimited    |
| Strategic pooled funds                        | n/a        | £6,000,000         | £6,000,000   |
| Real estate investment trusts                 | n/a        | £3,000,000         | £6,000,000   |
| Other investments *                           | 5 years    | £3,000,000         | £6,000,000   |

**\*Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than (A-). Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. **Schedule A** shows the equivalence Table for credit ratings for three of the main rating agencies Fitch, Moody's and Standard & Poor's and explains the different investment grades.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Banks and building societies unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Where additional amounts received into our accounts with our own bankers are

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received too late in the day to make an investment the same day, the limit in Table 6 will not apply as this does not count as an investment.

**Banks and building societies secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

**Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made following an external credit assessment and consultation with the Council's treasury management advisers.

**Registered providers:** Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Welsh Government and as providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds, that offer same-day liquidity and very low or no volatility, will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period can be used for longer investment periods. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater

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than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept to a minimum. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify the Council of changes as they occur.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is very unlikely the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations as happened in 2008 and 2020, it is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

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**Specified investments:** The *Welsh Government Statutory Guidance on Local Government Investments* defines specified investments as those:

- denominated in pound sterling
- due to be repaid within 12 months of arrangement
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government
  - a UK local authority
  - a town or community council or
  - body or investment scheme of “high credit quality”

The Council defines “**high credit quality**” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified investments:** Any investment that does not fall into the criteria detailed above under the Specified investments definition. The Council does not intend to make any investments denominated in foreign currencies nor any defined as capital expenditure. Non-specified investments will therefore be limited to:

- long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement
- investments with bodies and schemes not meeting the definition on high credit quality

The *Welsh Government Statutory Guidance on Local Government Investments* requires the Council’s Investment Strategy to set an overall limit for non-specified investments which is currently set at £20 million. Table 7 below shows the non-specified categories and the relevant limits and although the total of the individual limits exceed £20 million, at any one point in time a **maximum of £20 million** could be invested in these non-specified investments.

**Table 7: Non-specified investment limits**

|  | <b>Category Cash limit</b> |
|--|----------------------------|
| Total long-term investments  | £15m                       |
| Total investments without credit ratings or rated below the Council’s definition of “high credit quality” (A-) (except the UK Government and UK local authorities) | £10m                       |
| Total investments (except pooled funds)with institutions domiciled in foreign countries with a sovereign rating below AA+  | £3m                        |
| Total Non-Specified Investments Outstanding  | £20m                       |

**Principal sums invested for periods longer than a year:** All investments longer than 365 days (non-specified) will be made with a cautious approach to cash flow

requirements and advice from the Council's treasury management advisers will be sought as necessary.

Where the Council invests, or plans to invest, for periods longer than a year, an upper limit is set for each forward financial year period for the maturing of such investments. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of long term investments. The limits on the long term principal sum invested to final maturities beyond the period end will be as shown in Table 8 below.

**Table 8: Treasury Management Indicator Principal sums invested for periods longer than a year**

| Price risk indicator                                  | 2021-22<br>£m | 2022-23<br>£m | 2023-24<br>£m |
|---|---------------|---------------|---------------|
| Limit on principal invested beyond financial year end | 15            | 10            | 8             |

**Investment Limits:** In addition to the above limits, the combined values of specified and non-specified investments with any one organisation are subject to the approved investment limits detailed in Table 9 below.

**Table 9: Investments limits**

|   | Category Cash limit |
|---|---------------------|
| Any single organisation, except the UK Central and Local Government | £6m                 |
| UK Central Government   | unlimited           |
| UK Local Authorities (per Authority)                                | £12m                |
| Any group of organisations under the same ownership                 | £6m per group       |
| Any group of pooled funds under the same management                 | £6m per manager     |
| Negotiable instruments held in a broker's nominee account           | £10m per broker     |
| Foreign countries   | £6m per country     |
| Registered providers and registered social landlords                | £5m in total        |
| Unsecured investments with Building Societies                       | £6m in total        |
| Money market funds (MMF)  | Unlimited           |

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

The combined secured and unsecured investments in any one bank must not exceed the cash limit for secured investments.

**Liquidity Management:** The Council forecasts on a prudent basis the maximum period for which funds may be committed therefore minimising the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. A limit of £15 million (Table 8 above) has been set for 2021-22 for long term investments and



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this has been set with reference to the Medium Term Financial Strategy and cash flow forecast as shown in the principal sums invested for periods longer than a year indicator in Table 7 above. This represents just under 30% of the maximum amount of investments that the Council anticipates to have at any one point in time in 2021-22.

The Council will seek to spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## **6.0 INTEREST RATE EXPOSURES BORROWING AND INVESTMENTS**

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest charged to revenue within the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fixed rate protects the Council from increased interest charges as an equivalent loan would now cost more. The fair value of the borrowing (liability) will fall;
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- investments at fixed rates – the fixed rate prevents the Council from receiving higher investment income from the same principal invested. The fair value of the investment (asset) will fall.

An indicator has been set in Table 10 below to measure the net impact over one year on the revenue account of both a 1% rise and a 1% fall in all interest rates for borrowing net of treasury investments. This is calculated on the assumption that maturing loans and investments will be replaced at rates 1% higher or lower than they would otherwise have been on their maturity dates and that the treasury investment and borrowing portfolios remain unchanged over the coming year. Interest rates can move by more than 1% over the course of a year, although such instances are rare.

**Table 10: Treasury Management Indicator Interest Rate Exposures**

The following Table is based on investments as at 31 December 2020.

| <b>Interest rate risk indicator</b>                    | <b>£'000</b> |
|--|--------------|
| One year revenue impact of a 1% rise in interest rates | (273)        |
| One year revenue impact of a 1% fall in interest rates | 474          |

The figure for the 1% fall in interest rates indicator is not the same figure as the 1% increase (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would only exercise their option if there was an increase in interest rates. All other borrowing does not have a rate reset in the next year and is with the PWLB at fixed rates.

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## 7.0 PERFORMANCE INDICATORS

Performance indicators are set to assess the adequacy of the treasury function over the year. These are distinct historic indicators as opposed to the treasury management and prudential indicators which are predominantly forward looking.

One debt performance indicator is where the average portfolio rate of interest is compared to an appropriate average available such as the average PWLB Debt for Welsh and UK local authorities. The rate of return on investments can be monitored against the average rate of return on investments against the Bank Rate and the average rate of return on investments as compared to the average rate of Arlingclose's Welsh local authority clients at each relevant quarter/year-end.

## 8.0 NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities includes loans, investments in subsidiaries and investments in property. Welsh Government Guidance defines a loan as a written or oral agreement where the Council temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority. The council can demonstrate that its financial exposure to loans is proportionate by setting the limit as set out in Table 11 below.

**Table 11: Loan Limits**

| <b>Loan limit</b>               | <b>£'000</b> |
|---------------------------------|--------------|
| Limit on loans to third parties | 2,000        |

A schedule of the Council's existing non-treasury investments (currently limited to owned property) is set out in Table 12 below:

**Table 12: Non-treasury investments**

| <b>Non-treasury investments</b>     | <b>Fair Value<br/>£'000</b> |
|-------------------------------------|-----------------------------|
| Bridgend Science Park - Units 1 & 2 | 3,200                       |
| Waterton Cross Land                 | 600                         |
| Brynmenyn Industrial Estate Plot 53 | 220                         |
| Village Farm Plots 32,119 & 120     | 415                         |
| Tyrewise Bridgend                   | 200                         |
| <b>Total</b>                        | <b>4,635</b>                |

The Council considers that the scale of its investment properties is proportionate to the resources of the Council, since such investment represents less than 1% of its total long term assets.

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In accordance with Welsh Government Investment Guidance, these will be classified as non-treasury investments.

## **9.0 IFRS9 – LOCAL AUTHORITY OVERRIDE**

The Welsh Government legislated in the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2020 for a statutory override for fair value gains and losses on most pooled investment funds not to be taken to revenue until 2023-24. The statutory override took effect from the 2019-20 financial year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31 March 2023: this will enable Councils to initiate an orderly withdrawal of funds if required.

## **10.0 OTHER ITEMS**

In line with the CIPFA Code and Welsh Government guidance the following also forms part of the Council's TMS.

**Financial Derivatives:** In the absence of any explicit legal power to do so, the Council will not use standalone financial derivatives such as swaps, forwards, futures and options. Derivatives embedded into loans and investments including pooled funds and forward starting transactions may be used and the risks they present will be managed in line with the overall treasury risk management strategy.

**Markets in Financial Instruments Directive II (MIFID II):** From January 2018, MIFID II changed the classification of local authority investors. It reclassified local and public authorities as retail investors. The Council has opted up to professional client status with its providers of financial services, including treasury management advisers, banks, building societies and brokers, allowing it access to a greater range of services but without the greater regulatory protection afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believed this to be the most appropriate status.

**Investment training:** The needs of the Council's treasury management staff for training in investment management are assessed every six months as part of the staff appraisal process and also if the responsibilities of individual members of staff change.

Training is received from the Council's treasury management advisers, CIPFA and other bodies in the form of training courses and seminars. The Council also supports personal development so individuals enhance their own knowledge through reading CIPFA guidance, publications and research on the internet.

**Investment advisers:** Following a recent re-tender exercise in August 2020 Arlingclose Ltd. were re-appointed as the Council's treasury management advisers. They were awarded a four year contract, to provide advice and information relating to its borrowing and investment activities and capital finance issues. The contract will be reviewed annually and either party may at any time terminate this agreement on 3 months prior written notice. The quality of this service is controlled by having regular meetings with the advisers and regularly reviewing the service provided.

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**Investment of money borrowed in advance of need:** CIPFA's Prudential Code sets out that authorities should never borrow for the explicit purpose of making an investment return. Therefore borrowing in advance of need purely to profit from the investment of the extra sums borrowed is against the principles, however, the Council could potentially borrow in advance of need where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

As the Council has an integrated TMS, borrowing is not linked to the financing of specific items of expenditure. The Council's forecast Capital Financing Requirement (CFR) as at 31 March 2021 is in excess of the actual debt of the Council as shown in Table 2 above indicating there is no borrowing in advance of need. More detail is provided in the Prudential Indicators in the Council's Capital Strategy.

Schedule A

Credit Rating Equivalence Table

|                          | Description      | Fitch |       | Moody's |                | Standard & Poor's |       |                |      |   |
|--------------------------|------------------|-------|-------|---------|----------------|-------------------|-------|----------------|------|---|
|                          |                  | Long  | Short | Long    | Short          | Long              | Short |                |      |   |
| <b>INVESTMENT GRADE</b>  | Extremely strong | AAA   |       | Aaa     |                | AAA               |       |                |      |   |
|                          | Very strong      | AA+   | F1+   | Aa1     | P-1            | AA+               | A-1+  |                |      |   |
|                          |                  | AA    |       | Aa2     |                | AA                |       |                |      |   |
|                          |                  | AA-   |       | Aa3     |                | AA-               |       |                |      |   |
|                          | Strong           | A+    | F1    | A1      | P-2            | A+                | A-1   |                |      |   |
|                          |                  | A     |       | A2      |                | A                 |       |                |      |   |
|                          |                  | A-    |       | A3      |                | A-                |       |                |      |   |
|                          | Adequate         | BBB+  | F2    | Baa1    | P-3            | BBB+              | A-2   |                |      |   |
|                          |                  | BBB   |       | Baa2    |                | BBB               |       |                |      |   |
| BBB-                     |                  | Baa3  |       | BBB-    |                |                   |       |                |      |   |
| <b>SPECULATIVE GRADE</b> | Speculative      | BB+   | B     | Ba1     | Not Prime (NP) | BB+               | B     |                |      |   |
|                          |                  | BB    |       | Ba2     |                | BB                |       |                |      |   |
|                          |                  | BB-   |       | Ba3     |                | BB-               |       |                |      |   |
|                          | Very speculative | B+    |       | B1      |                | B+                |       |                |      |   |
|                          |                  | B     |       | B2      |                | B                 |       |                |      |   |
|                          |                  | B-    |       | B3      |                | B-                |       |                |      |   |
|                          | Vulnerable       | CCC+  |       | C       |                | Caa1              |       | Not Prime (NP) | CCC+ | C |
|                          |                  | CCC   |       |         |                | Caa2              |       |                | CCC  |   |
|                          |                  | CCC-  |       |         |                | Caa3              |       |                | CCC- |   |
| CC                       |                  | Ca    | CC    |         |                |                   |       |                |      |   |
|                          | C                |       |       |         | C              |                   |       |                |      |   |
| Defaulting               | D                | D     | C     |         | D              | D                 |       |                |      |   |

## GLOSSARY

|                  |  |
|------------------|--|
| Amortised Cost   | Amortised cost is the amount at which some financial assets or liabilities are measured and consists of: initial recognition amount, subsequent recognition of interest income/expense using the effective interest method, repayments and credit losses                             |
| Annuity          | A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method. |
| Asset Management | The stewardship of capital assets, including decisions around on-going maintenance and eventual disposal   |
| Authorised limit | The maximum amount of debt that a local authority may legally hold, set annually in advance by the Council itself. One of the <i>Prudential Indicators</i> .   |
| BACS             | Bankers' automated payment system. UK bulk payments system allowing transfers between bank accounts with two days' notice, for a small charge.   |
| Bail-in          | A method of rescuing a failing <i>financial institution</i> by cancelling some of its <i>deposits</i> and <i>bonds</i> . Investors may suffer a reduction in their investment, but may be given shares in the bank as part compensation.   |
| Bail-out         | A method of rescuing a failing <i>financial institution</i> by the injection of public money. This protects investors at the expense of taxpayers.   |
| Bank             | Regulated firm that provides financial services to customers.  |
| Bank of England  | The <i>central bank</i> of the UK, based in London, sometimes just called 'the bank'.  |
| Bank Rate        | The official interest rate set by the <i>Monetary Policy Committee</i> , and the rate of interest paid by the <i>Bank of England</i> on commercial bank deposits. Colloquially termed the 'base rate'.   |
| Bond             | A certificate of <i>long-term</i> debt issued by a company, government, or other institution, which is tradable on financial markets   |
| Borrowing        | Usually refers to the stock of outstanding loans owned and <i>bonds</i> issued.  |
| Broker           | Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of <i>securities</i> (a stockbroker) with each other in order to facilitate transactions   |
| Brokerage        | Fee charged by a <i>broker</i> , normally paid by the borrower   |
| Building Society | A mutual organisation that performs similar functions to a <i>retail bank</i> but is owned by its customers  |

|                                     |   |
|-------------------------------------|---|
| Capital                             | (1) Long-term, as in <i>capital expenditure</i> and <i>capital receipts</i><br>(2) <i>Principal</i> , as in <i>capital gain</i> and <i>capital value</i><br>(3) <i>Investments in financial institutions that will absorb losses before senior unsecured creditors</i>            |
| Capital Expenditure                 | Expenditure on the acquisition, creation or enhancement of fixed asset that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments                |
| Capital Finance                     | Arranging and managing the cash required to finance <i>capital expenditure</i> , and the associated accounting.   |
| Capital Financing Requirement (CFR) | A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with <i>capital expenditure</i> and decreases with <i>capital finance</i> and <i>MRP</i> .  |
| Capital Receipt                     | Cash obtained from the sale of an item whose purchase would be <i>capital expenditure</i> . The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent. |
| Capital strategy                    | An annual policy document required by the <i>Prudential Code</i> that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its <i>Prudential Indicators</i> for the forthcoming financial year.                                       |
| CIFPA                               | The Chartered Institute of Public Finance and Accountancy – the professional body for accountants working in the public sector. CIFPA also sets various standards for local government – e.g. Treasury Management Code and Prudential Code  |
| Cost of Carry                       | When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim  |
| Counterparty                        | The other party to a loan, investment or other contract   |
| Counterparty limit                  | The maximum amount an investor is willing to lend to a <i>counterparty</i> , in order to manage <i>credit risk</i> .  |
| Credit Default Swap                 | A credit default swap (CDS) is a financial derivative or contract that allows an investor to "swap" or offset his or her credit risk with that of another investor.   |
| Credit rating                       | Formal opinion by a <i>credit rating agency</i> of a <i>counterparty's</i> future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.   |

|                       |   |
|-----------------------|---|
| Credit rating agency  | An organisation that publishes <i>credit ratings</i> . The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.   |
| Credit risk           | The risk that a <i>counterparty</i> will <i>default</i> on its financial obligations.   |
| Debt                  | (1) A contract where one party owes money to another party, such as a <i>loan</i> , <i>deposit</i> , or <i>bond</i> .<br>(2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities                       |
| Default               | Failure to meet an obligation under a debt contract, including the repayment of cash, usually as a result of being in financial difficulty  |
| Deposit               | A regulated placing of cash with a <i>financial institution</i> . Deposits are not tradable on financial markets.   |
| DMO                   | Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.  |
| Fair value            | <i>IFRS</i> term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.  |
| FCA                   | Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of <i>financial institutions</i> , <i>brokers</i> , <i>custodians</i> , <i>fund managers</i> and <i>treasury management advisors</i> . |
| Financial institution | A <i>bank</i> , <i>building society</i> or <i>credit union</i> . Sometimes the term also includes insurance companies.  |
| Financial instrument  | <i>IFRS</i> term for investments, borrowing and other cash payable and receivable.  |
| Financing costs       | In the <i>Prudential Code</i> , interest payable on <i>debt</i> less investment income plus <i>premiums</i> less <i>discounts</i> plus <i>MRP</i> .   |
| Forward deal          | An arrangement where a loan or deposit is arranged in advance of the cash being transferred, with the advance period being longer than the standard period (if any) for such a transaction.   |
| GDP                   | Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.   |
| General Fund          | A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.   |
| Gilt                  | Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.  |
| IFRS                  | International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.   |



|                     |   |
|---------------------|---|
| Impairment          | A reduction in the value of an investment caused by the counterparty being in financial difficulty.   |
| Inflation risk      | The risk that unexpected changes in inflation rates cause an unplanned loss, for example by costs rising faster than income.  |
| Interest            | Compensation for the use of cash paid by borrowers to lenders on debt instruments.  |
| Interest rate risk  | The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.  |
| Internal borrowing  | A local government term for when actual “external” debt is below the capital financing requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.   |
| Investment property | Land and buildings that are held purely for rental income and/or capital growth. Investment properties are not owner-occupied and provide no direct service benefit.  |
| Investment strategy | A document required by investment guidance that sets out a local authority’s investment plans and parameters for the coming year. Sometimes forms part of the authority’s treasury management strategy.   |
| Lease               | A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of debt.                                 |
| Lessee              | Party to a lease contract that uses an asset owned by the lessor.   |
| Lessor              | Party to a lease contract that own an asset but permits another (the lessee) to use it.   |
| Liability benchmark | Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.  |
| LIBOR               | London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.  |
| Liquidity risk      | The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed.   |
| Loan                | Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets. There are specific definitions in government investment guidance. |

|                                 |  |
|---------------------------------|--|
| Loans CFR                       | The capital financing requirement less the amount met by other long-term liabilities; i.e. the amount to be met by borrowing.  |
| LOBO                            | Lender's option borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially. |
| Long-term                       | Usually means longer than one year.  |
| Market risk                     | The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk.   |
| Maturity                        | (1) The date when an investment or borrowing is scheduled to be repaid.<br>(2) A type of loan where the principal is only repaid on the maturity date.   |
| MiFID II                        | The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.  |
| Monetary policy                 | Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.                         |
| Monetary Policy Committee (MPC) | Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.  |
| Money market fund (MMF)         | A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to CNAV and LVNAV funds with a WAM under 60 days which offer instant access, but the European Union definition extends to include cash plus funds.   |
| Money markets                   | The markets for short-term finance, including deposits and T-bills. See also capital markets.  |

|                                  |   |
|----------------------------------|---|
| MRP                              | Minimum revenue provision - an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.  |
| Net borrowing                    | Borrowing minus treasury investments.   |
| Net revenue stream               | In the Prudential Code, income from general government grants, Council Tax and rates.   |
| Non-specified investments        | Government term for investments not meeting the definition of a specified investment or a loan upon which limits must be set. Since 2018, the term does not apply to treasury investments in England. Not applicable in Scotland.   |
| Other long-term liabilities      | Prudential Code term for credit arrangements.   |
| Operational boundary             | A prudential indicator showing the most likely, prudent, estimated level of external debt, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.   |
| Operational risk                 | The risk that fraud, error or system failure leads to an unexpected loss.   |
| Pension Fund                     | Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of treasury management.   |
| Private Finance Initiative (PFI) | A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a credit arrangement and debt.   |
| Property fund                    | A collective investment scheme that mainly invests in property. Due to the costs of buying and selling property, including stamp duty land tax, there is usually a significant fee charged on initial investment, or a significant difference between the bid and offer price.  |
| Prudential borrowing             | Another term for unsupported borrowing.   |
| Prudential Code                  | Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code. |

|                                      |  |
|--------------------------------------|--|
| Prudential indicators                | Indicators required by the Prudential Code and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable. |
| PWLB                                 | Public Works Loans Board - a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments.   |
| Refinancing risk                     | The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth maturity profile.   |
| Supported borrowing                  | Borrowing for which the repayment costs are supported by government grant.   |
| T-bill                               | Treasury bill - a bill issued by a government.   |
| TMS                                  | (1) Treasury management strategy.<br>(2) Treasury management system.   |
| Treasury bill                        | See T-bill.  |
| Treasury investments                 | Investments made for treasury management purposes, as opposed to commercial investments and service investments.   |
| Treasury management                  | The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments.                                 |
| Treasury management advisor          | Regulated firm providing advice on treasury management, capital finance and related issues.  |
| Treasury Management Code (TM Code)   | CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.  |
| Treasury management indicators       | Indicators required by the Treasury Management Code to assist in the management of credit risk, interest rate risk, refinancing risk and price risk.   |
| Treasury management policy statement | Document required by the Treasury Management Code setting out a local authority's definition of and objectives for treasury management.  |
| Treasury management practices (TMPs) | Document required by the Treasury Management Code setting out a local authority's detailed processes and procedures for treasury management.   |
| Treasury management strategy         | Annual report required by the Treasury Management Code covering the local authority's treasury management plans for the forthcoming year.  |

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|-----------------------|---|
| Unsupported borrowing | Borrowing where the cost is self-financed by the local authority. Sometimes called prudential borrowing since it was not permitted until the introduction of the Prudential Code in 2004. See also supported borrowing. |
| Working capital       | The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.   |

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

### REPORT OF THE INTERIM CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

#### CORPORATE RISK ASSESSMENT 2021-22

##### 1. Purpose of report

- 1.1 The purpose of the report is to provide the Governance and Audit Committee with an updated Corporate Risk Assessment 2021-22 and updated Corporate Risk Management Policy, and to provide an update on Incident and Near Miss occurrences.

##### 2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:

1. **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

##### 3. Background

- 3.1 Good governance requires the Council to develop effective risk management processes, including an assessment of corporate risks.
- 3.2 The Governance and Audit Committee's Terms of Reference require the Committee to review, scrutinise and issue reports and recommendations on the appropriateness of the Council's risk management, internal control and corporate governance arrangements.
- 3.3 The Corporate Risk Assessment is considered and reviewed by the Corporate Management Board (CMB), Senior Management Team, and Governance and Audit Committee, as part of the Council's quarterly Corporate Performance Assessment framework, and is used to inform the Overview and Scrutiny Committees' Forward Work Programme and the budget process.
- 3.4 The 2021-22 Corporate Risk Assessment is aligned with the Council's Medium Term Financial Strategy and Corporate Plan.

##### 4. Current situation / proposal.

- 4.1 The Corporate Risk Assessment attached at **Appendix A** has been reviewed in consultation with CMB. It identifies the main risks facing the Council, their link to the corporate well-being objectives under the Well-being of Future Generations (Wales) Act 2015, the likely impact of these risks on Council services and the wider County Borough, and identifies what is being done to manage the risks and who is responsible for the Council's response. The risk assessment is aligned with the Medium Term Financial Strategy.
- 4.2 As a result of the coronavirus pandemic, the Corporate Risk Assessment is being continuously reviewed to take into account any COVID-19 related risks which have occurred due to the pandemic, and identifies how the Council is responding to these risks. As a general consequence of the impact of the pandemic the management of health and safety in services across the Council, and potentially enhanced safeguarding issues, are matters that have had increased focus since March 2020. CMB have considered whether they should be assessed and included separately as part of the Corporate Risk Assessment but have determined that they are matters that are embedded and implicit in the Council's current management practices, whether that is with regard to matters of ensuring appropriate social distancing or use of Personal Protective Equipment (PPE), or having to adapt operating models to ensure COVID-19 compliance. Specific service risks are captured in the Directorate risk assessments, for example there is clearly an enhanced risk in working in a care home currently. Each Directorate, when the impact of the pandemic necessitates it, completes a weekly situation report (SITREP) setting out the main issues, risks and decisions for consideration and these inform the corporate SITREP submitted to the regional Strategic Co-ordinating Group (SCG). Additional corporate governance measures have also been agreed to ensure that, where appropriate, risks can be escalated to CMB. The Council has established an operational 'Silver' group, made up predominantly of Heads of Services, to consider appropriate issues and make recommendations to CMB who, when necessary, meet separately as the strategic 'Gold' group to make COVID-19 related decisions and, where necessary, escalate matters to Cabinet/CMB.
- 4.3 As a category 1 responder the authority has a general duty of care to maintain public services and does this by taking a collaborative approach to planning for, and dealing with, emergency situations which could impact on communities in line with the Civil Contingencies Act 2004. One of the ways the Council does this is through involvement with the South Wales Local Resilience Forum, a multi-agency group made up of category 1 (Blue Light services, Local Authorities, Health Boards etc.) and category 2 (utility companies, transport companies etc) responders from across the region.
- 4.4 During an emergency the multi-agency response is co-ordinated by the Strategic Co-ordinating Group (SCG). Each agency is required to submit a situation report to their Information and Briefing Cell each week outlining the position of the agency in relation to the risks identified by the SCG and any pressures it is faced with, as well as details of any mitigating actions taken. The Council currently reports to this group on a weekly basis with regards to risks identified.
- 4.5 The Council is currently experiencing immense pressure across the authority, in particular in Social Care and the Test, Trace and Protect (TTP) service and are exploring ways to bolster resources to prioritise and support these critical functions. In addition the authority is working closely with the Health Board to manage the roll



out of the COVID-19 vaccination programme. The Council has recently opened its first COVID-19 Vaccination Centre focused on immunising frontline health and social care workers and this is operating successfully.

- 4.6 The Council is also continuing to experience exceptionally high transmission rates in Bridgend, which is putting immense pressure on all services, inevitably leading to greater periods of absence and self-isolation amongst some staff groups as community transmission remains very high. In light of this the Council is urging members of the public to familiarise themselves with the revised restrictions from Welsh Government and adhere to the guidance provided by Public Health Wales, through the usual communication methods.
- 4.7 The Corporate Risk Management Policy timeline, included in **Appendix B**, has been amended for 2021-22 and has been agreed by CMB.
- 4.8 The Insurance team maintains a log of near misses in line with the current Near Miss reporting procedure. A log of incidents reported during 2020 is attached as **Appendix C**. There were two incidents reported, one green and one amber. There were no red incidents reported during the period.
- 4.9 There are still property incidents and near misses occurring that are not being reported promptly in line with the Near Miss reporting procedures. A new E-Learning module is being developed to raise awareness of the issue and the Council's intranet page is being updated to allow for interactive submissions of incidents and near miss forms.
- 4.10 The Insurance officer has instigated regular contact with Heads of Services to make enquiries within their team of any incident and near misses that have occurred, to try to minimise the late notifications.

## **5. Effect upon policy framework and procedure rules**

- 5.1 There are no implications upon policy framework and procedural rules.

## **6. Equality Impact Assessment**

- 6.1 Equality issues permeate many of the risks identified and, where appropriate, equality impact assessments are completed within the process of approving the mitigating actions.

## **7. Wellbeing of Future Generations (Wales) Act 2015 implications**

- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial implications**

- 8.1 There are no financial implications directly associated with the updated Corporate Risk Assessment and updated Corporate Risk Management Policy. Implementation actions will be progressed within approved budgets.

## **9. Recommendations**

9.1 It is recommended that the Committee:-

- consider the updated Corporate Risk Assessment 2021-22 (**Appendix A**) and the updated Corporate Risk Management Policy (**Appendix B**), including the timeline at **Appendix 2** within **Appendix B**.
- note the incident and near miss occurrences reported in **Appendix C**.

**Gill Lewis**  
**Interim Chief Officer – Finance, Performance and Change**  
**13 January 2021**

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### **Background documents:**

None

| No.          | IDENTIFIED RISK   |  |                | ACTION PLAN |       |                   |   |  |     |               |             |  |                     | Well-Being Objective |    |  |
|--------------|---|--|----------------|-------------|-------|-------------------|---|--|-----|---------------|-------------|--|---------------------|----------------------|----|--|
|              | There is a risk that if..   | Consequences of risk   | Raw risk score |             |       | Control method    | How is the council addressing this risk   | Key actions to be established - NB business as usual activity not reflected here   | who | Last Reviewed | Next Review | Action completed by                    | Residual risk score |                      |    |  |
|              |   |  | Li             | Im          | Total |                   |   |  |     |               |             |  | Li                  |                      | Im | Total  |
| Page 91<br>1 | The council is unable to make robust medium to long term decisions requiring service change   | It is harder each year to make ongoing budget reductions as easier decisions have already been made. If more difficult decisions about cutting or reducing service levels against a background of declining budgets are not made, then the council will not deliver the changes necessary to achieve a balanced budget which will result in it being in breach of its legal responsibilities. The true impact of COVID remains unclear in terms of the Council's financial sustainability. Careful planning and difficult choices will be key to ensuring that a balanced financial position is able to be maintained. | 4              | 5           | 20    | Treat             | The council manages this risk through existing budget and business planning processes which include early identification of savings targets and development of options for cabinet, challenge from BREP, scrutiny and formal and informal briefings of members and political groupings. The impact of COVID has been significant in terms of both timetable and the focus on achieving savings. Due to the more generous WG settlement for 20/21 the savings targets were lower than usual and so most of those will be met. Work to deliver a balanced budget for 2021/22 and beyond is underway, but many aspects remain uncertain.   | Develop proposals for a stronger focus on future and multiple year financial planning including scrutiny and outline budget decisions by elected members for multiple years.<br><br>Cabinet and Corporate Management Board are continuing to meet regularly as part of the budget planning process for 2021-22 and beyond. This has focussed not only on the immediate requirement for a possible £9 million savings for 2021-22 but also discussion to begin to shape a longer term strategy for the Council based on projected savings over the next 3-4 years. There remains significant uncertainty around the financial position, as COVID costs continue to emerge. However, WG have funded a high proportion of costs to date, which has mitigated the risk.  | CMB | Jan-2021      | Jul-2021    | Feb-2021 then ongoing quarterly review | 3                   | 5                    | 15 | Smarter use of resources   |
| 2            | The council is unable to deliver transformation including agreed financial savings  | If the council is unable to change the way that staff work, including new roles, collaborations and the acquisition of new skills, it will be unsuccessful in delivering service transformation which will lead to it not meeting its commitments within available budgets.  | 4              | 4           | 16    | Treat             | The council has a number of transformations in place that either directly support specific proposals for service improvement and /or financial savings. Further transformations have been identified that are intended to support a 'One council' culture and support staff and managers through transformation.  | Further development of a 'One Council' culture and transformational change has progressed since the appointment of a new Chief Executive, initially on an interim basis in January 2019 and then on a permanent basis in May 2019. Much work has been done to bring together Directorates and a real corporate approach by CMB. This is work in progress and there is still occasionally some inconsistency, but huge progress has been made in working as a unified team. This is now being re-focussed to adapt and change as a result of the challenges posed by the COVID pandemic. Our approach to the pandemic has challenged the way that we work across all services, and we will need to quickly adapt and learn any lessons from this that can be embedded into 'new normal' and recovery.<br><br>A review of Council processes has meant that some deemed unnecessary and bureaucratic have ceased but full compliance with those that remain is required.<br><br>Examples of processes which have stopped without impacting on compliance include the cessation of wet ink signing and printing of documents as documentation is now electronically signed, physical attendance to open tenders replaced with opening on-line, cessation of physically authorising invoices as invoices are now authorised electronically on the Electronic Documents Record Management system and the replacement of in attendance training events with on-line remote training. The Human Resource/Occupational Development review will ensure, among other things, that managers are given the right training to meet current challenges and that a more balanced approach to promoting and enhancing the wellbeing of those staff in work is developed, as well as teaming with those who unfortunately are absent from work through sickness. | CMB | Jan-2021      | Jul-2021    | Ongoing                                | 2                   | 2                    | 4  | All Well-Being Objectives  |
| 3            | The council is unable to respond to legislative change  | If reducing budgets and a reducing workforce decreases the council's ability to ensure compliance with statutory requirements and to adapt successfully to an ever changing legislative landscape there is a risk that the council will be in breach of its legal responsibilities and may receive adverse regulatory reports, adverse publicity, fines and ultimately the threat of prosecution.  | 5              | 4           | 20    | Treat or Transfer | The council manages this risk in a number of ways that are contingent on the particular service area affected. This might include reducing service quality or reprioritising a response to a legislative change over other activity or transferring risk - for example, where legally possible, by transferring responsibility to another provider. However, some service areas are subject to a non delegable duty of care. Examples of where the council has shared risk are Leisure, Cultural services and Waste.  | The Council has kept in close contact with its partners throughout the pandemic and has been able to flex and adapt services as required. Waste services continued with some adaptations, but there will be a prolonged period of re-start and recovery for leisure and cultural services, and a shared risk for continuation of services.   | CMB | Jan-2021      | Jul-2021    | On-going                               | 3                   | 4                    | 12 | All Well-Being Objectives  |
| 4            | The council is unable to identify and deliver infrastructure required in the medium to longer term  | If the council does not raise sufficient capital to maintain its infrastructure, including roads, street lights, buildings and technology then it may deteriorate bringing financial and safety risks which could lead to adverse incidents, reports, publicity, fines and ultimately prosecution.   | 4              | 5           | 20    | Treat             | The council has a ten year capital programme. The development of this programme and arrangements for its review and updating are well established. However the council has identified scope to improve upon this to ensure that these needs are balanced with other demands for capital (such as new schools).  | A revised capital strategy has been prepared and agreed by Council setting out capital spending plans and priorities for the next 10 years. The Capital Programme will be reviewed quarterly and will be updated by Cabinet and Council.   | CMB | Jan-2021      | Jul-2021    | Complete with ongoing review           | 3                   | 5                    | 15 | Supporting a successful sustainable economy and smarter use of resources                     |
| 5            | The council is unable to develop positive working relationships across all partners within the new region to ensure that the needs of the Bridgend community are fairly recognised in the immediate future. | If the council is unable to successfully build on the progress made, during the first year, of operating within a new region with the health Board, local government and third sector partners, there is a risk that appropriate care to citizens through new service models and relationships will be slowed down or not be delivered resulting in citizens receiving a less satisfactory service with poorer outcomes.   | 4              | 4           | 16    | Treat             | The Council has worked hard during the first year to embed Bridgend in the new Cwm Taf Morgannwg partnerships and build a solid platform for delivery of services. This was tested through the COVID pandemic and there are a number of strands of work to look at 'what worked' and 'what worked less well'. It will be important for the Council to learn lessons from this period, both as a body and as a key partner, and to build on those strengths for the future. By working with the new region, Bridgend has continued to receive Integrated Care Funding for a range of bids that have enabled either the continuation of previously funded services or assisted with the development of new service initiatives. It will be important to continue this relationship to secure further ICF for future projects. | Continue to work with the Health Board, local government and third sector partners to ensure processes are in place to develop regional approaches to service delivery. This includes effective management and monitoring of regional grant funding that is directed through the Partnership Board and the ongoing development of integrated services.   | CMB | Jan-2021      | Jul-2021    | Feb-2021                               | 2                   | 4                    | 8  | Helping people and communities to be more healthy and resilient and smarter use of resources |

| No.          | IDENTIFIED RISK   |   |                | ACTION PLAN |       |                   |  |  |     |               |             |                                   |                     | Well-Being Objective |    |  |
|--------------|---|---|----------------|-------------|-------|-------------------|--|--|-----|---------------|-------------|-----------------------------------|---------------------|----------------------|----|--|
|              | There is a risk that if..   | Consequences of risk  | Raw risk score |             |       | Control method    | How is the council addressing this risk  | Key actions to be established - NB business as usual activity not reflected here   | who | Last Reviewed | Next Review | Action completed by               | Residual risk score |                      |    |  |
|              |   |   | Li             | Im          | Total |                   |  |  |     |               |             |                                   | Li                  |                      | Im | Total  |
| Page 92<br>6 | The council fails to safeguard vulnerable individuals e.g. children, adults in need of social care, homeless etc.   | If budgets and the workforce continue to decline there is a risk that the council will be unable to provide the necessary services to vulnerable people resulting in the possibility that vulnerable people will not be kept safe and be encouraged to greater-self-reliance.   | 4              | 5           | 20    | Treat             | The council has well established mechanisms to ensure compliance with statutory responsibilities. This includes its own operational safeguarding board and active management of demand and caseloads. All meetings of CMB and of Cabinet/CMB have a standing item to consider safeguarding matters and allow for appropriate management actions to be taken quickly. Good management oversight with robust quality assurance and risk management arrangements will mitigate presenting risks.  | The review by internal audit identified gaps in completion of mandatory training through e learning. These gaps are identified, reported on and monitored by Human Resources Department. The Director of Social Services and Well-being presented the action plan to address the recommendations made by Internal Audit and the Audit Committee in July 2020. Members were content with the action plan and asked for a progress report in due course.<br><br>The full range of Safeguarding activities was reported to Overview and Scrutiny Committee on 3 July 2019.  | CMB | Jan-2021      | Jul-2021    | Completed with ongoing monitoring | 2                   | 5                    | 10 | Helping people and communities to be more healthy and resilient and smarter use of resources |
| 7            | The council is unable to plan for and recover from major threats to service continuity such as civil emergencies, school failure, cyber attack and discontinuation of funding streams and major contracts | If the council does not have the capacity and expertise to plan for and protect itself against major threats such as cyber-attack, civil emergencies and significant financial variations there is a risk that there may be a failure to deliver services and a balanced financial position which could harm citizens who rely on council services.   | 4              | 4           | 16    | Treat             | The council has anti virus installed which is regularly updated. All critical data is backed up and located offsite. Software update processes exist that includes the installation of patches. Security awareness training is provided to all employees.<br>The council has established emergency planning arrangements including a Major Incident Plan and contributes to the South Wales Local Resilience Forum (SWLRF) and South Wales Resilience Team (SWRT). Contract conditions are included in relevant contracts. The terms of these conditions will vary depending on the nature of the contract, but will cover compliance with GDPR, security of personal information and general cyber security. Where contracts are awarded via a framework the necessary conditions will be imposed by the contracting agency for the framework. This has been an increased risk throughout the COVID period with significantly increased risk of attack and many more sophisticated attempts to disrupt the Council's network. | Cyber resilience training continues to be rolled out.<br><br>The council has responded swiftly and appropriately to the increased risk posed by increased reliance on ICT and the network. A number of changes - some significant - were made during this period that has helped to mitigate the increased risk. Throughout the period the Council has stayed connected and resilient with many services being delivered remotely.<br><br>The situation is being monitored on an ongoing basis.  | CMB | Jan-2021      | Jul-2021    | TBC<br><br>Ongoing                | 3                   | 4                    | 12 | All Well-Being Objectives  |
| 8            | The council is unable to attract, develop or retain a workforce with the necessary skills to meet the demands placed upon the authority and its services  | If there is a continual decreasing number of suitably skilled and experienced staff then there may not be the expertise required to deliver services and protect the interests of the council. This is a particular concern for the statutory Section 151 role. This could lead to the wellbeing of citizens suffering and a loss of morale amongst the remaining staff if they feel unsupported and are seeking to work elsewhere. | 4              | 4           | 16    | Treat             | The council has workforce planning in place (through directorate level service planning) and is prioritising finite training budget to ensure that key skills and qualifications are targeted with a particular focus on management development. In addition the council is using apprenticeships to actively bring in or develop key skills (such as Welsh language skills or ICT capability). This investment has been enhanced in 2020/21. In specific service areas the council is actively seeking opportunities to collaborate where this will enhance capacity or resilience. To support recruitment and retention a market supplement policy is being explored which will set out how the Council may, in exceptional circumstances, offer an additional temporary supplement to the grade of a post as identified through the Council's grading scheme. In specific service areas the council is actively seeking opportunities to collaborate where this will enhance capacity or resilience.                        | The council will continue to monitor the profile of the workforce and identify challenges through the business planning process. Appropriate action plans will be developed.<br><br>The staff survey has been completed and a range of actions implemented. These will improve engagement and feedback and shape the learning and development programme. The council will prioritise role specific training to enable staff to do what is expected of them, it will promote good practice examples of staff development and maximise access to funded learning and development programmes. The future focus for managers will build on the current provision of training and continue to encourage inspired individuals to gain and apply knowledge, skills, insights and attitudes to their roles. Staff have been a key priority during the COVID pandemic, with many working long hours and going 'out of their way' to ensure that residents were looked after. Programmes to help with staff well-being have been made widely available and advertised on a regular basis. Managers have been requested to look after both service delivery and staff well being in a balanced way. | CMB | Jan-2021      | Jul-2021    | Ongoing<br><br>Ongoing            | 3                   | 4                    | 12 | All Well-Being Objectives  |
| 9            | Important council services are compromised due to the failure of a key supplier   | If the suppliers of council services are not resilient there is a risk that they may fail to deliver those services leading to disruption for citizens and the council, which will be impacted as it seeks to restore provision and suffers a loss of reputation.   | 4              | 4           | 16    | Treat or Transfer | The council's strongest defence against this is through its procurement strategy and procurement processes. When tendering for services the council requires contingency arrangements to be in place to allow for the eventuality of supplier failure (for example in the case of refuse and recycling collection contracts). The council also seeks to shape the market where possible to avoid over reliance on single suppliers (for example in social care). Where appropriate contract conditions are included to ensure the contractor has the appropriate level of security required for the service they provide. This will differ depending on the nature of the service and the legal requirements applicable.   | Social Services have quarterly forum meetings with providers where risks, issues and pressures are identified. There are regular contract monitoring visits to monitor performance and quality. This has continued throughout the pandemic.<br><br>Directorates to monitor the financial performance and stability of contractors on an ongoing basis. Dialogue with some major suppliers is required and contingency planning has been progressed. This has become increasingly important due to the fragility of the market and the economic situation as a result of COVID. Many suppliers are going through difficult times and we will need to monitor closely to ensure that critical services do not collapse.  | CMB | Jan-2021      | Jul-2021    | Ongoing<br><br>Ongoing            | 4                   | 3                    | 12 | Helping people and communities to be more healthy and resilient and smarter use of resources |

| No.     | IDENTIFIED RISK   |   |                | ACTION PLAN |       |                |  |   |     |               |             |   |                     | Well-Being Objective |    |                          |
|---------|---|---|----------------|-------------|-------|----------------|--|---|-----|---------------|-------------|---|---------------------|----------------------|----|--------------------------|
|         | There is a risk that if..   | Consequences of risk  | Raw risk score |             |       | Control method | How is the council addressing this risk  | Key actions to be established - NB business as usual activity not reflected here  | who | Last Reviewed | Next Review | Action completed by   | Residual risk score |                      |    |                          |
|         |   |   | Li             | Im          | Total |                |  |   |     |               |             |   | Li                  |                      | Im | Total                    |
| Page 93 | The Council is in breach of the GDPR because Directorates do not take ownership of, or properly resource, their responsibilities under the Regulation (GDPR).   | If Directorates do not comply with the GDPR action may be taken by the regulator which could result in fines and in a loss of reputation for the council, including with citizens. Properly complied with, GDPR will increase public trust and citizens confidence in how their data is handled by the Council.   | 4              | 4           | 16    | Treat          | Prior to GDPR an implementation group was established with representation from each Directorate and each Directorate undertook an audit of the data it holds. The Information Governance Board meets quarterly. A Data Protection Officer has been appointed and the council has undertaken a review of its data protection and privacy policies and procedures, established an E-Learning model for staff and also provided training to Members. There is a data breach reporting procedure in place.   | Directorates to ensure that staff have access to all the data protection policies and undertake the mandatory e-learning training. There is a risk of GDPR not being reflected by staff when performing certain activities leading to non compliance and penalties imposed by the ICO. The information Governance Board is continuing to meet. Following the move to remote working, staff have been reminded of compliance via Bridgenders messages and another message is due imminently.   | CMB | Jan-2021      | Jul-2021    | Ongoing   | 3                   | 2                    | 6  | Smarter use of resources |
| 11      | Recovery/restoration of services - the restoration of some Council services will require new ways of working to be established and implemented to ensure Covid safe environments for staff and the public . | Additional measures will need to be considered, with revised protocols with potentially additional costs, and increased operational burdens, to meet relevant guidance and provide safe service and working environments. Specific measures at a Directorate level will need to be assessed for the reopening of schools, including school transport and catering arrangements and assessing the needs of pupils with additional learning needs. Assessing the additional social care implications from having to work more remotely including the impact of remote assessments and less direct face to face contact for things like day services, the additional service requirement to meet the enhanced expectation that all homeless people will be provided with housing options and wrap around services, and the safe distancing, cleansing and hygiene and enhanced ICT provision required to allow effective reopening of the Council's core office portfolio on a gradual basis as well as better supporting agile working and working from home on an ongoing and more permanent basis, ensuring all health and safety requirements are understood and addressed. There is also a general risk that some members of the public, some staff and some elected members will not necessarily understand why new and different ways of working are necessary and may not be supportive, for example increased working away from the office and services offered on a predominantly 'digital' basis. These issues may result in decreased capacity and therefore an inability to meet service demands, potential for claims against the Council based on health and safety, an increased likelihood that some residents will be unable or unwilling to take up provision of services, an increased financial burden on the Council on a recurring basis. | 5              | 4           | 20    | Treat          | Full risk assessments at a service level will provide evidence of where interventions are required and new ways of working need to be implemented. A risk tool for individual members of staff and elected members will be distributed for self assessment to determine if special measures are required to be implemented to protect those individuals. Revised protocols are being developed to advise staff on good practice and business cases are prepared where additional investment is required to meet new operating procedures. Enhanced communication with staff, elected members and the public (including parents and pupils) will be necessary to mitigate some concerns and fears and ensure a better understanding of the Council's position. Local coronavirus restrictions were replaced when at the end of December 2020 higher-level restrictions came into force in all of Wales to control the spread of the virus which was accelerating and present in all local communities, these restrictions would continue to protect the public health for people living in the country. The main restrictions are:<br>- closure of all non-essential retail including close contact services & all leisure & fitness centres<br>- closure of all hospitality premises<br>- tighter restrictions on household mixing, staying at home & holiday accommodation<br>- to not create an extended household (single adults or single parents may join with one other household to form an exclusive support bubble)<br>- to not travel without reasonable excuse. | Comprehensive service risk assessment, implement key actions from the service recovery plans completed by Directorates, identify and action the lessons learnt from the experiences of service provision over the last 5/6 months during the pandemic and lockdown, identify and consider service business cases for additional investment (as well as where there might be some savings from stopping areas of service or closing previous provision), ensuring ongoing and comprehensive communication and engagement as necessary. | CMB | Jan-2021      | Jul-2021    | Ongoing recovery once second wave of virus eases & subject to future peaks. | 5                   | 3                    | 15 | Smarter use of resources |

| IDENTIFIED RISK |   |   |                | ACTION PLAN |       |                |   |   |                               |               |             |   |                     |     |       |   |
|-----------------|---|---|----------------|-------------|-------|----------------|---|---|-------------------------------|---------------|-------------|---|---------------------|-----|-------|---|
| No.             | There is a risk that if..   | Consequences of risk  | Raw risk score |             |       | Control method | How is the council addressing this risk   | Key actions to be established - NB business as usual activity not reflected here  | who                           | Last Reviewed | Next Review | Action completed by   | Residual risk score |     |       | Well-Being Objective                        |
|                 |   |   | Li             | Im          | Total |                |   |   |                               |               |             |   | Li                  | Im  | Total |   |
| 12              | Public Health/Protecting the Public - the Council will need to take an enhanced public health leadership role for a sustained period of time and that this will need to be prioritised and resourced at the expense of other services that are normally provided, and that without proper and comprehensive planning to carry out the additional functions of test, trace and protect, a potential mass vaccination programme and continued and ongoing protection of the vulnerable (including mental health services) and previously shielded individuals to ensure they have the services and support they require, as well as an advisory and enforcement role to ensure compliance with Covid regulations, Covid 19 virus infections will potentially rise locally with a significant overall impact on public health and consequential impact on the local economy. | A need to divert resource to ensure adequate planning, together with our partners in the Health Board and the third sector, of programmes of work to address these matters which if they are not dealt with properly or the measures are ineffective will lead to increased local infection and potentially increased fatalities, increased sickness levels including for the Council, significantly increased demand for services and in a worst case scenario further local lockdowns.  | 3              | 5           | 15    | Treat          | Planning effectively with our partners a joint Cwm Taf Morgannwg TTP team has been established across the Bridgend, RCT and Merthyr area to ensure enhanced resilience and, following initial secondments, a full time team is now being appointed based in RCT. A planning team, again on a regional basis, is planning for a mass vaccination programme but the likely timescale for a vaccination is still unknown. Enhanced support for staff wellbeing has been put in place and service provision and regular contact with vulnerable individuals has been maintained even though 'shielding' has for the time being been halted. A local response plan, should local lockdown be required, has been prepared and signed off.<br>Local coronavirus restrictions were replaced when at the end of December 2020 higher-level restrictions came into force in all of Wales to control the spread of the virus which was accelerating and present in all local communities, these restrictions would protect the public health for people living in the country. Please refer to Risk 11 for details of the restrictions in place. | Establishment of sustainable and resilient TTP team and programme of work, workstream established to plan and prepare for mass vaccination requirement, engagement and support procedures for most vulnerable established, enhanced wellbeing support offered, local response plan has been developed in the case of any need to consider local lockdown, SRS team engaged with local businesses and community groups to promote good Covid safe practice and where necessary to consider enforcement if there is an obvious and flagrant public health risk from breaches of regulations.  | CMB                           | Jan-2021      | Jul-2021    | Ongoing during the remainder of the financial year and into 2021-22, particularly in view of the enhanced risk of the prevalence of the virus increasing during winter months, although some of these activities are likely to stay with us long term and will in due course need to become business as usual | 3                   | 5   | 15    | Smarter use of resources                    |
| 13              | Invigorating the economy and economic recovery - there will be a prolonged and deep economic recession following the Covid pandemic and the uncertainties of the impact of the UKs withdrawal from the European Union, compounded by local issues such as the impending closure of the Ford engine plant.   | There will be an increase in unemployment and the number of local benefit claimants. This impact may increase further at the end of the UK government's 'furlough' scheme which has been extended to the end of March 2021, with the potential for further business failure at that point. In addition there is likely to be a consequential impact on town centre footfall and increased empty retail properties, as potentially there will be less disposable spending locally. Increased financial hardship may also lead to an increase in demand for some Council services including those of the economic development, council tax, employability, mental health, domestic abuse and homelessness services. | 5              | 3           | 15    | Treat          | By seeking to support local businesses and individuals by signposting them to appropriate financial support, skills training and support services, and progressing schemes to develop opportunities to set up and establish new business. Local coronavirus restrictions were replaced when at the end of December 2020 higher-level restrictions came into force in all of Wales to control the spread of the virus which was accelerating and present in all local communities, these restrictions would protect the public health for people living in the country. Please refer to Risk 11 for details of the restrictions in place.  | Establish the local economic recovery taskforce and identify and implement the recommended actions. Liaise closely with colleagues in the Cardiff Capital Region and Welsh Government to identify and target opportunities for investment to stimulate and invigorate the economy. Seek to signpost opportunities for training, support and new jobs by targeting the work of the Council's Employability teams. Administer and target financial grant schemes and provide support to local businesses to adapt to new circumstances. Progress existing economic development schemes to provide more opportunities for business 'start up' by developing enterprise hubs throughout the County Borough. Agreeing direct intervention initiatives where the Council controls the cost of some relevant services, for example free car parking /car parking offers in town centres, rental holidays/reductions for businesses where the Council is the landlord. Develop the economic plan and allocate the Economic Futures Fund, targeting key area's identified to support the business and economy of Bridgend. | CMB / Economic Recovery Panel | Jan-21        | Jul-21      | Ongoing   | 5                   | 2   | 10    | Supporting a successful sustainable economy |
| 14              | School closures/partial school closures   | Not able to ensure standards; wellbeing and safeguarding. Loss of senior leaders in schools through early retirement or ill health  | TBD            | TBD         | TBD   | Treat          | Business resilience plan developed in partnership with schools; Use of RRRS (Recruit, Recover, Raise Standards) grant to recruit more teachers to support catch up programmes for pupils  | Succession planning for continuity of key leadership functions  | CMB                           | Jan-21        | Jul-21      | Ongoing   | TBD                 | TBD | TBD   | Smarter use of resources                    |
| 15              | Schools are not able to maintain educational standards  | Inhibit progress for schools currently in special measures/ in need of significant improvement  | TBD            | TBD         | TBD   | Treat          | Work closely with Qualifications Wales / WJEC, Estyn and Welsh Government to determine most equitable way forward   | Working closely with schools in their use of RRRS grant for Welsh Government  | CMB                           | Jan-21        | Jul-21      | Ongoing   | TBD                 | TBD | TBD   | Smarter use of resources                    |

**Control Method Definition**

| Definition | Meaning   |
|------------|---|
| Treat      | To continue with the activity, but at the same time take action to bring the risk to an acceptable level. |
| Transfer   | Transferring the responsibility of the risk to outside the Council.                                       |

# **APPENDIX B**

## **Bridgend County Borough Council**

### **Corporate Risk Management Policy**

#### **Final**

January 2021

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# **Bridgend County Borough Council** **Corporate Risk Management Policy**

## **Introduction**

Good corporate governance structures are essential if the Council is to achieve its vision of being “One Council working together to improve lives” within the County Borough. An essential part of governance is the mechanisms for the control and management of risk. There must be a clear focus on the significant risks that could prevent the Council achieving its corporate well-being objectives under the Well-being of Future Generations (Wales) Act 2015 and this policy seeks to address those risks.

Good governance requires that risk management is embedded into the culture of the Council with Members, managers and staff at all levels recognising that risk management is part of their job. It is important that the changing nature of how we deliver services is acknowledged. In particular, the increasing use of partnerships, shared services and business transformation programmes and the shift to remote working for some staff provide fresh risks to manage.

This policy facilitates the management of corporate risk within the Council; it focuses attention on key areas and its outcomes will inform the budget process and the Medium Term Financial Strategy.

## **Definition of Risk**

The definition of risk the Council uses is:

Any potential development or occurrence which, if it came to fruition, would jeopardise the Council’s ability to:

- achieve its corporate well-being objectives
- provide services as planned
- fulfil its statutory duties, including the duty to make arrangements to secure continuous improvement.

## **Aims and Objectives**

The aim of the policy is to facilitate effective corporate risk management throughout the Council so that risks are identified, evaluated, managed and monitored to enable the Council to achieve its corporate well-being objectives.

This will be done by:

- Managing corporate risk via a process that is integrated into usual business planning and is aligned to budget setting and the Medium Term Financial Strategy.
- Monitoring key corporate risks at the highest level within the Council, including:
  - Cabinet
  - Corporate Management Board
  - Corporate Performance Assessment meetings, which are part of the 'informal' management arrangements involving Corporate Management Board/Heads of Service/Cabinet and Scrutiny
  - Overview and Scrutiny Committees
  - Governance and Audit Committee.
- Working closely with partner organisations and other bodies such as Audit Wales
- Managing corporate risk via a process that is compatible with any guidance provided by regulatory bodies.

## **Strategy**

Risk will be managed by:

- Providing for risk identification within the business planning process
- Assessing risks against a common understanding of the Council's risk appetite set by Cabinet and Senior Management Team
- Establishing appropriate control measures or other actions to manage risks to appropriate levels
- Maintaining a register of corporate risks which enables them to be recorded and regularly reviewed
- Establishing clear accountabilities and roles
- Ensuring that the risk assessment is considered within the budget setting process and the Medium Term Financial Strategy
- Making the link to corporate well-being objectives
- Learning from incidents and near misses

- Having arrangements to monitor risks involving elected Members and senior management. (Corporate Performance Assessment Meetings and Corporate Working Groups are examples of these)

## **Accountabilities and Roles**

A key part of the strategy is to establish clear roles, responsibilities and reporting lines within the Council.

### **Governance and Audit Committee**

The Governance and Audit Committee will monitor the effective development and operation of risk management and corporate governance within the Council. The Committee will consider the report on the annual risk assessment in January and a further interim report in September detailing changes in the course of the year.

### **Cabinet**

Together with the Corporate Management Board the Cabinet will set the Council's risk appetite. They will also work with the Corporate Management Board and Heads of Service to provide oversight and information on the management of risk and opportunities arising from the various options facing the Council.

### **Cabinet Members**

Cabinet Members provide risk management oversight of service provision in the Directorates aligned with their portfolio.

They must be made aware of the key risks within their portfolio of services and within any projects or partnerships related to these.

### **Chief Executive**

The Chief Executive leads the Corporate Management Board, and the wider corporate governance agenda of which risk management is a part. The Chief Executive will review an annual governance statement and together with the Leader consider this and sign it off as appropriate.

### **Corporate Directors**

Together with the Chief Executive they are integral to the risk management process providing leadership to achieve cultural and organisational change. They are involved in the management of risks arising from corporate initiatives, business transformation, major projects, external environment, partnership working and assessing the wider implications of risk assessments and incidents and near misses associated with service provision.

They also need to make arrangements to embed risk management within the services that they have responsibility for, in order to provide assurance to the Chief Executive. They have responsibility for the delivery of Directorate plans, including service improvements and efficiencies and the delivery of corporate wellbeing objectives.

## **Corporate Performance Assessment Meetings**

Led by the Chief Executive; Cabinet, Corporate Management Board and Overview and Scrutiny Chairs will consider the extent to which business plans are being delivered and challenge senior officers about progress towards the achievement of corporate well-being objectives. This will include review of the risks which are relevant to each priority.

## **Directorate and Service Management Teams**

Managers and management teams have responsibility for delivering services. For successful delivery, many factors such as objectives, people, budget etc must be considered. Risk management is just one aspect of the overall management task. Risks which threaten the successful delivery of services must be identified through the business planning process. Managers will put in place actions to reduce the risks. These will be monitored and reviewed to ascertain the effectiveness of actions taken.

## **Heads of Service**

Heads of Service develop and implement service plans to deliver agreed objectives. They should ensure that risks and the management of those risks has been explicitly considered in framing these plans. They must also receive reports of incidents and near misses and manage the response for those where they have responsibility.

## **Internal Audit**

Internal Audit is an assurance function that primarily provides an independent opinion on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the Council's corporate well-being objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic and effective use of resources.

## **Members**

Members collectively are the ultimate policy makers. They will represent their communities and bring their views into the Council decision making process being advocates of and for their communities. They contribute to the continual improvement of Council services and directly to risk management via membership of the Audit and Overview and Scrutiny Committees.

## **Overview and Scrutiny Committees**

Overview and Scrutiny Committees develop a forward work programme having regard to the Council's corporate priorities and risk management framework. They review and scrutinise the decisions made by and the performance of Cabinet and Council officers. They scrutinise the performance of the Council in relation to its policy objectives and performance targets. They make recommendations to the

Cabinet and Council arising from the outcome of the scrutiny process. They consider a report of incidents and near misses on an annual basis and ensure that they are satisfied with the actions taken to prevent a reoccurrence.

### **Insurance and Risk Officer**

The Insurance and Risk Officer will co-ordinate work on the annual risk assessment and subsequent reviews and act as a point of reference and support. The Insurance and Risk Officer will also maintain a database of the incidents and near misses and a report will be provided on an annual basis to the Governance and Audit Committee.

### **Section 151 Officer**

The Section 151 Officer is responsible for the proper administration of the Council's financial affairs and oversees the production of the risk register prior to its consideration by Senior Management Team. They must ensure that risks are fully considered and aligned with the Council's Medium Term Financial Strategy.

### **Corporate Management Board**

Together with the Cabinet the Corporate Management Board will set the Council's risk appetite. They will also "scan the horizon" for new risks to the Council and the County Borough. They will provide a view of the medium to long term impacts of Government policy, financing, business transformation and partnership working.

Corporate Management Board will work with Cabinet to produce an annual risk assessment. They will review the effectiveness of actions put in place by Corporate Directors and Heads of Service to mitigate risk at other meetings though out the year.

Corporate Management Board will endeavour to ensure that the resources of the Council are utilised efficiently so that the objectives of the Council are delivered.

### **Staff**

All staff have responsibility for identifying opportunities as well as risks in performing their day to day duties, and for taking appropriate action to take advantage of opportunities or limit the likelihood and impact of risks. They also have a responsibility to report incidents and near misses to their line manager and contribute to any subsequent investigation.

# **Risk Management Methodology**

The risk management methodology describes the way in which risks are managed within the Council.

## **Part 1 – Setting the Council’s Risk Appetite**

Risks must be assessed against the Council’s risk appetite. Risk appetite can be defined as the amount of risk that an organisation is prepared to accept, tolerate or be exposed to before it takes protective action. Setting a risk appetite helps the Council to view risks in a consistent way across all service areas.

## **Part 2 - Identifying Risk**

Risk identification is not a stand alone activity which is completed in isolation from the management of service delivery. It is part of the strategic business planning and performance management processes.

It is concerned with identifying events and their consequences which could impact on the Council’s corporate well-being objectives. Consequently, the starting point is understanding what these are; they are set out within the Corporate Plan.

It can help to use prompts which identify different sources of risk. These include:

- Customer/citizens: Failure to deliver services of a required standard or misunderstanding their needs
- Strategic: doing the wrong things as an organisation; missing opportunities
- Finance: losing monetary resources or incurring unacceptable liabilities
- Reputation: the Council’s image, loss of public confidence
- Legal and regulatory: claims against the Council, non-compliance, new regulations resulting in new or more severe risks
- Information: loss or inaccuracy of data, systems or reported information
- Environmental: things outside of our control; environmental impact
- People: risks associated with employees, management and Members
- Political: political embarrassment, not delivering local or national policies
- Partnerships: the risks the Council is exposed to as a result of partnerships

These categories can be used in discussion to identify events that could prevent or hinder the council from achieving its objectives.

The ideas from these discussions need to be grouped into common themes and developed into the actual risk.

The risk description should have an event which leads to a consequence which then has an impact. Eg. A loss of xxxxxxx, will lead to xxxxxxx, resulting in xxxxxxx.

### **When will risks be identified?**

Risk identification is not a stand alone activity. It forms part of good governance, business planning, decision making and performance management. A key opportunity to identify risk is during the budget process, when the Medium Term

Financial Strategy is being agreed and when Directorate business plans are considered.

### Part 3 - Assessing the raw risk

Once the risks that threaten the achievement of the Council's corporate well-being objectives have been identified, the next step is to assess them in terms of the likelihood that they will occur and the impact if they do. This information will then be used as a tool to inform professional judgements as to the significance of the risks to the Council.

The Council has agreed criteria for the levels of likelihood and impact. These are shown in Tables 1 and 2 below. The definitions for likelihood of occurrence are quite short. However, because the impact of the risk, should it occur, can be much wider, there is a more comprehensive set of definitions.

When considering likelihood and impact you should not take into consideration any existing controls that are in place. The risk score you have will be a raw, inherent or uncontrolled score.

When both the likelihood and impact have been considered, multiply the likelihood by the impact to get the overall risk score. This should be mapped on to the matrix in Table 3. The colours of the matrix are a traffic light system. Those which exceed the Council's risk appetite are in the high risk **red zone** and the **amber zone** medium risk. Low risks are the **green zone**.

The risk score should be used to inform your judgement, rather than dictate how risks compare and what the priorities should be. The scores help you to identify the most serious threats and to make decisions about the significance of those risks to the Council and how, or whether, they should be treated.

**Table 1: Description and definitions of LIKELIHOOD of the RISK occurring**

| Score | Description                                      |
|-------|--|
| 5     | Highly likely to happen - More than a 80% chance |
| 4     | Likely to happen – 60% to 79% chance             |
| 3     | Will possibly happen – 40% to 59%                |
| 2     | Unlikely to happen – 20% to 39%                  |
| 1     | Highly unlikely to happen – Less than 20%        |

**Table 2: Description and definitions of IMPACT of the RISK**

| Impact | Example Detail Description  |
|--------|---|
| 5      | Long term loss of service capability<br>Long term negative perception of council<br>Litigation is certain and impossible to defend<br>Significant corporate budget realignment<br>Breaches of law punishable by imprisonment                  |
| 4      | Medium term loss of service capability<br>Adverse UK wide publicity<br>Litigation almost certain and difficult to defend<br>Some corporate budget realignment<br>Breaches of law punishable by fines  |
| 3      | Short term loss of service capability<br>Adverse Wales wide publicity<br>Litigation to be expected<br>Budget adjusted across service areas<br>Breaches of major statutory duty  |
| 2      | Short term disruption to service capability<br>Adverse local publicity<br>High potential for complaint, litigation possible<br>Financial implications contained within the Directorate<br>Breaches of statutory regulations/standards         |
| 1      | No significant disruption to service capability<br>Unlikely to cause any adverse publicity<br>Unlikely to cause complaint or litigation<br>Financial implications contained within service area<br>Breaches of local procedures or standards. |

Now that the raw risk score has been calculated, you can plot the risks on to the risk prioritisation matrix in Table 3. This will be a guide of their relative significance to the Council, and how they will be managed.

**Table 3: Risk Prioritisation Matrix**

|            | Impact |    |    |    |    |
|------------|--------|----|----|----|----|
| Likelihood | 5      | 10 | 15 | 20 | 25 |
|            | 4      | 8  | 12 | 16 | 20 |
|            | 3      | 6  | 9  | 12 | 15 |
|            | 2      | 4  | 6  | 8  | 10 |
|            | 1      | 2  | 3  | 4  | 5  |



## Part 4 - Managing and controlling risks

Having considered how corporate risks should be identified and assessed for likelihood and impact, it is necessary to consider how risks can be managed and controlled. The risk score should not dictate the level of management required, however it should be taken into consideration as it does point to matters that will require managing.

This involves:

### Assessing the raw risk against the Council's risk appetite

The degree to which a raw risk is tolerable should be considered against the Council's risk appetite score of 10. Table 3 identifies which risks are high (**red zone**), medium (**amber zone**) or low (**green zone**).

### Assigning ownership to manage the raw risk to specific officers

The following is a guide to the correct level of ownership.

**Red Risks** – These are high risks that exceed the Council's risk appetite. They require active management by senior officers. The risk owner will be a member of and report to the Corporate Management Board

**Amber Risks** – These are medium risks that exceed the Council's risk appetite. These should be closely monitored by the risk owner who will be a Director or Head of Service

**Green Risks** – These risks are within the Council's risk appetite and will be managed and monitored within the service.

### Assessing the method of control

The Council could tolerate the risk, treat it, terminate it or transfer it to a third party.

The cost and effectiveness of controls is a key consideration and needs to be balanced against the potential consequences (reputational, financial or otherwise) if the event occurred. The cost of implementing and operating the control should not normally exceed the maximum potential benefit.

Depending on the circumstances controls will probably fall under one of four basic approaches

- **Tolerate the risk.** The risks arising from an activity will be scored as part of a risk assessment process. If the score is low, the correct response might be to recognise that the activity brings risk, but still continue with it. You would typically take this approach when it is not cost effective to take action, because the likely impact of the risk, should it occur, is minimal. When a decision is made to tolerate a risk, the reason should be documented. In addition, you should continue to monitor the risk so that you can ensure that your decision remains sound.

- **Treat the risk.** This is the most widely used approach. The purpose of treating a risk is to continue with the activity, but at the same time take action to bring the risk to an acceptable level. This is done through either:

*containment actions.* These lessen the likelihood or consequences and are applied before the risk materialises

or

*contingent actions.* These are pre planned responses that will reduce the impact after the risk has happened.

- **Terminate the risk.** This involves stopping an activity altogether, or doing things differently so that the risk is removed.
- **Transfer some aspects of the risk to a third party.** The transfer of risk to another organisation can be used to reduce the financial exposure of the Council and/or pass the risk to another organisation which is more capable of effectively managing it. An example would be the transfer of a risk through the terms of a legal contract, such as an insurance policy. The Council has an Insurance Strategy which is shown in Appendix 1.

The cost of management and control should be understood and be proportionate to the risk being addressed. Resources should be expended on the higher level risks that need active management.

The reasons why a particular course of action has been taken should be documented and the decision implemented by the risk owner.

## **Part 5 – Assessing the residual risk**

By this stage the risks have been identified and analysed and each has a raw or uncontrolled risk score. In addition you have assessed the available controls and made decisions about which are appropriate and will be put in place. These controls will either make the likelihood that the risk will come to fruition less or they will reduce the impact of the risk in the event that it takes place.

As the likelihood or impact of the risk has changed you now need to rescore the risk, taking these changes into consideration. The resulting number is the residual risk score.

The mapping of the score on to the matrix in Table 3 should be repeated to record the residual risk. This will show what influence the controls have had. The residual risk score should be lower than the raw risk score. If it isn't, the mitigation measures are just having the effect of stopping the risk from deteriorating. The residual risk score needs to be at an acceptable level when considered against the Council's risk appetite. If the score does not reduce the risk to an acceptable level you should consider the effectiveness and adequacy of the controls.

## Part 6 - Recording and Reviewing Risks

It is necessary to monitor action plans to regularly report on the progress being made in managing risk. Alternative action will be needed if those actions initially taken prove ineffective.

All the information relating to the identified risks should be recorded in a risk register. This information should, as a minimum, include: the link to the corporate well-being objectives, a description of the risk; its impact; the raw risk score, the controls in place or being put in place; the residual risk score and the risk owner. This document needs to be formally approved by the Council and this will be done by the Governance and Audit Committee in January each year following prior review by Senior Management Team and Cabinet in December.

Circumstances and business priorities can change, and therefore risks need to be regularly reviewed. The higher the risk, the more frequent the review. The corporate risk register will be reviewed quarterly by Senior Management Team and at Corporate Performance Assessment meetings. This is required because:

- Previously identified risks will change over time.
- New risks arising will need to be added.
- It might be appropriate to delete risks. However, when this is done a record of the reasons for this should be kept.

Prior to review at Senior Management Team, the Insurance & Risk Officer will contact the Directorate Business Managers and ascertain what changes to the risk assessment are proposed by the Directorate. These proposals will be included within the report to Senior Management Team for their consideration.

A timeline for the review process is shown as Appendix 2.

Whilst there is no prescribed process for review, the following is an example of how it could be approached.

Go through the risks listed in the register to consider:

- Are the risks still relevant?
- Have circumstances surrounding the risks changed?
- What progress has been made in managing the risk?
- Given the progress made, do the risk scores need revising?
- Are any further controls needed? If so, what should these be?
- Have any new risks arisen. Perhaps arising out of an adverse event or a new partnership or legislation.

The risk register should then be updated to reflect these changes. A report will be made to the Governance and Audit Committee each September.

## **Appendix 1 - Insurance Strategy**

### **What is Insurance?**

All activities involve a certain degree of risk, for example of fire or accident. If these risks come to fruition they will have a financial impact. Insurance is a risk mitigation measure whereby one organisation can transfer the financial impact of the risk to another.

This transfer is achieved when a business which provides insurance agrees to take on some of the risks of another organisation in exchange for a fee, known as a premium. It does this by providing an insurance policy, which is a legally binding contract. The premium, and the terms and conditions of the policy are based on the likelihood of the risk happening and its value. The insurer collects premiums on a number of policies and pools these funds, which it then invests to increase the amount of money held. Should the insured make a claim on a policy; the insurer will meet the claim from the pool of funds. The insurer will seek to make a profit and will be planning for the total premiums it receives in any one year, together with any money it can make through investments, to exceed the total claims it has to pay out.

### **The benefits of Insurance to Bridgend County Borough Council**

Insurance provides the council with many benefits:

- 1) It protects it against the financial consequences of unexpected incidents.
- 2) It encourages the council to undertake activities, and invest with confidence, knowing that losses will be shared with the Insurer. This will benefit the local economy and the community.
- 3) Insurance companies provide expert advice about how the council can prevent or control losses.
- 4) The council does not need to maintain such significant sums of money in reserve to fund future possible losses. Funds can be released for more productive use.
- 5) There are social benefits. If someone is injured and it is as a result of the council's negligence, insurance provides them with compensation for their injuries.
- 6) We have access to external claims handling expertise.

However, Insurance does not provide a panacea to all issues around risk of loss. This is because it rarely provides full financial compensation for the loss, it may be considered uneconomic, there are exclusions and there will be some delays in the restoration of assets to full use.

## **What risks can be insured?**

Not all risks are insurable. To be insurable, the risk must have certain characteristics:

- 1) The loss must be fortuitous. It can't be inevitable and must be unexpected.
- 2) It must be possible to allocate a financial value against the results of the incident.
- 3) The council must have an "insurable interest". This exists if the council would suffer financially if an event happened. Typically, insurable interest is established by ownership, possession, or a direct relationship.
- 4) The only possible result of the event happening must be a loss rather than a profit.
- 5) The loss must be tied in to a specific identifiable event having happened.

## **What risks will the council insure?**

The council's activities result in a certain amount of predictable financial loss. There is no point in insuring these losses because the Insurance Company will want a pound in premium for each pound it anticipates it will pay in claims. In addition it will charge a further amount for its administrative expenses, profit and insurance premium tax. In these circumstances the purchase of insurance is uneconomic.

The council will insure losses which would have a significant impact on budgets and the provision of services. This is generally achieved by purchasing insurance with a deductible. The overall exposure to financial loss is controlled by an aggregate deductible. This caps losses incurred in any one year to a certain amount.

The council will also buy insurance when it has to by law or where the provision of the insurance provides additional benefits which enable the activity to take place.

## **What information should be provided to Insurers?**

The Insurance Act 2015 puts a duty on policy holders to make a "fair presentation" of the risk. This means that it must disclose to its Insurers all information, facts and circumstances which are, or ought to be, known to it, which are material to the risk. This is an ongoing duty and so if anything changes during the term of the Insurance this should be disclosed during the policy period. A "material" circumstance is one which would influence the judgement of a prudent underwriter in considering whether to provide insurance and, if so, on what basis and cost. This means that the Council is required to ascertain and disclose every material circumstance which is known by its "senior management" and by the individuals who are responsible for arranging its insurance.

The Council is also required to conduct a "reasonable search" for material information it ought to know that is available to it, which includes material information held by others outside the organisation, and by those to be covered by the insurance.

## **How will the council maintain the insurance arrangements?**

The council will seek to keep its insurance arrangements in order so that if a loss occurs they respond in the way intended. In particular the council will:

- 1) Undertake a quinquennial review of its buildings sums insured. Between reviews sums insured will be amended in line with indices provided by the Royal Institute of Chartered Surveyors.
- 2) Be aware of the policy wordings and understand what they mean.
- 3) Keep insurers apprised of changing risk features which will have a material impact on the way Insurers perceive risk.
- 4) Maintain comprehensive records of insurance including Insurance Policy documentation.
- 5) Employ the services of a professional insurance broking company who can provide expert advice
- 6) Only transfer risks to Insurance Companies which are financially strong.

## Appendix 2 - Risk Management Timeline 2021-22 (Subject to agreement of Governance and Audit Committee dates)

| <b>Timeline</b> | <b>Responsibility</b>                     | <b>Action</b>  |
|-----------------|---|--|
| January 2021    | Governance and Audit Committee            | Considers the 2021-22 risk assessment and agree proposed changes to the Risk Management Policy   |
| February 2021   | Cabinet/Council                           | Considers the 2021-22 risk assessment in conjunction with the Medium Term Financial Strategy   |
| June 2021       | CPA                                       | Risk assessment considered at quarter 4 2020-21 CPA  |
| July 2021       | CMB                                       | Review of the 2021-22 risk assessment  |
| August 2021     | Governance and Audit Committee            | Governance and Audit Committee considers the changes made to the 2021-22 risk assessment   |
| October 2021    | CMB                                       | Review of the 2021-22 risk assessment  |
| November 2021   | CPA                                       | Risk assessment considered at quarter 2 2021-22 CPA  |
| December 2021   | Cabinet                                   | Consider draft 2022-23 risk assessment   |
| January 2022    | CMB<br><br>Governance and Audit Committee | Consider draft 2022-23 risk assessment and agree proposed changes to the Risk Management Policy<br><br>Considers the 2022-23 risk assessment |
| February 2022   | Cabinet/Council                           | Considers the 2022-23 risk assessment in conjunction with the Medium Term Financial Strategy   |
| February 2022   | CPA                                       | Risk assessment considered at quarter 3 2021-22 CPA  |

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APPENDIX C  
REPORTED INCIDENTS & NEAR MISSES & ACTIONS TAKEN IN 2020

| Month/<br>Year<br>Reported | Details of Incident or Near Miss   | Type of<br>Establishment | Scoring    |        |               | Zone<br>Responsibility *    | Action Taken /Lessons Learnt   |
|----------------------------|--|--------------------------|------------|--------|---------------|-----------------------------|--|
|                            |  |                          | Likelihood | Impact | Risk<br>score |                             |  |
| Jan-20                     | 2 unsecured cash bags were handed to our secure cash collection provider with no supporting paperwork. Value £491. Our cash collection provider realised the error and contacted the school. | Comprehensive School     | 3          | 1      | 3             | Head of Service             | After this incident all staff were told that on no account was anyone, other than the cook in charge of financial responsibilities, to hand monies to our cash collection service. |
| Sep-20                     | Vandalism to roof of school community room by local children causing rain water to damage property.  | Primary School           | 4          | 3      | 12            | Directorate Management Team | Access points to roof reviewed. CCTV not working. Update 13/01/2021 - This has been identified as a Risk by a compliance audit and further action to be taken.                     |

\* Zone Responsibility

| Score       | Incident and Near Miss Procedure Reporting Responsibility                          |
|-------------|--|
| Score 1-9   | Head of Service & Head Teacher responsible for managing actions.                   |
| Score 10-12 | Incident reported to the Directorate Management team for review and investigation. |
| Score 15-25 | Incident reported to the Corporate Director.                                       |

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

#### REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE

##### PROGRESS AGAINST THE INTERNAL AUDIT RISK BASED PLAN (1<sup>st</sup> APRIL 2020 to 31<sup>st</sup> DECEMBER 2020)

#### 1. Purpose of report

- 1.1 To provide members of the Committee with a position statement on progress being made against the audit work included and approved within the Internal Audit Risk Based Plan 2020-21.

#### 2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:
- Smarter use of resources – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

#### 3. Background

- 3.1 In accordance with the Public Sector Internal Audit Standards, the Head of Internal Audit is responsible for developing a risk-based annual audit plan which takes into account the Council's risk management framework. Within the Standards there is also a requirement for the Head of Internal Audit to review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, controls and resources. The Head of Internal Audit must also ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.
- 3.2 The Internal Audit Plan for 2020-21 was submitted to the Governance and Audit Committee for consideration and approval on 10th September 2020. The Plan outlined the assignments to be carried out which will provide sufficient coverage to provide an opinion at the end of 2020-21 whilst having regard to the unprecedented impact of the COVID pandemic.

#### 4. Current situation/proposal

- 4.1 Progress made against the plan for the period 1st April to 31<sup>st</sup> December 2020 is attached at **Appendix A**. This details the status of each planned review, the audit opinion and the number of any high or medium recommendations made to improve the control environment. It should be noted that some reviews listed have no audit

opinion, for example advice and guidance, Audit Committee and Corporate Management Board (CMB) reporting. This is because the audit work carried out in respect of these items is planned but the nature of the work does not lead to testing and the formation of an audit opinion.

- 4.2 **Appendix A** illustrates that as at 31<sup>st</sup> December 2020, 16 items of work have been completed of which 12 audit reviews have resulted in an opinion being provided. A further 3 reviews have been completed and draft reports issued; these are awaiting feedback from Service Departments. A further 15 reviews are currently on-going with another 5 having been allocated and should be commencing shortly.
- 4.3 Based on the assessment of the strengths and weaknesses of the areas examined through testing of the effectiveness of the internal control environment an audit opinion of substantial assurance has been given to 1 completed review and an opinion of reasonable assurance to 10 completed reviews. The remaining completed audit review was given an audit opinion of limited, that is only limited assurance can be placed on the current system of internal control. This was discussed in the last Governance & Audit Committee meeting on 12<sup>th</sup> November 2020.
- 4.4 **Appendix A** identifies that a total of 16 medium (significant) recommendations have been made to improve the control environment of the areas reviewed. The implementation of these recommendations will be monitored to ensure that improvements are being made.
- 4.5 It is recognised that some service areas are currently under intense pressure and where possible planned audit work is rearranged to accommodate any service requests. **Appendix A** shows that many of the planned audit reviews have now been allocated and it appears that sufficient coverage will be completed by the year end to form an audit opinion.

## 5. Effect upon policy framework and procedure rules

- 5.1 There is no effect upon the policy framework and procedure rules.

## 6. Equality Impact Assessment

- 6.1 There are no equality implications arising from this report.

## 7. Well-being of Future Generations (Wales) Act 2015 implications

- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## 8. Financial implications

- 8.1 Effective Audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

## 9. Recommendation

9.1 That members of the Committee note the content of the report and the progress made against the 2020-21 Internal Audit Annual Risk Based Plan.

**Mark Thomas**  
**Head of the Regional Internal Audit Service**  
**January 2021**

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**Background Documents :**

None

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**Bridgend County Borough Council - Activity Against Audit Plan 1st April 2020 to 31st December 2020**

| Area                                     | Audit Scope / Risk   | Status       | Opinion     |            |         | Recommendations |        |
|--|--|--------------|-------------|------------|---------|-----------------|--------|
|  |  |              | Substantial | Reasonable | Limited | High            | Medium |
| Good Governance                          | To provide assurance that key Corporate Governance processes are in place and operating effectively to enable them to discharge their responsibilities. Assist in the AGS preparation  | completed    |             |            |         |                 |        |
| Safeguarding                             | An annual assessment of the Council's overall operating model for safeguarding; including reviewing the adequacy of assurances obtained by the Council in respect of safeguarding arrangements in place for vulnerable adults and children particularly having regard to the impact of COVID19.  | draft issued |             |            |         |                 |        |
| Grant Certification Work                 | Under the conditions of the specific grant determination, the Head of Audit must certify that the conditions of the grant have been complied with.   |              |             |            |         |                 |        |
|  | Education Improvement Grant 2019/20  | completed    |             | √          |         |                 | 0      |
|  | Housing Support Grant 2019/20  | completed    |             | √          |         |                 | 1      |
| Purchasing Cards                         | To provide assurance that the Council's guidance for purchasing cards is sufficient and there is compliance to these policies and procedures across the Council  | draft issued |             |            |         |                 |        |
| External Funding                         | To provide assurance that Council's processes and procedures are being complied with whilst also adhering to the specific grant funding terms and conditions.  | completed    |             | √          |         |                 | 0      |
| Risk Management                          | Successful risk management relies on a corporate approach to ensure that all risks are identified and managed systematically and consistently across the Council   | on-going     |             |            |         |                 |        |
| COVID - Remote Working                   | Increase in remote working due to COVID19 - impact on governance and internal control arrangements using a questionnaire   | on-going     |             |            |         |                 |        |
| General Data Protection Regulations      | This audit will review whether the Council has an effective control framework in place for ensuring that personal information that is gathered is only used for the purpose for which it was originally intended.  |              |             |            |         |                 |        |
| Procurement                              | This audit will review the procurement framework and a sample of individual procurement activities across the Council in order to evaluate the level of compliance with legislation and the Council's Constitution.  |              |             |            |         |                 |        |
| Material Systems – Key Financial Systems | A rolling programme of audits is adopted for material systems. The work programme for each year may differ, with each audit having varying amounts of system review, testing or a combination of the two to deliver a more cost-effective service. The new arrangements adopted due to COVID19 will be examined to provide assurance that controls are still in place. |              |             |            |         |                 |        |
|  | Income Collection & Cash Control   | on-going     |             |            |         |                 |        |
|  | Free School Meals  | on-going     |             |            |         |                 |        |
|  | Creditors  | on-going     |             |            |         |                 |        |
|  | Debtors  | allocated    |             |            |         |                 |        |
| Payroll                                  | Review starters and leavers, changing records / data   | completed    |             | √          |         |                 | 3      |
| Code of Conduct                          | To ensure that the internal processes in place in respect of the Members Code of Conduct are effective   | on-going     |             |            |         |                 |        |

| Area                                     | Audit Scope / Risk  | Status       | Opinion     |            |         | Recommendations |        |
|--|---|--------------|-------------|------------|---------|-----------------|--------|
|  |   |              | Substantial | Reasonable | Limited | High            | Medium |
|  | To ensure that the internal processes in place in respect of the Officers Code of Conduct are effective   | allocated    |             |            |         |                 |        |
| ICT Audit                                | In consultation with ICT, systems reviews will be undertaken across Directorates to ensure robust controls are evident and operating effectively and the ICT business continuity provision is effective   |              |             |            |         |                 |        |
|  | Review the control and distribution of ICT equipment since the increase of home working since the outbreak of COVID19   | on-going     |             |            |         |                 |        |
| Early Retirement / Redundancy            | Provide ensure transparency and assurance that Council's policies are adhered to  | allocated    |             |            |         |                 |        |
| Homelessness                             | Review the effectiveness of the systems in operation for processing applications and monitoring homelessness cases and select a sample of cases to review the application process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the decision to accept a homeless case has been made. | on-going     |             |            |         |                 |        |
| Coychurch Crematorium                    | A compliance review to complete the Annual Accounting Statement   | completed    |             | √          |         |                 | 1      |
| Porthcawl Harbour                        | A compliance review to complete the Annual Accounting Statement   | completed    |             | √          |         |                 | 0      |
| Project management / Contract monitoring | A review of the procedures and processes associated with a number of Contracts / Projects / Programme to ensure compliance to the Council's Rules and Regulations and Project Management Methodology associated with high risk contracts. Focus will be on tender and award and any impact COVID19 has had to these processes.            | allocated    |             |            |         |                 |        |
| Schools                                  | To undertake a number of school based reviews as well as cross cutting thematic reviews in accordance with the Internal Audit risk based assessment.  | see below    |             |            |         |                 |        |
| School CRSA                              | To undertake the annual controlled risk self – assessment for schools to enable Head Teachers to review their internal controls and to ensure that they undertake and comply with the requirements of current legislation and the Financial Procedure Rules.  | allocated    |             |            |         |                 |        |
| School deficits                          | To review the monitoring processes both within the school and between the school and LA to ensure that deficit balances are sufficiently monitored and the recovery plan is achievable  | completed    |             | √          |         |                 | 2      |
| ALN - Out of County Charges              | To provide assurance that monitoring of expenditure is adequate   | on-going     |             |            |         |                 |        |
| Looked After Children                    | Review the monitoring arrangements in place to provide assurance that the Council's interests are protected and agreed rates are paid.  |              |             |            |         |                 |        |
| Care Home Contracts                      | Review the actual financial impact of these contracts against the expectations to ensure efficiency and value for money and determine if COVID19 had had an impact on the financial arrangements in place   | draft issued |             |            |         |                 |        |
| Carry Forward from 2019/20               | Provision for those assignments which are still ongoing at the end of 2019/20.  |              |             |            |         |                 |        |
|  | C/F Council Tax Reduction Scheme  | completed    | √           |            |         |                 | 0      |
|  | C/F MasterGov System  | completed    |             | √          |         |                 | 1      |
|  | C/F Capital   | completed    |             | √          |         |                 | 0      |
| Closure of Reports from 2019/20          | To finalise all draft reports outstanding at the end of 2019/20.  | completed    |             |            |         |                 |        |



| Area  | Audit Scope / Risk  | Status    | Opinion     |            |          | Recommendations |           |
|---|---|-----------|-------------|------------|----------|-----------------|-----------|
|   |   |           | Substantial | Reasonable | Limited  | High            | Medium    |
| Follow up Limited Assurance Reports                 | To ensure that improvements have been made to the control environment since the previous limited assurance review.<br>BACS Follow Up  | completed |             | v          |          |                 | 3         |
| Recommendation Monitoring                           | Monitoring the implementation of Internal Audit recommendations in consultation with service areas which have received these recommendations.   | on-going  |             |            |          |                 |           |
| Annual Opinion Report 2019/20                       | To prepare and issue the Head of Audit's Annual Opinion Report for 2019/20.   | completed |             |            |          |                 |           |
| Annual Opinion Report 2020/21                       | Preparation for the production of the 2020/21 Annual Opinion Report.<br>To prepare and present the annual risk based audit plan for 2020/21.  | completed |             |            |          |                 |           |
| Audit Planning                                      | Preparation for the production of the annual risk based plan 2021/22.   |           |             |            |          |                 |           |
| Audit Committee /Members and CMB Reporting          | This allocation covers Member reporting procedures, mainly to the Audit Committee. Regular reporting to, and meeting with, the Section 151 Officer, Corporate Management Board and the IASS Board.<br>Effectiveness of Audit Committee  | on-going  |             |            |          |                 |           |
| Advice & Guidance                                   | To allow auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the authority, including maintained school based staff.  |           |             |            |          |                 |           |
| Data Analytics                                      | To align with this objective, Internal Audit is currently developing a data analytics strategy to be implemented during 2019/20. Data Analytics is proving to be a useful internal audit tool as councils become more reliant on electronic data, as data analytics enables a vast amount of data to be | on-going  |             |            |          |                 |           |
| Quality Assurance / Effectiveness of Internal Audit | To review / ensure compliance with the Accounts and Audit (Wales) Regulations 2014 / Public Sector Internal Audit Standards (PSIAS).  | on-going  |             |            |          |                 |           |
| External Audit Liaison                              | To ensure that a "managed audit" approach is followed in relation to the provision of internal and external audit services.   |           |             |            |          |                 |           |
| Fraud / Error / Irregularity                        | National Fraud Initiative - Collection of data and analysis of matches for the NFI exercise, acting as first point of contact and providing advice and guidance to key contact officers. Matches will include business grants made available due to COVID19   | on-going  |             |            |          |                 |           |
| Fraud / Error / Irregularity                        | Irregularity Investigations - Reactive work where suspected irregularity has been detected.<br>Supported Living Missing Money   | completed |             |            | v        |                 | 5         |
| Fraud / Error / Irregularity                        | Anti-Fraud & Corruption – Proactive - Proactive counter-fraud work that includes targeted testing of processes with inherent risk of fraud.   | on-going  |             |            |          |                 |           |
| Emerging Risks / unplanned                          | To enable Audit Services to respond to provide assurance activity as required.  |           |             |            |          |                 |           |
|   |   |           |             |            |          |                 |           |
|   | <b>OVERALL TOTALS</b>   |           | <b>1</b>    | <b>10</b>  | <b>1</b> | <b>0</b>        | <b>16</b> |

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

#### REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE

##### EFFECTIVENESS OF AUDIT COMMITTEE – SELF ASSESSMENT

#### 1. Purpose of report

- 1.1 The purpose of this report is to summarise for members of the Committee the findings of the Self-Assessment of Good Practice from the Chartered Institute of Public Finance & Accountancy (CIPFA) Audit Committees Practical Guidance 2018.

#### 2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:-
- **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

#### 3. Background

- 3.1 CIPFA Audit Committee Practical Guidance for Local Authorities and Police 2018 Edition states as part of its Position Statement that '*Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management*'. The scope of this Position Statement includes all principal local authorities in the UK.
- 3.2 Internal Audit has reviewed the effectiveness of this Governance and Audit Committee in line with the Self-Assessment of Good Practice included in CIPFA guidance. This provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement.

#### 4. Current situation/proposal

- 4.1 The completed checklist and its findings are attached at **Appendix A** to this report. The checklist indicates that the overall effectiveness of the Governance and Audit Committee is good with a few areas identified where improvements can be made.
- 4.2 The identified areas for consideration are:
- The production of an Annual Report on the work of the Committee including obtaining feedback on its performance.
  - The Terms of Reference for the Committee will need to be updated to reflect clearly the purpose in accordance with CIPFA's Position Statement and to

reflect the forthcoming changes in legislation set out in the Local Government & Elections (Wales) Bill once they are confirmed.

- A training needs assessment of Members should be undertaken.
- Feedback is sought from those relying on the Committee's work
- The Committee evaluates whether and how it is adding value and an action plan is put in place to improve any weaknesses.

4.3 Recommendations for the areas identified where improvements can be made are listed in **Appendix B**.

4.4 The members skills and knowledge questionnaire is attached at **Appendix C** for consideration.

## **5. Effect upon policy framework and procedure rules**

5.1 There is no effect upon the policy framework and procedure rules.

## **6. Equality Impact Assessment**

6.1 There are no equality implications arising from this report.

## **7. Well-being of Future Generations (Wales) Act 2015 implications**

7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial implications**

8.1 There are no financial implications as a result of the recommendations set out in the report.

## **9. Recommendations**

9.1 That members of the Committee consider the findings in the checklist and the recommendations made.

9.2 That members of the Committee agree to complete the skills self assessment questionnaire.

**Mark Thomas**  
**Head of the Regional Internal Audit Service**

**January 2021**

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**Postal Address**

Bridgend County Borough Council  
Internal Audit  
Ravens Court  
Brewery Lane  
Bridgend  
CF31 4AP

**Background Documents :**

None

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| <b>Governance &amp; Audit Committee Effectiveness Checklist</b><br><b>(based on Appendix D Self-Assessment of Good Practice from CIPFA Audit Committees Practical Guidance 2018)</b> |   |     |    |                         |  |
|--|---|-----|----|-------------------------|--|
| Completed by: Filippa Daniels  |   |     |    | Date: Dec 2020/Jan 2021 |  |
|  | Purpose & Governance  | Yes | No | Partly                  | Comment  |
| 1  | Does the authority have a dedicated audit committee?  | ✓   |    |                         | BCBC has the Governance & Audit Committee.   |
| 2  | Does the audit committee report directly to full council? (applicable to local government only) |     |    | ✓                       | <p>Part 3 (Responsibility for Functions) in the Council's Constitution states the Governance &amp; Audit Committee can bring concerns arising from financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>The Treasury Management Strategy, Annual Accounts and Corporate Risk Management Policy are all examples of matters considered by the Committee before reporting to Council and this is acknowledged in the covering reports that go to Full Council.</p> <p><b>Democratic Services advised that Audit Committee minutes do not go to Council but are available and accessible online to all members.</b></p> |

|   |   |   |  |   |  |
|---|---|---|--|---|--|
| 3 | Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? |   |  | ✓ | <p>Terms of Reference in Council Constitution says purpose is: <i>'To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.'</i></p> <p>Compared to CIPFA's Position Statement in CIPFA Audit Committees Practical Guidance 2018 and BCBC <b>does not mention governance</b></p> <p>CIPFA's is <i>'to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting <b>and governance processes</b>. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place'</i></p> |
| 4 | Is the role and purpose of the audit committee understood and accepted across the authority?                          | ✓ |  |   | Terms of Reference in Council Constitution states the purpose in 8.02 and the function in Part 3. The Council's Constitution applies to all staff and Members.   |
| 5 | Does the audit committee provide support to the authority in meeting the requirements of good governance?             | ✓ |  |   | Part 3 of the Council's Constitution states reviewing and scrutinising governance as a function of Governance and Audit Committee. Governance and Audit Committee approved the draft Annual Governance Statement 2019-20 on 16/07/20. Audit Committee also has a Forward Work Programme in place which keeps them updated on their functions.  |
| 6 | Are the arrangements to hold the committee to account for its performance operating satisfactorily?                   | ✓ |  |   | All meeting agendas and minutes are available for all on the Council's website allowing for transparency.  |



|   | Functions   | Yes   | No                | Partly | Comment   |
|---|---|---|-------------------|--------|---|
| 7 | <p>Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?</p> <p><input type="checkbox"/> good governance</p> <p><input type="checkbox"/> assurance framework, including partnerships and collaboration arrangements</p> <p><input type="checkbox"/> internal audit</p> <p><input type="checkbox"/> external audit</p> <p><input type="checkbox"/> financial reporting</p> <p><input type="checkbox"/> risk management</p> <p><input type="checkbox"/> value for money or best value</p> <p><input type="checkbox"/> counter fraud and corruption</p> <p><input type="checkbox"/> supporting the ethical framework</p> | <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> | <p>✓</p> <p>✓</p> |        | <p>Terms of Reference in Council Constitution.</p> <p>Assurance framework and collaboration arrangements not covered.</p> <p>Ethical framework not covered.</p>   |
| 8 | <p>Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>  | <p>✓</p>  |                   |        | <p>Core areas evaluated Jan 2021 and will be reviewed annually as part of this self assessment:</p> <ul style="list-style-type: none"> <li>• <i>good governance</i> – Yes. Annual Governance Statement and governance forms part of some audits.</li> <li>• <i>assurance framework, including partnerships and collaboration arrangements</i> - <b>Not in Terms of Reference.</b></li> <li>• <i>internal audit</i> – Yes, reports received and representatives from Internal Audit attend meetings to allow challenge.</li> <li>• <i>external audit</i> - Yes, reports received and representatives from External Audit attend meetings to allow challenge.</li> <li>• <i>financial reporting</i> – Yes, Statement of Accounts presented 10/9/20</li> <li>• <i>risk management</i> – Yes Corporate Risk Assessments presented 10/9/20.</li> <li>• <i>value for money or best value</i> – Yes, within audits.</li> <li>• <i>counter fraud and corruption</i> – Yes, Annual Corporate Fraud Report presented on 10/9/20</li> <li>• <i>supporting the ethical framework</i> - <b>Not in Terms of Reference.</b></li> </ul> |

|                               |  |                  |           |               |  |
|-------------------------------|--|------------------|-----------|---------------|--|
| 9                             | Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?   | ✓                |           |               | The Committee considers the wider areas identified in CIPFA's Position Statement of Treasury Management monitoring with Annual Treasury Management Outturn reports presented.  |
| 10                            | Where coverage of core areas has been found to be limited, are plans in place to address this?   |                  |           | ✓             | Core function of Audit Committee refers to Governance  |
| 11                            | Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?   | ✓                |           |               | Committee does not have any decision making powers.  |
| <b>Membership and Support</b> |  | <b>Yes</b>       | <b>No</b> | <b>Partly</b> | <b>Comment</b>   |
| 12                            | Has an effective audit committee structure and composition of the committee been selected?<br>This should include:<br><input type="checkbox"/> separation from the executive<br><input type="checkbox"/> an appropriate mix of knowledge and skills among the membership<br><input type="checkbox"/> a size of committee that is not unwieldy<br><input type="checkbox"/> consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) | ✓<br>✓<br>✓<br>✓ |           |               | Council's constitution clearly states composition as 12 County Borough Councillors and Lay Members. With one member having to be a lay member.<br><br>12 members in place and 1 lay member.  |
| 13                            | Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?   | ✓                |           |               | Lay Member reappointed 17/5/17 at Council meeting for 2 <sup>nd</sup> term. Reappointment was transparent taking place in Council meeting.   |
| 14                            | Does the chair of the committee have appropriate knowledge and skills?   | ✓                |           |               | Democratic Services advised the Audit Committee members would have had general training. Current Chair of BCBC has appropriate knowledge and skills for role.  |
| 15                            | Are arrangements in place to support the committee with briefings and training?  |                  |           | ✓             | Democratic Services advised the Audit Committee members would have had general training. Some specific training has been provided by departments but nothing formal in place, questionnaire developed to assess needs/gaps but not yet issued. |

|                                       |  |            |           |               |   |
|---------------------------------------|--|------------|-----------|---------------|---|
| 16                                    | Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?                                    |            | ✓         |               | Questionnaire developed to assess needs/gaps but not yet issued.  |
| 17                                    | Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?                            | ✓          |           |               | Yes. External and Internal Audit and CFO representatives present at meetings and can discuss and challenge items on agenda. Regular pre meetings held with Chair.   |
| 18                                    | Is adequate secretariat and administrative support to the committee provided?  | ✓          |           |               | Support is provided by Democratic Services who send out agendas and compile minutes.  |
| <b>Effectiveness of the Committee</b> |  | <b>Yes</b> | <b>No</b> | <b>Partly</b> | <b>Comment</b>  |
| 19                                    | Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?   |            | ✓         |               | <p>CIPFA Audit Committee Guidance 2018 states <i>'Seeking feedback on the operation of the committee may be helpful to supplement a self-assessment. Those interacting regularly with the committee or relying on its output would be the principal sources of feedback. Where the committee is struggling, an external assessment may be an appropriate way to evaluate the committee and to develop an action plan for improvement'</i>.</p> <p>Could results be in an Audit Committee Annual report?</p> |
| 20                                    | Are meetings effective with a good level of discussion and engagement from all the members?  | ✓          |           |               | Meeting minutes from 10/09/20 show Members engaging on various agenda items.  |
| 21                                    | Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers? | ✓          |           |               | Council's Constitution allows Members and Officers to be called to attend meetings who must then attend. A report was presented at the committee meeting on 12 November 2020 on the progress of DFGs and the appropriate Senior Officer was in attendance.  |
| 22                                    | Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?  | ✓          |           |               | Members challenge Officers and approve recommendations.   |
| 23                                    | Has the committee evaluated whether and how it is adding value to the organisation?  |            | ✓         |               | Does it complete any self-assessment? No annual report completed by Committee.  |

|    |  |  |   |  |   |
|----|--|--|---|--|---|
| 24 | Does the committee have an action plan to improve any areas of weakness?                         |  | ✓ |  | There is an action tracker log which records identified issues and logs relevant actions until they are addressed. No self-evaluation completed so no action plan in place. |
| 25 | Does the committee publish an annual report to account for its performance and explain its work? |  | ✓ |  | No annual report from the Committee.  |

DRAFT

Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results.

The criticality of each recommendation is as follows:

*Fundamental:* Action that is considered imperative to ensure that the organisation is not exposed to high risks  
*Significant:* Action that is considered necessary to avoid exposure to significant risks  
*Merits Attention:* Action that is considered desirable and should result in enhanced control

## Implementation Plan

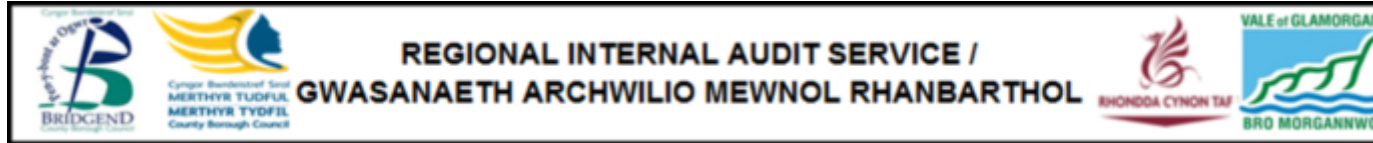
| Re c no. | Recommendation   | Criticality      | Ref.  | Agreed (Y/N) | Management Comments | Job Title of Officer Responsible | Date to be implemented |
|----------|--|------------------|-------|--------------|---------------------|----------------------------------|------------------------|
| 1        | The Governance & Audit Committee produces an Annual Report that is presented to Full Council.  | Merits Attention | 2, 25 |              |                     |                                  |                        |
| 2.       | The Governance & Audit Committees Terms of Reference are reviewed and updated in line with CIPFA's Position Statement and the forthcoming changes in legislation set out in the Local Government and Elections (Wales) Bill once they are confirmed. | Merits Attention | 3, 7  |              |                     |                                  |                        |
| 3.       | The Committee members are assessed against the core knowledge and skills framework and the necessary training provided.  | Merits Attention | 15    |              |                     |                                  |                        |

Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results.

The criticality of each recommendation is as follows:

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| Re c no. | Recommendation   | Criticality      | Ref.   | Agreed (Y/N) | Management Comments | Job Title of Officer Responsible | Date to be implemented |
|----------|--|------------------|--------|--------------|---------------------|----------------------------------|------------------------|
| 4.       | The Committee seek feedback from those interacting with it or relying on its work.                                       | Merits Attention | 19     |              |                     |                                  |                        |
| 5.       | The Committee evaluates whether and how it is adding value and an action plan is put in place to improve any weaknesses. | Merits Attention | 23, 24 |              |                     |                                  |                        |



## Audit Committee: Members knowledge & skills

*Knowledge and Skills Framework - Self Assessment*

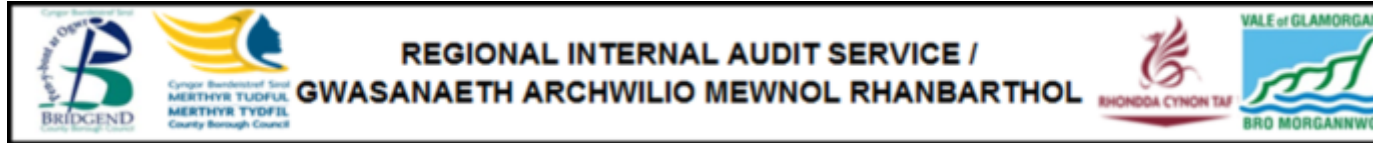
Please place an X in **ONE** of the columns shaded blue, for each of the numbered statements 1 to 8 below.

Name of Committee Member:

| Statement                                  |  | I have reasonable knowledge and experience of this | I have limited knowledge and experience of this | I have no knowledge or experience of this | Any Comments |
|--|--|--|---|---|--------------|
| <b>Organisational Knowledge</b>            |  |  |   |   |              |
| 1.   | Knowledge of the governance structure of the authority (including the Annual Governance Statement), decision-making processes, the Council's objectives and its major functions and how the Council works. |  |   |   |              |
| <b>Audit Committee Role and Functions:</b> |  |  |   |   |              |
| 2.   | An understanding of the Audit Committee's role and place within the governance structures, its terms of reference and accountability arrangements.   |  |   |   |              |
| <b>Internal Audit:</b>                     |  |  |   |   |              |
| 3.   | An understanding of the purpose of the Council's Internal Audit Service and its responsibilities to the Audit Committee.   |  |   |   |              |

|    | <b>Statement</b>   | <b>I have reasonable knowledge and experience of this</b> | <b>I have limited knowledge and experience of this</b> | <b>I have no knowledge or experience of this</b> | <b>Any Comments</b> |
|----|--|---|--|--|---------------------|
|    | <b>Financial Management and Accounting</b>   |   |  |  |                     |
| 4. | Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them, and the role the Audit Committee plays in reviewing the Council's draft financial statements. |   |  |  |                     |
|    | <b>External Audit:</b>   |   |  |  |                     |
| 5. | Knowledge of the role and functions of the external auditor and the responsibility it has to the Council's Audit Committee.  |   |  |  |                     |
|    | <b>Risk Management:</b>  |   |  |  |                     |
| 6. | Understanding of the risk management arrangements in place within the Council and the role of Audit Committee in overseeing these arrangements.  |   |  |  |                     |
|    | <b>Counter Fraud:</b>  |   |  |  |                     |
| 7. | An understanding of the main areas of fraud and corruption risk to which the Council is exposed, knowledge of the Council's arrangements for tackling fraud and awareness of good fraud risk management practice.          |   |  |  |                     |
|    | <b>Values of Good Governance:</b>  |   |  |  |                     |
| 8. | Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff (including knowledge of the 7 principles of public life) and knowledge of whistle-blowing arrangements                |   |  |  |                     |





|  |                     |  |  |  |  |
|--|---------------------|--|--|--|--|
|  | within the Council. |  |  |  |  |
|--|---------------------|--|--|--|--|

Any other areas of support / advice that you consider would help you in discharging your role as a Member of the Council's Audit Committee?

Which knowledge areas below (tick any/all as appropriate) do you have experience in that will add value to the work of the Audit Committee?

|                      |                          |  |                          |
|----------------------|--------------------------|--|--------------------------|
| Accountancy          | <input type="checkbox"/> | Service and organisational knowledge relevant to the functions of the organisation | <input type="checkbox"/> |
| Internal Audit       | <input type="checkbox"/> | Programme and project management   | <input type="checkbox"/> |
| Risk Management      | <input type="checkbox"/> | IT Systems and IT Governance   | <input type="checkbox"/> |
| Governance and Legal | <input type="checkbox"/> | Other (please specify)   | <input type="checkbox"/> |

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

#### REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE

##### INTERNAL AUDIT REPORT - EXTERNAL FUNDING

### 1. Purpose of report

- 1.1 To present to members of the Committee a recently issued internal audit report which reviewed a sample of externally funded schemes in order to provide assurance in respect of the procurement and governance aspects of the schemes.

### 2. Connection to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:
- Smarter use of resources – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

### 3. Background

- 3.1 An internal audit review of External Funding was undertaken as part of the 2020/21 annual Internal Audit Plan. The objective of the review was to provide assurance that the Council's policies and procedures, as well as the funding terms and conditions, are being adhered to when managing external funding received by the Council.
- 3.2 The Chief Executive presented a report on the Arbed programme to Cabinet on 17<sup>th</sup> November 2020. Within that report reference was made to work being undertaken by Internal Audit which aimed to provide assurance that the procurement and governance aspects of externally funded schemes were compliant with Council policies as well as any specific grant terms and conditions.
- 3.3 That report informed Cabinet that the completed audit report would be presented to the Governance and Audit Committee.

### 4. Current situation/proposal

- 4.1 The completed internal audit report is attached at **Appendix A**.
- 4.2 The report identifies the 10 schemes reviewed and the findings and recommendations made as a result of the work. It was found that, from the sample

selected and reviewed, the concerns arising from a previous externally funded scheme have not been replicated. Documentation was available to support compliance with the Council's Contract Procedure Rules and the involvement of Corporate Procurement when engaging contractors. There was also evidence of supplier monitoring, reporting and governance across all the projects

- 4.3 An audit opinion of reasonable assurance was given, that is that key controls exist but there may be some inconsistency in application. As a result only 4 minor, 'merits attention' recommendations were made.

## **5. Effect upon policy framework and procedure rules**

- 5.1 There is no effect upon the policy framework and procedure rules.

## **6. Equality Impact Assessment**

- 6.1 There are no equality implications arising from this report.

## **7. Well-being of Future Generations (Wales) Act 2015 implications**

- 7.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

## **8. Financial implications**

- 8.1 Effective Audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

## **9. Recommendation**

- 9.1 That members of the Committee note the content of the report.

**Mark Thomas**  
**Head of the Regional Internal Audit Service**  
**January 2021**

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**Background Documents :**

None

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## ***Confidential***

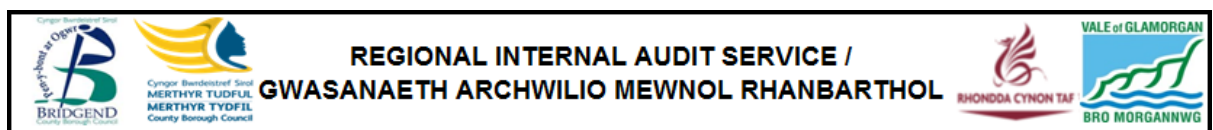
### Internal Audit Report

Authority

Directorate

Audit Title

Audit Year



|                              |   |                                      |
|------------------------------|---|--------------------------------------|
| Report Distributed To:       | Gill Lewis – Interim Head of Finance & Section 151 Officer          |                                      |
| Report Produced & Issued by: | Nathan Smith – Senior Auditor<br>Joan Davies – Audit Client Manager |                                      |
| Report Date                  | Draft: n/a  | Final: 5 <sup>th</sup> November 2020 |
| Audit Ref                    | AA896   |                                      |

## 1. Introduction & Background

- 1.1. An audit review of External Funding was undertaken as part of the 2020/21 annual Internal Audit Plan.
- 1.2. This report sets out the findings of the review and makes recommendations where it is felt that improvements in financial and non-financial administration could be made.
- 1.3. External funding can be received from a range of sources and can assist in the delivery of Corporate Priorities to support new initiatives and ongoing activities. In undertaking the delivery of these new initiatives and ongoing activities, demonstrating transparency, careful observation and value for money of public funds is of utmost importance with Officers needing to comply with Council policies, including Contract Procedure Rules and Financial Procedure Rules, at all times as well as to specific funding terms and conditions.
- 1.4. A previous audit review which was completed in October 2019, raised a number of concerns relating to the governance, decision making, procurement, monitoring and control of an externally funded scheme. The concerns raised related to financial and procurement aspects in place during 2012/13, therefore, this review has been undertaken to ensure that those identified weaknesses are not inherent in other, more recent external grant funded programmes.

## 2. Objectives & Scope of the Review

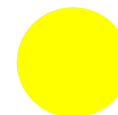
- 2.1. The objective of the review was to provide assurance that the Council's policies and procedures as well as the funding terms & conditions are being adhered to when managing external funding received by the Council.



### 3. Audit Opinion

Based on an assessment of the strengths and weaknesses of the areas examined, and through testing, it has been concluded that the effectiveness of the internal control environment is **reasonable**. This overall opinion is supported by the identification of risks in some areas of the system, which although not substantial in nature could compromise the overall control environment. Action is considered necessary to avoid potential exposure to significant risks.

From the sample selected and reviewed, the concerns highlighted by a previous externally funded scheme have not been replicated. Documentation was available to support compliance to the Council's Contract Procedure Rules and the involvement of Corporate Procurement when engaging contractors. There was also evidence of supplier monitoring, reporting and governance across all the projects sampled.



**Reasonable Assurance**

### 4. Findings & Recommendations

#### 4.1. Selection of the Sample

- 4.1.1 Information provided by Finance was used in conjunction with the Capital Outturn Reports to identify externally funded schemes. Analysis was undertaken by the Auditor on the cost centres identified, with prioritisation given to schemes with supplier spend above tender thresholds. A range of schemes of varying size across both revenue and capital were selected with spend recorded in the financial years 2018/19 and 2019/20 as shown below in Table 1 below.
- 4.1.2 Meetings were held with all lead officers in order to gain an understanding of the grant workings, delivery and relevant documentation required. The review concentrated on key themes in delivering grants across the Council rather than financial verification of each grant so the funding amounts below are shown for information only.

**Table 1 – Selected Externally Funded Schemes**

| Directorate                 | Scheme   | Source                   | Funding Period     | Funding Amount        |
|-----------------------------|--|--------------------------|--------------------|-----------------------|
| Communities                 | Active Travel – Pencoed to Pencoed Technology Park | Welsh Government         | 2019/20            | £983,600              |
| Communities                 | AGORA – Local Supply Chains                        | Welsh Government         | 2016 - 2020        | £613,131              |
| Communities                 | Bridge Strengthening A4061, Frithwaun              | General Capital Funding* | See below*         | See below*            |
| Chief Executive's           | Innovation Funding                                 | Welsh Government         | 2019/20            | £262,642              |
| Social Services & Wellbeing | Local Sport & Active Recreation                    | Sport Wales              | 2019/20            | £380,100              |
| Communities                 | Local Transport Fund – Bridgend to Coychurch       | Welsh Government         | 2019/20            | £750,000              |
| Communities                 | Porthcawl Town Beach Sea Defence                   | Welsh Government         | 2018/19<br>2019/20 | £2,299,146<br>£98,512 |
| Communities                 | Porthcawl Townscape Heritage Initiative            | Heritage Lottery Fund    | 2014 - 2019        | £524,900              |
| Communities                 | Valley's Regional Park – Parc Slip                 | Welsh Government         | 2019/20            | £200,000              |
| Education & Family Support  | Youth Support Grant                                | Welsh Government         | 2019/20            | £449,407              |

\* *Bridge Strengthening A4061 Frithwaun, was marked in the Capital Outturn Report as receiving £734k of the total cost from external funding, rather than coming through a grant, this project is supported by general capital funding. The Council receives an annual 'General Capital Funding' allocation from the Welsh Government for mandatory or corporate priority projects.*

4.1.3 Findings and recommendations that relate specifically to a particular externally funded scheme will be provided to the relevant lead officers.

## **4.2. Funding Letters & Acceptance**

4.2.1 Any successful applications for grant funding must be formally accepted by the Council. The Grants Management Policy states that they must be authorised and signed by the Chief Finance Officer (or nominated officer) prior to formal acceptance of the grant in addition to any Directorate signatory if required.

4.2.2 A signature from the Interim Head of Finance (Chief Finance Officer) or an Authorised Finance Signatory was visible on every grant acceptance. Where an additional signature was required, these had been completed by a senior manager or Director on behalf of the Directorate. A delegated power for grant acceptance was available for each grant which did not have a Directorate signature listed.

### 4.3. **Governance & Reporting Structures**

4.3.1 The Auditor looked to ascertain what operational updates are provided from those responsible for grant delivery to senior management within the Council; thus demonstrating a degree of governance and reporting. Generally across the projects, there are meetings and updates provided. This varies between updates to Group Managers, Grant Teams, Project Boards and Finance.

4.3.2 One area of note was under the Active Travel and Local Transport Fund schemes where the Auditor requested whether the Strategic Transportation Planning Team Leader provides any updates within the Council (whether to managers or any Council meetings); it was advised that no updates are given regarding the scheme.

***Recommendation:***

*Governance and reporting of the Active Travel and Local Transport Fund schemes are improved.*

*(Merits Attention)*

### 4.4. **Tendering**

4.4.1 The Contract Procedure Rules list several thresholds depending on whether the purchase is for goods and services or works. Nine of the ten schemes reviewed had supplier spending above the threshold of £25,000. There are additional thresholds above this but all require advertisement on Sell2Wales or for a minimum number of prospective tenderers to be invited. The Auditor additionally looked to confirm that Corporate Procurement were involved in the exercises.

4.4.2 The Auditor's conclusion from assessment of the associated tender invitations, evaluations and delegated powers is that documentation was widely available in compliance with requirements to advertise on Sell2Wales and involve Corporate Procurement as set out in the Contract Procedure Rules. Specific points of note are discussed below.

4.4.3 Payments made to Capita Glamorgan Consultancy Limited in excess of the £25,000 tender threshold were recorded across three of the schemes assessed and proportionately these respective values equated to 20.7%, 12.3% and 9.4% of total supplier spending over the 2018/19 and 2019/20 sample period.

- Bridge Strengthening A4061 Frithwaun £206,118,
- Local Transport Fund (Bridgend to Coychurch) £79,809,
- Porthcawl Town Beach Sea Defence £233,464.

- 4.4.4 It was identified that where there is insufficient capacity in the Council, Capita Glamorgan Consultancy Limited are used as engineering consultants. This is a Joint Venture Company which includes Capita Property and Infrastructure Limited, Rhondda Cynon Taf, Merthyr Tydfil and Bridgend County Borough Councils and has been trading since 2008. The company now operates under the brand name Redstart.
- 4.4.5 Cabinet reports in 2008 outline the tender process that culminated in the creation of the joint venture agreement. The agreement, subject to clauses, is to run for 15 years from commencement in 2008 and is thus still active. The agreement gives priority to the Provider in awarding commissions for core work. The full copy of the agreement is located in the Civic Offices, which was closed at the time of the audit review, and only partial extracts from the agreement were available during the audit.
- 4.4.6 Two of the projects on which Capita Glamorgan Consultancy were involved appointed suppliers based upon tender exercises which had been assessed by Redstart (Capita Glamorgan Consultancy) directly. Confidentiality undertakings and conflict of interest declarations were completed by the Capita/Redstart officers in each of these instances.

***Recommendation:***

*The Council notes that the Capita Glamorgan Consultancy/Redstart Joint Venture agreement draws to a close in 2023 and that appropriate steps are taken to prepare for this.*

*(Merits Attention)*

- 4.4.7 Spend of above the tender threshold was recorded with Openreach at just over £158k on the Bridge Strengthening A4061 Frithwaun project. Where equipment/infrastructure belonging to Openreach requires alteration, only they are allowed to perform the task. The Contract Procedure Rules list under exemptions those contracts which can only be performed by a statutory undertaker and the Corporate Procurement Manager confirmed that no waiver is required in this instance. The Auditor queried the value of the payment to Openreach as this was significantly higher than other payments made throughout 2018/19 and 2019/20. The Highways Network Manager advised that this was due to the movement of Fibre Optic cables which are very expensive to deal with and required extensive re-routing/replacement.
- 4.4.8 The Innovation Funding grant only had one provider capable of meeting the service requirement. In this instance, a delegated powers form agreeing to waive the requirement for obtaining quotes or tendering was required, and these forms were available and signed by a Corporate Director. This confirms compliance with the requirements of the Contract Procedure Rules.

4.4.9 In conclusion, assessment of tender invitations and evaluations together with the documentation made available demonstrates compliance with the relevant sections from the Contract Procedure Rules – namely the involvement of the Corporate Procurement Team and advertising on Sell2Wales or completing a waiver via delegated powers. The Council makes use of Capita Glamorgan Consultancy Ltd (trading as Redstart) as engineering consultants through the Joint Venture Agreement, which is currently in place until 2023.

#### **4.5. Supplier Monitoring**

4.5.1 The performance monitoring of suppliers was demonstrated in a variety of different ways across the sample projects, this includes:

- Diary sheets maintained of site works
- Progress meetings held with the supplier
- Monitoring through working alongside the supplier directly
- Completion of monitoring sheets
- Physical visits to view progress from the supplier/partner

Every scheme was able to demonstrate in one of these ways that suppliers had not been left to undertake works without any monitoring.

4.5.2 In addition to the works above, it was noted that the Active Travel grant received revised grant funding on 30<sup>th</sup> January 2020 with a proviso that any costs associated with carrying on the project past year end would not be met by the grant. In the final quarter of the year, four payments totalling £654,662.18 were made to the supplier Centregreat Ltd. All invoices were located and no issues regarding their approval or validity were identified – all had been approved by either the lead officer (Strategic Transport Planning Team Leader) or their Group Manager in Planning and Development Services.

4.5.3 Given the final transaction's close proximity to year end, with payment made on the 13<sup>th</sup> March 2020, the Auditor followed-up on what assessment had been undertaken prior to payment approval on the 6<sup>rd</sup> March 2020. Site visit sheets for the end of February 2020 were provided by Engineering Services along with an email to the supplier assessing their invoice figures on the 3<sup>rd</sup> March 2020, thus demonstrating that the payment was made based on work undertaken.

#### 4.6. **Partner Organisations**

- 4.6.1 The Council made payments to organisations who work in partnership and/or deliver the grant on the Council's behalf. Three of the cases were Valley's Regional Park – Parc Slip, Local Supply Chains and Local Sport & Active Recreation.
- 4.6.2 In December 2018, the Welsh Government announced that Parc Slip Nature Reserve in Bridgend would be developed as a Valleys Regional Park Discovery Gateway. The Wildlife Trust of South & West Wales have managed the site at Parc Slip over many years. In these circumstances, the grant was paid to the Council with a funding agreement put in place between the Council and the Trust. Grant Claim and Monitoring Progress forms are completed by the Trust. Evidence of spending along with bank statements are provided to the Council in order to show compliance with the terms. In addition, site visits are undertaken by the Council to view the progress on grant objectives.
- 4.6.3 A tender exercise of the Management of the Resilient Economy – Local Supply Chains (Agora) project was undertaken through the Council's Corporate Procurement Unit, with Delegated Powers signed by the Council's then Head of Service for Regeneration & Development. Following evaluation, the contract was awarded to Menter a Busnes – receiving £616k over the two year period of payments sampled.
- 4.6.4 The delivery of the grant involved Menter a Busnes promoting collaborative clusters between small and medium-sized enterprises (SMEs) across eight Local Action Group (LAG) locations in Wales. In accordance with the Project Overview included within the tender documentation, the mapping and engagement of stakeholders was undertaken by Menter a Busnes themselves. The Auditor concluded that Welsh Government's decision to award the grant to the Council demonstrated that they had no issue with this arrangement as the Council's grant application itself states that following open tender the delivery is expected to be hosted independently. The Council undertakes frequent monitoring of the grant delivery which allows it to track the project progress. However, the Council had no specific controls in place to identify conflicts of interest between the supplier delivering the grant on the Council's behalf and SMEs that were provided with support prior to the grant delivery.

#### ***Recommendation:***

*Where the Council engages an independent third party to deliver grants on the Council's behalf, control improvements could be made to check that the third party and their staff have no conflict of interests before undertaking the grant delivery.*

*(Merits Attention)*

- 4.6.5 Halo Leisure Services received the largest cumulative payments from the Local Sport & Active Recreation grant at £110k, £94.5k of this relates to provision for free swimming. Halo manage the Local Authority's leisure centres and swimming pools on BCBC's behalf as per the Healthy Living Partnership. Therefore, the funding to deliver free swimming is provided to Halo as they manage Council facilities. There were changes in the way free swimming was funded nationally part way through the year but the amount that Halo were paid is consistent with the grant income received by the Council. Monitoring of the numbers participating in free swimming is undertaken.
- 4.6.6 In each of the cases where partner organisations have delivered the grants on the Council's behalf, documentation/agreements are in place and monitoring of the project delivery was undertaken. No significant concerns have been highlighted by the Auditor.

#### **4.7. Awards to Third Parties**

- 4.7.1 Townscape Heritage Initiative award grant money to third parties. Awards are based on the scheme aims to target conservation and repair of listed and other historic buildings within the Harbour and Square areas of Porthcawl. There are several independent criteria set out to support this. Grants provided are not 100%, an element of match funding is also required. A grant application pack is provided to third parties following on-site discussions.
- 4.7.2 The highest payments identified within the Auditor's creditors report was for the Apollo building, totalling £162,580 in the two year sample period; this application included a tender report from a design and planning consultant along with 3 invitations to tender for works on the project. Quantity Surveyors are used by the Council to confirm the accuracy of the applications. The priority provided to the application (if successful) are either critical, priority, key or reserve. The Council's Conservation & Design Team advised that these are agreed in discussion with the Heritage Lottery Fund who visit the area a couple of times before the bid is submitted.

#### **4.8. Declaration of Interest**

- 4.8.1 The Council Constitution sets out that Members and employees of the Council shall comply with the requirements of Section 117 of the Local Government Act 1972, the Bribery Act 2010, and the Officers and Members code of conduct set out in the Constitution in respect of the declaration of interests in Contracts with the Council. In relation to any procurement entered into by the Council, it states that such interests must be declared to the Monitoring Officer for inclusion in the appropriate

registers. Other financial and non-financial interests held by employees of the Council which could conflict with the Council's interest are to be declared to their immediate manager.

- 4.8.2 The Auditor confirmed that each of the tender exercises covered during the review, that were started from 2019/20 onwards, had declarations of interest completed. In each case, the Officers stated and signed that they had no conflicts of interest that prevented full and unprejudiced participation in the procurement exercise.
- 4.8.3 For other employees working on the grant delivery but not involved in procurement or award of contracts, declarations of any financial or non-financial interests, which could conflict with the Council's interest, should be made to an immediate manager. During this audit, officers confirmed they were aware of the requirements and no relevant informal declarations had been made in relation to these grants. However, there was strong emphasis on potential conflicts of interest being raised primarily during Officer recruitment stage. Therefore the Council could make improvements in raising awareness of the requirement for Officers to make subsequent declarations as appropriate.

***Recommendation:***

*Awareness of the need to declare personal interests in delivering grants is raised amongst officers.*

*(Merits Attention)*

## **5. Acknowledgement**

- 5.1. A number of staff gave us their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.
- 5.2. The work undertaken in performing this audit has been conducted in conformance with the Public Sector Internal Audit Standards.
- 5.3. The findings and conclusion contained within this report are based on testing a sample of transactions. Absolute assurance regarding the control environment cannot be provided given the limited time to review the system. Responsibility for internal controls and the prevention and detection of fraud lies with management.
- 5.4. Any enquires regarding the disclosure or re-issue of this document to third parties should be sent to the Head of Audit via [cmthomas@valeofglamorgan.gov.uk](mailto:cmthomas@valeofglamorgan.gov.uk)



## Audit Assurance Category Code Key

The objective of an audit is to evaluate the system with a view to delivering reasonable assurance as to the adequacy of the application of the internal control system. The control system is put in place to ensure that risks to the achievement of the Authority's objectives are managed effectively.

Based upon the recommendations made, the categorisation of them and the areas that they relate to, an overall conclusion as to the level of assurance that can be provided will be given, as below:

### Substantial Assurance

- Key controls exist and are applied consistently and effectively; and,
- Objectives are being achieved efficiently, effectively and economically (VFM).

### Reasonable Assurance (some risk of loss, fraud, impropriety, or damage to reputation)

- Key controls exist but there may be some inconsistency in application;
- Compensating controls operating effectively; and,
- Objectives achieved after a fashion, e.g. VFM could be improved.

### Limited Assurance (a high risk of loss, fraud, impropriety, or damage to reputation)

- Key controls exist but they are not applied, or significant evidence that they are not applied consistently and effectively; and,
- Objectives are not being met, or are being met without achieving VFM.

### No Assurance (a very high risk of loss, fraud, impropriety, or damage to reputation)

- Key controls do not exist; and,
- Objectives are either not met, or are met without achieving VFM.

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## BRIDGEND COUNTY BOROUGH COUNCIL

### REPORT TO THE GOVERNANCE AND AUDIT COMMITTEE

28 JANUARY 2021

### REPORT OF THE INTERIM CHIEF OFFICER - FINANCE, PERFORMANCE AND CHANGE

#### UPDATED FORWARD WORK PROGRAMME 2020-21

#### 1 Purpose of report

- 1.1 The purpose of this report is to seek approval for the proposed Updated Forward Work Programme for 2020-21.

#### 2 Connections to corporate well-being objectives / other corporate priorities

- 2.1 This report assists in the achievement of the following corporate well-being objective under the **Well-being of Future Generations (Wales) Act 2015**:

- Smarter use of resources – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help deliver the Council's well-being objectives.

#### 3 Background

- 3.1 The core functions of an effective Governance and Audit Committee include the responsibility to:

- Consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the Council's assurance statements properly reflect the risk environment and any actions required to improve it.
- Oversee the work of internal audit (including the annual plan and strategy) and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Head of Audit.
- Consider the reports of external audit and inspection agencies, where applicable.
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- Review and approve the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

3.2 Effective Governance and Audit Committees help to raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. They enhance public trust and confidence in the financial governance of an authority.

#### **4 Current situation/proposal**

4.1 In order to assist the Committee in ensuring that due consideration is given to all aspects of their core functions the proposed Updated Forward Work Programme for the remaining meeting of 2020-21, to be held in April 2021, is shown below. Committee Members are asked to endorse this schedule, confirm the list of people they would like to invite for each item (if appropriate), and indicate whether any additional information or research is required.

| <b>Proposed Agenda Items – 22nd April 2021</b> |  |
|--|--|
| 1  | Governance and Audit Committee Action Record           |
| 2  | Audit Wales Governance and Audit Committee Update      |
| 3  | External Audit Annual Audit Plan 2021                  |
| 4  | Disabled Facilities Grants                             |
| 5  | Regional Internal Audit Shared Service Charter 2021-22 |
| 6  | Proposed Forward Work Programme 2021-22                |

4.2 A proposed Forward Work Programme for the 2021-22 year will be presented to the Committee in April, outlining the proposed reports to be presented during the 2021-22 municipal year, including information on the frequency of reports and which meeting they will be presented to the Committee.

#### **5 Effect upon policy framework & procedure rules**

5.1 There is no impact on the Policy framework and Procedure rules.

#### **6 Equality Impact Assessment**

6.1 There are no equality implications arising from this report.

#### **7 Well-being of Future Generations (Wales) Act 2015 implications**

7.1 The wellbeing goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of wellbeing goals/objectives as a result of this report.

#### **8 Financial implications**

8.1 There are no financial implications arising from this report.

#### **9 Recommendation**

9.1 That the Committee consider and approve the proposed Updated Forward Work Programme for 2020-21.

**Gill Lewis**  
**Interim Chief Officer – Finance, Performance and Change**  
**January 2021**

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**Background Documents:** None

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