Pwyllgor Archwilio

Man Cyfarfod
Ystafell Bwyllgor A - Neuadd y Sir, Llandrindod, Powys

Dyddiad y Cyfarfod
Dydd Iau, 11 Chwefror 2021

Amser y Cyfarfod
10.00 am

Neuadd Y Sir
Llandrindod
Powys
LD1 5LG

I gael rhagor o wybodaeth cysylltwch â
Lisa Richards
01597 826371
lisa.richards@powys.gov.uk

Dyddiad Cyhoeddi

Mae croeso i'r rhai sy'n cymryd rhan ddefnyddio'r Gymraeg. Os hoffech chi siarad Cymraeg yn y cyfarfod, gofynnwn i chi roi gwybod i ni erbyn hanner dydd ddau ddiwrnod cyn y cyfarfod

AGENDA

1.	YMDDIHEURIADAU

Derbyn ymddiheuriadau am absenoldeb.

2.	DATGANIADAU O DDIDDORDEB

Derbyn datganiadau o ddiddordeb gan Aelodau.

3.	COFNODION

Awdurdodi'r Cadeirydd i lofnodi cofnodion y cyfarfod blaenorol.
(Tudalennau 1 - 4)

4.	ARCHWILIO MEWNOL

4.1. **Rheoli Risg**

Ystyried adroddiad SWAP terfynol ar Reoli Risg.
(Tudalennau 5 - 40)

4.2. **Monitro Perfformiad Chwarter 3**

Ystyried Adroddiad Monitro Perfformiad Chwarter 3.
(Tudalennau 41 - 64)

4.3. **Traciwr Argymhellion**

Derbyn cyflwyniad ar y traciwr argymhellion newydd.

4.4. **Grantiau Busnes**

Derbyn adroddiad cynnydd ar lafar.

5.	COFRESTR RISG STRATEGOL

Ystyried adroddiad y Pennaeth Cyllid.
(Tudalennau 65 - 100)

6.	TWYLL

Derbyn diweddariad ar lafar ar gynnydd y cynllun gweithredu yn dilyn adroddiad Archwilio Cymru ar Dwyll.

7.	RHAGLEN GYFALAF

Ystyried y Rhaglen Gyfalaf.
Bydd y Cadeirydd hefyd yn diweddaru'r Pwyllgor ar Ysgol Gymraeg Y Trallwyng.
(Tudalennau 101 - 148)

8.	RHEOLI'R TRYSORLYS

Ystyried adroddiad yr Aelod Portffolio ar faterion Cyllid.
(Tudalennau 149 - 162)

9.	CAU'R CYFRIFON

Ystyried adroddiad y Pennaeth Cyllid.
(Tudalennau 163 - 164)

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT BY TEAMS ON THURSDAY, 10 DECEMBER 2020

PRESENT
County Councillors JG Morris (Chair), M Barnes, , D R Jones, M J Jones, K Laurie-Parry, DW Meredith, D A Thomas, A Williams, J M Williams and R Williams and Mr J Brautigam

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies

Officers: Jane Thomas, Head of Finance, Paul Bradshaw, Head of Workforce and Organisational Development and David Morris, Income and Awards Senior Manager

Other Officers In Attendance: Mr P Pugh, Audit Wales

1.	APOLOGIES

Apologies for absence were received from County Councillors K Lewis, R G Thomas and T J Van-Rees

2.	DECLARATIONS OF INTEREST

There were no declarations of interest.

3.	MINUTES

The Chair was authorised to sign the minutes of the previous meeting, held on 19 November 2020 as a correct record.

4.	SWAP AUDIT REPORT LEARNING AND DEVELOPMENT

Documents:
- Report of the Head of Workforce and Organisational Development

Discussion:
- The Head of Workforce and Organisational Development was satisfied that the Internal Audit report had not identified any issues that had not already been resolved or picked up in the service's ongoing work-plan
- Training Needs Analyses had been completed for all twelve service areas this year and were being completed again now for next year
- The return on the investment made in training needs to be monitored and systems are being put in place to do this
- The Corporate Induction Programme is a key building block, which following a delay in implementation due to the pandemic, will be launched virtually
- Service induction programmes are in place with guidance provided to ensure a consistent good quality standard. Management induction is also in place
- It had been reported that staff appraisals had increased to c84% this year, but Members questioned how the quality of those appraisals was

monitored. Managers can already undertake checks as to the quality and standard of checks and with the procurement of the latest HR System in June, the plan was to move to an electronic appraisal process next year, which would make checks / assessment a lot easier to do

- The need for training in the declaration of conflicts of interest had been highlighted and the plan was to ensure that staff were fully briefed about the need to declare any conflicts and were clear about their responsibility. This would be highlighted through induction, the appraisal process and at least once a year by a formal reminder withing the Council's logging in system
- The Committee noted that 75% of GDPR training had been undertaken and was concerned that this was low given that the training was mandatory and had potential legal implications. The Head of Workforce & OD highlighted how the recording system was still new and included all Council staff and reported the statistics in that context. As however, some staff had undertaken the same type of training at a higher level, they did not in fact need to undertake the mandatory module. This meant that this was distorting the statistics by under-inflating the percentage of staff who had completed the training, against who actually needed to.
- An exercise is therefore being undertaken to identify just those staff who needed to complete each particular module and once this has been completed shortly, the Council will see the real completion rate, which will be higher
- Members were of the opinion that Fraud training should be mandatory for all staff
- The provision of support to town and community councils was discussed and it was clarified that the Council provides support with DBS checks to c400 organisations across Wales and England including town and parish councils. The WOD service also undertakes some ad-hoc work for town and community councils on occasion
- The terms of the engagement of contractors or consultants was not within HR's remit but was a matter for Commercial Services
- Whilst the drafting / content of the conflicts of interest policy is overseen by the Head of Legal and Democratic, the Head of Workforce & OD will put arrangements in place to ensure that it is clearly communicated to staff in the ways outlined earlier in the meeting.

Outcomes:

- **The report be noted**

5.	AUDIT WALES - RAISING OUR GAME - TACKLING FRAUD

Documents:

- 'Raising our Game' – Tackling Fraud in Wales
- The National Fraud Initiative in Wales
- Presentation slides

Discussion:

- The Head of Finance reported that the Authority would be completing an action plan in response to the recommendations in the reports but due to the pandemic the current pressures of work had delayed its preparation
- The Chair had joined a Wales Audit Chairs briefing on the same topic
- The Auditor General had undertaken a study in 2019 and the report provided an overview of the scale of fraud and counter measures in place
- This report is a follow up based on more extensive fieldwork
- Fraud was estimated to be 0.5% of revenue
- In Powys this could represent a minimum of £2.1M or a maximum of £21.5M
- Leaders across Wales have been sceptical about the level of fraud and very few counter fraud arrangements are in place
- Fraudsters will appear instantly an opportunity presents itself – there have been 15 convictions so far in relation to the Grenfell Tower disaster and flooding earlier in the year provided further opportunities
- There has been an increase in fraud due to Covid both through cyber-crime and fraudulent support applications
- Fraud is constantly evolving
- Reactive and proactive arrangements need to be in place
- Resources dedicated to counter fraud are variable across Wales
- The NHS tends to be better prepared than local government
- Austerity has led to a reduction is resources in this area over several years
- The 2018 National Fraud Initiative highlighted the variation in levels of commitment across Wales
- Informal networks are in place but there is a gap in resources
- Information is typically provided to Audit Committees, but the quality of that information varies considerably. Scrutiny does not tend to be involved.
- Information on recovery is not shared across authorities
- Key findings across local government:
    - Absence of strategic leadership
    - Zero tolerance must be reinforced from the top
    - Authorities have made very little investment in fraud services
    - Within Powys there are two members of staff in Income and Awards with counter fraud accreditation and arrangements are more advanced than in other authorities. However, the key policy was out of date and could not be located – a number of policies have since been put in place and reported to Audit Committee.
    - Integrated Business Plans do not contain a risk assessment of the impact of fraud on service delivery
    - Counter fraud training is available in Powys but is not mandatory
    - Internal Audit, HR and Income and Awards could work together to increase capacity, but this could also lead to a lack of coordination
    - Whilst senior management have demonstrated their commitment, there is little evidence that this is being actively pursued
    - There is a lack of clarity around individual's responsibilities
- The Head of Finance acknowledged the need for an action plan to address the recommendations
- Regular reporting to Audit Committee would be introduced hopefully with effect from the next meeting in February if capacity allows

- The Committee was informed that over the past year £300K of overpayments have been recovered alongside weekly income savings of £600K
- The Fraud Plan and other policies have been reviewed and presented to senior managers. All employees will be asked to confirm they have read the policies.
- A confidential fraud line has been provided and face to face conversations could be arranged as appropriate. Members suggested this should not be staffed by officers of the authority but by an independent person.
- Corporate Fraud will investigate any instances of fraud – there is no minimum level

Outcomes:

- **A letter to be sent to the Chief Executive and Leader recommending that fraud training be mandatory for all staff**
- **An update on progress on the Action Plan to be provided to the next meeting**

6.	DATE OF NEXT MEETING

The next meeting is scheduled to take place on Thursday 11 February 2021 at 10am.

County Councillor JG Morris (Chair)

SWAP INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

Powys

Risk Management

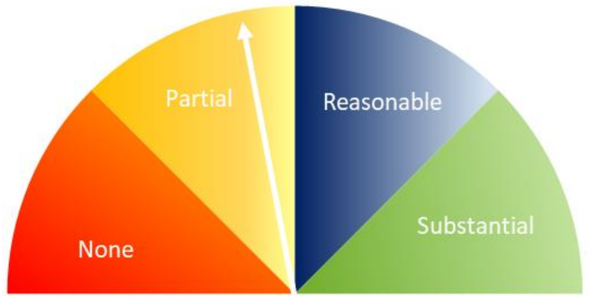
Final Report

Issue Date: 27th November 2020

Working in Partnership to Deliver Audit Excellence

Executive Summary

Audit Opinion



In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Recommendation Summary

Priority	Number
Priority 1	**2**
Priority 2	**3**
Priority 3	**3**
Total	**8**

Audit Conclusion

Risk Management identifies potential problems before they occur so that risk-handling activities may be planned and invoked to mitigate adverse impacts on the achievement of business objectives. An effective risk management system is vital to ensure the successful delivery of the Authority's corporate priorities and the delivery of an efficient and effective public service for the citizens of Powys.

In general, the policy approved by the Council for risk management is fit for purpose. The system (JCAD) used to deliver the policy is also fit for purpose, but it is not fully embedded across the authority and the potential functionality may not be fully utilised.

Risk identification, which is mostly through service driven management teams, could not be assessed during this review because of the onset of coronavirus.

A risk appetite statement has been included within the Risk Management Framework; however, this statement does not make the risk appetite limits clear for the Council. In addition, the risk register does not contain service specific appetites. Setting a risk appetite will allow the Council to make simple and transparent decisions to maintain the correct balance between uncontrolled innovation and excessive caution.

The Council has a Strategic Risk Register that is reported to the Council's Management Team, Cabinet and the Audit Committee. In addition, the Council maintains Service Risk Registers for the purpose of controlling operational risks. There were areas of good practice found, but also a significant variation in the legitimacy and quality of the risk recorded. In addition, there were errors on the scoring of the risk, control and tolerance information.

The mitigating actions in the risk register i.e. the risk reducing measures, do not show whether they are in place, in progress or are completed. In addition, it is difficult to understand the impact of that mitigation, i.e. how the inherent risk score is reduced by the delivery of the action, as it is not particularly visible or transparent.
A report run from the JCAD system displayed that none of the actions plans entered into the system had been started. Auditors acknowledge that it is possible that these reviews could have taken place offline, however according to the Risk Management Framework, they should be recorded within the corporate system. If the reviews are not taking place, it is hard to determine if the controls listed in the system are still relevant or have been delivered.
In some cases, the residual risk remains the same even though control measures have been identified. Overall, it appears that many of the mitigating actions to (treat, tolerate, transfer and terminate) are somewhat unstructured and do not quantifying the actual impact they will have on the overall risk.

An effective risk management framework should have two levels of challenge. Firstly, the challenge and moderation of the risks by the Services through the risk manager, and management teams to ensure that the risks are valid, the appetite is quantified, and the mitigating actions are SMART. This in reality is a quality control process before the risk reports are circulated to Senior Management and the cabinet who are responsible for the oversight and monitoring. The Audit Committee are there to provide the necessary challenge and scrutiny and call the Council to account where the risk management framework is failing. The review identified that there were issues with the register that had not been picked up by the internal quality control process. This view was also supported by the Audit Committee.

There has been slow progress in implementing a training programme that was raised in the previous audit. The Risk Champions, which were originally written into the Framework in 2018, have only just been introduced into the Authority’s processes. Some training has been undertaken for the JCAD system by senior members of staff, however only the Risk champions, and Risk Officer have undertaken training on the Fundamentals of Risk Management. The Authority needs to provide more risk management learning opportunities to its staff and to Members.

<u>Risk Management Maturity</u>

The Risk Management Assessment Framework is a tool that is used for assessing the standards of risk management within an organisation. The assessment is based on the five levels of maturity and uses seven key questions to measure this, see appendix A for details. Since the previous audit, no target has been set by the Authority. The Authority should choose a level to aim towards, as this will help to provide a goal for management to aim towards when embedding risk management processes within the Authority. The most effective risk management strategies would be aiming to achieve levels 4 and 5, however targets should be realistic. The present levels as deemed by Internal audit are detailed below:

Criteria (Level)	Assessment Rating				
	Awareness & Understanding	Implementation planned	Implementation	Imbedding & Improving	Excellent Capability
	(1)	(2)	(3)	(4) Target	(5)
Leadership					
Risk Strategy					
People					
Partnership					
Process					
Risk Handling					
Outcomes					

Background

Powys County Council has a Risk Management Framework which was last reviewed in July 2019. The Framework Specifies a 6-step process to be used by the Authority.

1) Risk Identification
2) Analyse and assess/evaluate risks
3) Review of controls and control effectiveness
4) Respond to risks
5) Record, monitor, and report
6) Integrate with strategic planning and decision making

The Council currently has 12 strategic risks on its risk register. At the end of June 2020, the JCAD system had 667 risks logged within it, including the strategic risks, 111 of these risks could be linked to the Corporate Priorities.

The publication of this report was delayed due to the affect the Corona Virus had on the Authority.

Corporate Risk Assessment		
Objective		
To ensure the Council has a planned and systematic approach to the identification, evaluation and management of risks in order to control the probability and/or impact of unfortunate events, or to maximise the realisation of opportunities.		
Risk	**Inherent Risk Assessment**	**Auditor's Assessment**
An adverse event or action occurs which negatively affects the Council's ability to achieve its objectives and to successfully execute its strategies.	**High**	**Medium**

Scope

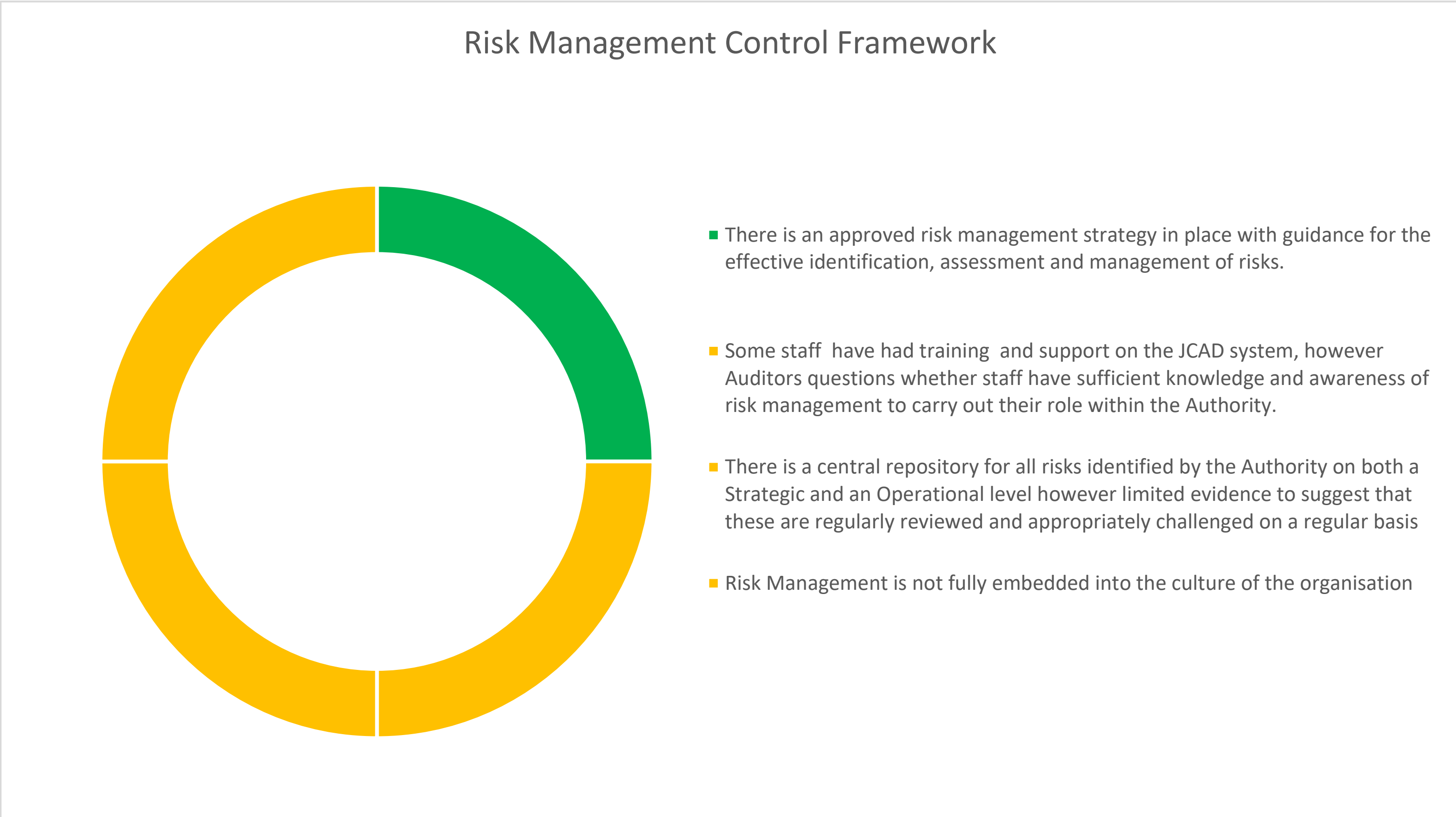
The Risk Management Assessment Framework is a tool that is used to assess the standards of risk management within an organisation. As part of this audit, we will assess the Council against this framework. This audit will also include an analytical review of the risk registers on the JCAD system.

There was limited contact with Officers of the Authority due to the Coronavirus outbreak. As a result of this some evidence was limited and therefore this review was primarily focused on the information within the JCAD Risk Management System.

Findings and Outcomes

Summary of Control Framework

Four Controls were tested during this audit, and given a High, Low, or Medium rating, which was based on the number of weaknesses which were identified in each area. These controls can be seen in the graph below.



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1.	An adverse event or action occurs which negatively affects the Council's ability to achieve its objectives and to successfully execute its strategies.	Medium

1.1 Finding and Action

Issue – Quality of the Risk Information	Risk
The information within the risk registers does not fully align with the definitions used within the Risk Management Framework. Auditors have concerns about the quality of the information within the risk registers.	There is a risk that risks may be misinterpreted as they are not clearly stated on the registers alongside a risk that mitigations are not being recorded correctly.

Findings

Auditors feel that there is a need for basic risk management training is to be undertaken by the officers within the Authority. The information included within the risk registers does not align with the definitions that have been included within the Risk Management Framework.

A review of the risk registers identified that the risks included would not be considered a risk, when compared to the definition within the Risk Management Framework. It is defined that risk is the "effect of uncertainty on objectives", where the effect is a positive or negative deviation from what is expected. Some of the risks included within the registers were names of companies or events. Whereas other services expressed events that could happen, but not how the uncertainty of these would affect their objectives. The tables below display the results of this review, with full details located within Appendix B.

Strategic Risk Register

There are 11 strategic risks on the risk register.

Is it a risk?	Yes	Partial – Only states the objective	Partial - Only states the effect of uncertainty	No
Percentage	46%	27%	9%	18%

Service Risk Register

From a sample of 27 risks:

Is it a risk?	Yes	Partial – Only states the objective	Partial - Only states the effect of uncertainty	No
Percentage	44%	15%	15%	26%

Alongside the risks, the registers also include consequences and mitigations. The definition for a consequence is the "outcome of an event and has an effect on objectives" whereas a control is "any measure or action that modifies or regulates risk". The consequences included within the risk registers were close to the definition, however, some could still use some improvement to explain the outcome of an event.

Whereas the controls specified within the risk registers could use some enhancements. The Risk Management Framework describes controls as "a list of the current controls that are in place to mitigate the risk. These should be specific and auditable. A control should either reduce the likelihood of the risk materialising and/or reduce the impact should the risk materialise". A few risks had a reduction in the residual risks without any controls or actions plans in place. An example of the a few controls which were found within service risk registers are:

- Awaiting consultation resource plan.
- Public liability insurance.
- Close monitoring
- Cabinet briefed
- Rolling programme of works

It was picked up by the Audit Committee on the 7th February 2020 that they had concerns about the mitigating controls used within the strategic risk register. It was stated within the minutes that "Close monitoring was not an adequate mitigation measure".

According to the Risk Management Framework, Senior Managers and Cabinet Members should review the key risks for the organisation. Auditors are uncertain about whether the difference between the definitions and quality of the information within the risk registers are due to a lack of challenge by senior staff or due to a lack of understanding on risk management.

Recommendation		
We recommend that the Authority reviews its risk registers to ensure that the information within them aligns with the definitions within their framework.	Priority Score	**1**
Agreed Action	Timescale	31st January 2021
• Each service reviews its risk registers to ensure that the information within them aligns with the definitions within the framework. 31st Dec 2020 • Service Risk Registers are reviewed, as a minimum of 3 monthly, in SLTs and a standing item on performance review meeting's agenda. (On-going) • Recommend that the services start using the JCAD reports system to determine if owners are keeping up with their reviews. 31st Dec 2020 • Strategic Planning and Risk Officer to be invited to a 3 monthly review meeting to improve understanding and challenge. (Commencing Jan 2021) • Service Risk Champions regularly review their service risk register. (On-going)	Responsible Officer	Heads of Services

• Services use the risk management scoring framework when setting the risk profile. (Commencing Jan 2021) • Recommend Audit/Scrutiny committees look at service risk registers every quarter on a rolling basis. (On-going)		
Recommendation		
We recommend that the Authority provides Services with more guidance and training to ensure that officers have a good understanding of risk management. It is also recommended that the Authority provides the services with information to determine what controls they would consider as an adequate mitigation measure	Priority Score	3
Agreed Action	Timescale	31st January 2021
• Create a risk management course or training for all staff specifically the management induction programme. (Jan 2021) • Set up 30-minute JCAD/risk Management sessions on Teams for new users and anyone who needs a refresher. (Dec 2020) • Strategic Planning and Risk Officer to be invited quarterly to services SLT meetings to improve understanding and challenge. (Commencing Jan 2021) • Service Risk Champions regularly review their service risk register.	Responsible Officer	Jane Thomas, Head of Finance / Risk Management Officer

1.2	Finding and Action
Issue- No Service Level Risk Appetite has been set	Risk
There are no service Level Risk Appetite Statements within the risk registers, nor within the Councils Risk Management Framework.	There is a risk that Services have not set risk appetites, which therefore limits the Authorities knowledge and actions due to not knowing their acceptable levels of risk.

Findings

The framework includes the Council's Risk Appetite statement:
"As a large and diverse organisation, it is recognised that appetite for risk will vary according to the activity undertaken and hence different appetites and tolerances to risk apply throughout the organisation. Corporately, Powys County Council has an open risk appetite, and specific risk appetites are set out in the relevant risk register. This enables us to be consistent across the Council, and to encourage a balance between caution and innovation. It also avoids resources being spent on further reducing risks that are already at an acceptable level based on risk appetite………"

The Council states that they have an open risk appetite. The definition of this is:
"Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money."

Auditors feel that there is lack of understanding within the Authority, where risk appetites and tolerances are concerned. The Authority has created an overall risk appetite statement, which has been included within the Risk Management Framework. However, this statement suggests that the services will have individual risk appetites which will be stated within the risk registers. This is not the case. Risk Treatments (Treat, Transfer, Tolerate, and Terminate) which could be considered as the mechanisms for dealing with risks are stated within the register.

It is imperative that the Authority ensures that the services have created appetites, as this impacts on the treatments they use. An Appetite should dictate the levels of risk that the services are willing to accept. Which in turn should then be used to determine their actions with each risk, and the treatment they will use with it. For example, if the risk is outside the appetite levels, and cannot be avoided, then it must be treated by reducing the risks with controls. If the risk is within the appetite levels, then the Council could consider tolerating the risk, as it is within its acceptable levels. There is a risk that the Authority could be over mitigating risks and therefore using excessive resources to treat risks where it is not necessarily required. There is also a risk that by under mitigating some of the risks that are identified then the Authority is exposing itself to financial, and reputational damage.

Other than the risk statement, the only mention of risk appetite within the 7-step risk management process within the framework is in Section 7.4 Review of controls and Respond to Risk which states
"Risks that are at an unacceptably high level are those that exist outside of either the Service or wider Powys County Council risk appetite."
The framework does provide some guidance for services on what they should consider when creating a risk appetite in Appendix B, however this appendix is not mentioned elsewhere within the document. There is also no mention of when the services should review or create the appetite. Auditors question

whether the services have been informed that they need to create these, or whether this has simple been included within the framework. Towards the end of this audit, the Risk Officer contacted Audit requesting assistance in researching ways other organisations are setting up their appetites and how this could work in Powys.		
Recommendation		
The risk appetite should dictate the level of risks that they are willing to accept. We recommend that the Council sets an overall risk appetite limit and includes this within the Risk Management Framework. This should be approved by the Cabinet.	Priority Score	**1**
Agreed Action	Timescale	31st January 2021
• Review Risk Management framework including the Council risk appetite statement working with Risk Champions.	Responsible Officer	Jane Thomas, Head of Finance/ Risk Management Officer

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1.3	Finding and Action		
Issue- Understanding partnership risks		Risk	
There are no specific partnership risk registers on the JCAD system		There is a risk that risks could be lost due to not being recorded as missed risks could have a reputational damage to the Authority.	
Findings			
The Risk Management Framework states “Powys County Council use risk management processes and principles at every level of the organisation, including operational level, programme and project management, improving performance, strategic planning, decision making, partnerships, and third parties.” Audit were provided with the partnership register by the Risk Management Officer which was last updated in September 2018. This register was compared to the risk registers on the JCAD system, which identified that there were no specific risk registers for the partnerships. However, two of the Authorities main partnerships; Freedom Leisure and HOWPs were mentioned within the service risk registers. The framework states a slightly different methodology for the partnership risk management stating that it risks should be agreed and managed by a member of the partnership. This suggests that these registers should be held separately from the service registers as they are maintained by the partnerships. The framework declares that “risks arising through key partnerships” should be reviewed by the Audit Committee. There should be appropriate records of the partnership risks readily available to senor members of staff as well as the Audit Committee.			
Recommendation			
We recommend that all partnership risk registers are included on the JCAD system, to allow for greater visibility on the potential risks to the Authority.		Priority Score	2
Agreed Action		Timescale	31st January 2021
• Agree to record partnership risks in related service risk register and HofS/EMT/Portfolio Holders communicated a clear, direct message to staff, partnership risks that relate to PCC achieving its outcomes need to be included in service risk registers. • Recommend Scrutiny/Audit committee look at service risk registers every quarter on a rolling basis. • Review Risk Management framework including the methodology for the partnership risk management		Responsible Officer	Heads of Service

1.4	Finding and Action
Issue- Lack of visibility	Risk
There is no clear pathway within the system to display why risk treatments have been undertaken.	There is a risk that the incorrect risk treatment is undertaken, which could lead to unnecessary use of resources in some areas.

Findings

There are no Service Area Risk Appetites within the risk registers, which should be included according to the Risk Management Framework. It was therefore hard to determine how the services decided what risk treatment to undertake with each of their risks. According to the Risk Management Framework there are four treatments that can be used; Treat, Tolerate, Transfer and Terminate. If inherent risks are outside of the services appetite levels, then the service should determine which action they will take with each risk.

The Risk Management Framework states that "Risks which are deemed to be at an unacceptably high level will require additional treatment". The majority of the risks within the registers are treated, however for some risks the controls implemented do not decrease the inherent risks. Which raises queries about whether the best treatment was applied to the risk. There were also cases of risks being tolerated but having mitigating actions against them in the risk register. These errors display a lack of understanding of the risk management process.

1.5	Finding and Action
Issue- Some cases where risk identification is stagnant	Risk
Lack of evidence to suggest that reviews of the risks and controls are taking place, and that these are being updated on the risk management system.	The is a risk that if information is not up to date then it may affect the overview of the risk registers

Findings

This test was hindered by not being able to contact the Senior Management Teams due to the COVID situation. Although an analysis of the JCAD system and the information within it has raised some concerns about whether review of risks and controls within the services were being challenged and undertaken.

Scoring

The Scoring matrix is used throughout the Authority and can be found at the back of the Risk Management Framework. The Authority uses Inherent and Residual risks for their scoring which is defined by their framework as:

Inherent Risk: The level of risk before treatment measures have been taken into consideration.

Residual Risk: The remaining level of risk after risk mitigation and control measures have been taken into consideration.

A review of some of the risk registers displayed that even though the services had listed control measures their residual risks were still at the same rate as their inherent risk. This should have been picked up by senior members of staff, when they are challenging their risks. If the control has no effect on the risk, it should be re-considered as to whether it is relevant.

A Scorecard report was produced from the JCAD system. This report displays the movements within the redisual risks, and whether the scores have increased or decreased. Very few risks that had been entered had been ammended. The majority of risks had stayed at the same scoring as when they were created. This raises concerns about whether the scores are being reviewed or whether risks within the register have become stagnant in some areas. . Although it is acknolweged by Auditors that it is possible that the scores would not change.

The Target Risk Profile Variance Report displays the target residual risks that the services enter into the JCAD system alongside the tolerance statuses. All risks have a residual risk target score of 0. Audit were informed by the Risk Management Officer that the system automatically entered 0 if no target is entered, and that the services had not been asked to set a target. The Authority should be entering what they aim to reduce the residual risks to, by implementing controls. Setting a target is important as this would help to prevent the Authority from over or under mitigating the risks.

Controls and Actions

For each of the risks on the risk register the Authority has the opportunity to enter controls or action plans within the system to help limit the effect of the risks. The Risk Management Process states that "…it is vital that current controls are reviewed for their effectiveness…". It is impossible to determine if reviews of the original controls are taking place, as the system suggests there is no deadline for these to be undertaken. This causes concern that controls are simply being entered into the registers when the risks are created and not reviewed. There is a risk that if the original controls identified by the Services are not reviewed, the Authority would not be able to determine whether or not they were still affective or relevant. The Action plans entered into risk registers did have review dates specified next to them. However, it was clear that a large majority of these were out of date. It is acknowledged that reviews of both the action plans and controls could have taken place outside of the JCAD system, although the risk management framework states that the action plan should be included within the JCAD system.

Recommendation		
We recommend that the Authority reviews the current registers to determine if the scorings and tolerances given to risk are appropriate and ensure that future entries are challenged appropriately.	Priority Score	2
Agreed Action	Timescale	March 2021
Risk owners should aim to provide an explanation in the notes section of the risk as to how the inherent risk score will be reduced by the delivery of the mitigating actions. Also, if applicable explain why the residual risk scoring remains the same (to be developed as part of the training and service SLT meetings)	Responsible Officer	Heads of Service

Recommendation		
We recommend that regular reviews of the controls and action plans are undertaken and that these are recorded on the JCAD system.	Priority Score	2
Agreed Action	Timescale	March 2021
Investigate setting a target risk score and how and when it should be introduced and include SLT in the engagement process.	Responsible Officer	Risk Management Officer

1.6 Finding and Action	
Issue- lack of training and awareness	Risk
There has been slow progress with providing training to Officers within the Authority, and a need for further training on both the JCAD system and risks management fundamentals.	The Authority will not be able to provide effective risk management due to the lack to a lack of understanding and knowledge of those who's responsible for providing it, which in turn could have a reputational damage,

Findings

Issues with the lack of risk management training have been identified within previous audits. The current Risk Management Framework was last updated in July 2018. Under the training section it is stated that

"Initially Risk Management Champions will be offered training into the risk management approach at Powys County Council and will be fully trained in using the JCAD Core Risk Management System. This training will then be rolled out to all Officers, Cabinet, and wider Elected Members."

The Risk Champions have only recently been implemented by the Authority although they have been written within the framework since July 2019. The Risk Champions and Risk Management Officer recently undertook training on the fundamentals of risk management which was tailored to PCC and provided by CIPFA on the 14th February 2020. It is expected that the risk champions will share their knowledge of the fundamentals however there has been slow progress within the Authority to get to this point.

The Executive Management and Senior Leadership Teams have undergone training on the JCAD system. Guidance for the use of the JCAD system has also been provided alongside some one-to-one training to officers. There seems to have been a higher emphasis on training surrounding the JCAD system rather than risks management training. Since the Coronavirus outbreak, the Risk Management Officer has issued further guidance and training videos to staff on the JCAD system.

As mentioned in previous sections of this report, a review of the JCAD system has displayed that the Authority is not using it to its full potential, which could mean that more training in this area is needed in order to ensure that it is embedded within the Authority. Some of the monitoring reports that were previously

identified could be used to monitor the control and action plan reviews. These would allow Members and Senior Members of Staff to review the services actions more efficiently.		
Recommendation		
We recommend that the Authority ensure that all those who are responsible for challenging, reviewing and identifying risks within their roles understand the risk management process and what is expected of them.	Priority Score	**3**
Agreed Action	Timescale	31st January 2021
•Create a risk management course or training for all staff specifically the management induction programme. (Jan 2021) •Set up 30 minutes JCAD/risk Management sessions on Teams for new users and anyone who needs a refresher. (Dec 2020) •Services use the risk management scoring framework when setting the risk profile. (ongoing) •Recommend Audit/Scrutiny committees look at service risk registers every quarter on a rolling basis. (commencing Jan 2021)	Responsible Officer	Heads of Service/ Risk Management Officer
Recommendation		
We recommend that the Authority looks into the reports from the JCAD system to see if these could be produced to help the Authority determine if services are keeping up with their reviews.	Priority Score	**3**
Agreed Action	Timescale	30Th December 2021
•Set up 30-minute JCAD/risk Management sessions on Teams for new users and anyone who needs a refresher.	Responsible Officer	Risk Management Officer

Other Suggestions

Due to limited contact with Officers of the Authority due to the Coronavirus outbreak. Auditors were unable to determine the basis that officers used when identifying risks. Due to this Auditors are unable to provide assurance of the risk identification process used by the Authority. We therefore recommend that a review of this area is undertaken by Audit at the end of the outbreak.

Appendix

A. Risk Management Framework

1. **Leadership** - Do Senior Management and Members support and promote risk Management

Summary of Progress

Level 1: Awareness & Understanding	**Level 2: Implementation Planned & in Progress**	Level 3: Implemented in all Key Areas	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
Top management are aware of need to manage uncertainty & risk and have made resources available to improve	**Senior Managers & Members take the lead to ensure that approaches for addressing risk are being developed and implemented**	Senior Managers act as role models to apply risk management consistently and thoroughly across the organisation	Senior management are proactive in driving and maintaining the embedding and integration of risk management; in setting criteria and arrangements for risk management and in providing top down commitment to well managed risk taking to support and encourage innovation and the seizing of opportunities.	Senior Managers re-enforce and sustain risk capability, organisational & business resilience and commitment to excellence. Leaders regarded as exemplars.

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2. **Risk and Strategy Policies** - Is there a clear risk strategy and risk policies

<u>Summary of Progress</u>

Level 1: Awareness & Understanding	**Level 2: Implementation Planned & in Progress**	Level 3: Implemented in all Key Areas	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
The need for a risk strategy and related policies has been identified and accepted	**A risk management strategy & policies have been drawn up and communicated and are being acted upon**	Risk strategy & policies are communicated effectively and made to work through a framework of processes	An effective risk strategy and policies are an inherent feature of department policies and processes	Risk management aspects of strategy and policymaking help to drive the risk agenda and are reviewed and improved. Role model status

3. **People** – Are people equipped and supported to manage risk well?

<u>Summary of Progress</u>

Level 1: Awareness & Understanding	**Level 2: Implementation Planned & in Progress**	Level 3: Implemented in all Key Areas	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
Key people are aware of the need to assess and manage risks and they understand risk concepts and principles	**Suitable guidance is available, and a training programme has been implemented to develop risk capability**	A core group of people have the skills & knowledge to manage risk effectively	People are encouraged and supported to be innovative and are generally empowered to take well-managed risks. Most people have relevant skills & knowledge to manage risks effectively and Regular training etc is available for people to enhance their risk skills and fill any 'gaps'	All staff are empowered to be responsible for risk management and see it as an inherent part of the Departments business. They have a good record of innovation and well managed risk taking

4. **Partnerships** – Are there effective arrangements for managing risks with partners?

Summary of Progress

Level 1: Awareness & Understanding	Level 2: Implementation Planned & in Progress	Level 3: Implemented in all Key Areas	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
Key people are aware of areas of potential risk with partnerships and understand the need to agree approaches to manage these risks	Approaches for addressing risk with partners are being developed and implemented	Risk with partners is managed consistently for key areas and across organisational boundaries	Sound risk management arrangements have been established. The most suitable: partnership arrangement (PFI, 'arm's length' etc); partners; suppliers etc are selected in full knowledge of the risks, risk management capability & compatibility	Excellent arrangements in place to identify and manage risks with all partners and to monitor and improve performance. Organisation regarded as a role model

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5. **Processes** – Do the organisations processes incorporate effective risk management?

Summary of Progress

Level 1: Awareness & Understanding	Level 2: Implementation Planned & in Progress	**Level 3: Implemented in all Key Areas**	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
Some stand-alone risk processes have been identified	Recommended risk management processes are being developed	**Risk management processes implemented in key areas. Risk capability self-assessment tools used in some areas**	Risk management is an integral part of the organisation's core processes (policy, planning, delivery etc) and data are collected to monitor and improve risk management performance	Management of risk & uncertainty is an integrated part of all business processes. Best practice approaches are used and developed. Selected as a benchmark site by other organisations

6. **Risk Handling** – Are risks handled well?

<u>Summary of Progress</u>

Level 1: Awareness & Understanding	**Level 2: Implementation Planned & in Progress**	Level 3: Implemented in all Key Areas	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
No clear evidence that risk management is being effective	**Limited evidence that risk management is being effective in at least most relevant areas**	Clear evidence that risk management is being effective in all relevant areas	Clear evidence that risks are being handled very effectively in all areas	Very clear evidence of excellent risk handling in all areas and that improvement is being pursued

7. **Outcomes** – Does risk management contribute to achieving outcomes?

<u>Summary of Progress</u>

Level 1: Awareness & Understanding	**Level 2: Implementation Planned & in Progress**	Level 3: Implemented in all Key Areas	Level 4: Embedded & Improving	Level 5: Excellent Capability Established
No clear evidence of improved outcomes	**Limited evidence of improved outcome performance consistent with improved risk management**	Clear evidence of significant improvements in outcome performance demonstrated by measures including, where relevant, stakeholders' perceptions	Clear evidence of very significantly improved delivery of outcomes and showing positive and sustained improvement	Excellent evidence of markedly improved delivery of outcomes which compares favourably with other organisations employing best practice

B. Risks within the Risks Registers

Strategic Risk Register

Definition of a risk: "effect of uncertainty on objectives", where the effect is a positive or negative deviation from what is expected.

Risk Register	Risk Identified	Is this a risk?	Comments
Strategic - Children Services	Ability to meet the requirements of the MTFS / Retaining grant funding around posts within Children's Services	Yes	States what the objective is, and the effect on posts within the Service
Strategic - Education	The council will be unable to manage the school's budget without extra resource and finance and this will affect every individual school in Powys that has a deficit budget	Yes	States what the objective is, and the effect on posts within the Service
Strategic - Education	The council fails to make the necessary improvements in response to Estyn recommendations.	Partial	States what the Objective is, but is unclear on the effect this would have on the Council
Strategic - Finance	The Council is unable to manage the level of financial cuts required by the Welsh Government and the relatively poor funding position	Partial	States what the Objective is, but is unclear on the effect this would have on the Council
Strategic - Digital Services	Noncompliance with data protection legislation (General Data Protection Regulations (GDPR) and UK Data Protection Act (DPA) 2018	Partial	States what the Objective is, but is unclear on the effect this would have on the Council
Strategic - Digital Services	Risk of financial loss, disruption or damage to the reputation of Powys County Council from a failure of its information technology systems and or/loss of Data due to a cyber-attack or Incident.	Yes	States what the objective is, and the effect on posts within the Service
Strategic	The impact on the Council as a result of Brexit.	Partial	Unclear of what the objective is, however, the uncertainty would the impact on the Council.
Strategic	The council receives a negative regulatory / inspection report	Yes	A deviation from what the Council expects to happen.
Strategic	Significant long-term decrease in the working age population impacts on Council's ability to recruit and retain or commission the workforce it requires	Yes	It is clear what the Council is trying to achieve and the possible uncertainty.

Strategic - Planning, Property and Public Protections	Heart of Wales Property Services (HOWPS)	No	This is a name of a company
Strategic - Planning, Property and Public Protections	Lack of adequate resilience planning	No	Does not state what effect this would have on their objective

Service Risks

Definition of a risk: "effect of uncertainty on objectives", where the effect is a positive or negative deviation from what is expected.

Risk Register	Risk Identified	Is this a risk?	Comments
Property, Planning, and Public Protection	Failure to ensure Health & Safety of public and workforce on Council premises	Partial	Explains the uncertainty but not the effect of it.
Leisure and Recreation	Ash dieback affecting trees on land owned or managed by the Service	Yes	States the uncertainty of the effect on the trees for the land management team.
Leisure and Recreation	Failure of Powys County Council to facilitate and deliver landlord responsibilities and obligations to the Leisure Contract in a timely and cost-effective way.	Yes	Explains the uncertainty on their objective to undertake the work in a cost-effective way.
Leisure and Recreation	Swimming Pool (Builth Wells) 'backwashing' is not draining as necessary and over-spilling above ground level	Yes	States the effect on the Swimming Pool

Highways, Transportation and Recycling	Reduction of anticipated income levels from: - - Recyclables; - NMWTRA; - Car Parks; - Passenger Transport; - Single Environmental Grant; - Trade Waste; - Streetworks; - Capital scheme Delivery - Internal Customers (HOWPS, Housing, Schools, Property); - Fleet (internal and external).	Partial	Explains the uncertainty but not the effect of it.
Highways, Transportation and Recycling	Meeting the requirement of the MTFS, including achievement of savings and income generation targets.	Partial	Explains the uncertainty but not the effect of it.
Highways, Transportation and Recycling	Health and Safety of public and workforce.	No	
Education	Financial - The Schools Service has a deficit budget of circa £3m as at 31/12/2018. Estyn Recommendation 5 - Continue to improve the quality of financial management in schools and take appropriate action to address schools with significant deficit budgets	Yes	States the object and uncertainty of the budget
Education	All Schools must comply with the health and safety regulations. These include the Control of Asbestos Regulations 2012 (for which the School must have an Asbestor Management Plan), legionella and a fire risk assessment.	Yes	States the objective of complying with health and safety guidelines.
Children Services	Ability to meet the requirements of the MTFS / Retaining grant funding around posts within Children's Services	Yes	States the objective and the effect
Digital Services	Project cannot deliver intended outputs or does not develop in-line with agreed timescales, due to lack of resources to deliver all or part of the programme.	Yes	Although it is not clear on what project this is talking about, the effect of uncertainty is clearly stated.

Digital Services	The organsiation does not embrace the changes	No	Does not clearly describe what changes this is talking about, or what objectives this will affect
Finance	Cost of borrowing increases to a level that limits the council plans in terms of capital programmes etc	Partial	
Children Services	Out of hours working for Social Workers and Support Staff	No	Does not inform the reader what the risk to the Authority is.
Finance	Misuse of purchase cards by staff	Partial	Does not say how this would affect the Authority
Finance	GDPR breached through data security breach	Partial	Does not say what this is in relation to.
Local Authority Trading Company	There is a lack of skills / expertise internally to be able to deliver the land / property development work via the LATC	Yes	States the objective and the effect
Income and Awards	The welfare reform programme against a backdrop of changing legislation and roll out of Universal Credit has likelihood of large impact on Powys citizens, in addition to HRA income. Access to IT equipment. Resourcing issue, particularly in Libraries.	Yes	States the objective and the effect
Income and Awards	Additional change and improvement work have been prioritised resulting in lack of management capacity to deliver operational and corporate objectives.	Yes	Explains the effect of uncertainty and the objective
Pensions	Insolvency of an investment manager investing Pension Fund assets.	Yes	Explains the uncertainty and their objective
Procurement	Ethical Procurement	No	It is unclear what the uncertainty or the objective is
Procurement	Failure of Contract - supplier failing to perform.	Partial	This explains the uncertainty of the effect but not what the objective is
Procurement	Brexit	No	This is an event, not the effects of what this may cause
Transformation and Communications	Service reorganisation	No	This is an event, not the effects of what this may cause
Transformation and Communications	Introduction of the new CRM and project to redesign intranet	Partial	Does not state the effect of uncertainty

Transformation and Communications	Local Government Elections	No	This is the name of an event, it neither explains the uncertainty nor the effect
Transformation and Communications	Impact of sickness or exceptional circumstances of leave within the team will affect deliverables.	Yes	Explains the effect of uncertainty and the objective

Audit Framework and Definitions

Assurance Definitions	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Authors and Distribution

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

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Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CYNGOR SIR *POWYS* COUNTY COUNCIL.

SLT
Wednesday 18th November 2020

REPORT AUTHOR: **Jane Thomas**
Head of Finance

REPORT TITLE: **Risk Management**

REPORT FOR: **Decision**

1. Purpose

1.1 The purpose of this report is to outline the Councils response to a recent SWAP Internal audit report on Risk Management and seek agreement on recommendations and future actions.

1.2 The intention of presenting this report to SLT is so that Heads of Service can fully understand the implications of the recent risk audit and the improvements required from services to become compliant and deliver objectives.

2. Background

2.1 Risk Management identifies potential problems before they occur so that risk-handling activities may be planned and invoked to mitigate adverse impacts on the achievement of business objectives. An effective risk management system is vital to ensure the successful delivery of the Council's corporate priorities and the delivery of an efficient and effective public service for the citizens of Powys.

2.2 At a time when the Council is facing unprecedented challenges, the effective management of risk is needed more than ever. A risk-managed approach to decision making will help us to achieve the well-being objectives in Vision 2025, deliver services more efficiently and using innovative and cost-effective means, and help the Council manage its Covid-19 response.

2.3 Individuals roles in Risk Management is clearly stated in the Risk Management Framework.

SWAP Audit report

2.3 The report states 'In general, the policy approved by the Council for risk management is fit for purpose. The system (JCAD) used to deliver the policy is also fit for purpose, but it is not fully embedded across the authority and the potential functionality may not be fully utilised.

2.4 Audit's opinion was 'In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

2.5 Issues highlighted, with comments and actions are detailed in the below table. These actions are relevant to all services and the timetable for implementation needs to be agreed by all.

Issue/Finding	Comment	Action	Suggested timescale for delivery
Service Risk Registers - There were areas of good practice found, but also a significant variation in the legitimacy and quality of the risk recorded. In addition, there were errors on the scoring of the risk, mitigation (control) and tolerance information. These errors display a lack of understanding of the risk management process. E.g. Some risks had a reduction in the residual score without any controls in place. Other were being tolerated but had mitigating actions against them. See appendix B.	Our risk registers are key to safeguarding the organisation and building resilience into our services. Our framework has two levels of challenge. Firstly, the challenge and moderation of the risks by the Services through management teams to ensure that the risks are valid, the appetite is quantified, and the mitigating actions are SMART e.g. close monitoring is not an adequate mitigation measure, it is tolerating. Secondly, Senior Management and the cabinet who are responsible for the oversight and monitoring. The Audit Committee are there to provide the necessary challenge and scrutiny and call the Council to account where the	•Each service reviews its risk registers to ensure that the information within them aligns with the definitions within the framework. •Service Risk Registers are reviewed, as a minimum of 3 monthly, in SLTs and a standing item on performance review meetings agenda. Recommend that the services start using the JCAD reports system to determine if owners are keeping up with their reviews. •Strategic Planning and Risk Officer to be invited to a 3 monthly review meeting to improve understanding and challenge. •Service Risk Champions regularly review their service risk register.	31st Dec 2020 On-going 31st Dec 2020 Commencing Jan 2021 On-going

There is limited evidence of regular reviews and appropriate challenge on a regular basis.	risk management framework is failing. As well as the risk all mitigating actions whether Treat, Tolerate, or Transfer need reviewing on a regular basis. As of Quarter 2 20/21 the Strategic Risk Register is going to scrutiny.	•Services use the risk management scoring framework when setting the risk profile. •Recommend Audit/Scrutiny committees look at service risk registers every quarter on a rolling basis.	On-going Commencing Jan 2021
Risk Management is not fully embedded into the culture of the organisation.	The risk champions, and risk officer undertook training on the Fundamentals of Risk Management in Feb 2020.	•Create a risk management course or training for all staff specifically the management induction programme. •Set up 30 minute JCAD/risk Management sessions on Teams for new users and anyone who needs a refresher. •Strategic Planning and Risk Officer to be invited quarterly to services SLT meetings to improve understanding and challenge. •Service Risk Champions regularly review their service risk register.	Jan 2021 Dec 2020 Commencing Jan 2021
No risk management maturity target set.	The assessment is based on the five levels of maturity (1 being the lowest) and uses seven key questions to measure this, see appendix A for details. SWAP	•Set a target level of 3 for all areas except partnership. A target of 2 set for partnership. It is assumed the actions set out in this report will ensure we	Review June 2021.

	assessed the Council as a level 1 for partnership, level 2 for leadership, risk strategy people, risk handling & outcomes and a level 3 for process.	improve our target level.	
It is difficult to understand the impact of mitigation, i.e. how the inherent risk score is reduced by the delivery of the action. Also with some risks the controls implemented do not decrease the inherent risks. The Authority should be entering what they aim to reduce the residual risks to, by implementing controls. Setting a target is important as this would help to prevent the Authority from over or under mitigating the risks.	In some situations the residual risk remains the same even though control measures have been identified. Which raises queries about whether the best treatment was applied to the risk.	•Risk owners should aim to provide an explanation in the notes section of the risk as to how the inherent risk score will be reduced by the delivery of the mitigating actions. Also, if applicable explain why the residual risk scoring remains the same (to be developed as part of the training and service SLT meetings) •Investigate setting a target risk score and how and when it should be introduced and include SLT in the engagement process.	Mar 2021
There are no service level risk appetite statements within the risk registers, nor within the Councils Risk Management Framework.	Risk Appetite was key part of the in-house training delivered to Risk Champions in February. The action was part of T&C's Integrated business plan due to start in March	•Review Risk Management framework including the Council risk appetite statement working with Risk Champions.	Jan 2021

	2020 however was put on hold. Risk Officer contacted Audit requesting assistance in researching ways other organisations are setting up their appetites and how this could work in Powys.		
There are no specific partnership risk registers on the JCAD system	The Councils main partnerships; Freedom Leisure and HOWPs were mentioned within the service risk registers. PCC scoring matrix was amended last year to align with one of our main partnerships, PTHB to make recording partnership risks easier.	•Agree to record partnership risks in related service risk register and HofS/EMT/Portfolio Holders communicated a clear, direct message to staff, partnership risks that relate to PCC achieving its outcomes need to be included in service risk registers. •Recommend Scrutiny/Audit committee look at service risk registers every quarter on a rolling basis. •Review Risk Management framework including the methodology for the partnership risk management	SLT to confirm when this will be completed by. 31st Jan 2021
Further embed JCAD into the Council.	EMT/SLT have undergone training on the JCAD system. All owners have either received training or guidance for the use of the JCAD system. Alongside paper guidance and a	•Set up 30 minute JCAD/risk Management sessions on Teams for new users and anyone who needs a refresher.	Dec 2020

	video. A lot more officers are familiar with JCAD since the Covid-19 risk register was created which is reviewed/challenged regularly by gold and silver. It was decided Cabinet and Elected members do not need access to JCAD yet but HofS should be regularly reviewing their risks with their Portfolio Holder at performance reviews meetings.		

2.6 Due to limited contact with Officers of the Council due to the Coronavirus outbreak. Auditors were unable to determine the basis that officers used when identifying risks. Due to this Auditors are unable to provide assurance of the risk identification process used by the Council. Therefore, Audit have recommended that a review of this area is undertaken by Audit at the end of the outbreak.

3. Advice

3.1 To ensure a risk managed approach to decision making and good governance of the Council, it is proposed that SLT agree the actions in section 2.5.

4. Resource Implications

4.1 There are no direct resource implications in relation to this report however all Heads of Service need to consider if there are any resource implications as a result of the recommendations.

5. Recommendation

It is recommended that SLT notes the SWAP audit report conclusions and takes ownership with Financial Services to deliver an effective risk management system.

The recommendation above will ensure:

- **Appropriate understanding and management of strategic and service risks which could prevent us from achieving our objectives**
- **A risk managed approach to decision making and good governance of the Council**

Contact Officer: Jane Thomas, Head of Finance Tel: 01597 827789 Email: Jane.Thomas@powys.gov.uk Head of Service: Corporate Director:

CABINET REPORT NEW TEMPLATE VERSION 2

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Powys County Council

Internal Audit Update Quarter 3 Report 2020/21

For Audit Committee 11th February 2021

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4.2

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Unrestricted

Contents

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Work Plan

Internal Audit's response to the pandemic has been to support Management in the delivery of critical services. This has required deviation from established plans and traditional audit delivery.

The risk-based coverage in the original audit plan allowed the Head of Internal Audit to form an opinion on the overall control environment. The inability of the Council to engage with Internal Audit throughout the pandemic has significantly reduced the work programme. Therefore, the level of assurance that can be provided decreases as the work programme reduces.

It is the intention to use other forms of assurance, but it is likely that any Annual Opinion will be associated with some form of limitation.

Role of Internal Audit

The Internal Audit Service for Powys County Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The work of the Partnership is also guided by the 'Internal Audit Charter' that was approved in May 2019.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work is driven by the risks the Council faces of not delivering front line and supporting services to achieve the objectives outlined in "Vision 2025".

Revised Planning Arrangements, Audit Opinions and Delivery

Since the last update, Wales has had a further period of full lockdown. This third period of lockdown has heavily impacted on the delivery of the Internal Audit Plan presented to previous meetings.

Audit Opinions and Delivery

CIPFA has recently issued guidance around providing annual opinions where there is limitation of scope from the impact of Covid-19 upon delivery of planned audits. An example given is where assurance is insufficient due to significant engagements set out in the plan that the audit service could not complete. Given the resource impact of Covid-19 on front-line services and the Council's decision to prioritise critical services, there has been a significant impact on the ability to undertake audit work and therefore a likelihood that any annual opinion may be associated with some limitations.

This is the third quarterly update for 2020/21 and reviews completed have highlighted that whilst generally risks are well managed, we have identified some gaps, weaknesses, and areas of non-compliance. However, we have reasonable levels of confidence that the agreed actions will be implemented and thus strengthen internal control. There has been more advisory and grant related work this year, the pandemic being the most significant reason for

We keep our audit plans under regular review to ensure that we audit the right things at the right time.

The Council has reduced the Internal Audit plan by 10% days for 20/21 as reported to the previous Audit Committee.

Regular meetings with the Council's SLT and other External Regulators identify potentially high-risk areas for inclusion in the forward work programme. It also helps build a wider risk profile and helps co-ordinate activities which avoids duplication and wasted resources.

this. Outcomes from Internal Audit work not attracting an opinion level (e.g. follow up, grant work, advisory etc) will be appropriately reflected in the annual opinion.

Since our last report in November 2020, we have issued one Partial/Limited opinion (**See Appendix C**) with no other areas being classified as a significant risk. Senior Management are now increasingly directing internal audit to areas of likely risk, or known issues, which is a positive. This will naturally result in an increased number of Limited assurance opinions.

Appendix B contains the workplan agreed in March 2020 with status updates.

Audit Planning and Risk

A revised approach to work planning will present an annual internal audit plan to the Senior Leadership Team in March 2021 and the Audit and Governance Committee in May 2021 for endorsement. The last 10 months has been dominated by the impact of the COVID-19 pandemic and a lot has changed. COVID19 has also been a catalyst for change within SWAP and as such, an updated approach to internal audit work and planning has had to be implemented resulting in changes to the current annual plan. Building on the enforced changes in 2020-21, SWAP is proposing to move to quarterly planning for 2021-22 implementing a more flexible and agile approach to audit planning which is also recognised as best practice by the internal audit profession. Rather than periodically presenting the committee with a static plan and proposed changes, we are looking to provide Senior Management and Members with an improved real-time plan that can adapt to emerging risks and issues. A quarterly planning process will provide the same assurances as an annual plan, but should better reflect the changing risk landscape. SWAP will undertake a risk assessment and present a plan for each quarter to the Audit Committee. Audit planning meetings will be held with relevant officers and each quarter plan agreed with the Chief Finance Officer and Powys SLT prior to presenting to this Committee. It is inevitable that the focus of the first quarter plan will be to revisit the auditable activities deferred from the 2020-21 plan as well as considering any key risk areas discussed with management.

Appendix A contains and assessment of emerging risk from the wider UK context

The recommendation tracker can be used to gain an oversight og the delivery position, but all allow users to drill down into the details to gain assurance at the more granular level if required.

The tracker is based on self-assessment rather than independent verification. Therefore, a role still remains for the Internal Audit working Group and follow-up audits on the areas of highest risk.

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Recommendation Tracking

Internal Audit have implemented a robust system of tracking the delivery of agreed actions. The tracker will be able to allow all stakeholders to gain assurance that key risks are being addressed and actions are being implemented.

The follow tables reflect the status of recommendations in Powys as at 1st February 2021:

Implementation Status	Complete	On-going	Outstanding	Not Agreed	Total
No of Agreed actions	62	67	17	3	149

(Note from1st April 2019 to 1st Feb 2021)

Priority Status	Priority 1	Priority 2	Priority 3	Total
No of Agreed actions	32	82	35	149

(Note from1st April 2019 to 1st Feb 2021)

A moderated review by the Head of Internal Audit on the outstanding recommendations has identified that there are no critical outstanding Priority 1 recommendations. This gives the Audit Committee assurance that the Council is effectively addressing the most important risks identified in internal Audit reports.

Work Plan - Update

Risk Profile Appendix A

The risk profile of all Council's is rapidly changing given the impact of the pandemic in terms of immediate responses and in the longer-term consequences of those responses. The Internal Auditors are adding value by informing the Audit Committee of any risks that may be on the horizon to allow then to be prepared to mitigate risks.

These risks have been identified in the wider context of the Internal audit profession in the UK.

	Risk Theme	Risk Theme Buzz words	Audit Suggestions
1	Planning, Housing, Environment and the Local Economy	Planning affordable housing	*Local plans for new homes* *Capital budgeting* *Contract management* *New homes bonus scheme* *New starter homes and registers for self-builds* *Planning control* Housebuilding to aid local recovery (see RIBA report) Enforced sales to aid homelessness Insourcing of Housing Stock (e.g. Kent) Changed regulations on space standards in new homes Planning Policy Changes (Planning for the Future White Paper) Impact of Neighbourhood planning (MHCLG paper) and challenges by contractors. Changes to the Community Infrastructure Levy Permitted development rights and use class changes v the impact on democracy Housing Land Supply

		<u>Local Economy</u> local economy impacted by national macroeconomic factors, Rising Unemployment decline of the high street transport broadband	*The impact of the increase in unemployment in the 16 to 24 age group, should be considered when completing youth services type audits.* Investment in Town Centre Properties to safeguard the local economy Gov Funding for Local Towns to boost economy (Is it a local Town?) Broadband funding and delivery of projects Financial support for local bus operators over the pandemic (and recent NAO report on local authority support for public transport) Funding for local transport schemes - any local awards? Economic Master Plans for local economy/ Local regeneration plans/ local economy resilience
		<u>Environment</u> environment sustainability climate change	*Air Pollution* *waste and Recycling* *Electric Charging Points* *Recycling* *Furthermore, environmental issues should be considered generally. For instance, any building or planning enforcement audits, should consider whether required environmental requirements being met are checked as would any audits of the Councils housing stock or new builds.* *As environmental legislation, scheme and initiatives are still evolving, this is an area to keep under review* Neighbourhood consultation is required on low traffics and green space schemes Street Lighting Investment Pedestrianisation of streets *(*Islington residents seek judicial review*)* Environmental prioritisation and zero carbon targets *(*Following Gov 10 point Plan*)* Green Homes Grant available to apply for now Changes to the HRA account

2	Governance and Reorganisation	Reorganisation, Governance - focus on decision making structures, corporate culture and general regulatory compliance	Compliance with Local Government and Election Act (Wales) – Audit Committee Structure and governance models Political uncertainty, coming elections, great scrutiny on open and transparent decision making Effectiveness of Overview and Scrutiny Committees (follow up report by DCLG) Complaint Handling (new guidance out) Decision Making structures (Cabinet plus and committee structure changes, Newhan, BCP, Wirral Councils) Devolution in Somerset (The LGA has produced a Communications Toolkit for Devolution) Lessons Learned from Croydon and Nottingham reports Members Code of Conduct (changes are being proposed by the LGA) Use of covid restrictions to reject petitions from the public (e.g. Croydon Council) Workplace culture - officer and member relationships Election Delivery Oversight of Counter Fraud Arrangements

3	Sustaining Care	Housing the vulnerable, Homelessness, Care Homes, Covid challenges, performance measurement, safeguarding, statutory compliance including Care Act, supported housing, personalised employment schemes,	Suggestions: *- homelessness- including B&Bs, eligibility, six-week rule, income and debt collection, budget / cost,* *-Housing tenancy, home swops, homes in multiple occupation,* *- Private sector leasing arrangements,* *-Homelessness prevention strategies (Especially for furloughed families)* *- Monitoring of social care placements, including the information and assistance provided to clients.* *- Audits of deferred payments (for where clients receive home care and defer the costs against their homes)* *Quality of care audits covering:* *- Residential care home audits* *- Personal home care (or Domiciliary Care) audits* *- Contract monitoring etc.* *- Review of different local health services* Impact and outcome of the Everyone In scheme on homelessness service delivery Personalised employment support schemes to prevent homelessness Use and lessons learned from Community Support Hubs over the pandemic Supported Housing statements of expectations (MHCLG non statutory guidance on what good looks like) Homelessness service capacity and the expected rise in demand due to Brexit Government funding for homelessness services (274 councils have received support) Care Act duty to help people maintain habitable homes (Hertfordshire council asked to review practices by Ombudsman)

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		Adults Care - caseloads, workforce, communications, call manage,ent, Inform management, pernerships, multiagency working, assess,emts, reporting , stat compliance, domestic abuse, Deprovation of Liberty, social care action plan implementation, End of life care	*Adult social care caseload management,* *Adult social care workforce planning* *Communication and awareness activities;* *Call management;* *Information recording and security;* *Partnership working* *Referrals to Multi-Agency Risk* *Assessment Conferences* *Reporting* *The Safeguarding Adult Boards* Statutory Compliance Domestic Abuse - New duties Deprivation of Liberty Safeguards *Implementation of the Social Care action plan and Care Home action plan* *End of Life Care guide sets out local councils roles*
		Childrens Care - safeguarding assessments, caseloads and referrals, placements, looked after children service demand, foster care, after school clubs	*Child safety, with a focus on social care case assessments,* *Children's social care caseload management,* Changes to guidance and relaxation of regulations as a result of covid (e.g. Adoption) and the transition period after 31 Dec Quality of residential placements v declining funding Increasing demand and complexity of Looked after Children services *Recruitment of foster carers and the use of Foster Care Agencies* Financial Viability of After School Care Provision

4	Financial Resilience	Covid funds, spending review, funding gaps, commercialisation and commercial vehicles, Redmond Review, DEFRA Waste consultation, financial crime, Budgets and forecasting, income reduction, impact of Brexit	*Annual investment Strategy,* *Investment projects,* *Savings plans,* *Commercialisation,* *Medium term financial planning and strategy,* *Budget monitoring* (in particular Adult & Children's social care budget management, but also business rates, council tax and recycling/ waste management and the impact of the 1 year spendig review. Some councils also budgeitng for transport support and environmental repairs following storm damage. *Specific audits on the local authority's debt enforcement practices and use of enforcement agents should be considered, not only to assess the effectiveness of these but also to assess the compliance of these with the common key features of good debt management practice and how good the liaison with other Council services, such as social services, is. In addition, any audits of the Councils income generating activities, such as council tax, parking income, etc. should also include areas within the scope looking at debt enforcement practices and the use of enforcement agents* *The recording and reclaim of homelessness expenditure from the Government.* *Treasury investment and debt portfolios and compliance with prudential code,* *The setup and governance of commercial vehicles, Management and monitoring of commercial vehicles,* *Commercial Investment strategy (Audit General for Wales has published guidance)* *Commercial property approval and acquisition (MHCLG requirements, NAO report and Croydon learning points)* *Approval and scrutiny of transactions with commercial vehicles,* *The management of commercial properties (investments in capital projects the council cannot afford to maintain going forward)* *Specific audits of the individual discretionary services still operated should be considered, with a higher focus on any that handle cash income. These may take the form of either probity audits (with a focus on key activities, such as cash income handling) or system risk audits.* *Themed audits, across a number of discretionary services, (focussing on cash handing, discretionary staff payments (i.e. overtime and petty cash), etc.)* Reserves Business Rates decline in income including the appeals process Covid Funding arrangements Brexit - interest rate changes and EU grant fund arrangements

5	Health Safety and Wellbeing	Covid homeworking and opening of public spaces and offices, Grenfell Cladding reviews, Housing maintenance	*Either a full audit on homeworking practices, or more focused audits on the individual elements of homeworking should be considered, which may include:* *- Staff wellbeing* *- Supervision and guidance* *- Home workplace assessments* *An internal audit of the local authority's compliance with the 'Working safely during coronavirus' protocols - esp social care where face to face meetings needed.* Cladding review - does the council know if it has any cladding issues on its properties? (Housing Legislation compliance) Public Space Guidance from the MCHLG and guidance for the safe opening of community facilities is available Redeployment and risk assessment of areas where officers are pulled away from services as a result of the pandemic
6	Sustaining Educational Delivery	Supporting the economy, COVID-19, asset management, budgets, transport, quality, SEND	*An audit of the local authority's approach to processing requests for EHC plans should be considered, which should include a specific focus on the problem areas cited by the ombudsman, namely:* *- Time targets, both for new requests andannual reviews,* *- Forward planning and anticipation of needs,* *- Communications and meetings, and* *- Partnership working.* *In addition, an audit of the exclusion processes should also be considered, to confirm that appropriate guidance and training is provided to schools and also that appropriate monitoring occurs centrally, (all schools are required to report exclusions to the local authority in a timely manner) to detect and react to exclusions in breach of the Equality Act 2010.* send Complaints and Appeals School funding and budgets School transport School governance and decision making Improvements to school buildings Covid Arrangements Supportig the local economy through local education initiatives Osted follow ups and quality review

7	Contracts, Procurement & Partnerships	Social Value, insourcing, Modern Slavery, supplier resilience quality, procurement, nth party risk, feasibility reviews take into accout rising costs	*Arrangements for the failure of a major Care home local provider or loss of capacity* *Children's social care residential contract management,* *Third party risk* *Modern Slavery Act compliance* *Data Sharing Agreements (in compliance with the Data Protection Act 2018)* *Full understanding of all costs and risks associated with in-sourcing* Rising contract costs and feasibility studies/ Commissioning Supplier Resiliance checks (use of 3rd party assurance, checks, spreading reliance on key suppliers etc) - particularly for Adult care suppliers. Has preference to use local smaller suppliers created resilience risk? Changes to Procurement arrangements due to Brexit (1 Jan) - updated needed to CSO? Drivers for insourcing Outsourced contract risk Partnerships Quality management (contract management) Social Value
8	Workforce	Covid, recruitment and retention, exit payments, talent management, workforce planning, training, sickness, IR35, new ways of working	*Children's and Adulrs social care workers recruitment and retention (and more widely)* *Change control* *Sickness monitoring;- Recruitment and retention;* *Staff training;* *Organisational culture, and* *Workforce planning and succession planning* Off payroll engagement - IR35 Brexit staffing changes Exit Payments New ways of working

9	Information Management and Security	Accessibility, cyber security, corporate knowledge/ business continuity, information governance, digitalisation, technology, corporate communication, GDPR, Algorithms. Mobile devices	*Data storage arrangements, both electronic and physical,* *Confidentiality, integrity and availability of data,* *Information governance,* *Roles and responsibilities including those where relationships with third parties exist,* *Compliance with the Data Protection and Freedom of Information Acts,* GDPR *How data breaches are detected, how these are dealt with and reported internally and externally,* *Organisational awareness and training, and* *-Data classification and management.* *Although a specific audit of digital transformation may be considered, it is more likely that aspects or different projects within the overall change may be considered. When conducting these audits the key challenges should considered.* *Individual audits may also be considered of any of the emerging technologies, each of which has their own risks (Natural Language Processing, Bitcoin, Internet of Things, Algorithms)* *Use of mobile device* *Cyber Attack*

10	Strategic Asset Management	land and property investments, maintaining H&S of assets	*There is a need, where Councils invest in temporary accommodation, to review the process to purchase the properties, as well as how they subsequently manage these properties and ensure that all relevant health and safety and other legislation is complied with.* Land and Properties requirements in a post covid world *There are a number of tools / checklists that can be used to assess the organisation's preparedness for Cyber Security, including:* *• The 'Ten Steps to Cyber Security' (or cyber essentials) published by GCHQ, which includes the following areas: information risk management regime; secure configuration; network security; managing user privileges; user education and awareness; incident management; malware prevention; monitoring; removable media controls; and home and mobile working.* *• The Code of Connection, which is a mandatory set of requirements that must be demonstrated before local authorities can obtain access to the PSN or the Health and Social Care network.* *• Participation in forums and working groups, such asn the Warning, Advice and Reporting Points (WARPs), Information Sharing Partnership (CiSP) and Local Resilience Forums (LRFs).* *Specific audits of: network infrastructure security (including intrusion detection service and intrusion prevention service); firewall security; remote access portals / virtual private networks; operating system reviews; web security; internet and email security; anti-virus and malware; penetration testing; public services network; and incident management may be considered. Furthermore, thematic reviews of password security across all key systems could be undertaken to gain assurance on the levels of access control; and gap analysis reviews could be undertaken against the government's Cyber Essentials initiative.*
11	Long and Short term projects (including Emergency planning)	Brexit, Emergency Planning, Project Failure, transformation	Project Management Emergency Planning and Business Continuity Planning Impact of COVID-19 on existing projects already underway Readiness for Change/ service sensitivity and capacity

APPENDIX B – Agreed Plan by EMT in March 2020

Rank	Assignment	Service Area	Original Indicative Quarter	Notes / Current Status
1	Impact Assessments	Trans & Comms	Q4	In progress
2	Performance Management	Trans & Comms	Q1	Deffered
3	School Budget Deficit- Support and Enforcement	Schools	Q1	Deferred by Client- On Hold
4	Direct payments	Adult and Children	Q1	Deferred by Client- On hold
5	Creditors	Finance	Q1	In progress
6	Payroll	Finance	Q2	Complete
7	Purchase Cards	Finance	Q1	Complete
8	Rent	Housing & Community	Q2	Deferred
9	Digital transformation or Cyber Security	Digital	Q4	Planned Q4
10	HOWPS	Partnership	Q2	Deferred
11	Climate Change/ Sustainability	Cross Cutting	Q4	Deferred
12	Cyber security	Digital	Q1	On Hold Planned Q4
13	Y Gaer	Housing & Community	Q1	In Progress
14	Effectiveness of Scrutiny Process	Legal & Democratic	Q2	Joint Review- Cancelled

15	Ordering	Finance	Q4	Deferred
16	Fin Reg- Compliance (cipfa assess)	Finance	Q3	Deferred
17	Schools Governance - Themed Review	Schools	Q4	Q4 Planned
23	Those Charged with Governance	Finance	Q2	Complete
24	Council Tax System	Finance	Q3	Q4 Planned
25	School Collaboration - Themed Review	Schools	Q1	Deferred
26	Risk Assessment	Digital	Q2	Complete
27	Corp Parenting -Missing Children Process	Childrens	Q2	Deferred
28	Continuing Health Care	Adult and Children	Q4	Deferred
29	Payments to Providers- Soc Care	Adult	Q2	Deferred
30	Technology enabled care-cost avoidance	Adult	Q2	Deferred
31	Statutory Compliance - Housing	Housing & Community	Q4	Planned Q4
32	Statutory Compliance- Property	Prop, Plan & PP	Q3	Deferred
33	Decision Panel	Adult and Children	Q3	Deferred
35	Housing Void rental properties	Housing & Community	Q2	Complete
36	Newtown High School	Schools	Q2	Deferred
37	Ysgol Calon Cymru	Schools	Q3	In Progress
38	Gwernyfed High School	Schools	Q4	Deferred

39	Third party Top Up - Charging and Financial enforcements	Adults	Q2	Deferred
40	Primary Schools x 10	Schools	All	
42	Grant Certification	Schools	All	Work in Progress
43	Grant Certification	Housing & Community	Q2	Complete
44	Grant Certification	Prop, Plan & PP	Q1	Complete
45	Follow up Audits	Corporate	All	In Progress
46	Early Help- Corporate parenting	Children	Q3	Deferred
47	GDPR	Digital	Q1	Draft- Awaiting Client Response
49	Agile Decision Making	Cross Cutting	Q2	Deferred
50	WCCiS Records and Information	Adults and Children	Q3	Deferred
51	Mental capacity Act or Safeguarding	Children and Adult	Q4	In Progress
52	Culture and Ethics Audit	Cross cutting	Q3	Deferred
53	H&S Management Training	HR	Q4	Deleted at Client request
54	No purchase No pay - Continuous Audits (using data analytics)	Finance	All	Complete
55	Contractor Checks	High, Trans & Waste	Q4	Deleted by Client
56	National Fraud Initiative Co-ordinator	Finance	Q2	In Progress
57	WCCIS Contract Management	Adult and Children	Q2	On Hold -Covid -19

58	Changes to winter maintenance	High, Trans & Waste	Q3	Deleted by Client
Add	Children Services- Budget Management	Social Care	Q1	Partially complete – Restart Q3
Add	Business Grant Administration	Finance	Q2	Work in Progress
Add	Supplier Relief	Finance	Q2	Complete
Add	LA Covid Support Grant	Finance	Q2	Complete
Add	Enable Grant	Finance	Q2	Complete
Add	Supporting the Finance Function	Finance	Q2	Complete
Add	Risk Management Appetite Support	Finance	Q2	Complete
Add	Transport Grants	HTR	Q3	Complete
Add	Fraud Risk Assessment	Finance	Q4	Q4
Add	GDPR – digital Information	ICT	Q4	Proposed Q4
Add	Welshpool High- Follow up	Schools	Q4	In Progress
Add	Brecon High – Follow up	Scxhools	Q4	Proposed Q4
B/F	ICT Strategy	ICT	Q2	Complete
B/F	Conflict of Interest	Legal	Q2	Complete
B/F	Employee Development	HR	Q2	Complete
B/F	Brecon High School	Schools	Q2	Complete
B/F	Software Licensing - Follow up	ICT	Q1	Complete

Work Plan - Update

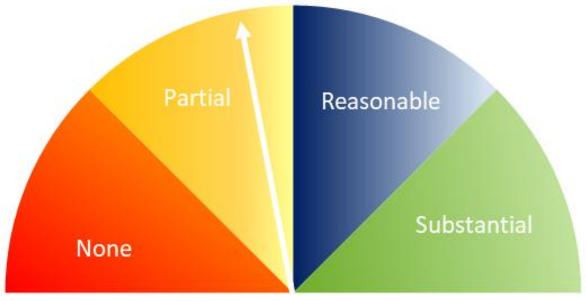
B/F	**School Theme -Procurement**	**Schools**	**Q1**	**Draft- Awaiting Client Response**

Appendix C – Adverse Opinion Reports

Risk Management

Executive Summary

Audit Opinion



In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Recommendation Summary

Priority	Number
Priority 1	2
Priority 2	3
Priority 3	3
Total	**8**

Audit Conclusion

Risk Management identifies potential problems before they occur so that risk-handling activities may be planned and invoked to mitigate adverse impacts on the achievement of business objectives. An effective risk management system is vital to ensure the successful delivery of the Authority’s corporate priorities and the delivery of an efficient and effective public service for the citizens of Powys.

In general, the policy approved by the Council for risk management is fit for purpose. The system (JCAD) used to deliver the policy is also fit for purpose, but it is not fully embedded across the authority and the potential functionality may not be fully utilised.

Risk identification, which is mostly through service driven management teams, could not be assessed during this review because of the onset of coronavirus.

A risk appetite statement has been included within the Risk Management Framework; however, this statement does not make the risk appetite limits clear for the Council. In addition, the risk register does not contain service specific appetites. Setting a risk appetite will allow the Council to make simple and transparent decisions to maintain the correct balance between uncontrolled innovation and excessive caution.

The Council has a Strategic Risk Register that is reported to the Council's Management Team, Cabinet and the Audit Committee. In addition, the Council maintains Service Risk Registers for the purpose of controlling operational risks. There were areas of good practice found, but also a significant variation in the legitimacy and quality of the risk recorded. In addition, there were errors on the scoring of the risk, control and tolerance information.

The mitigating actions in the risk register i.e. the risk reducing measures, do not show whether they are in place, in progress or are completed. In addition, it is difficult to understand the impact of that mitigation, i.e. how the inherent risk score is reduced by the delivery of the action, as it is not particularly visible or transparent.
A report run from the JCAD system displayed that none of the actions plans entered into the system had been started. Auditors acknowledge that it is possible that these reviews could have taken place offline, however according to the Risk Management Framework, they should be recorded within the corporate system. If the reviews are not taking place, it is hard to determine if the controls listed in the system are still relevant or have been delivered.
In some cases, the residual risk remains the same even though control measures have been identified. Overall, it appears that many of the mitigating actions to (treat, tolerate, transfer and terminate) are somewhat unstructured and do not quantifying the actual impact they will have on the overall risk.

An effective risk management framework should have two levels of challenge. Firstly, the challenge and moderation of the risks by the Services through the risk manager, and management teams to ensure that the risks are valid, the appetite is quantified, and the mitigating actions are SMART. This in reality is a quality control process before the risk reports are circulated to Senior Management and the cabinet who are responsible for the oversight and monitoring. The Audit Committee are there to provide the necessary challenge and scrutiny and call the Council to account where the risk management framework is failing. The review identified that there were issues with the register that had not been picked up by the internal quality control process. This view was also supported by the Audit Committee.

There has been slow progress in implementing a training programme that was raised in the previous audit. The Risk Champions, which were originally written into the Framework in 2018, have only just been introduced into the Authority's processes. Some training has been undertaken for the JCAD system by senior members of staff, however only the Risk champions, and Risk Officer have undertaken training on the Fundamentals of Risk Management. The Authority needs to provide more risk management learning opportunities to its staff and to Members.

Risk Management Maturity

The Risk Management Assessment Framework is a tool that is used for assessing the standards of risk management within an organisation. The assessment is based on the five levels of maturity and uses seven key questions to measure this, see appendix A for details. Since the previous audit, no target has been set by the Authority. The Authority should choose a level to aim towards, as this will help to provide a goal for management to aim towards when embedding risk management processes within the Authority. The most effective risk management strategies would be aiming to achieve levels 4 and 5, however targets should be realistic. The present levels as deemed by Internal audit are detailed below:

	Assessment Rating				
Criteria (Level)	**Awareness & Understanding**	**Implementation planned**	**Implementation**	**Imbedding & Improving**	**Excellent Capability**
	(1)	(2)	(3)	(4) Target	(5)
Leadership					
Risk Strategy					
People					
Partnership					
Process					
Risk Handling					
Outcomes					

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
11th February 2021

REPORT AUTHOR: **Jane Thomas, Head of Finance**

REPORT TITLE: **Strategic Risk Register Report Quarter 3 2020/2021**

REPORT FOR: **Decision / Discussion / Information**

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1. Purpose

1.1 The Audit Committee's role is to seek assurance on the effectiveness of the arrangements in place by the Council to manage risk. The purpose of this report enables the Committee to fufil this role by considering the report being submitted to Cabinet at their meeting of the 16th February 2021.

1.2 The report sets out the council's latest position on managing its key risks, contained in the Strategic Risk Register (SRR). It also outlines the arrangements put in place by the Council for managing the key risks relating to the Covid-19 pandemic.

1.3 Audit committee are asked to review the report and the arrangements in place to ensure that there is an appropriate understanding and management of risk and that these and the actions in place to mitigate the risks are monitored and regularly reviewed.

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Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CYNGOR SIR *POWYS* COUNTY COUNCIL.

CABINET EXECUTIVE
Tuesday, 16th February 2021

REPORT AUTHOR: **County Councillor Aled Davies**
Portfolio Holder for Finance

REPORT TITLE: **Strategic Risk Register Report Quarter 3 2020/2021**

REPORT FOR: **Decision**

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1. Purpose

1.1 The purpose of this report is to set out the council's latest position on managing its key risks, contained in the Strategic Risk Register (SRR). It also outlines the arrangements put in place by the Council for managing the key risks relating to the Covid-19 pandemic.

1. Background

2.1 Our Strategic Risk Register is key to safeguarding the organisation and building resilience into our services. At a time when the Council is facing unprecedented challenges, the effective management of risk is needed more than ever. A risk-managed approach to decision making will help us to achieve the well-being objectives in Vision 2025, deliver services more efficiently and using innovative and cost-effective means, and help the Council manage its Covid-19 response and recovery.

2. Advice

3.1 To ensure a risk managed approach to decision making and good governance of the Council, it is proposed that Cabinet:

- Review progress to mitigate strategic risks
- Continue to note the Covid-19 risk register

Review of progress to mitigate Strategic Risks

3.2 As at the end of quarter 3 2020-2021, there are 12 risks on the strategic risk register and all strategic risk owners have provided a short summary of progress since last quarter, to give assurance that mitigating actions are being actioned and monitored.

3.3 Please see appendix A for full details of the 12 strategic risks, and progress against the mitigating actions identified to control them.

3.4 Please see appendix B to view a heat map which presents the results of the quarter 3 risk assessment process visually. It highlights (for the residual risks) that one out of the twelve risks are placed within the 'major' impact category with a probability of almost certain, one is placed within the ‘major’ impact category with a probability of likely and one is placed within the ‘catastrophic’ category with a probability of possible.

Escalation of risks and amendments to the Strategic Risk Register

3.5 During quarter 3 2020/2021 no risks have been escalated to the Strategic Risk Register. However, Children Services have replaced the risk entitled ‘ability to meet the requirements of the MTFS / Retaining grant funding around posts within Children's Services’ with the following:

If Children's Services are unable to manage within budget due to: - Market sufficiency for children's placements - Reliance on agency social workers - Inflationary costs and management of pressures - Surge in demand due to COVID-19 - Continuing healthcare protocol being applied correctly and consistently.

3.6 Children Services risks have been reviewed and replaced by 5 key risks including one on budget which covers the previous risk. Adult Services and Children and Adults Commissioning have undertaken a similar review. This approach has been agreed by the Portfolio Holder and Corporate Director.

Covid-19 risk register

3.7 In order to effectively identify and manage risks relating specifically to the Covid-19 pandemic, a separate risk register was created to provide clarity and oversight for Gold and Silver Command. These risks are reviewed and monitored regularly and have been separated into response and recovery risks, using a matrix developed specifically for assessing Covid-19 related risks.

3.8 Currently there are 49 risks recorded, 4 of the 49 risks are placed within the 'major' impact category 2 with a probability of likely and 2 almost certain, and another 1 placed within the 'catastrophic' impact category with a probability of possible. The register is still monitored by Gold and Silver Command on a weekly basis.

Risk Management Report

3.9 A paper went to Senior Leadership Team on the 18th of November 2021 outlining the Councils response to a recent SWAP Internal audit report on Risk Management. All proposed recommendations, future actions and timeline were agreed.

4. Resource Implications

4.1 There are no direct resource implications in relation to this report however all risk owners need to consider the resource implications of managing the risk and decide if the best course of action is to tolerate or treat.

4.2 The Strategic Risk Register outlines the key risks to the Council's activities, as well as risk to delivery of objectives contained within the Corporate Improvement Plan. There are no direct financial implications from the report although these may arise as new risks are identified on an on-going basis.

The Head of Finance (Section 151 Officer) notes the comment above, financial implications are identified through the relevant service and are considered through the financial management processes in line with the authorities' financial regulations.

5. Legal implications

5.1 Legal: The recommendation can be supported from a legal point of view.

5.2 The Head of Legal and Democratic Services (Monitoring Officer) has commented as follows: "I note the legal comment and have nothing to add to the report".

6. Data Protection

6.1 N/A

7. Comment from local member(s)

7.1 N/A

8. Integrated Impact Assessment

8.1 N/A. The Service Risk Register is not setting out any changes or proposals to service delivery.

9. Recommendation

It is recommended that Cabinet notes the current Strategic Risk Register and is satisfied with progress against mitigating actions for quarter 3.

The recommendation above will ensure:

- **Appropriate understanding and management of strategic risks which could prevent us from achieving our objectives**
- **A risk managed approach to decision making and good governance of the Council**

- **The risk related to Powys residents, services and Council staff as a result of a COVID-19 (Coronavirus) epidemic is monitored and reviewed regularly.**

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Head of Service:

Corporate Director: Ness Young, Corporate Director (Resources and Transformation)

CABINET REPORT NEW TEMPLATE VERSION 2

Strategic Risk Register

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
CS0081 Jan Coles **Escalated From** :- Children's Services	BUDGET: If Children's Services are unable to manage within budget due to: - Market sufficiency for children's placements - Reliance on agency social workers - Inflationary costs and management of pressures - Surge in demand due to COVID-19 - Ending of grant funding	Then this will have implications for the whole Council: - Unable to meet statutory duties - Leaving service users at risk - Reputational damage to the Authority - Unable to manage within financial envelope		*Cllr Rachel Powell* **Alison Bulman**	12	9	• Integrated budget planning • Develop early intervention and prevention services in order to mitigate demand on longer term services • Work with service providers to limit impact of supreme court legal judgement • Ensure market within Powys is sufficient to meet demand • Work to reduce reliance on agency social workers • Make best use of Welsh Government COVID-19 Hardship Fund and other available resources • Ensure Continuing Care for Children and Young People protocol being applied correctly and consistently	Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
ED0022 Lynette Lovell **Escalated From** :- Education	The council will be unable to manage the schools' budget without ongoing adjustments to the distribution formula and improving financial management. If they are unable to manage the budget, there will be a significant compromise to the quality of education for Powys learners.	Some schools will have spiralling deficits which will have a financial impact on the rest of the Council and the learners in their care.	**10/01/2021** 3rd Qtr 2020-2021. Review Summary: A rolling programme of the review of the school budget funding formula has continued through 2020 despite the pandemic, although the scale of the review was limited to the Additional Learning Needs (ALN) funding element as this was needed urgently. A full review of the whole formula will begin in 2021 with the aim of ensuring that the formula will be suitable for the post-transformation configuration of schools. All schools in a deficit or significant surplus position in May 2020 were asked to submit Recovery Plans or Spend plans by mid October 2020. These were reviewed by the Interim Chief Education Officer and Head of Finance for any follow up actions which were addressed where needed. The Schools finance team have worked with schools to identify the financial impact of their response to the Covid-19 pandemic, including ensuring that additional expenditure / lost income is accurately recorded and claimed and that any savings / delayed savings are identified and captured. Autumn Term finance surgeries were undertaken with all schools. All opportunities were taken to reinforce the importance of good financial housekeeping (e.g. accuracy of coding etc.) and to keep schools updated on the latest economic / financial issues. Training and support has been provided to individual schools and any new business managers. Governor Finance training was provided in November 2020 and support has been provided for the Business Manager recruitment processes. The ALN element of the funding formula has been reviewed by a working group of authority officers, head teachers and governor representatives with the aim of	*Cllr Phyl Davies* **Lynette Lovell**	12	9	• Implementation of R5 in the PIAP • PIAP	Action In Progress Control In Place

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Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions: Control or Action	Status
			ensuring that the budget is more closely targeted to learners with ALN. The revised funding methodology has been agreed by Schools' Budget Forum and Cabinet and the impact assessment and transitional arrangements are being prepared. **04/10/2020** Qtr 2 20/21. Review Summary: In Quarter 1 the new formula was in place for schools, and the change mainly affects the secondary schools in Powys. The authority's ability to evaluate the impact of the change has been hampered by the pandemic, but in the budget setting process the signs were encouraging and were pointing towards reducing the overall in-year deficits within the secondary sector. All schools budget submissions were reviewed by the interim Chief Education Officer and SSMT in conjunction with the Head of Finance. All schools in a deficit or significant surplus position were asked to submit Recovery Plans or Spend plans, supported by all appropriate documentation by 16th October. The Schools finance team have worked with schools to identify the financial impact of their response to the Covid-19 pandemic, including ensuring that additional expenditure / lost income is accurately recorded and claimed and that any savings / delayed savings are identified and captured. Autumn Term finance surgeries have begun, prioritising those schools with deficits / concerns around finances. All opportunities taken to reinforce importance of good financial housekeeping (e.g. accuracy of coding etc. and to keep schools updated on latest economic / financial issues. 1-2-1 training and support has been provided to individual schools as required and additional support has been provided for any new business managers. Finance					

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions Control or Action	Status
			training was provided as part of the New Head Induction training. Support has been provided for Business Manager recruitment processes. The ALN element of the funding formula is currently being reviewed by a working group of authority officers, head teachers and governor representatives to ensure that the budget is more closely targeted to learners with ALN. **28/06/2020** 1st Qtr 20/21. Review Summary: All Schools have submitted budgets approved by their Governing Bodies. These are being reviewed by the Schools finance team and finance surgeries with Schools are continuing. The interim Chief Education Officer and SSMT in conjunction with the Head of Finance will consider a report setting out individual schools' budget plans and agree any actions required in relation to deficits or clawback. The Schools finance team are working with Schools to update budgets for the impact of the Covid-19 lockdown, both in terms of cost reductions due to closure of schools and delayed savings realisation as a result of the temporary withdrawal of the Management of Change process. Schools service and Schools finance team will continue to work with Schools to produce balanced budgets / deficit recovery plans, providing support, challenge and scrutiny as required. A limited review of part of the Schools' funding formula during 2020 is proposed to consider the ALN element. Ongoing work on school transformation needs to be delivered to provide long term sustainable school finances. **26/04/2020** 4th Qtr 19/20 Review Summary: In Quarter 4 Cabinet and, subsequently in February, Full					

Strategic Risk Register				*Portfolio*	Inherent Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**		**Control or Action**	**Status**
			Council agreed the additional funding for the schools delegated budget as part of their budget proposals for 2020/2021. This funding would be used for the funding of pay awards, increased teachers pension costs, some items of non-staffing funding and the creation of a TLR allowance for the secondary sector. Schools were issued in February with their 2020/21 funding allocation including the above additional funding commitments, and were also provided with estimated funding for 2021/22 onwards. Ongoing work between the Schools Service, Finance, HR and the individual schools to look at the budget which is anticipated for 2020/21 and the setting of a balanced budget by each school continues to take place. Prior to the lockdown, budget meetings had taken place with the majority of the schools. However, due to Co-VID-19 the management of change has been temporarily stopped. Final budget plans from all schools are due by 1st May 2020, schools were given an extension until the 22nd May. However, due to the current COVID 19 lockdown in respect of schools, we have not received further guidance on schools delegated budgets and will continue to assess the impact on the budgets of schools being closed. **12/01/2020**				

Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions: Control or Action	Status
ED0023 Lynette Lovell **Escalated From** :- Education	Post Inspection Action Plan (PIAP) for Estyn - Coronavirus may impact on the ability of the service to maintain the level of progress against the PIAP. In particular, Recommendation 1 of the PIAP - 'Improve standards in secondary schools and more able learners' as schools are currently closed. Also, Recommendation 4 (the School Transformation/Re organisation programme) could be affected by the Council's ability to conduct strategy consultations relating to Schools Organisation.	Progress against the PIAP may be affected due to the Covid-19 pandemic.	**10/01/2021** 3rd Qtr 2020-2021. Review Summary: R1 – On 4th January 2021, Welsh Government made the decision that all schools would move to online learning, with schools only open to the children of critical workers and vulnerable learners. Extensive planning to support schools with blended and online learning has already taken place with resources, professional learning and guidance shared with all schools. Strong communications between the school headteachers and leadership teams, governors, Unions and other key stakeholders has continued with frequent meetings held to share good practice and undertake collaborative decision making has continued. Following the recent Estyn post-inspection conference in November 2020, it has been decided that in the absence of outcome data for summer 2020 and summer 2021, that the Post Inspection Action Plan will be re-written to focus on individual pupil progress, leadership, professional learning, and a secondary strategy written in collaboration with LA officers and Powys headteachers. R2 - All ALN work continues and is on track. R3 - All work continues and is on track. R4 – All work continues and is on track, for example, programme implementation and proposals being progressed to Cabinet R5 - improved financial management with schools and continued improvement of the formula, particularly the ALN funding This risk was reviewed and agreed on 11/01/2020 and is up to date **04/10/2020** Qtr 2 20/21 Review Summary: The risk was reviewed and agreed 28/9/2020. The Improvement and Assurance Board on 29.07.20 recognised that Recommendation 1	*Cllr Phyl Davies* **Lynette Lovell**	12	9	• Reopen Schools • Implementation of the PIAP	Action In Progress Action In Progress

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
Tudalen 77			is most at risk due to the prolonged period in which the schools were closed. **28/06/2020** 1st Qtr 20/21 Review Summary: All staff and pupils have access to the national learning platform (Hwb). All Schools were committed to providing online learning experiences for their pupils, including significant interaction across schools to share effective practice. There are 16,000 learners in Powys and 881 have been provided with digital devices and 532 have received mobile Wi-fi devices for use at their home address. This was achieved through effective collaboration between the schools and the Local Authority. Following the WG guidance 'Stay safe, stay learning' and the new advice around live streaming of lessons, all of the Powys schools have now engaged effectively in providing learning experiences for Powys learners. This is monitored weekly by the Challenge Advisers and fortnightly by the Interim Chief Education Officer. However, there is always concern that some learners will find it hard to engage without face to face support from teachers and staff. The School Transformation Board has considered papers which were taken to Cabinet and Scrutiny, and the Leader approved the Strategy for Transforming Education in Powys in Quarter 1. The strategy is currently being implemented and the governance has been approved. The Home to School Transport Policy, is currently in consultation. Following extensive discussions with headteachers, an engagement paper outlining the broad vision for ALN reform has been agreed by Cabinet and is subject to public engagement which finishes in Quarter 2. In Quarter 1, collaborative and robust decision making by leaders was taken at					

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions: Control or Action	Status
			pace. Officers produced clear guidance for schools and parents. Learners' wellbeing underpinned all strategic decision making. **26/04/2020** 4th Qtr 19/20 Review summary. Following an HMI visit, which took place on 11 February 2020, it was recognised that there is a clear direction of change, with effective prioritising of work and the Local Authority was moving at pace. The Improvement and Assurance Board have received monthly thematic reports, which detail progress made on all recommendations, both at a strategic and an operational level. The Improvement and Assurance board recognised in their February 2020 update that 'the authority has appropriate plans to push forward with improvements in education and is seeking to address these with energy.' It should be noted that the Improvement and Assurance Board is temporarily suspended due to COVID-19, however contact remains in place and progress against the Post Inspection Actions Plan is monitored by Schools Service, the Chief Executive and the Chair of the Board, Jack Straw. **12/01/2020** **01/12/2019**					

Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions Control or Action	Status
FIN0001 Jane Thomas **Escalated From** :- Financial Services	The Council is unable to deliver a financially sustainable budget over the short and medium term. The probability of this risk is heightened due to the impact of the Covid-19 pandemic and its impact on Welsh Government funding and subsequent settlements to the Council.	- The Council is unable to fulfil its legal obligation in setting a balanced budget - The Council will not be financially resilient or sustainable - Council reputation damaged - Inability to fulfil our statutory requirements	**10/01/2021** 3rd Qtr 2020-2021. Review Summary: The development of the budget has been completed by Cabinet following the receipt of the Provisional Settlement on the 22nd December providing the Council with an additional 4% in 'Aggregate External Finance' (AEF) funding for 2021/22. The additional settlement has helped bridge the remaining budget gap and Cabinet will propose a balanced budget for 2021/22. There is no indication of future funding levels, the Mid Term Financial Strategy (MTFS) has been updated to reflect the current economic climate and the 5 year Finance Resource Model (FRM) still shows significant budget gaps across the following 4 years based on a number of scenarios. The MTFS sets out the principles and approach that will be adopted to identify ways of bridging theses gaps. The impact of the ongoing pandemic has been considered in the plans and we await confirmation of WG funding to support this. **11/10/2020** Qtr 2 20/21 Review Summary: Q2 outturn deficit reduced due to the WG support - services still improving on their forecasts to minimise the demand on reserves. Budgeting challenge through IBP process is ongoing with Services being asked to bridge the gaps they evidenced through the first Service Finance Resource Model (FRM) discussions - £19m to be addressed, which is not sustainable even with optimistic WG settlement scenarios **05/07/2020** 1st Qtr 20/21. Review Summary: The Outturn for 2019/20 reported an underspend against budget of £1.4 million, however	*Cllr Aled Davies* **Jane Thomas**	25	15	• Ongoing discussion with WG and WLGA through Society of Welsh Treasurers for Future Funding of Local Government • WG claims for Hardship and lost income continue and expect to remain in place til march 2021 • Revise the Medium Term Financial Strategy • Reassessment of the activities of the Council through the Recovery Coordination Group • Review budget position at end of first quarter and consider changes to the 2020/21 budget • Cost Recovery work • 3rd party spend reduction • Income Generation • Monthly reports to cabinet and Management Team on budget progress and progress on savings • Budget Challenge Events • Moved to a 3 year balanced budget	Action In Progress Action In Progress Action In Progress Action In Progress Control In Place Withdrawn Withdrawn Withdrawn Withdrawn Withdrawn Withdrawn

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions: Control or Action	Status
			there were significant variances against budget for some service areas, and delivery of costs reductions were not fully achieved. These budget gaps were resolved at budget setting for 2020/21. Although delayed, due to the pandemic, work is now underway to assess each service area and the activity within in it in preparation for budgeting for next financial year and over the longer term. We do not yet have any indication of the funding levels that can be expected from WG, but we will update our financial modelling within the MTFS for potential funding scenarios and the revised budget gaps this creates. Ongoing discussion through Welsh Treasurers with WLGA and WG is fundamental raising awareness of the impact of changes in funding on the service the Council is able to deliver. **03/05/2020** 4th Qtr 19/20 Review Summary: The outturn position for 2019/20 is not yet completed however it is still anticipated that there will be an underspend again budget. The impact of Covid-19 pandemic is likely to have a significant impact on the councils budget and the situation is under constant review as we moved through the next weeks and months. The council will undoubtfully have to review its medium term financial plan in response to the emerging financial position. **05/01/2020** **29/09/2019** **07/04/2019**					

Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions Control or Action	Status
HO0018 Andy Thompson **Escalated From** :- Housing	Compliance in Powys County Council Housing Stock	Risk of Injury or loss of life - Reputational damage - Loss of grants (including Major Repairs Allowance circa £3.63m) - Risk of legal action and significant fines	**03/01/2021** 3rd Qtr 2020-2021. Review Summary: 04.01.21: Compliance One Hundred continues to work successfully and is establishing higher levels of compliance across the Council's housing assets. **20/09/2020** Qtr 2 20/21 Review Summary: 22.09.20: Compliance One Hundred project is working well but the extent of the work needed - including some works to assets - to achieve 100% compliance means that a revised target date of December 2021 is now in place. High risk areas are being addressed with highest priority (for example legionella, heating systems and fire safety) which will mitigate the risks to residents. **21/06/2020** 1st Qtr 20/21. Review Summary: Compliance One Hundred project extended to December 2020. Work continues apace to achieve 100% compliance by the end of 2020 and to have in place all necessary policies and procedures to maintain that status thereafter. Water systems management has already been improved, with a specialist contractor undertaking water monitoring and a Seven-day-flush regime introduced for all vacant municipal homes. Heating servicing has regained momentum after a hiatus during the Covid-19 event but concerns remain about the quality and administration of work, which have being addressed by the introduction of formal Quality Assurance checking by the Compliance One Hundred team. Asbestos management is being reinforced by a detailed review of all asbestos liabilities in the municipal housing assets. Tenders are being prepared for specialist providers to undertake fire safety work.	*Cllr Iain McIntosh* **Nina Davies**	16	9	• Compliance One Hundred	Action In Progress

Strategic Risk Register				Portfolio	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
			29/03/2020 4th Qtr 19/20 Review Summary: Compliance One Hundred project has completed analysis of liabilities and responsibilities. Funds allocated in Housing Revenue Account Business Plan, approved by cabinet March 2020. **01/03/2020** **02/02/2020** **19/01/2020**					

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Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions: Control or Action	Status
ICT0010 Helen Dolman **Escalated From** :- Digitial Services	Non compliance with data protection legislation (General Data Protection Regulations (GDPR) and UK Data Protection Act (DPA) 2018	'- Potential fine of up to £17,000,000 or 4% of annual turnover - The Council is subject to regulatory data protection audits - Reputational damage - Regulatory enforcement action - Detriment to the data subjects - Civil action and associated consequences	**20/12/2020** 3rd Qtr 2020-2021. Review Summary: Control activities continue such as Data Protection Impact Assessments, Data Processing Agreements etc. Information Security and personal data breach investigations continue to be managed and responded to. The Corporate Information Governance Group (CIGG) have considered and challenged elements of activity within the Council's Information Management Assurance and Governance plan (IMAG) to improve IG practices, taking into account work ongoing to support additional national Test, trace and Protect work, to ensure the lawful and fair use of personal data to deliver the Council's response to COVID 19. Subject Access Request (SAR) backlog is being addressed with those resources available to undertake such work. **27/09/2020** Qtr 2 20-21 Review Summary: Control activities continue, such as Data Protection Impact Assessments, Data Processing Agreements etc. Information Security and personal data breach investigations continue to be managed and responded to. The Corporate Information Governance Group (CIGG) have considered and challenged elements of activity within the Council's Information Management Assurance and Governance plan (IMAG) to improve IG practices, taking into account work ongoing to support additional national Test, trace and Protect work. Subject Access request (SAR) backlog to be included within COVID recovery planning alongside other information request recovery activity **05/07/2020** 1st Qtr 20/21 Review Summary: Consideration of measures required	*Cllr Graham Breeze* **Diane Reynolds**	12	12	• Personal Data Breach Management	Action In Progress
							• - Information Asset Register	Action In Progress
							• - Development of internal records of processing	Action In Progress
							• - Ensure signed agreements are appropriately stored	Action In Progress
							• - Develop data controller vs data Processor check list for services	Action In Progress
							• Review of postal checking regimes in place	Action In Progress
							• Data Protection Impact Assessments	Action In Progress
							• Provision of information to EMT, HoS, and Team Meetings	Action Completed
							• - Presentations to schools	Action Completed
							• GDPR Surgeries	Action Completed
							• - Review current ISP in line with revised versions	Action Completed
							• Staff training	Control In Place
							• Communication Plan	Control In Place
							• - Policies and Procedures	Control In Place
							• - Review existing Data Processing agreements	Control In Place
							• Cyber Security Action Plan	Control In Place
							• DPO considerations on reports to Cabinet	Control In Place
							• - Information sharing protocols	Withdrawn
							• - Data sharing agreements	Withdrawn
							• - Identify where information sharing takes place	Withdrawn

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
			continue, based on new processes to be introduced, Data Protection Impact Assessments, new IT systems, new ways of working, new reasons to process personal data, outcome of breach investigations etc. The Corporate Information Governance Group agreed to revisit the Council's Information Management Assurance and Governance plan following COVID to consider whether processes, practices and risks may have changed. **29/03/2020** 4th Qtr 19/20 Review Summary: A breach of data protection legislation can occur in many different ways, and whilst the Council can put in place many technical and operational measures to ensure compliance, an instance of staff not adhering to those measures can result in very serious breaches of personal data, for which the regulator is able to take action against the Council as a Controller. The Council is not always able to control the errors caused by staff. The more robust the controls and measures the Council has in place to ensure compliance, then the more effectively it is able to argue cases of human error, when staff don't follow those measures or meet those controls put in place. **05/01/2020** **13/10/2019** **07/04/2019** **31/03/2019** **03/03/2019**				• - Implement revised WASPI Accord and templates	Withdrawn
							• - Revised centralised ISP register to link to information Asset and Record of Processing Activities (ROPA)	Withdrawn
							• - Create policy on services undertaking due diligence potential processors	Withdrawn
							• - Create log of data processors and agreements linking to information asset and ROPA	Withdrawn

Strategic Risk Register

Ref & Owner	Risk Identified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residual	Control or Action	Status
ICT0029 Julie Davies **Escalated From** :- Digitial Services	Cyber Security Threat. Risk of financial loss, disruption or damage to the reputation of Powys County Council from a failure of its information technology systems and or/loss of Data due to a cyber attack or Incident.	Loss of Information systems until they can be successfully restored. Loss of data, inability to access data or public disclosure of Personal Data. Cyber risk could materialize in a variety of ways, such as: • Deliberate and unauthorized breaches of security to gain access to information systems. • Unintentional or accidental breaches of security. • Operational IT risks due to factors such as poor system integrity.	**03/01/2021** 3rd Qtr 2020-2021 Review Summary: Control Actions to reduce risk reviewed, Capital Budget had been approved for next 5 years to invest in Cyber Security. **04/10/2020** Qtr 2 20/21. Review Summary: Security Operation policy and Process formally documented, A Cyber Response procedure is in progress detailing Deter, Detect, Respond, and Recover procedures **28/06/2020** 1st Qtr 20/21. Review Summary: Control actions in place and work continues on continual improvements identified in the Security Work plan in progress. It remains possible that a cyber attack can happen despite the many controls and procedures in place to prevent this. **22/03/2020** 4th Qtr 19/20 Review Summary 30/3/2020: Continuing to work on actions identified in Cyber Security Plan and to conduct reviews into further improvements to add to plan. Capital investment has been used to strengthen process for vulnerability management and incident detection, which enables prompt corrective action on identified risks. Cyber Essentials + accreditation achieved during this financial year along with IASME Governance (Information Assurance for Small and Medium Enterprises Consortium). Progress made in Cyber Security Training for all staff and Council members. **29/12/2019** **15/12/2019**	*Cllr Graham Breeze* **Diane Reynolds**	12	9	• Major Incident response processes • End Point AntiVirus in place detecting known threats • Disaster Recovery Procedures • Capital investment in Security Operations Management Tools • Capital Investment • Additional Staff Awareness • Security Operations Procedures Policy • SBAR Reporting • Cloud Security controls in place to detect and prevent malicious content in Office365 • Device Encryprion • Annual Penetration testing • Cyber Security Improvement Plan • Cyber Security Certification • Staff Training	Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action Completed Action Completed Control In Place Control In Place Control In Place Control In Place Control In Place Control In Place

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	Director or Head of Service			Control or Action	Status
			07/07/2019 07/04/2019					

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Strategic Risk Register				Portfolio	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
PCC0002 Andrea Mansfield	The impact on the Council as a result of Brexit.	- Increased service demand; - Relocation from the EU to Powys of families - estimated at 500; - Fuel shortages; - Loss of access to external (EU) funding programmes; - Reduced income to Powys County Council; - External market factors; - GDPR compliance; - Potential financial crash; - Unable to recruit/retain staff (EU Nationals); - Employee workload; - Delays/disruption to food and/or essential supplies.	**10/01/2021** 3rd Qtr 2020-2021. Review Summary: The Brexit transition is now complete and a deal has been agreed. Work continues on assessment of how this will impact PCC and local businesses. This will be ongoing as new legislation comes through from Welsh Government. **04/10/2020** Review Summary: No change to risk rating. The Strategic Brexit Risk Register and associated contingency plans are still in place. Powys County Council continue to work with our partner agencies, Welsh Local Government Association, and Welsh Government to ensure that we are aware of, and acting to the latest advice and guidance. **28/06/2020** 1st Qtr 20/21. Review Summary: Due to the impact of the COVID-19 outbreak UK Government preparations for Brexit have advanced at a slower pace. There is currently a lack of clarity over what, if any, trade deal might emerge from negotiations, as well as the measures the UK Government will take to mitigate disruption. This combined with the wider impact and current unknowns associated with COVID-19 has seen both the inherent and residual rating of this risk increase. The Strategic Brexit Risk Register and associated contingency plans are still in place. Powys County Council continue to work with our partner agencies, Welsh Local Government Association, and Welsh Government to ensure that we are aware of, and acting to the latest advice and guidance. **12/04/2020** 4th Qtr 19/20 Review Summary: No change	*Cllr Rosemaire Harris* **Nigel Brinn**	16	12	• Close monitoring • Continue to monitor economic indicators • Ongoing dialogue with external advisers • Cabinet briefed • Advice from pension advisers • Continue to work with WEFO • Brexit Continuity Plan • Brexit Risk Register	Action In Progress Action In Progress Action In Progress Control In Place Control In Place Control In Place Control In Place Control In Place

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Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
			to risk rating. The Strategic Brexit Risk Register is still in place, and Powys County Council continue to work with our partner agencies, Welsh Local Government Association, and Welsh Government to ensure that we are aware of, and acting to the latest advice and guidance. **12/01/2020** **06/10/2019** **07/07/2019** **07/04/2019** **31/03/2019** **03/03/2019**					

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Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	Portfolio Director or Head of Service	Inherent	Residua	Controls and Actions Control or Action	Status
PCC0003 Caroline Turner	The council receives a negative regulatory / inspection report	- Meeting regulatory and legislative duties - Ability to provide a good quality of service to service users - Managing demand on the service - Recruitment and retention of staff - Staff morale - Reputational damage	**10/01/2021** Qtr 3 2020/21. Review Summary. At the Improvement Conference in October 2020, CIW confirmed they were happy with the progress of Social Services and that they no longer needed enhanced monitoring. Estyn undertook an improvement conference and concluded that: During the conference, the local authority demonstrated that it has begun to make sound progress since the inspection. It is showing a clear commitment to addressing the issues that were raised as well as evaluating its progress against its plans. Importantly, it is building leadership capacity which has the potential to secure sustainable improvements. Overall, the local authority has identified sufficient resources to implement its plans as well as considering the barriers to progress and associated risks appropriately. Audit Wales conducted audits of Workforce Planning, the Vision 2025 Transformation Programme, and Environmental Health all of which were positive. **04/10/2020** Qtr 2 20/21. Review Summary: Care Inspectorate Wales (CIW) Monitoring Visit held week 14th September 2020, but outcome letter has not yet been received. This risk will be reviewed following the CIW Improvement Conference on the 9th October, and the Estyn Improvement Conference on the 18th-19th November. **28/06/2020** 1st Qtr 20/21 Review Summary: Publication of the Sean Harriss report has been delayed due to Covid, but we expect WG to publish during the Summer of 2020. Powys County Council is currently establishing new improvements and assurance arrangements	*Cllr Rosemaire Harris* **Caroline Turner**	20	12	• Improvement and assurance board • Improvement plans • Communications strategy (internal/external) • close working relationships with regulators • corporate support provided to services • close working relationship with WG	Control In Place Control In Place Control In Place Control In Place Control In Place Control In Place

Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions: Control or Action	Status
			in place, as part of the transitional arrangements, in anticipation of WG bringing the current Improvement and Assurance Board to an end later this year. We are awaiting the outcome of the recent joint inspection of Mental Health Services by HIW and CIW. Regular meetings continue to be held with Estyn and CIW. CIW will be undertaking monitoring visits during this quarter, with a view to undertake an Improvement Conference during the Autumn. **22/03/2020** 4th Qtr 19/20 Risk Review Summary: WG have commissioned Sean Harriss to undertake a review of the council's progress along its improvement journey since the Harriss review in Jan 2018. The review was undertaken during in Feb/March 2020, and will be published by WG in due course. All Inspections are suspended due to Covid-19, including the Improvement Conference that had been arranged for Adult Services by CIW. **05/01/2020** **08/09/2019**					

Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions Control or Action	Status
PCC0005 Nigel Brinn	The impact to Powys residents, services and Council staff as a result of a COVID-19 (Coronavirus) epidemic	Increased staff absenteeism; Increase demand for services from residents Increased workload for council staff as a result of staff absence and increased service demand Closure of Council premises resulting in reduced services to residents and office accommodation	**17/01/2021** 3rd Qtr 20/21 Review Summary: The Council has developed a separate risk register for the Coronavirus pandemic. The risks captured in this assessment include: Increase in services demands Financial impact on the council Availability of Personal Protective Equipment Reopening of Schools Safeguarding Workforce absence Delivery of Test Trace and Protect in conjunction with PtHB There are mitigating actions in place for all the risks identified and the risk register is reviewed weekly by the Council's internal GOLD Command Group (part of the Council's Emergency Response arrangements). **04/10/2020** 2nd Qtr 20/21. Review Summary: The Council has developed a separate risk register for the Coronavirus pandemic. The risks captured in this assessment include: Increase in services demands Financial impact on the council Availability of Personal Protective Equipment Reopening of Schools Safeguarding Workforce absence Delivery of Test Trace and Protect in conjunction with PtHB There are mitigating actions in place for all the risks identified and the risk register is reviewed weekly by the Council's internal GOLD Command Group (part of the Council's Emergency Response arrangements). **12/07/2020** Admin: amended review date from auto	*Cllr Rosemaire Harris* **Nigel Brinn**	25	20	• Update Business Continuity Plans (at Service and Corporate Level); • Establishment of an Internal Silver Command • Powys County Council Representation on Powys Teaching Health Board Gold and Silver Command; • Liaison with all Local Resilience Forum (LRF) Partners; • PCC Liaison with Welsh Government and Public Health Wales; • Commuication and engagement with schools. • Communications to residents, staff and members	Action Completed Control In Place Control In Place Control In Place Control In Place Control In Place Control In Place

Strategic Risk Register				*Portfolio*	Inherent Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**		**Control or Action**	**Status**
Tudalen 92			system setting it. **21/06/2020** **03/05/2020**				

Strategic Risk Register				Portfolio	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
PPPP0007 Gwilym Davies **Escalated From** :- Property, Planning, and Public Protection	Heart of Wales Property Services (HOWPS) being unable to undertake contracted work in a timely and cost effective manner.	- Failure of statutory functions - Compliance. - Failure to perform repairs and maintenance. - Reputational damage to PCC. - Cost to PCC for poor performance. - Officer time costs (due to additional workload). - Financial Risk to HRA and wider Authority. - Critical Wales Audit Office Report. - Non-delivery of key projects due to lack of resources.	**10/01/2021** 3rd Qtr 2020-2021. Review Summary: - Continued monitoring of HOWPS performance via monthly Contract Management Forum, weekly service area meetings with HOWPS, internal working groups on specific areas of concern, Compliance Boards and regular Cabinet/EMT updates. **27/09/2020** Qtr 2 20/21 Review Summary: - Continued monitoring of HOWPS performance via monthly Contract Management Forum, weekly service area meetings with HOWPS, internal working groups on specific areas of concern, Compliance Boards and regular Cabinet/EMT updates. **12/07/2020** 1st Qtr. 20/21: Review Summary: • Continued monitoring of HOWPS performance via monthly Contract Management Forums and Compliance Boards. • Additional monitoring now in place of HOWPS performance with service-specific meetings to monitor various issues including statutory testing, complaints, asbestos tracking, void management and the inspection and servicing of domestic heating systems. • A Rectification Plan has been received from HOWPS for services, provided for both Corporate and Housing. **03/05/2020** 4th Qtr. 19/20: Review Summary: The performance of HOWPS is continued to be monitored closely via the monthly Contract Management Forums and additional monitoring mechanisms with HOWPS such	*Cllr Phyl Davies* **Nigel Brinn**	12	12	• Development of evidence and fall-back systems	Action In Progress
							• Head of Service on HOWPS Board of Directors.	Action Completed
							• Portfolio Holder on HOWPS Board of Directors.	Action Completed
							• Recovery plan submitted by Kier on behalf of HOWPS.	Action Completed
							• Additional resources allocated by Kier (3.5 FTE Change Managers).	Action Completed
							• Potential to invoke step in clauses for specific parts of the contract in line with contract	Control In Place
							• Close monitoring by Directors/Portfolio Holder/Chief Executive/Strategic Directors.	Control In Place
							• Performance monitoring	Control In Place
							• Utilisation of contract document to escalate issues.	Control In Place
							• Introduced weekly officer level meetings	Control In Place
							• Development of contingency plans for contract failure	Control In Place
							• Awaiting consultation resource plan.	Withdrawn
							• Escalation of risk and concerns to Chief Executive and Strategic Directors.	Withdrawn

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
Tudalen 94			as 1) Weekly compliance meetings 2) Weekly legionella meetings 3) Monthly/Weekly asbestos monitoring. Also additional monitoring meetings within PCC have been set up. The Corporate Compliance rectification plan is being monitored and at the end March, HOWPS are broadly on track with the rectification plan, but supply chain issues due to COVID – 19 has meant that targets within the Rectification plan has been narrowly missed. HOWPS are now utilising a new Compliance Tracker which is much easier to use and compliance can be easily identified across buildings and across tests. PCC have had to audit the information within the Tracker to ensure that the information is correct – This is putting extra pressure on the Strategic Property, but is necessary to ensure that the information being given to PCC is correct. Additional monitoring has been put in place to audit the access of the Alpha Tracker Database (asbestos information) to ensure that Alpha Tracker is accessed before every job is started. Our monthly audit has identified gaps in this access procedure, therefore this has been increased to weekly monitoring. Issues with Legionella Monitoring, information has not been sent to PCC by HOWPS. Clarification over roles and responsibilities is underway to ensure that risks are assessed and actioned. **12/01/2020** **06/10/2019** **07/07/2019**					

Strategic Risk Register				*Portfolio*	Inherent	Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**			**Control or Action**	**Status**
			07/04/2019					

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Strategic Risk Register

Ref & Owner	Risk Itentified	Potential Consequence	Last Reviews	*Portfolio* Director or Head of Service	Inherent	Residua	Controls and Actions Control or Action	Status
WO0021 Paul Bradshaw **Escalated From** :- Workforce and Organisation Development	Significant long term decrease in the working age population impacts on Council's ability to recruit and retain or commission the workforce it requires	Council is unable to secure the services needed by the local population, including care and assessment provision, education, waste, highways, housing culture and support services.	**03/01/2021** 3rd Qtr 2020-2021 Review Summary: The RPB Workforce Futures Strategic Framework is in place and is being implemented. The Council's Transforming Education Programme which sets out a ten year strategy is also being implemented. The Council has established an apprenticeship programme which is being progressed albeit progress has been adversely impacted by the COVID19 pandemic. In Children's Services a grow your own programme is in place and continues to be implemented for social workers. **04/10/2020** 2nd Qtr 20/21 Review Summary: On behalf of Ness Young. The RPB Workforce Futures Strategic Framework is in place and is being implemented. The Council's Transforming Education Programme which sets out a ten year strategy is also being implemented. The Council has established an apprenticeship programme which is being progressed albeit progress has been impacted by the COVID19 pandemic In Children's Services a grow your own programme is in place and being expanded in respect of social workers. **12/07/2020** Review Summary: 1st Qtr 20/21. On behalf of Paul Bradshaw. The Council continues to respond to the current coronavirus pandemic by invoking its business continuity plans which means that we continue to focus on delivering business critical activities. As part of this response we continue to redeploy employees to business critical services.	*Cllr Graham Breeze* **Alison Bulman**	25	16	• increase use of direct payments and the dynamic purchasing system are intended to secure more creative approaches • Telehealth and telecare • Formal partnership with the Open University and secondment of students • Developing a health and care workforce for the future • Growing our own workforce, including the scoping of a rural academy of learning which would offer social care qualifications t • Investigation of the Apprenticeship framework to see what can be offered to younger people to attract them into social care • Conduct research to understand the workforce profile in health and social care • Improving skills and supporting people to get good quality jobs • Improving the skills and employability of young people and adults • Build better connections with Powys schools & universities within Wales & just across the border in order to attract students • Improving education attainment of all pupils • Promoting Powys as a place to live, visit and do business • Support communities to be able to do more for themselves and reduce demand on public services • Developing a workforce strategy which ensures Council is an excellent employer • Develop an Adults' Service recruitment and retention strategy, based on a strong brand promoting positive values and working/l • Developing digital solutions and services • Consideration of a joint bank of staff available to maintain staffing levels and reduce risk	Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action In Progress Action Completed Action Completed Control In Place Withdrawn

Strategic Risk Register				*Portfolio*	Inherent Residua	Controls and Actions	
Ref & Owner	**Risk Itentified**	**Potential Consequence**	**Last Reviews**	**Director or Head of Service**		**Control or Action**	**Status**
			The implementation of the council's workforce strategy and the RPB Workforce Futures Strategic Framework will resume when we return to business as usual. **03/05/2020** 4th Qtr 19/20 Review Summary: In quarter 4 the Powys Regional Health Board published its Strategic Framework for the Health and Care workforce in Powys. The Council responded to the current coronavirus pandemic by invoking its business continuity plans which means that we are focused on delivering business critical activities. As part of this response we are redeploying employees to business critical services. The implementation of the council's workforce strategy and the RPB Workforce Futures Strategic Framework will resume when we return to business as usual. **19/01/2020** **29/09/2019** **08/09/2019** **05/05/2019** **03/02/2019**				

Tudalen 97

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Heatmap Inherent and Current

Inherent Ratings Summary Heatmap

Probability	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain				PCC0003	FIN0001 PCC0005 WO0021
Likely			CS0081 ED0022 ED0023 ICT0029	HO0018 PCC0002	
Possible				ICT0010 PPPP0007	
Unlikely					
Rare					

Impact

Residual Ratings Summary Heatmap

Probability	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain				PCC0005	
Likely				WO0021	
Possible			CS0081 ED0022 ED0023 HO0018 ICT0029	ICT0010 PCC0002 PCC0003 PPPP0007	FIN0001
Unlikely					
Rare					

Impact

Detailed Risk Information

Resdiual and Target Rating Changes since 06/08/2020

Risk Ref	Risk Itentified	Owner	Service Area	Prev Inherent Rating	->	Inherent Rating	Prev Residual Rating	->	Residual Rating
PCC0005	The impact to Powys residents, services and Council staff as a result of a COVID-19 (Coronavirus) epidemic	Nigel Brinn	Powys County Council	25		25	20		20
WO0021	Significant long term decrease in the working age population impacts on Council's ability to recruit and retain or commission the workforce it requires	Paul Bradshaw	Workforce and Organisation Development	25		25	20	-4	16
FIN0001	The Council is unable to deliver a financially sustainable budget over the short and medium term. The probability of this risk is heightened due to the impact of the Covid-19 pandemic and its impact on Welsh Government funding and subsequent settlements to the Council.	Jane Thomas	Financial Services	25		25	12	3	15
PCC0003	The council receives a negative regulatory / inspection report	Caroline Turner	Powys County Council	20		20	16	-4	12
PCC0002	The impact on the Council as a result of Brexit.	Andrea Mansfield	Powys County Council	16		16	12		12
ICT0010	Non compliance with data protection legislation (General Data Protection Regulations (GDPR) and UK Data Protection Act (DPA) 2018	Helen Dolman	Digitial Services	12		12	12		12
PPPP0007	Heart of Wales Property Services (HOWPS) being unable to undertake contracted work in a timely and cost effective manner.	Gwilym Davies	Property, Planning, and Public Protection	12		12	12		12
HO0018	Compliance in Powys County Council Housing Stock	Andy Thompson	Housing	16		16	9		9
CS0081	BUDGET: If Children's Services are unable to manage within budget due to: - Market sufficiency for children's placements - Reliance on agency social workers - Inflationary costs and management of pressures - Surge in demand due to COVID-19 - Ending of grant funding	Jan Coles	Children's Services	No Previous		12	No Previous		9
ED0022	The council will be unable to manage the schools' budget without ongoing adjustments to the distribution formula and improving financial management. If they are unable to manage the budget, there will be a significant compromise to the quality of education for Powys learners.	Lynette Lovell	Education	12		12	9		9
ED0023	Post Inspection Action Plan (PIAP) for Estyn - Coronavirus may impact on the ability of the service to maintain the level of progress against the PIAP. In particular, Recommendation 1 of the PIAP - 'Improve standards in secondary schools and more able learners' as schools are currently closed. Also, Recommendation 4 (the School Transformation/Reorganisation programme) could be affected by the Council's ability to conduct strategy consultations relating to Schools Organisation.	Lynette Lovell	Education	12		12	9		9
ICT0029	Cyber Security Threat. Risk of financial loss, disruption or damage to the reputation of Powys County Council from a failure of its information technology systems and or/loss of Data due to a cyber attack or Incident.	Julie Davies	Digitial Services	12		12	9		9

Report Selection Criteria

(REP_RECORD_CROSSCUT.Business Unit Code = @StrategicBusinessUnitCode AND (REP_RECORD_CROSSCUT.Status Flag <> "WITHDRAWN")) and REP_RECORD_CROSSCUT.Record Type=1

Capital Strategy and Treasury Management Strategy

Including Minimum Revenue Provision Policy Statement and Annual Investment Strategy

February 2021

Contents

Introduction

1.1 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities and Vision 2025. The provision of the right asset in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.

1.2 This strategy document provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, an overview of how the associated risk is managed and the implications for future financial sustainability.

1.3 It sets out an integrated plan for the future management of the Council's assets and its capital programme. It is a key document running alongside the Vision 2025 and the Medium-Term Financial Strategy (MTFS) and will provide the framework to facilitate a seamless interface between business planning and the management of assets and capital resources. This will ensure that the provision of resources and future investment are prioritised and ensures the effective and affordable management of the Council's assets.

1.4 The CIPFA 2017 Prudential Code and Treasury Management Code of Practice, sets out the new requirements in relation to the setting of a Capital Strategy. The new requirement asks local authorities to consider the longer term as well as the short and medium term to:

- Ensure that the capital expenditure plans of the council are affordable, prudent and sustainable.
- Support transparent options appraisal.
- Giving an outline of future commitments so that the affordability of both the long term plan and any new proposals can be properly understood.
- Inform prioritisation and timing of projects to ensure that both financial and operational capacity is available for delivery.
- Provide an overview of risk so that projects and proposals can be viewed in the overall risk context of capital and treasury investments.
- Enable the ongoing capital and revenue implications of capital expenditure to be better understood and planned for in the Financial Resource Plan.

1.5 This Strategy document provides both the Capital Strategy and the Treasury Management Strategy as they are inherently linked through the activities they undertake. The document sets out the Capital Programme to 2030/31 and the funding approach through treasury management activities.

1.6 Capital Strategy

1.7 The key aims of the Capital Strategy are to:

- Provide a clear context within which proposals for capital expenditure are evaluated to ensure all capital investment is targeted to deliver the Council's priorities.
- Clarity about how the Council identifies and prioritises capital requirements and proposals arising from various strategies including the Vision 2025, Service Improvement Plans, and other corporate strategies, and how they will be managed within the limited capital resources available.
- Challenge our current estate, continue with the programme of asset rationalisation, ensuring that assets retained are effective, efficient and economically sustainable to deliver services.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Use partnerships, both public and private, more effectively to support our overall strategy.
- Establish effective arrangements for managing capital schemes including assessment of outcomes and achievement of value for money.
- Ensure there is a full understanding of the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite

1.8 It is a requirement that the capital strategy demonstrates that the Local Authority takes both capital and investments decisions in line with service objectives. The capital strategy shows that the key drivers of the Council's Capital plans are captured through various plans across the authority. These include

- Highways Asset Management Plan (HAMP)
- Welsh Housing Quality Standard Plan (WHQS)
- Strategic Asset Management Plan
- Schools Transformation Plan
- Health and Care Strategy
- Service Plans

1.9 Treasury Management

1.10 The Treasury Management Strategy and Annual Investment Strategy report is a requirement of the CIPFA Code of Practice on Treasury Management and a requirement under the Local Government Act 2003. It has regard to the Guidance on Local Government Investments issued by the Welsh Government which requires the Treasury Management Strategy and Annual Investment Strategy to be approved by Full Council.

CIPFA defines treasury management as:

'The management of the local authority'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.'

1.11 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.12 A key function of the treasury management service is arranging the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.13 The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.14 This authority has engaged in only minimal commercial investments and has no (or immaterial) non-treasury investments.

1.15 Treasury Management and Capital Reporting Arrangements

1.16 The Council is currently required to receive and approve at Cabinet, as a minimum, three main treasury/capital reports each year, which incorporate a variety of policies, estimates and actuals.

- Prudential and treasury indicators and treasury and capital strategy (this report) - The first, and most important report is forward looking and covers:
- The capital plans, (including prudential indicators).

- A minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time).
- Capital strategy and capital programme
- The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- An investment strategy, (the parameters on how investments are to be managed).
- A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators if necessary, and whether any policies require revision. In addition, this Council will receive further quarterly update reports.
- Monthly capital reports to Cabinet – Providing an update on the capital spend, reprofiling and virement changes and funding that support delivery of the programme, with a year-end reflection of the actual against plan and reasons for the final month's changes from the forecast.
- An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- The above Treasury reports are required to be adequately scrutinised before being recommended to the Cabinet and Council. This role is undertaken by the Audit Committee.

1.17 Treasury Management Strategy
The strategy for 2021/22 covers two main areas:

a) Capital issues
- The capital programme and funding regime and the associated prudential indicators.
- The minimum revenue provision (MRP) policy.

b) Treasury management issues
- The current treasury position.
- Treasury indicators which limit the treasury risk and activities of the Council.
- Prospects for interest rates.
- The borrowing strategy.
- Policy on borrowing in advance of need.
- Debt rescheduling.
- The investment strategy.
- Creditworthiness policy; and
- Policy on use of external service providers.

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

1.19 Training

1.20 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Authority holds two briefing sessions per year for members and members must ensure that they attend at least one of these. The training needs of treasury management officers are periodically reviewed.

1.21 Financial training in managing the financial aspects of capital projects is available for those that manage projects and takes place regularly throughout the year.

1.22 Treasury Management Consultants

1.23 The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors. They also support on Capital advice. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

Capital Strategy

2.1 Background

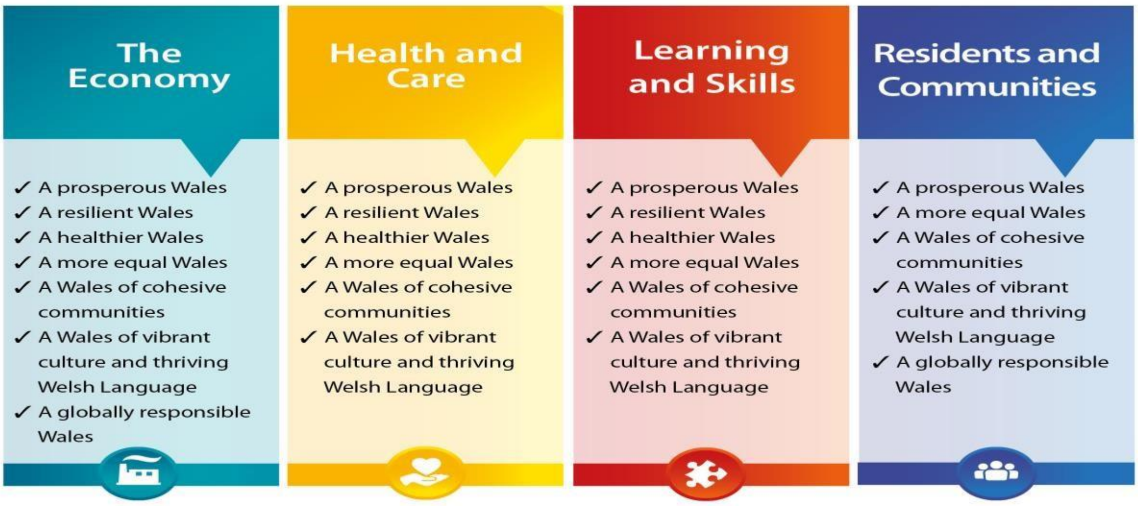
2.2 Part 1, Section 3 of the Local Government Finance Act 2003 requires that the Authority shall determine and keep under review how much it can afford to borrow. The Act is supported by the Prudential Framework for local authority capital investment and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code). The CIPFA Prudential Code was revised in December 2017. The revised Code introduced a new requirement that all authorities produce a capital strategy, which sets out the long-term context in which capital expenditure and investment decisions are made.

2.3 The Capital Strategy and Treasury Management Strategy (TMS) are closely linked, and both are revised annually. The Capital Strategy defines the Council's spending and the TMS sets out how it will be funded and its impact on the overall financial standing of the Council.

2.4 Aims, Priorities and Principles

2.5 The purpose of this strategy is to set out the objectives, principles and governance framework to ensure that the Authority takes capital expenditure and investment decisions in line with service objectives that underpin the delivery of the Corporate Improvement Plan through Vision 2025. The Council's Vision sets out the key priorities and objectives of the Council for the period to 31 March 2025.

2.6 Vision 2025 sets out the long-term vision for the council under four priority areas (aligned to the Wellbeing of Future Generations Act 2015 objectives).



2.7 Programme Overview

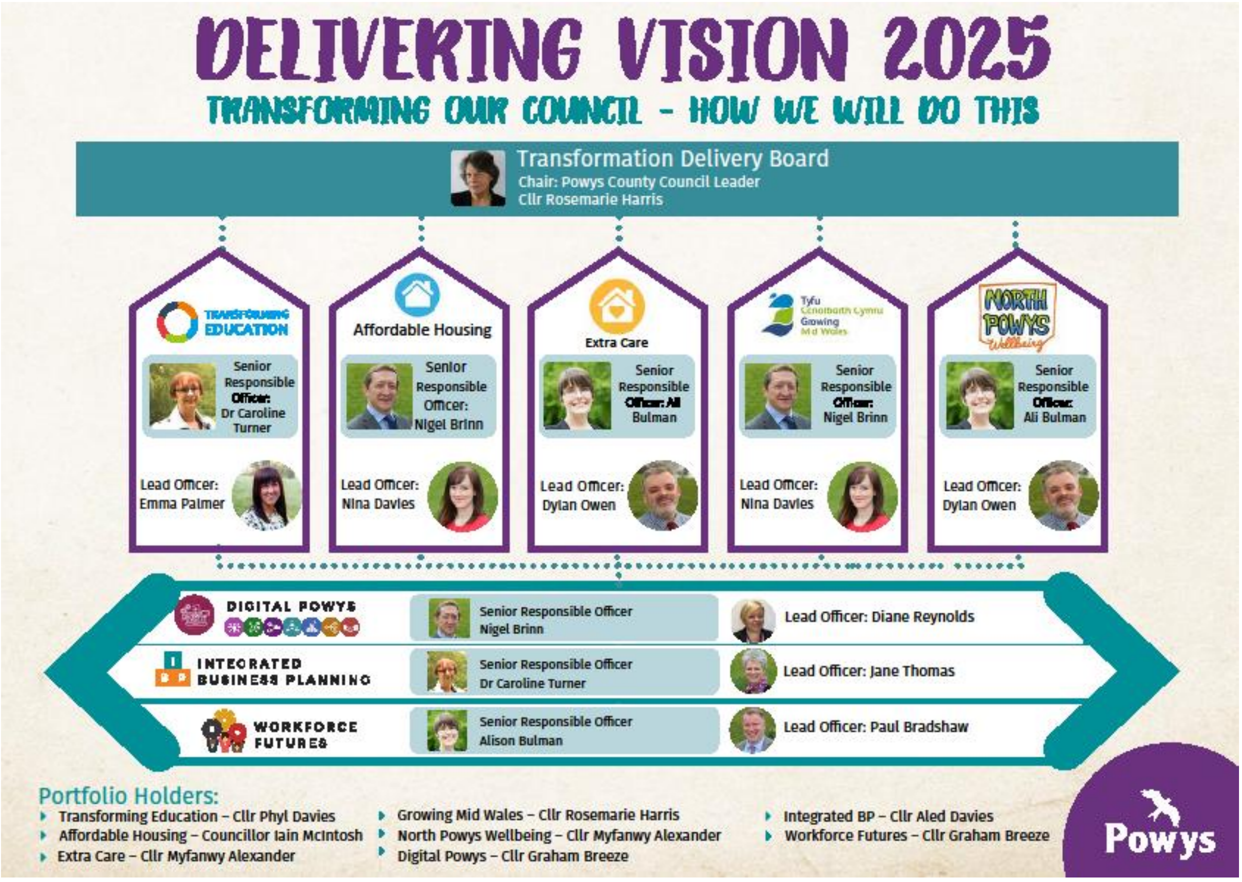
2.8 The Capital Programme is a key enabler to deliver the Councils ambition set out in Vision 2025. Broadly the programme covers three areas of expenditure:

- a core programme of schemes that are regulatory / statutory in nature, and minimise legal challenge or revenue risk, these schemes are related to day to day activities that will ensure the Council meets its statutory requirements.

- a retained asset programme to improve or enhance the life of existing assets, and

- an investment programme in schemes linked to the Council's strategic priorities, such as schemes to generate income and increase the diversification of the Council's property portfolio or reduce the revenue costs of running and maintaining the assets.

2.9 Vision 2025 will be delivered, in part, through its nine Transformation Programmes, as shown in the diagram below. The six Service Transformation programmes all require capital funding to deliver their transformation agenda.



Capital Investment across Services

2.10 The Council has developed its capital strategy which sets out a ten year long-term plan and demonstrates that the capital / investments decisions are taken in line with priorities and gives consideration to both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.

2.11 The Council will continue to invest in services that underpin the priorities set out as part of Vision 2025, the key themes have clear service projects:

Residents and the Community - We will support our residents and communities.

- **Housing -** The Council will continue to maintain for all the homes it owns the Welsh Housing Quality Standard (WHQS) with an ongoing capital programme in part funded through Welsh Government Funding and Supported Borrowing. The Housing Revenue Account Thirty Year Business Plan demonstrates an affordable capital strategy alongside delivering the day-to-day landlord service and has key objectives linked to the Local Housing Strategy. The Council has commenced the building of 100 new council dwellings as part of its commitment to complete 250 new homes by 2025. The Council will continue to fund a major programme of Disabled Facilities Grants enabled works and improvements to homes to improve the quality of life for people who need help to live as independently as possible. In addition, Housing Services will continue to support energy efficiency and bringing privately owned empty homes back into use through the SWAS (Safe Warm & Secure), Landlord Loans and the ZILF Co2i loan schemes.

- **Leisure Centres -** Since 2019 the Council has approved a five-year programme which has already enabled significant, essential replacement of plant, fixtures, end-of-life equipment, structural materials, playing surfaces and decoration. The Capital commitment supports the Council's 'landlord' responsibilities as part of the leisure contract but also ensures that the buildings are fit for purpose, compliant, attractive and provide a positive customer experience. Leisure Services in Powys not only support the overall well-being of our 'residents and communities' but contribute to the 'health & care' agendas, providing interventions and prevention programmes to help reduce the burden on health services; 'learning & skills' – as a collaborative partner to the School's Transformation Programme and for individuals to learn and develop though specific opportunities that the service provides or facilitates and the 'economy' by hosting and delivering local, regional and national events and competitions which draws significant numbers of visitors from across the UK to utilise the facilities we have in Powys.

- **Waste Strategy -** Powys County Council faces a stringent WG statutory recycling target of 64% for 2019/20 through to 70% for 2024/25. There is also a non-statutory WG target to reduce landfill to 10% by 2019/20 reducing to 5% by 2024/25. This has required a step change in the way all local authorities approach waste and recycling. The continued capital investment in the Waste and Recycling service will ensure that the Council is able to meet the targets whilst obtaining maximum value from the service. A network of assets under the Council's control allows flexibility to adapt to any changing requirements within the industry and Government policy and legislation. Some of these schemes are linked to efficiency savings and service improvements in future years.

- **Health and Care** – We will lead the way in effective, integrated rural health and care.

- **Social Care** - The capital programme focuses on supporting those who wish to remain in their own home rather than residential care and supports the integrated Health and Care Strategy for Powys. This strategy acknowledges that people in Powys live longer and healthier lives than elsewhere in Wales and that Powys is a place aspiring to help improve the wellbeing of all people. Capital funding mainly focus on accommodation options, including supporting the building and redevelopment of facilities to increase the stock of extra care housing, in collaboration with Powys Teaching Health Board and local Residential Social Landlords.

- **Assistive Technology** - has a key role to play in the modernisation of health and social care. With ever increasing technological advances, it offers a range of possibilities for greater choice, not only of how people can access the support they need, but also where and when they access support. In doing so, assistive technology enables people to take greater control, and to live independently for longer by preventing hospital admissions and premature moves to residential care. Enabling access to better accommodation options is essential in order to support independent living and reduce demand for other types of care.

Learning and Skills – We will strengthen learning and skills.

- **Schools Transformation -** The Council has developed a new ten year Strategy to Transform Education in Powys 2020-30 with the implementation of a major capital investment programme that will ensure that schools in Powys have inspiring, environmentally sustainable buildings that can provide opportunities for wider community activity, including where possible childcare services, early years, ALN, multi-agency support and community and leisure facilities. This will also include developing a reliable, high quality digital infrastructure. The Council is investing £147m over the next ten years in its schools through the current Band A and Band B of the Welsh Government's

21st C Schools Programme. The 21st C Schools Programme has a 65% capital intervention rate for mainstream schools, 75% for special schools and it also offers a new and innovative funding route where the intervention rate is 85% the Mutual Investment Model. The Council will develop its strategies to ensure maximisation of the potential investment opportunities that may be available via WG funding.
However, to deliver the full Schools Transformation Programme significant funding sources above what is currently included in the following Capital Programme will be required.
Alongside this, capital funding through our major repairs programme will be focussed on where the need is greatest, as identified through the Schools Service's Asset Management Plan.

The Economy – We will develop a vibrant economy.

- **Highways and Environment -** The Council has a statutory duty to maintain the adopted highway, maintained at public expense in a safe condition for the passage of the user. A strategic approach has been used to develop the HAMP in identifying and allocating resources for the management, operation, preservation and enhancement of the highway infrastructure to meet the needs of current and future customers. Current gross replacement cost of these assets is estimated at £4.4bn.

- **Property -** The vision is to ensure that through the Corporate Landlord initiative, the Council's assets are appropriately managed to provide safe, efficient, sustainable properties in the right locations to support the delivery of services and the achievement of key priorities. The Strategic Asset Board and the Strategic Asset Management Plan are the mechanisms in place to help deliver these priorities, which will ensure close working and collaboration across all service areas and partner organisations such as NPTC / PTHB. The Property team will be supported in this crucial work with investment provided to procure a new Property Management database which will provide a single point of reference for all aspects of the Council's operational and investment estate. A provisional property disposals programme has been developed over the next 10 years.

- **Regeneration, Property and Development -** The Council need to intervene where the private sector is not able to (for economic reasons) to create or facilitate investment in business units in order to keep and attract business to the County. The Abermule scheme is one such scheme that sees the Authority creating a business park on a former WG site which otherwise would not have been developed in the short to medium term. Capital investment will also form an important part of supporting the regeneration and viability of town centres. An initial annual allocation of £2 million starting in 2022-23 has been included as the Council's contribution towards the Mid Wales Growth Deal. As the plans for the deal develop the funding will be released to the relevant projects on completion of the relevant governance and approval processes.

- **County Farms -** It is essential that the Council manages its agricultural estate prudently, efficiently, and professionally. Effective management of County Farms estate will enable the continued opportunities already enjoyed by current tenant farmers and maintain an income stream. The financial demands of the Estate need to be evaluated against the competing demands across the council whilst noting the estate produces an annual surplus in its trading account. The opportunity for capital receipts will continue to arise as reviews are undertaken at each tenant departure from the Estate. An Invest to Save initiative is being developed which will see investments made to the Farm Estate which should create opportunities for capital receipts and also reduced revenue expenditure, for example barn conversions and subsequent sales.

- **Information Technology (IT) -** The service engages with change programmes so that investment and resource meets identified priorities. In respect of infrastructure, IT will seek to invest in up to date cloud based technologies including 'Azure' cloud technologies, improved telephony and mobile systems, WEB and share-point and improved wireless as well as further enabling our staff to work in an agile manner. In terms of applications, IT is looking to rationalise the number of systems through investment in replacement of legacy corporate systems and through modernisation of systems and applications to improve integration and provide an improved customer journey.

Investment in Commercial Activity

2.12 The commercial activity undertaken in the council relates to holding properties that are utilised by tenants, these include livestock markets, caravan park, restaurant and office space.

2.13 Around £240,000 in rental income is received each year.

2.14 The council has a trading company that is likely to become the vehicle that supports greater commercial activity, but any investment must evidence the following criteria:

- Support the strategic community objectives of the council.
- Have a balanced investment approach.
- Improve covenant strength.
- Drive income generation and maintain yield.

2.15 To ensure that the council is able to benefit from the lower borrowing rates offered by the Public Works Loans Board (PWLB) the council will currently not consider investing in additional commercial property.

Funding the Capital Strategy

2.16 The cost of funding the capital programme is closely monitored due to the impact on the budget and the ongoing funding constraints of the MTFS. The Council aims to minimise the cost of borrowing on the Financial Resource Model (FRM) and other sources need to be maximized such as grant funding. Funding capital from borrowing incurs extra costs from interest on the loan and the minimum revenue provision, repayment of the principal. Capital projects are prioritised where they can evidence a reduction in the cost of revenue, such as digital technologies or generate income such as building council dwellings.

2.17 The Housing Revenue Account (HRA) supports its own capital expenditure and provision for this is included in the HRA Business Plan. The surplus on the HRA account (excess of rental income over expenditure) is used to fund capital expenditure. This does not impact on the Council Fund. Although the HRA operates separately from the Council Fund, the Council does not borrow separately for Council Fund and HRA expenditure, all borrowing is combined, and the costs apportioned to the two funds based on the level of expenditure funded from borrowing for the two funds. The apportionment method is kept under review to ensure that it remains the most equitable method.

The Capital programme detailed at Appendix A, sets out how the programme is funded, the sources are explained below:

- **General Capital Grant –** This is a sum of money which is provided by the Welsh Government as part of the annual settlement. The Council is free to use the capital grant on any capital project it wishes.
- **Supported Borrowing** – The Council will borrow from establishments including the Public Works Loans Board (PWLB) to fund the expenditure. The revenue costs arising from the borrowing (Interest Costs and Minimum Revenue Provision) are funded by the Welsh Government through the annual revenue settlement, hence the term “Supported Borrowing”.
- **Unsupported Borrowing** – Again, the Council borrows the funding but is required to finance the revenue costs from its own resources. Projects funded by means of unsupported borrowing tend to be projects which deliver revenue savings, and these savings contribute to meet the additional revenue costs arising from the borrowing.
- **Specific Capital Grants –** The Council will be awarded capital grants which partly or fully fund the cost of a project. Capital grants usually come with restrictions surrounding the expenditure which can be funded and by when the expenditure must be incurred.

- **Revenue Contribution** – Services can contribute from their revenue budgets to fund projects. These contributions tend to be as a match funding to a project which is mainly funded from a specific capital grant.
- **Capital Receipts** – The funds generated from the sale of assets can be used to contribute to the funding of the capital programme. These are usually generated from the sale of surplus assets (normally land or buildings). The Councils' Capital Receipts Policy is set out in Appendix B.
- **Reserves** – Funding held in reserve, e.g., unapplied capital receipts, can be used to support the capital programme. Specific reserves can also be built up and set aside for this purpose.

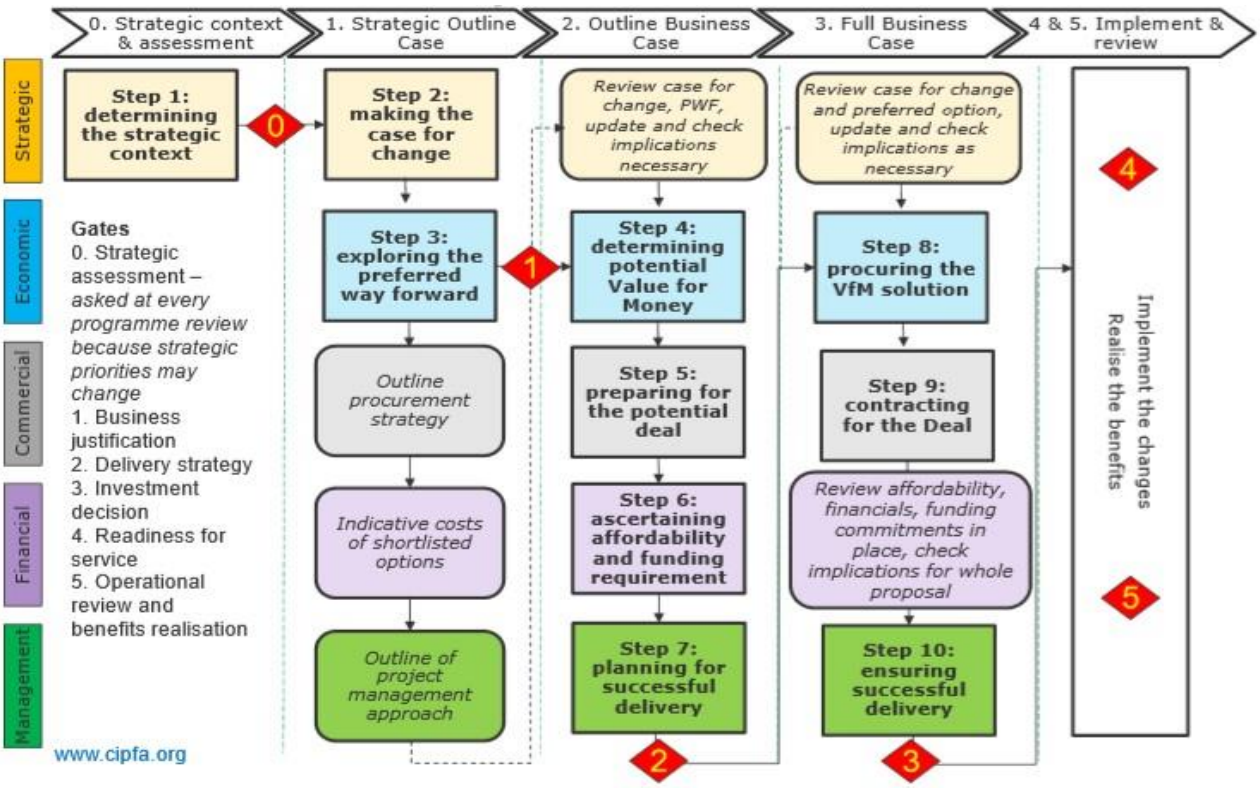
Capitalisation Direction and Transformation

2.18 In December 2017 the Secretary of State announced the continuation of the capital receipt flexibility programme for a further three years up to financial year 2021/22. This is significant as it gives authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformational work and the release of savings.

2.19 Realisable capital receipts will be used to fund the cost of the transformation projects for the next two years. The capital receipts policy is provided at Appendix B and forms a key element of the MTFS.

Governance and Approval Approach

2.20 Welsh Government have adopted the Better Business Case approach to building, reviewing, and agreeing business cases. These principles have been adopted in the Councils' Capital Governance Framework. This approach introduces a more formal regime to follow and ensures consistency and a robust approach to developing each project. The diagram below sets out the gates and steps necessary to develop a capital from proposal through to a successful delivery. There has been an urgency in adopting this new regime to evidence stronger governance based on robust business cases from services.



2.21 The governance of this Capital Strategy follows the same process as the Revenue Budget Setting Process and is presented to the Cabinet as part of the MTFS which is then recommended to full Council for approval.

2.22 The three stages of the Governance Framework are:

- **Stage 1 - The Strategic Outline Case (SOC)**, these must be completed for the new bids and have necessary approval.

- **Stage 2 -** Once the SOC is approved, managers will need to complete more detailed work, particularly on the economics of the case, finances (detailed costings) and submit the **Outline Business Case (OBC)** for approval through the Strategic Asset Board, who provide challenge and then make recommendation to EMT / Cabinet to approve.

- **Stage 3 -** The **Final Business Case (FBC)** is the final gateway, and the project would move to the procurement stage. At this point the tender price for the project would be known and the risks quantified. Only when the FBC becomes a live project does the capital budget get allocated, which will improve our budget forecasting and profiling. Any revenue contributions including MRP costs would need to be built into the budget at stage 3.

  - For business cases between £75k and £1m a less formal business justification case will be adopted, being simpler and quicker to develop and proceed to project.
  - Each year there is a small bids programme funded by an allocation in the Capital
  - Programme for capital projects under £75k, these are dealt with through the Strategic Asset Board.
  - The Council is moving away from an annual capital cycle and using the new framework will have an ongoing process of projects in development through to approval through Cabinet and Council as needed with the necessary prudential indicators updated and presented.

Capital Programme 2021-2031

2.23 The overall capital programme for the Council in 2021/22 is £101.53 million, which includes £27.90 million for the HRA. Appendix A provides a full list of all the schemes.

2.24 The General Fund includes schemes which have previously been approved or are in progress and expected to continue into future years. These total £73.63 million. The programme includes a list of schemes that have had their Strategic Outline Case approved and have been progressed to Outline Business case. Providing the economic and financial justification stacks up these schemes are likely to develop to Final Business Case stage and become live projects, totalling £9.00 million. Split over two years, £6.34 million in 2021/22 and £2.66 million in 2022/23. An initial annual allocation of £2.00 million starting in 2022-23 has been included as the Council's contribution towards the Mid Wales Growth Deal. As the plans for the deal develop, the funding will be released to the relevant projects on completion of the relevant governance and approval processes.

2.25 The need to maintain the highways infrastructure through the HAMP has been highlighted at strategic level as a critical area of the council's long-term strategy. The programme now includes £5.00 million per annum for the HAMP and an additional £1.00 million per annum for street lighting column upgrades until 2029/30.

2.26 Overall additional borrowing requirements are estimated at £52.65 million in 2021/22, but it is likely that this figure will be less based on previous years slippage on spend and grants received in year.

2.27 The capital programme remains within budget for 2021/22 however additional revenue funding will need to be identified to fund investment in future years. The impact of the capital programme is set out through the following prudential indicators:

Capital Prudential Indicators

2.28 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

2.29 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

£'m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Non-HRA	66.72	73.63	87.46	45.88	18.91	16.92	15.96	21.06	18.37	15.83
HRA	28.99	27.90	29.80	31.63	28.19	21.07	20.36	20.69	23.41	15.65
Total	95.71	101.53	117.26	77.51	47.10	38.00	36.32	41.75	41.78	31.48

2.30 **Other long-term liabilities** - The financing need set out in the table above excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

2.31 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a requirement to fund through borrowing, this figure is shown as the net financing need.

£'m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Capital receipts	3.79	3.85	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Capital grants	32.47	35.10	58.36	32.46	15.49	13.57	13.25	13.23	12.76	10.17
Revenue/Reserves	13.37	9.93	8.09	8.44	12.38	10.89	9.83	12.13	9.44	9.89
Net financing need for the year	46.07	52.65	50.57	36.37	18.98	13.29	12.99	16.14	19.33	11.16

The Council's Borrowing Need (the Capital Financing Requirement)

2.32 This is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

2.33 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset life, and so charges the economic consumption of capital assets as they are used.

2.34 The greater the CFR the larger the impact will be on the revenue budget, therefore in the long-term there will be a need to keep capital expenditure funded by borrowing at a level below the MRP budget in order to maintain the revenue budget at a sustainable level.

2.35 The Council is asked to approve the CFR projections below:

£'m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
CFR – non HRA	317.77	352.95	383.30	398.71	399.32	399.38	399.48	402.33	405.05	404.70
CFR – HRA	105.00	115.62	126.14	136.19	142.96	144.29	145.14	146.32	150.63	149.60
Total CFR	422.77	468.58	509.45	534.90	542.28	543.66	544.62	548.65	555.68	554.30
Movement in CFR	42.60	45.81	40.87	25.45	7.38	1.38	0.96	4.02	7.03	-1.38
Movement in CFR Represented by:										
Net financing need for the year (above)	46.07	52.65	50.57	36.37	18.98	13.29	12.99	16.14	19.33	11.16
Less MRP/VRP and other financing movements	3.47	6.84	9.70	10.92	11.60	11.90	12.03	12.12	12.30	12.54
Movement in CFR	42.60	45.81	40.87	25.45	7.38	1.38	0.96	4.02	7.03	-1.38

Minimum Revenue Provision Policy Statement

2.36 MRP is an annual charge that Councils are required to pay for their debt liability in respect of capital expenditure funded by borrowing, for both the general fund and the Housing Revenue Account debt. This capital expenditure is set out as part of the CFR calculation and updated regularly to reflect borrowing need changes and the resultant costs; it is important to ensure that the debt is repaid over a period commensurate with that over which the capital expenditure provides benefit.

2.37 The debt repayment is a revenue charge, the minimum revenue provision (MRP), although additional voluntary payments are allowed if required voluntary revenue provision (VRP).

2.38 Welsh Government regulations have been issued which require the Council to approve the **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision set out.

2.39 Recommendation - The Council is recommended to approve the following MRP Statement for the 2021/22 financial year:

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

  - To continue to calculate the MRP on a 2% on a straight-line basis for borrowing Council Fund debt.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases), the MRP policy is:

  - To charge MRP over the asset life on an annuity basis.

- Estimated life periods will be determined under delegated powers. Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the components of expenditure and will only be divided up in cases where there are two or more major components with substantially different economic lives.

  These options provide for a reduction in the borrowing need over approximately the asset’s life.

- There is a requirement on the HRA to make a minimum revenue provision of 2% of the reducing balance. The HRA MRP for prudential debt IS calculated using the asset life method.

  Repayments included in annual PFI or finance leases are applied as MRP.

- In addition, the guidance allows for MRP to be deferred for assets under construction and this part of the guidance is adopted because the asset is not used by the authority until it is operational and therefore the MRP will match the life of the asset.

2.40 **MRP Overpayments** - A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31st March 2020 the total VRP utilised was £12.9m, with the expected total overpayments being £19.5m.

Risk Management

2.41 All large capital projects are managed under the Council's Project Management Methodology, which incorporates risk identification and risk management. The Council also has a Risk Management Policy which is applied to all its projects and activities.

2.42 For all capital projects, project managers update financial forecasts on a monthly basis identifying any areas subject to risk of overspend, underspend or slippage.

2.43 There is also a degree of funding risk in the Capital Programme, reliant as it is on future capital receipts, and the ability to be able to afford borrowing if necessary. These risks need to be managed and monitored on a regular basis, and action taken where necessary.

2.44 Risk appetite in this context is the level of risk that the Council is prepared to accept to be exposed to at any point in time in relation to its activities. It involves knowing what risks the Council wishes to avoid, what risks it is willing to accept and what risks it is willing and able to manage (including by transferring them to a third party, e.g., through insurance).

2.45 The risks are regularly monitored and managed both financially and operationally in accordance with council processes.

2.46 The Council is willing to accept the risks set out in this Strategy for projects that have Council approval provided that the project management ensures the appropriate mitigations are put in place to bring the project within acceptable risks margins.

2.47 The key financial risks inherent in the Council's Capital Programme include:

Description of Risk	**Potential Impact**
The longer a project takes to come to fruition, the greater the risk that the financial cost of the project will have increased, both due to the additional staff time spent on the project and the inflationary impact on the costs involved in bringing the asset into operation.	May result in financial pressures on the other projects/ programmes and service delivery.
There is a degree of correlation between the length of time a project spends in the feasibility and development stage and an increased risk of project failure or abandonment. Should a project fail for any reason, the regulations require all capital costs to be returned to revenue, which may create significant pressures, depending on the level of spend at that point.	May result in additional revenue pressures on delivery/services.
Project expenditure is higher than forecast estimates	May result in increased financial pressures/ limitations on future investment options.
Once a project has been delivered successfully the cash expended is then bound in the asset. In the case of the assets that are for service delivery and do not generate a rental income stream, the money invested in the asset is only recovered if and when the asset is sold at a future date. This carries inherent financial risks in that the asset may have decreased in value, depending on market conditions, or may not have increased in value sufficiently to mitigate the effects of inflation.	May result in increased financial pressures/limitations on future investment options.

Treasury Management Strategy

3.1 Background

3.2 The Council is required to operate a balanced budget which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned with cash being available when it is needed.

3.3 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash involves arranging short or long-term loans or using longer-term cash flow surpluses.

3.4 The contribution the treasury management function makes to the authority is critical as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects.

3.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities as they usually arise from capital expenditure and are separate from the day-to-day treasury management activities. The IRFS 16 Leases accounting standard will from April 2022 require leases in, with the exception of low value and short term leases to be included on the balance sheet. These arrangements are not included in this report.

Borrowing Strategy

3.6 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.7 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Financial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in borrowing rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.8 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.9 Policy on Borrowing in Advance of Need

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

3.11 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.12 Debt rescheduling

3.13 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates. If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

3.14 New Financial Institutions as a source of Borrowing and / or types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.15 Approved Sources of Long and Short term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

Capital Prudential and Treasury Indicators

3.16 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Ratio of financing costs to net revenue stream

3.17 This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue budget or HRA rental income (net revenue stream). The estimates of financing costs include current commitments and the proposals in this budget report. The future net revenue streams are estimated based on worst case scenarios.

£'m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Financing Costs	10.02	13.59	16.55	17.61	17.71	17.54	16.67	17.13	17.45	17.51
Net Revenue Stream	269.60	280.66	281.26	282.17	283.38	284.90	286.74	288.91	291.39	294.18
Council Fund	3.72%	4.84%	5.88%	6.24%	6.25%	6.16%	5.81%	5.93%	5.99%	5.95%
Financing Costs	5.27	5.75	6.35	6.98	7.59	8.02	7.79	7.96	8.07	8.39
Net Revenue Stream	25.65	25.88	26.99	28.24	29.61	30.98	32.28	33.46	34.64	35.85
HRA	20.54%	22.22%	23.52%	24.72%	25.64%	25.89%	24.14%	23.80%	23.30%	23.41%

Maturity structure of borrowing

3.18 These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

3.19 The Council is asked to approve the following treasury indicators and limits:

Maturity structure of borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years to 20 years	0%	40%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	40%

3.20 Affordability prudential indicators

3.21 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following borrowing indicators:

3.22 Borrowing Indicators

3.23 The capital expenditure plans set out in the capital strategy provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.24 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Change in External Debt

£'m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Council Fund - External Debt										
Debt at 1st April	253.70	262.70	312.95	343.30	358.71	359.32	359.38	359.48	362.33	365.05
Expected change in Debt	9.00	50.25	30.35	15.41	0.60	0.06	0.11	2.84	2.73	-0.36
Estimated Gross Debt at 31st March	262.70	312.95	343.30	358.71	359.32	359.38	359.48	362.33	365.05	364.70
CFR	317.77	352.95	383.30	398.71	399.32	399.38	399.48	402.33	405.05	404.70
Under / (Over) Borrowing	55.06	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00

HRA - External Debt										
Debt at 1st April	94.01	105.00	115.62	126.14	136.19	142.96	144.29	145.14	146.32	150.63
Expected change in Debt	10.99	10.62	10.52	10.04	6.78	1.32	0.85	1.18	4.31	-1.03
Estimated Gross Debt at 31st March	105.00	115.62	126.14	136.19	142.96	144.29	145.14	146.32	150.63	149.60
CFR	105.00	115.62	126.14	136.19	142.96	144.29	145.14	146.32	150.63	149.60

3.25 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.26 The Head of Financial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the next few years. This view takes into account current commitments, existing plans, and the proposals in this budget report. The projected increase in the CFR over the medium and longer term must be reviewed annually to ensure that the capital investment plans remain affordable, prudent and sustainable.

3.27 Treasury Indicators: limits to borrowing activity

Operational Boundary

3.28 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

3.29 The council has a long term liability of £19.50 million for a Section 106 obligation. This is not factored into any repayment plans at present, and borrowing is likely to be needed for this at some point in the future.

£'m	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Operational Boundary	478.00	520.00	546.00	553.00	555.00	556.00	560.00	567.00	565.00	563.00

Authorised Limit

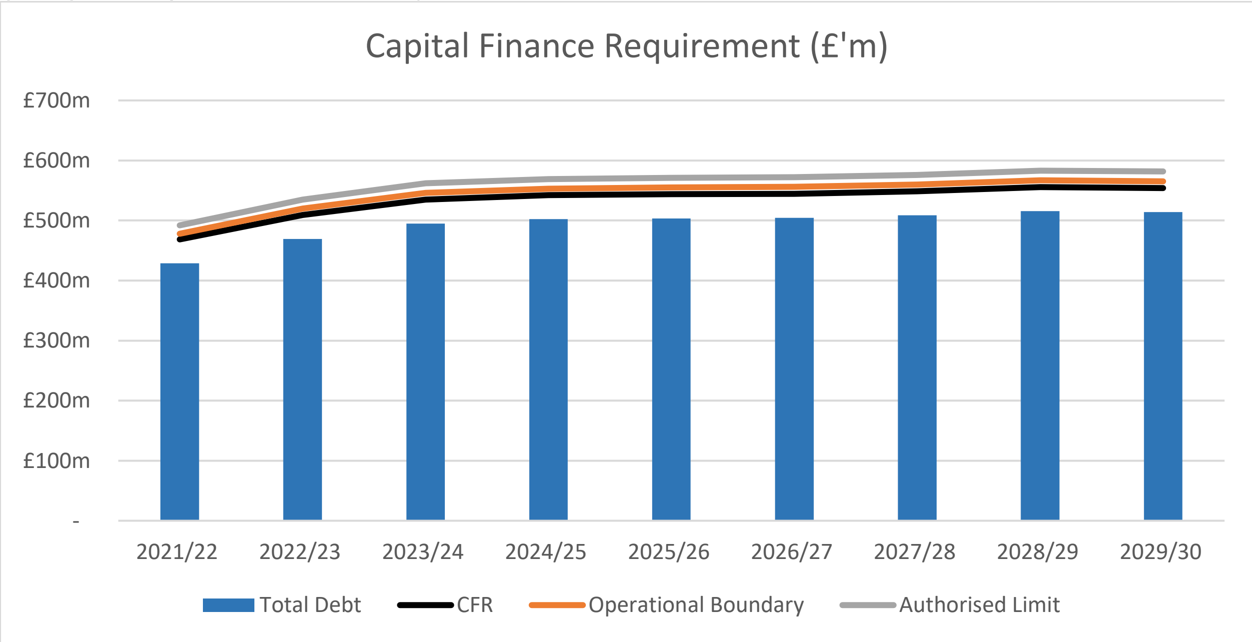
3.30 This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.31 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

3.32 The Council is asked to approve the following authorised limit.

£'m	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Authorised Limit	492.00	535.00	562.00	569.00	571.00	572.00	576.00	583.00	582.00	581.00

3.33 The chart below shows the relationship between the Total Debt, the Capital Financing Requirement (CFR), the Operational Boundary and Authorised Limit.



Annual Investment Policy

3.34 **Management of risk** - The Welsh Government and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This strategy deals solely with financial investments, (as managed by the treasury management team). Nonfinancial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council's investment policy has regard to the following.

- Welsh Government's Guidance on Local Government Investments 2019 ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018
- The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

3.35 The above guidance from the Welsh Government and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are categories of 'specified' and 'non-specified' investments.
- Specified investments are those with a high level of credit quality and subject to a maturity limit of one year except deposits with local authorities which can be for any period.
- Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e., an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- Lending limits (amounts and maturity), for each counterparty will be set in conjunction with Link's matrices.
- This authority will set a limit for the amount of its investments which are invested for longer than 365 days.
- Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.
- All investments will be denominated in sterling.

3.36 As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The Welsh Government has passed a statutory override to allow Welsh local authorities time to adjust their portfolio of all pooled investments by delaying implementation of IFRS 9 for five years until 31st March 2023.

3.37 The council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance.

3.38 Creditworthiness policy

3.39 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach, utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies.
- CDS spreads that may give early warning of likely changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

3.40 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

Yellow	5 years *
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

Please note: "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.

3.41 The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

3.42 Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

3.43 Credit ratings will be monitored daily through use of the Link Asset Services' creditworthiness service. If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

3.44 Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

3.45 UK banks

3.46 Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30.6.20 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks.

3.47 However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on actual levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets.

3.48 This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

3.49 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

3.50 Although bank CDS prices (these are market indicators of credit risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

3.51 Country limits

3.52 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

3.53 The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in paragraph 3.83. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

3.54 Investment strategy

3.55 **In-house funds** - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

3.56 If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

3.57 Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

3.58 **Investment returns expectations –** Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

3.59 The suggested budgeted investment earnings rates for returns on investments placed or periods up to about three months during each financial year are as follows:

2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Later years	2.00%

3.60 The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

3.61 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

3.62 Negative investment rates

3.63 While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

3.64 As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

3.65 Inter- local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

3.66 Inter- local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Investment treasury indicator and limit

3.67 The Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each yearend.

3.68 The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2020/21**	**2021/22**	**2022/23**
Principal sums invested for longer than 365 days	£10m	£10m	£10m
Current investments as at 10.01.21 in excess of 1 year maturing in each year	Nil	Nil	Nil

3.69 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts, money market funds and short-dated deposits.

3.70 **Investment performance / risk benchmarking –** The council will use an investment benchmark to assess the investment performance of its investment portfolio of 3 month LIBID uncompounded. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

3.71 Interest Rate Forecasts - Brexit. The interest rate forecasts provided by Link were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

3.72 The balance of risks to the UK

3.73 The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.

3.74 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

3.75 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

3.76 Upside risks to current forecasts for UK gilt yields and PWLB rates

- UK - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

3.77 Treasury Management Practice – Credit and Counterparty Risk Management

3.78 Specified Investments - All such investments will be sterling denominated with maturities up to maximum of 1 year (except for deposits with local authorities which can be for any period), meeting the minimum 'high' quality criteria where applicable. (If a deposit is made for say 2 years, it starts as being a non-specified investment and remains as a non-specified investment even when it's time to maturity falls under 12 months). The criteria, time limits and monetary limits applying to institutions or investment vehicles are.

Institution	Maximum Investment per Group/Institution	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	£30m	Up to 364 days	As per Link's matrices
Foreign Banks	£5m	Up to 364 days	As per Link's matrices
Other Local Authorities	£25m	Up to 5 years	N/A

3.79 **Non specified Investments** - These are any investments which do not meet the specified investment criteria. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Institution	***Maximum Investment per Group/Institution***	***Maximum Length***	**Credit Rating/Other Assessment of Risk**
UK Banks	£10m (£5m limit with any one institution)	Up to 2 years	As per Link's matrices
Foreign Banks	£2m	Up to 2 years	As per Link's matrices
Money Market Funds (max. of 5)	£10m	N/A	All are AAA rated
Other Local Authorities	£10m	Up to 5 years	N/A
Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.			

3.80 In addition to treasury management investment activity, local authorities can utilise their powers to borrow in order to invest in other financial assets. Such activity includes loans supporting service outcomes, investment in or loans to subsidiaries, and investment property portfolios primarily for a financial return. Whilst these impact on treasury management activity, they are managed outside of this Treasury Management Strategy and approved separately as part of the Council's Capital expenditure plans arising from its Capital Strategy. Regulator concerns in relation to the extent of this activity have resulted in recent updates to CIPFA professional Codes of Practice including the Treasury Management Code. Whilst no national monetary, financial or other controls or limits are in place currently, regulations have been updated to ensure the risks and implications of such activities are clearly governed and understood over a long term period.

3.81 Approved Countries for Investments

3.82 This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's, and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

3.83 Based on lowest available rating

- **AAA**

  Australia, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland

Australia	Denmark
Germany	Luxembourg
Netherlands	Norway
Singapore	Sweden
Switzerland	

- **AA+**

Canada	U.S.A.
Finland	

- **AA**

Abu Dhabi (UAE)	France

- **AA-**

Belgium	Hong Kong
Qatar	U.K.

3.84 **Prospect for Interest rates** - The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates, their latest update is provided at Appendix D.

3.85 Investment and Borrowing Rates

3.86 Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

3.87 On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

3.88 Borrowing for capital expenditure. As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.

3.89 While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Treasury Management Scheme of Delegation

3.90 The governance of the key decisions are set out below:

➢ **Full Council**

- approval of annual strategy

➢ **Audit Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

➢ **Cabinet**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers.

The Treasury Management Role of the Section 151 Officer

3.91 The role of the section 151 officer is set out below:

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

3.92 The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role:

- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities).
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.

Appendix A - Capital Programme 2021/31

	2020-21 £'m	2021-22 £'m	2022-23 £'m	2023-24 £'m	2024-25 £'m	2025-26 £'m	2026-27 £'m	2027-28 £'m	2028-29 £'m	2029-30 £'m	2030-31 £'m	Total £'m
Education												
Ysgol Bro Hyddgen	0.575	11.184	22.917	12.432								**47.107**
Welshpool C in W School	5.336											**5.336**
Ysgol Gymraeg y Trallwng	0.130	8.756	0.125									**9.011**
Ysgol Brynllywarch	0.400	5.433	2.814	0.163								**8.809**
Ysgol Cedewain	0.372	4.187	14.119	3.811								**22.490**
Other 21st Century School Schemes	3.003	3.299	22.095	7.196								**35.593**
Schools Major Improvements	3.592	2.090	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	**14.683**
Schools Other	1.053											**1.053**
Child Care Grant	3.254											**3.254**
	17.715	**34.949**	**63.069**	**24.602**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**1.000**	**147.334**
Highways, Transport and Recycling												
Integrated Transport	0.356											**0.356**
Highways Lighting	1.262	1.250	1.250	1.200	1.000	1.000	1.000	1.000	1.000	1.000		**10.962**
Major Remedial Earthworks	0.150											**0.150**
Structural Drainage Improvements	0.210											**0.210**
Highways Strengthening	1.576											**1.576**
Structural Repairs Town Centre Footway												**0.000**
Advance Preparations												**0.000**
Structures Strengthening	0.100	0.550	0.550	0.600	0.500	0.100	0.200	3.000	3.000			**8.600**
Structural Maintenance - Roads	1.500	6.500	6.500	6.500	5.000	5.000	5.000	5.000	5.000	5.000		**51.000**
Surface Dressing												**0.000**
Residential Estates												**0.000**
Road Safety & Small Schemes	0.020											**0.020**
Local Road Safety												**0.000**
Salt Barns	0.113	0.050	0.750									**0.913**
Safe Route In Communities	0.050											**0.050**
Newtown De-Trunking Works	1.100											**1.100**
Countryside & Outdoor Recreation	0.439	0.618	0.020	0.015	0.015	0.015	0.015	0.015	0.015	0.015	0.015	**1.197**
Recycling	4.520	0.623										**5.143**
Local Transport Fund	0.700											**0.700**
Vehicle Replacement	7.571	2.680	1.021	1.215	5.202	3.710	2.651	4.949	2.254	2.714	2.714	**36.681**
Community Transport Enhancement	0.600											**0.600**
Major Strategic Schemes	2.321	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	1.500	**17.321**
Flood Alleviation Schemes	1.130											**1.130**
Active Travel Fund	1.608											**1.608**
	25.326	**13.771**	**11.591**	**11.030**	**13.217**	**11.325**	**10.366**	**15.464**	**12.769**	**10.229**	**4.229**	**139.317**

	2020-21 £'m	2021-22 £'m	2022-23 £'m	2023-24 £'m	2024-25 £'m	2025-26 £'m	2026-27 £'m	2027-28 £'m	2028-29 £'m	2029-30 £'m	2030-31 £'m	Total £'m
Property, Planning and Public Protection												
Regulatory Services	0.348											**0.348**
Closed Landfill Sites												**0.000**
County Farms	0.334	0.100	0.100	0.100								**0.634**
Business Parks	0.772	1.200										**1.972**
Office Accommodation	1.339	0.225										**1.564**
Depots												**0.000**
	2.793	**1.525**	**0.100**	**0.100**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**4.518**
Housing & Community Development												
Newtown Library Redevelopment		0.030										**0.030**
Library Self Service Terminals	0.009	0.050										**0.059**
Presteigne Library Works	0.035											**0.035**
Sports and Leisure Centres	2.054	1.457	0.364	0.302								**4.176**
Y Gaer	0.123											**0.123**
Radnorshire Museum Works	0.015											**0.015**
Powysland Co-Location	0.003											**0.003**
Captains Walk Gardens	0.031											**0.031**
Digital Labels at Y Gaer	0.028											**0.028**
Abritras Housing Software	0.002											**0.002**
Machynlleth Gypsy & Traveller Site	1.286											**1.286**
Safe, Warm & Secure	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	**2.200**
Co2I	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.048	0.048	**0.528**
Disabled Adaptation	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	**14.300**
Enable Public Sector Housing	0.087											**0.087**
Landlord Loans	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	0.200	**2.200**
ICF Extra Care - Welshpool		1.067										**1.067**
ICF Extra Care - Ystradgynlais		1.067										**1.067**
Loans to Registered Social Landlords		5.000	5.000	5.000								**15.000**
	5.422	**10.419**	**7.112**	**7.050**	**1.748**	**1.748**	**1.748**	**1.748**	**1.748**	**1.748**	**1.748**	**42.238**

	2020-21 £'m	2021-22 £'m	2022-23 £'m	2023-24 £'m	2024-25 £'m	2025-26 £'m	2026-27 £'m	2027-28 £'m	2028-29 £'m	2029-30 £'m	2030-31 £'m	Total £'m
Regeneration												
Community Halls	0.061											**0.061**
Newtown Green Infrastructure	0.500											**0.500**
Targeted Regeneration Investment Programme	0.700											**0.700**
Trip - Town Centre Property Investment	1.445											**1.445**
Other Economic Development	0.665											**0.665**
Autopalace R&D Centre	0.685											**0.685**
C.E.S.F.	0.001											**0.001**
Llandrindod Tesco Section 106	0.013											**0.013**
Riverside Enterprise Park	0.835											**0.835**
	4.904	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**4.904**
Information Services												
Hwb In-School Infrastructure	0.117											**0.117**
Hwb In Schools	1.050											**1.050**
Schools IT Equipment	0.066											**0.066**
IT Refresh Strategy	0.122	0.330	0.230	0.390	0.350	0.350	0.350	0.350	0.350	0.350	0.350	**3.522**
IT Infrastructure	0.177											**0.177**
Switches / Wi-Fi	0.010											**0.010**
Enterprise Monitoring	0.100											**0.100**
Other IT	0.042											**0.042**
Finance System	0.069											**0.069**
Share Point		0.085										**0.085**
IT System Rationalisation	0.213	0.200										**0.413**
IT Cyber Security Improvement	0.100	0.100	0.100	0.100	0.100							**0.500**
Cloud Services	0.050	0.415										**0.465**
Unified Communications	0.350											**0.350**
	2.465	**1.130**	**0.330**	**0.490**	**0.450**	**0.350**	**0.350**	**0.350**	**0.350**	**0.350**	**0.350**	**6.965**
Childrens' Services												
Redevelopment Golwg y Bannau/Camlas	0.069											**0.069**
Ynyswen Childrens Residential	0.018											**0.018**
Priory C In W Primary School		0.800										**0.800**
Open Door Former Oldford Primary School		0.292										**0.292**
Play Opportunities Play Pack	0.020											**0.020**
Play Opportunities Partners	0.100											**0.100**
	0.207	**1.092**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**1.300**

	2020-21 £'m	2021-22 £'m	2022-23 £'m	2023-24 £'m	2024-25 £'m	2025-26 £'m	2026-27 £'m	2027-28 £'m	2028-29 £'m	2029-30 £'m	2030-31 £'m	Total £'m
Adult Services, Commissioning												
Care Homes	0.590		0.100	0.110								**0.800**
Arlais/Lant Avenue	0.159											**0.159**
Dom Care System	0.014											**0.014**
SMAF IT Hardware Equipment	0.027											**0.027**
Telecare	0.071											**0.071**
Mobile Working and Transformation	0.100											**0.100**
Powys Smart Technology	0.045											**0.045**
Innovative Use of Robotics	0.200	0.200										**0.400**
Community Equipment	0.106	0.100										**0.206**
Castell Y Dail, Newtown	0.098											**0.098**
	1.412	**0.300**	**0.100**	**0.110**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**1.921**
Finance												
Small Capital Bids		0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	0.500	**5.000**
Mid Wales Growth Deal (TBC)			2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	**18.000**
Pipeline Projects	3.426	6.340	2.658									**12.424**
Unallocated	0.183										4.669	**4.669**
Transformation	2.838	3.600										**6.438**
	6.448	**10.440**	**5.158**	**2.500**	**2.500**	**2.500**	**2.500**	**2.500**	**2.500**	**2.500**	**7.169**	**46.715**
Total	**66.691**	**73.626**	**87.460**	**45.882**	**18.915**	**16.923**	**15.964**	**21.062**	**18.367**	**15.827**	**14.496**	**395.212**
Financed by												
Supported Borrowing	9.366	6.992	4.586	4.586	4.586	4.586	4.586	4.586	4.586	4.586	4.586	57.633
Prudential Borrowing	23.546	32.489	32.527	18.423	3.931	3.431	3.531	6.331	6.331	3.331	2.000	135.871
Welsh Government Grant	17.386	22.574	44.245	16.421								100.626
General Capital Grant	4.605	4.598	4.598	4.598	4.598	4.598	4.598	4.598	4.598	4.598	4.598	50.585
Other Grants	1.452	0.022										1.474
Capital Receipts	3.795	3.848	0.248	0.248	0.248	0.248	0.248	0.248	0.248	0.248	0.248	9.875
Revenue/Reserves	6.542	3.103	1.256	1.605	5.552	4.060	3.001	5.299	2.604	3.064	3.064	39.149
	66.691	**73.626**	**87.460**	**45.882**	**18.915**	**16.923**	**15.964**	**21.062**	**18.367**	**15.827**	**14.496**	395.212

	2020-21 £'m	2021-22 £'m	2022-23 £'m	2023-24 £'m	2024-25 £'m	2025-26 £'m	2026-27 £'m	2027-28 £'m	2028-29 £'m	2029-30 £'m	2030-31 £'m	Total £'m
Housing Revenue Account												
Welsh Housing Quality Standard	9.925	9.223	8.352	5.690	4.260	4.150	4.895	5.300	9.350	9.785	9.985	**80.914**
Fit For Life	2.237	2.450	2.250	1.850	1.450	0.250	0.250	0.250	0.250	0.250	0.250	**11.737**
Love Where You Live	0.830	1.105	1.244	1.044	0.744	0.344	0.280	0.280	0.280	0.080	0.080	**6.311**
Green Powys	0.310	0.325	0.350	0.350	0.500	0.475	0.400	0.400	0.400	0.150	0.150	**3.810**
Compliance One Hundred	0.390	0.700	0.450	0.550	0.650	0.750	0.350	0.350	0.350			**4.540**
Estate Improvements	0.020	0.020	0.036	0.036	0.036	0.036	0.020	0.020	0.020	0.020	0.020	**0.284**
Community Alarms		0.600										**0.600**
New Builds / Repurchase	15.279	13.480	17.122	22.112	20.548	15.068	14.161	14.086	12.761	5.365	1.600	**151.581**
	28.991	**27.903**	**29.804**	**31.632**	**28.188**	**21.073**	**20.356**	**20.686**	**23.411**	**15.650**	**12.085**	**259.778**
Financed by												
Prudential Borrowing	13.134	13.169	13.458	13.363	10.466	5.269	4.869	5.225	8.414	3.242	3.286	**93.896**
Welsh Government Grant	9.026	7.903	9.514	11.438	10.891	8.973	8.655	8.629	8.165	5.577	4.259	**93.030**
Revenue/Reserves	6.831	6.831	6.831	6.831	6.831	6.831	6.831	6.831	6.831	6.831	4.540	**72.852**
	28.991	**27.903**	**29.804**	**31.632**	**28.188**	**21.073**	**20.356**	**20.686**	**23.411**	**15.650**	**12.085**	**259.778**

Appendix B - Capital Receipt Policy

Introduction

This policy is introduced to provide guidance to Senior Managers on the rules governing the application of Capital Receipts in Powys County Council. This guidance has been drafted in line with the two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These publications are:

- The Prudential Code for Capital Finance in Local Authorities
- The Code of Practice on Local Authority Accounting

The two publications referred to above contain guidance on capital receipts and local authority accounting that complements guidance issued by the Welsh Government.

In England and Wales, capital receipts are defined by Section 9(1) of the Local Government Act 2003 to include all instances where property, plant or equipment is disposed of for cash (subject to a £10,000 de minimis). All references to Capital Receipts in this policy therefore refers to this definition.

Application

This guidance should be read alongside the relevant direction issued by Welsh Ministers.

This guidance applies with effect from 1 April 2018 and for each subsequent financial year to which the use of capital receipts applies.

The direction makes it clear that local authorities cannot borrow to finance the revenue costs of service reform. Local authorities can only use capital receipts from the disposal of property plant and equipment assets received in the years in which this flexibility is offered. Officers must therefore not use stock of capital receipts to finance the revenue costs of qualifying projects.

Costs of Disposal

The statutory arrangements for capital receipts in England and Wales permit costs of disposals to be financed from the receipts generated, although there is a cap of 4% of the Capital Receipt for costs incurred in relation to non-housing disposals.

Qualifying Expenditure

The accounting process for disposals is complicated by the fact that proceeds from the sale of property, plant and equipment are generally subject to statutory restrictions over their use. Income that meets the definition of capital receipts is reserved for new capital investment or for the reduction of an authority's indebtedness. This definition has however been extended by a Capitalisation directive (April 2018) on the Flexible Use of Capital Receipt by the Welsh Cabinet

Secretary for Local Government and Public Services, in the exercise of his powers under section 16(2)(b) and 20 of the Local Government Act 2003), that the local authorities in Wales treat as capital expenditure, any expenditure which:

a) Is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of services and/or transform service delivery in a way that reduces cost or demand for services in future years for any of the public sector delivery partners; and

b) Is properly incurred by the authorities for the financial years that begin on 1st April 2016, 1st April 2017, 1st April 2018, 1st April 2019, 1st April 2020 and 1st April 2021.

While this directive extends the scope of expenditure that qualify for the use of Capital Receipts, it also restricts the period during which the flexibility can be applied. Therefore, any decision to apply Capital Receipt, must meet the conditions of both the qualifying period and the qualifying expenditure.

The qualifying period during which flexibility can be applied is the financial years that begin from 1st April 2016 and end on 31st March 2022. This means that any Capital Expenditure received prior to 1st April 2016 or received after 31st March 2022 cannot be applied under the exemptions of the Capitalisation Directive. Capital Receipts received during the directive period can also not be applied with the same flexibility once the directive term has expired.

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for the Authority or any of the delivery partners. This includes investment which supports economic growth projects which are also designed to reduce revenue costs or pressures over the longer term. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

The set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

Examples of qualifying expenditure

There are a wide range of projects that could generate qualifying expenditure and the list below is neither prescriptive nor exhaustive. Examples of projects include:

- Preparatory work necessary to support local authority mergers as part of the programme to reform local government in Wales.
- Sharing back-office and administrative services with one or more other council or public sector body.
- Investment in service reform feasibility work, e.g., setting up pilot schemes.
- Collaboration between local authorities and central government to free up land for economic use
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation.
- Sharing Chief Executives, management teams or staffing structures.
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible.
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using the National Procurement Service, Crown Commercial Services or other central purchasing bodies which operate in accordance with the Wales Procurement Policy Statement.
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training.
- Setting up alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children’s social care, trading standards) to generate savings or to transform service delivery.
- Investment which supports economic growth projects which are also designed to reduce revenue costs or pressures over the longer term, across one or more local authorities and/or other public sector bodies.

Use of Capital Receipts

The current policy for the use of Capital Receipts is contained in the Corporate Asset Policy.

- Capital Receipts will normally be credited to the Central Fund and will be used to progress the
- Council’s principal objectives defined in the Corporate Improvement Plan. However, up to 4% of the capital receipt may be reclaimed by Property as permitted and approved costs of sale.
- Capital receipts from the sale of Farm or Agricultural land under the County Farm Estate and property vested in the HRA will be subject to the following apportionment:

This policy proposes the use of Capital Receipts to continue to be based on the following:

Type	Service Area	Corporate
Agricultural	0%	100%
HRA Dwellings and Land	100%	
Home finder Receipts	100%	
Vehicles	100%	

Appendix C – Economic Background - 11th January 2021

UK The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5th November 2020. However, it revised its economic forecasts to take account of a second national lockdown from 5th November 2020 to 2nd December 2020 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the 'inflation risks were judged to be balanced'.

Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

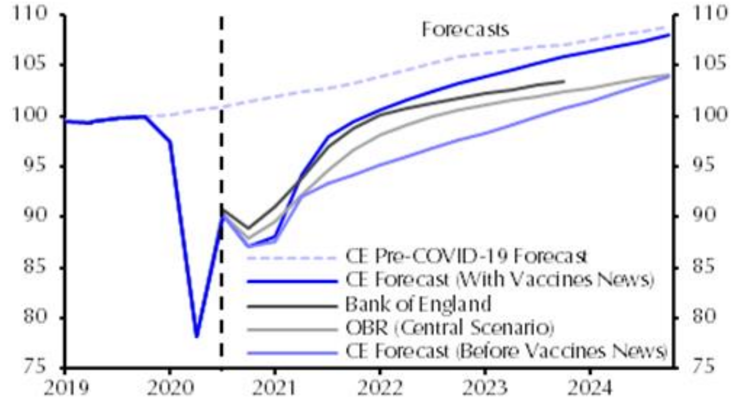
These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

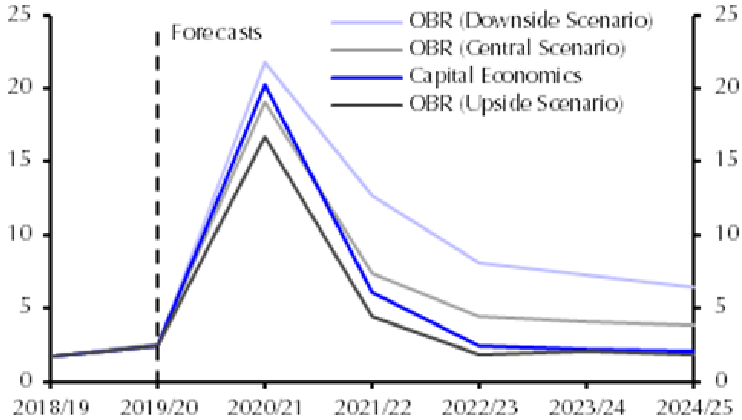
December 2020 / January 2021. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Chart: Level of real GDP (Q4 2019 = 100)



This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

Brexit. While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17 December. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

Fiscal policy. In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
- The furlough scheme was lengthened from the end of March to the end of April.

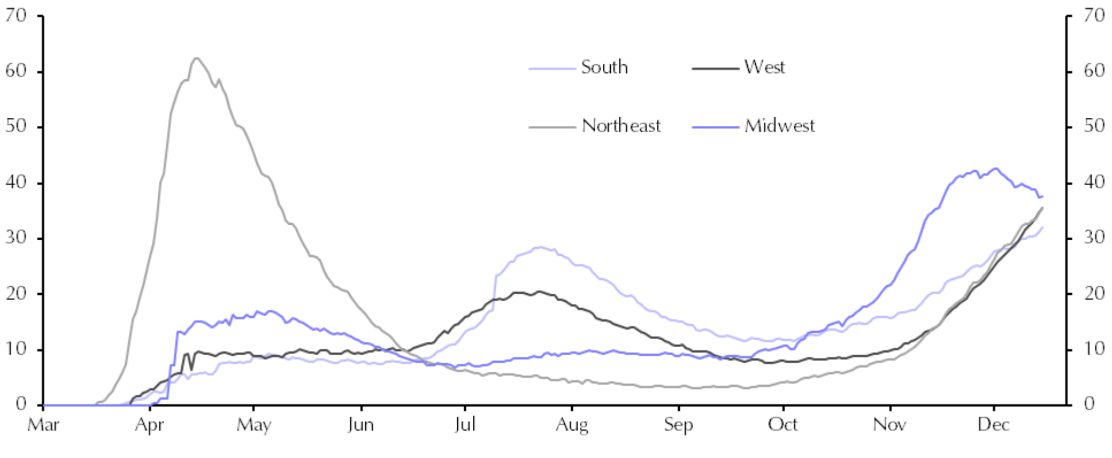
- The Budget on 3.3.21 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

EU. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

World growth. World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

Appendix D – Interest Rate Forecasts – 11th January 2021

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed, as this has now occurred, these forecasts do not need to be revised.

Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during

March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
11th February 2021

CABINET
16th February 2021

REPORT AUTHOR:	**COUNTY COUNCILLOR ALED DAVIES** **PORTFOLIO HOLDER FOR FINANCE**
REPORT TITLE:	**Treasury Management Quarter 3 Report**
REPORT FOR:	**Information**

1. Purpose

1.1 CIPFA's 2009 Treasury Management Bulletin suggested:
'In order to enshrine best practice, it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly.'

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 In line with the above, this report is providing information on the activities for the quarter ending 31st December 2020.

2. Treasury Management Strategy

2.1 The Treasury Management Strategy approved by Full Council on 28th February 2020 is at Appendix A.

2.2 The Authority's investment priorities within the Strategy are: -

(a) the security of capital and
(b) the liquidity of its investments.

2.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

3. Current Investments

3.1 It is now impossible to earn the level of interest commonly seen in previous decades as all short-term money market investment rates are barely above zero now that the Bank Rate is at 0.10%. Some entities are offering negative rates of return in some shorter time periods. Given this environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2024, investment returns are expected to remain low.

3.2 When looking at temporary investing, the Treasury team consider the bank fee to send the money, because of this some investments are not cost effective to lend money for very short periods of time where interest rates are circa 0.02% - 0.03%. However, the Authority does not have sufficient certainty around its cashflow to lend for longer periods where the return is higher. As such, not all available cash is earning interest.

3.3 As a result of the above the Authority had no investments on 31st December 2020.

4. Credit Rating Changes

4.1 There have been no credit rating changes relevant to this Authority's position during the last quarter.

4.2 The credit rating list for end of December is attached as a separate file to this report.

5. Borrowing / Re-scheduling

5.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

5.2 On the 25th of November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates. Both the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. There are currently no schemes for yield in the Capital Programme.

5.3 With the significant amounts of borrowing in the future Capital Programme, the inability to access PWLB borrowing will need to be a major consideration for any future purchases of assets for yield. The additional income these assets generate must be sufficient to cover the increased borrowing costs, as borrowing sources other than the PWLB are likely to be more expensive.

5.4 **The Authority's Capital Position**

5.5 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.6 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury manager organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

5.7 Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

5.8 **Original CFR Position (per original approved budget)**

£'m	As at 31st March 2020 Actual	2020/21 Original Estimate	2021/22 Original Estimate	2022/23 Original Estimate
Capital Financing Requirement	378.46	447.47	497.19	517.29

5.9 **Updated CFR position as at 31st December 2020**

£'m	As at 31st March 2020 Actual	2020/21 Current Estimate	2021/22 Current Estimate	2022/23 Current Estimate
Capital Financing Requirement	378.46	422.77	468.58	509.45

5.10 The Authority had outstanding long-term external debt of £328.2m at 31st March 2020. In relation to the CFR figure for 31st March 2020, this equated to the Authority being under borrowed by £50.3m. Using cash reserves as opposed to borrowing has been a prudent and cost-effective approach over the last few years. However, members will be aware that internal borrowing is only a temporary situation and officers have advised that, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years.

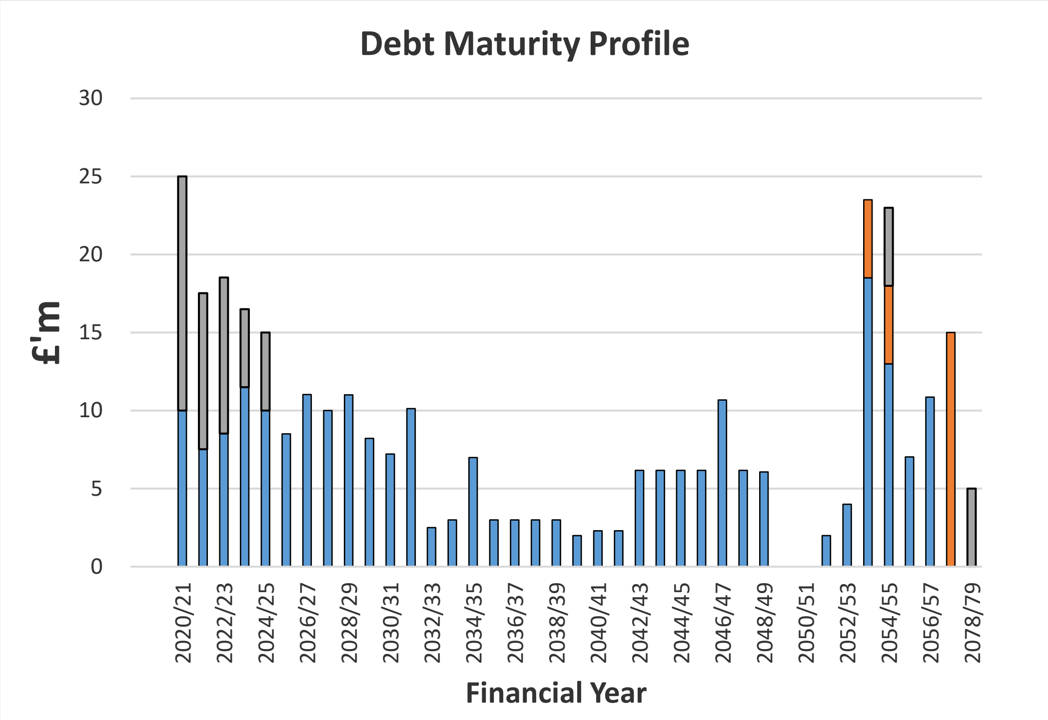
5.11 **Capital Budget/Spend**

£'m	Original Approved Budget	Revised Working Budget	Actual Capital Spend	% of Working Budget
	132.87			
30th June 2020		123.68	7.91	6.4%
30th September 2020		115.05	21.62	18.8%
31st December 2020		95.85	39.52	41.2%

5.12 The financing of the original capital budget included £56.89 million of Prudential Borrowing, following reprofiling of numerous schemes into future years this has fallen to £36.70 million.

5.13 It remains a significant challenge to manage the Authority's cashflow and its need to borrow when the Capital working budget increases/decreases significantly during the financial year and, despite this, actual spend continues to be significantly below the working budget. This challenge is currently further magnified by the Covid 19 situation resulting in some Capital projects on hold.

5.14 **Debt Maturity Profile as at 31st December 2020**



Key
Blue = PWLB; Grey = Market Loans including other local authorities; Orange = LOBOs

5.15 **PWLB Loans Rescheduling**

5.16 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. Prudential Indicators

6.1 All TM Prudential Indicators were complied with in the quarter ending 31st December 2020.

7. Economic Background and Forecasts

7.1 The most recent forecast of interest rates by the Authority's advisor is as follows:

	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Mar 23	Mar 24
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB	0.78%	0.80%	0.80%	0.80%	0.80%	0.90%	0.90%	1.00%
10yr PWLB	1.08%	1.10%	1.10%	1.10%	1.10%	1.20%	1.30%	1.30%
25yr PWLB	1.64%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.80%
50yr PWLB	1.44%	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.60%

7.2 The economic background is attached at Appendix B.

8. VAT

8.1 The Technical Section of Finance act as the authority's VAT section. VAT can pose a risk to the authority hence this report includes VAT information.

8.2 The monthly VAT returns were submitted within the required deadlines during the quarter ending 31st December 2020.

8.3 **Key Performance Indicators**

The VAT KPI's for 2020/21 are attached at Appendix C.

Advice

N/A

Resource Implications

N/A

Legal implications

N/A

Comment from local member(s)

N/A

Integrated Impact Assessment

N/A

Recommendation

It is recommended that this report be accepted.

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Head of Service: Jane Thomas

Appendix A:

The Approved Treasury Management Strategy 2020/21 can be found here:

https://powysintranet.moderngov.co.uk/documents/s48653/Appendix%20F%20TM%20capital%20strategy%202020-21.pdf

Extracts relating to investments in Group/Institutions - Counterparty Criteria/Limits:

Specified Investments:

Institution	Maximum Investment per Group/Institution £'m	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	30	Up to 364 days	As per Link's matrices
Foreign Banks	5	Up to 364 days	As per Link's matrices
Other Local Authorities	25	Up to 5 years	N/A

Non-Specified Investments:

Institution	Maximum Investment per Group/Institution £'m	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	10 (£5m limit with any one institution)	Up to 2 years	As per Link's matrices
Foreign Banks	2	Up to 2 years	As per Link's matrices
Money Market Funds (max. of 5)	10	N/A	All are AAA rated
Other Local Authorities	10	Up to 5 years	N/A
Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.			

Appendix B

Economic Background

During the quarter ended 31st December 2020

- The UK and EU signed a last-minute Brexit deal.
- Effective COVID-19 vaccines were announced and started to be rolled out.
- A second lockdown in November and a strict tiering system was imposed in December.
- The MPC announced an extra £150bn of Quantitative Easing (QE).
- The Chancellor announced a new fiscal package worth £55bn (2.4% of GDP) to support the economy.

The positive news on Brexit and vaccines boosted the pound and the FTSE 100.

UK. The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target". Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022.
- The Bank also expected there to be excess demand in the economy by Q4 2022.
- CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.

COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one-month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

December 2020 / January 2021. Since then, there has been rapid backtracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations, as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

Brexit. The final agreement on 24.12.20 has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17th December. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks but they were still sufficiently concerned that they voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for another six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

US. The Democrats won the presidential election in November, and now that they have won two Senate seats in Georgia in early January, they have effective control of both Congress and the Senate, although power is more limited in the latter. This is likely to enable the Democrats to provide more fiscal stimulus to the economy and so help the speed of economic recovery.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave - impacting widely across the US this time. This latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside. GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

The Fed's meeting on **16 December** tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low **– which will also have an influence on gilt yields in this country.**

EU. In early December, the figures for **Q3 GDP** confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during **Q4 and in Q1 of 2021**, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism.

With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore **unlikely to be a euro crisis** while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth.

Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That is huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

World growth. World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Appendix C

VAT - Key Performance Indicators

Creditor Invoices

VAT return for	No of high value Creditor invoices checked	No of Creditor invoices highlighted as requiring "proper" document for VAT recovery	% of creditor invoices checked requiring "proper" document for VAT recovery
Apr-20	171	3	1.75%
May-20	132	0	0.00%
Jun-20	172	1	0.58%
Jul-20	189	1	0.53%
Aug-20	161	1	0.62%
Sep-20	222	1	0.45%
Oct-20	216	2	0.93%
Nov-20	201	1	0.50%
Dec-20	221	1	0.45%
Jan-21			
Feb-21			
Mar-21			

Income Management Entries

VAT return for	No of entries checked by formula per the ledger account code used	No of entries needing follow up check (but not necessarily incorrect).	% of entries needing follow up check
Apr-20	648	1	0.15%
May-20	555	6	1.08%
Jun-20	711	21	2.95%
Jul-20	709	4	0.56%
Aug-20	705	3	0.43%
Sep-20	902	5	0.55%
Oct-20	909	0	0.00%
Nov-20	803	1	0.12%
Dec-20	697	0	0.00%
Jan-21			
Feb-21			
Mar-21			

Debtor Invoices

VAT return for	No of Debtor invoices checked	No of checked debtor invoices with incorrect VAT code used	% of debtor invoices with incorrect VAT code
Apr-20	49	6	12.24%
May-20	41	0	0.00%
Jun-20	70	0	0.00%
Jul-20	79	10	12.66%
Aug-20	84	1	1.19%
Sep-20	77	0	0.00%
Oct-20	71	0	0.00%
Nov-20	70	1	1.43%
Dec-20	72	0	0.00%
Jan-21			
Feb-21			
Mar-21			

Note: Debtors VAT checking is carried out by Finance via a work process prior to the invoice being raised hence the improvement in errors compared to previous years

Purchase Cards

VAT return for	No of transactions for which paperwork requested for checking	Resolvable errors discovered	Value of VAT potentially claimable but recharged to budget due to non- response	No of transactions where VAT claimed incorrectly	% of transactions available to be checked where VAT was claimed incorrectly	Value of VAT incorrectly claimed hence recharged to budget
Apr-20	128	9	£2,314.57	7	5.47%	£418.08
May-20	89	0	£0.00	5	5.62%	£268.05
Jun-20	99	2	£812.00	4	4.04%	£357.51
Jul-20	142	3	£321.90	8	5.63%	£542.96
Aug-20	66	3	£706.86	4	6.06%	£48.63
Sep-20	216[1]	6	£1,287.12	34	15.74%	£1,074.67
Oct-20	171	13	£1,050.57	17	9.94%	£314.34
Nov-20	207	3	£641.47	18	8.70%	£1,048.13
Dec-20	174	8	£979.34	16	9.20%	£356.33
Jan-21						
Feb-21						
Mar-21						

[1] Please note that the amount previously listed (2,016) was due to a typo in the KPI spreadsheet. As such the other stats for this period have been updated to reflect the corrected figures.

Chargebacks to service areas

The upload of appropriate documents to the Barclaycard purchase card system to enable vat recovery was made mandatory in September 2017 as a result of the lack of response from service areas/establishments to provide documents when requested. Where no document has been uploaded, any VAT amount input against the transaction is charged to the service area as there is no evidence to support the vat recovery.

Any other VAT errors that come to light as a result of the various checks are also charged to the relevant service areas.

Budget holders are able to see this clearly as chargebacks are coded to account code EX400600 and the activity code used alongside this gives the reason why this chargeback has occurred.

The total amount charged back to service areas in 2020/21 to end of December is £30,705.89. The breakdown of this is as follows:

Potentially correctable errors

Reason	Amount £
Not a tax invoice	9,186.87
Powys County Council is not the named customer	68.53
No invoice uploaded to purchase card system	16,145.53
Invoice(s) do not match payment	883.34
No evidence to back recovery	133.33
Total	**26,417.60**

Other errors

Reason	Amount £
Non-domestic VAT	145.85
No tax on invoice	1,343.18
Supply not to Powys County Council	916.47
Over-accounting for VAT	1,879.13
Internal payments	3.66
Total	**4,288.29**

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CYNGOR SIR *POWYS* COUNTY COUNCIL

AUDIT COMMITTEE
11th February 2021

REPORT AUTHOR: **Jane Thomas, Head of Financial Services**

SUBJECT: **Closure of Accounts**

REPORT FOR: **Information**

1.1 Committee will be aware that the Statement of Accounts and the Pension Fund accounts for 2019-20 were issued an unqualified audit opinion by the Auditor General and approved by the Audit Committee on the 29th September 2020 and 19th November 2020 respectively.

1.2 The closure of accounts process and completion of the Statement of Accounts for 2019/20 was again delivered under a project management approach. The approach has been adopted for 6 years and has led to improvements both to the quality of the draft financial statements and the information available to support them.

1.3 The project management approach will continue for the 2020-21 closure of accounts.

1.4 The statutory deadline for the completion of the unaudited accounts is 31st May and the date for publishing 31st July. Discussions continue with Audit Wales, Welsh Government and Finance leads across Wales around these timelines given the continued pressures placed on resources due to the COVID 19 pandemic across both Health and Local Government. If the statutory deadlines cannot be met there is already some provision in place.

The Council must

a) publish immediately a statement setting out the reasons for the officer's non-compliance; and
b) agree to a course of action to ensure compliance as soon as possible.

As per the Accounts and Audit (Wales) Regulations 2014.

1.5 CIPFA held its closing workshop on 26th January 2021. The content included results of the Redmond Review, code changes for 2020/21, accounting for COVID 19 and the leasing standard IFRS 16 which will come into place from April 2022. The Pension Fund equivalent will be held on 15th February.

1.6 Regular meetings with Audit Wales are in progress. Early testing to transactions to period 10 are being planned and a review of systems and processes is currently being undertaken.

Recommendation:	**Reason for Recommendation:**
The Committee notes the contents of this report.	**To ensure that the Council successfully completes the preparation and approval of the Annual Statement of Accounts for 2020/21 in order to receive an unqualified audit opinion.**

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