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For all enquiries relating to this agenda please contact Charlotte Evans  
(Tel: 01443 864210 Email: EVANSCA1@caerphilly.gov.uk)

**Date: 10th October 2017**

Dear Sir/Madam,

A meeting of the **Audit Committee** will be held **Sirhowy Room, Penallta House, Tredomen, Ystrad Mynach** on **Tuesday, 17th October, 2017** at **2.00 pm** to consider the matters contained in the following agenda. You are welcome to use Welsh at the meeting, a minimum notice period of 3 working days is required should you wish to do so. A simultaneous translation will be provided if requested.

Yours faithfully,

A handwritten signature in blue ink that reads 'Chris Burns'.

**Chris Burns**  
INTERIM CHIEF EXECUTIVE

## AGENDA

Pages

- 1 To receive apologies for absence.
- 2 Declarations of Interest.

Councillors and Officers are reminded of their personal responsibility to declare any personal and/or prejudicial interest(s) in respect of any item of business on this agenda in accordance with the Local Government Act 2000, the Council's Constitution and the Code of Conduct for both Councillors and Officers.

To approve and sign the following minutes: -

- 3 Audit Committee held on 14th June 2017.

**A greener place Man gwyrddach**



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4	Special Audit Committee held on 25th July 2017.	5 - 10
To receive and consider the following reports: -		
5	Corporate Revised Risk Strategy and Guidance.	11 - 46
6	Corporate Risk Monitoring.	47 - 54
7	2016/17 Statement of Accounts - Uncorrected Misstatements of £629K.	55 - 60
8	Internal Audit Services - Annual Outturn Report 2016-17.	61 - 76
9	Audit Committee Forward Work Programme.	77 - 80
To receive and note the following information items:-		
10	Regulation of Investigatory Powers Act 2000.	81 - 82
11	Officers Declarations of Gifts and Hospitality April to June 2017.	83 - 88
12	WAO Good Governance When Determining Significant Service Changes - Caerphilly County Borough Council.	89 - 106
13	WAO Report - Savings Planning (Caerphilly County Borough Council).	107 - 128
14	Corporate Governance Panel Minutes - 28th April 2017.	129 - 130

*\*If a member of the Audit Committee wishes for any of the above information reports to be brought forward for discussion at the meeting please contact Charlotte Evans, 01443 864210, by 10.00 a.m. on Monday 16th October 2017.*

**Circulation:**

Councillors Mrs E.M. Aldworth, J. Bevan, D.T. Davies, C. Elsbury, A. Gair, Ms J. Gale, B. Miles, Mrs T. Parry, Mrs M.E. Sargent (Chair), G. Simmonds, J. Simmonds and A. Whitcombe

Lay Member – Mr N.D. Yates (Vice Chair)

Auditors – Ms S.J. Byrne (Wales Audit Office), Ms N. Jenkins (Wales Audit Office), Ms L. Brown (Grant Thornton UK LLP) and Mr B. Morris (Grant Thornton UK LLP)

And Appropriate Officers.

# Agenda Item 3



## AUDIT COMMITTEE

### MINUTES OF THE MEETING HELD AT PENALLTA HOUSE, TREDOMEN, YSTRAD MYNACH ON WEDNESDAY 14TH JUNE 2017 AT 10.00 AM

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#### PRESENT:

Councillor M.E. Sargent – Chair  
Mr N. Yates – Vice Chair

#### Councillors:

Mrs E.M. Aldworth, J. Bevan, D.T. Davies, Ms A. Gair, Mrs B. Miles, G. Simmonds and J. Simmonds.

#### Together with:

B. Morris (Grant Thornton).

S. Harris (Interim Head of Corporate Finance), R. Harris (Internal Audit Manager), R. Roberts (Performance Manager) and C. Evans (Committee Services Officer).

#### 1. TO APPOINT THE CHAIR AND VICE-CHAIR FOR THE ENSUING YEAR

It was moved and seconded that Councillor M.E. Sargent be appointed as Chair of the Audit Committee for the ensuing year and by a show of hands this was unanimously agreed.

RESOLVED that Councillor M.E. Sargent be appointed Chair of the Audit Committee for the ensuing year.

It was moved and seconded that Mr N. Yates be appointed as Vice Chair of the Audit Committee for the ensuing year and by a show of hands this was unanimously agreed.

RESOLVED that Mr N. Yates be appointed as Vice Chair of the Audit Committee for the ensuing year.

#### 2. APOLOGIES

Apologies for absence were received from C. Elsbury, Ms J. Gale, Mrs T. Parry, A. Whitcombe.

#### 3. DECLARATIONS OF INTEREST

There were no declarations of interest made at the beginning or during the course of the meeting.

#### **4. MINUTES – 8TH MARCH 2017**

RESOLVED that the minutes of the meeting of the Audit Committee held on 8th March 2017 (minute nos. 1 - 10) be approved as a correct record and signed by the Chair.

#### **REPORTS OF OFFICERS**

Consideration was given to the following reports.

#### **5. REGULATOR PROPOSALS FOR IMPROVEMENT PROGRESS UPDATE**

The report provided Audit Committee with an update on the progress made against the regulators proposals since the last Audit Committee update in December 2016.

Since December 2016 there have been 7 proposals addressed and 4 new proposals added onto the register.

The Committee noted that two new reports have been received which are being presented to Cabinet 5th July 2017, the proposals of which will then be reported to Audit Committee at the next available committee after that date.

As of December 2016 there were 11 proposals outstanding, as at May 2017 there are 15 proposals in total on the register with 4 new ones coming onto the register. The report recommended 7 be closed down as completed, leaving 8 outstanding.

The Committee noted that there were seven proposals from the original WAO Customer Services Review, now there is one outstanding. These proposals were delayed due to the decisions around the medium term financial plan and how this would affect what the Customer Service Strategy would deliver. At the last update in December members were concerned about the length of time to finalise the 4 outstanding proposals at that time and specific action has since been taken to speed up progress and finalise the work. The Strategy has been sent to all services to ensure it is included in service planning and new indicators have been designed to measure more important aspects of customer care. The final proposal on implementing surveys is taking place this summer and the Head of Customer Services is drafting a strategy for surveys. This will be in progress until the autumn when any surveys will be completed.

The Officer outlined that Asset Management originally had 7 proposals and now there are two left, one of which is recommended for closure, leaving 1 outstanding. The last two proposals are about developing individual service asset plans and implementing monitoring arrangements. Some services have individual service asset management plans (SAMPS) and some services are being reviewed, where the outcome of that review would determine how their SAMP is completed.

Members noted that future reports currently being completed from the 2016/17 WAO Audit programme to be reported on in 2017 are Welsh Housing Quality Standard, Asset Management and IT Managing Information.

Members thanked the Officer for the report and discussion ensued.

A Member sought further information on the appendix and proposals in relation to the review of arrangements and workforce requirements. Officers explained that this was in reference to the HR Strategy, which has now been implemented. In terms of workforce requirements, this is dependent on the MTFP pressures and would be considered on a case by case basis.

In considering the Senior Member Training Programme, a Member queried whether this would be offered again to the new Cabinet and other Members. It was agreed that Officers would find out and update the Committee.

Members discussed the Customer Services Review and expressed concern in relation to the reduction of Customer Services hours and particular concern was raised for those Customer Service Centres based within libraries, which are not open during lunch hours and the impact this has on the public. Officers highlighted that the review was conducted, and as a result of financial pressures and savings requirements, the hours were reduced. A customer satisfaction survey is due to be disseminated during the summer months.

Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officers report, Audit Committee note the contents of the report and agree that the proposals noted as 'recommended to be closed' within the appendix be closed.

## **6. DRAFT ANNUAL GOVERNANCE STATEMENT FOR 2016/17**

The Audit Committee was presented with the Draft Annual Governance Statement for 2016/17, which has been updated since 2015/16, particularly in respect of areas of improvement.

The Committee was provided with an overview of the process and attention was drawn to the review outcome which outlined both the satisfactory progress made in respect of the previous year's action and the two new actions identified during the 2016/17 review. Members were now provided with an opportunity to review and make any changes they felt were justifiable.

Mr Barrie Morris, Grant Thornton addressed the Committee and suggested that, whilst considering the Draft Annual Governance Statement for 2016/17, Members may wish to consider the discussion in respect of the previous agenda item and whether any reference needs to be made within the statement regarding the timeliness in progressing the agreed actions.

Having further considered points raised in the discussions on the previous agenda item in light of the External Auditors comments, a Member requested that the progress in completing the recommended improvements arising from the Leisure Review be included within the Annual Governance Statement to ensure it is brought to a timely conclusion. Officers agreed to revisit the draft document and include suitable reference to the timely completion of the actions required in respect of the Leisure Review.

Following consideration and discussion, the Audit Committee thanked the Officer for the report and noted its contents.

## **7. AUDIT COMMITTEE FORWARD WORK PROGRAMME**

The Forward Work Programme up to September 2017 was presented for Member consideration. It was noted that the document is a working document and is regularly updated when additional reports are identified.

Having fully considered its detail the Audit Committee noted the Forward Work Programme and requested additional training in Audit specific topics. Grant Thornton offered to provide training on the role of external auditors.

## 8. INFORMATION ITEMS

The Committee received and noted the following information items:-

- (1) Update on the Numbers of Complaints Received Under the Council's Corporate Complaints Policy 1st April 2016 to 31st March 2017;
- (2) Annual Review of Complaints Received Under the Council's Corporate Complaints Policy 1st April 2016 to 31st March 2017;
- (3) Assurance Framework;
- (4) Certificate of Caerphilly County Borough Council's 2017-2018 Improvement Plan;
- (5) Regulation of Investigatory Powers Act 2000;
- (6) Officers Declarations of Gifts and Hospitality January to March 2017;
- (7) Register of Employees' Interests Forms 2016/17;
- (8) Corporate Governance Panel held on 13th January 2017;
- (9) Corporate Governance Panel held 10th March 2017.

Prior to the close of the meeting, a Member requested that the meeting time for future meetings be changed to 2pm. Following discussion and agreement it was recommended that further consultation be conducted with Officers and the Committee.

The meeting closed at 10.40pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 12th September 2017, they were signed by the Chair.

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CHAIR



## **SPECIAL AUDIT COMMITTEE**

**MINUTES OF THE SPECIAL MEETING HELD AT PENALLTA HOUSE, TREDOMEN,  
YSTRAD MYNACH ON TUESDAY 25TH JULY 2017 AT 10.00 AM**

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PRESENT:

Councillor M.E. Sargent – Chair  
Mr N. Yates – Vice Chair

Councillors:

Mrs E.M. Aldworth, D.T. Davies, C. Elsbury, Ms. J. Gale, Mrs T. Parry, G. Simmonds and J. Simmonds.

Together with:

B. Morris (Grant Thornton) and G. Hawkins (Grant Thornton)

N. Scammell (Acting Director of Corporate Services and S151), S. Harris (Interim Head of Corporate Finance), R. Harris (Internal Audit Manager), A. Southcombe (Finance Manager - Corporate Finance) and C. Evans (Committee Services Officer).

### **1. APOLOGIES**

Apologies for absence were received from J. Bevan, A. Gair, B. Miles and A. Whitcombe.

### **2. DECLARATIONS OF INTEREST**

There were no declarations of interest made at the beginning or during the course of the meeting.

### **REPORTS OF OFFICERS**

Consideration was given to the following reports.

### **3. LOCAL GOVERNMENT FINANCIAL STATEMENTS AND THE ROLE OF THE EXTERNAL AUDITOR – PRESENTATION BY GRANT THORNTON**

B. Morris and G. Hawkins from Grant Thornton provided the Audit Committee with a presentation on Assurance and the role of External Audit.

Members were made aware that Grant Thornton were appointed by the Wales Audit Office (WAO) and have been undertaking external audits in Local Government since 2007. Since 2015, Grant Thornton have been undertaking Financial Statement Audits at Caerphilly CBC.

The role of the External Auditors is to provide an opinion on the Council's Financial Statements, undertake certification of grant claims and returns, provide a view on the Whole of Government Accounts submission, provide an opinion as to whether the accounts give a true and fair view of the financial position of the Council at the year end and of its expenditure and income for the year; and have been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting.

Other duties of the External Auditor include correspondence with the public and managing objections – there are rights to inspect local authority records, to ask questions of the auditor and to object to items in the accounts.

Members were asked to note that the External Auditors are required to be, and be seen to be independent from the Council. External Audit are not able to prepare accounting records and financial statements, advise on or model PFI Contracts or Tax Services. Any "non-audit" services provided must comply with ethical standards and be agreed by the Wales Audit Office.

The Committee noted that External Audit would bring a number of reports to the Audit Committee for consideration and approval; these include the Audit Plan, the Audit Findings Report (ISA260), Audit Opinion on Accounts, Annual Audit Letter (summarising results of audit work against the plan) and the Certification report.

Grant Thornton provided details of how the Financial Statements Audit is conducted and it was noted that "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements." Based on this, the External Auditor determines what is 'trivial', from a financial statements perspective. It was noted that for Caerphilly CBC, materiality is determined as £5.5m as the WAO has mandated that the maximum materiality is 1% of gross expenditure. In addition, it was noted that £100,000 is determined as 'trivial' from a Financial Statements perspective.

Members noted that, during an audit, the main focus is to assess where the risks are in any set of Financial Statements, items that are large or vulnerable to misstatement due to their complexity, items that involve a high degree of estimation or judgement, items where there is a potential for manipulation or fraud, items that are large or vulnerable to misstatement due to their complexity e.g. employee remuneration or PFI, items that involve a high degree of estimation or judgement e.g. PPE valuations, items where there is a potential for manipulation e.g. cut-off testing.

Finally, Members noted that Caerphilly CBC and Grant Thornton have been working towards a faster close of accounts this year and have brought forward the production and audit of the Financial Statements, as a result Council approval has been moved forward by 2 months and the Provided Audit Opinion should be received in early August, over a month earlier.

The Committee thanked Grant Thornton for the presentation and discussion ensued.

A Member queried the "trivial" amount of £100,000 and expressed concern that this amount was deemed to be trivial. It was noted that all errors identified during the auditing process are discussed with Officers but errors under £100,000 are not flagged with the Audit Committee. Larger discrepancies are brought to Committee for consideration in the ISA260 Report.



In noting the faster close dates, a Member sought further information on how well the process went. The Auditors and Officers explained that the process went very well, there were some teething problems, which have been resolved and Officers were keen to complete the process earlier. In addition, it was noted that Caerphilly CBC are one of the first Councils in Wales to complete early.

The Audit Committee thanked the External Auditors for the report and expressed their gratitude for the hard work of both the finance staff and External Auditors for the early completion of the financial accounts.

#### **4. AUDIT ASSURANCE OVER MANAGEMENT PROCESSES AND ARRANGEMENTS**

The report provided the Audit Committee with the Chair's responses to the External Auditor, Grant Thornton, on how the Committee gains assurance over management processes and arrangements.

It was noted that as part of their audit planning and to comply with International Accounting Standards the External Auditor needs to gain an understanding of how the Audit Committee gains assurance over management processes and arrangements.

A list of questions was sent to the Chair of the Audit Committee, the response to which was appended to the report.

Following consideration and discussion, the Audit Committee thanked the Officer for the report and noted its contents.

#### **5. FINANCIAL STATEMENTS FOR 2016/17**

The report provided Audit Committee with the External Auditor's Audit of Financial Statements Report (ISA260 Report) and sought a recommendation from the Audit Committee that Council approve the 2016/17 Financial Accounts at the Special Council meeting on 31st July 2017.

The 2016/17 Draft Financial Statements were prepared and submitted to the External Auditor, Grant Thornton, on the 19th June 2017 in accordance with the agreed timetable.

The Draft Financial Statements have been subject to External Audit review and this work is substantially complete with only final testing in a small number of areas currently outstanding. Members noted that, other than as outlined within the report, no further significant issues were identified during the Audit, as a result, it is anticipated that the final version of the accounts be approved at a Special Meeting of Council on 31st July 2017.

The ISA260 Report provided details of misstatements identified during the audit process which have subsequently been corrected by management. It was stressed by Officers that none of these agreed adjustments have an impact on cash or General Fund balances.

The ISA260 Report also included details of one uncorrected misstatement. Members noted that, whilst conducting work on the cash balances within the accounts, the Auditors identified an issue that arose when the Council transferred its banking activities from the Co-Operative Bank to Barclays Bank via the transfer of some cash and investment balances with the Royal Bank of Scotland in 2013-14. At the conclusion of the transfer, a net difference of £629,000 was identified that has been held as a reconciling item within the bank reconciliation. Members noted that, in the opinion of the Auditors, this does not represent a cash balance and further investigation should be conducted into this issue to correctly account for the transactions and remove this as an ongoing reconciling item. It has been agreed with the Auditors that the necessary accounting adjustments will be identified and actioned during the 2017/18 financial year.

Members were pleased to note that, other than this issue, the audit work to date has not identified any other misstatements within the Financial Statements, which remain uncorrected and there were no significant matters discussed and corresponded upon with management which need to be reported to Audit Committee.

Members thanked the Auditors and Officers for the detailed report and discussion ensued.

Queries were raised in terms of some discrepancies in terms of payment of exit packages and the number of amendments to the Financial Statements. Members were assured that the number of amendments identified was fairly typical and some of the minor discrepancies were simply where figures were entered into an incorrect field in the accounts.

Members discussed the £629,000 as identified in the cash accounts and sought further information from Officers as to when this will be resolved. Officers explained that this is being looked into and that a report will be prepared for the next Audit Committee providing details of the accounting entries that will be required to rectify this matter.

Following consideration and discussion it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed:

RESOLVED that for the reasons outlined in the Officers report:

- (i) the External Auditor's Audit of Financial Statements Report be received;
- (ii) the management responses to the Auditors recommendations arising from the 2016/17 financial audit work be noted;
- (iii) it be recommended to Council that the 2016/17 Financial Accounts be approved subject to any changes that may be required as a result of ongoing audit work.

## **6. UPDATED ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY AND UPDATED ANTI-MONEY LAUNDERING POLICY**

The report sought the approval of the Audit Committee for the updated Anti-Fraud, Bribery and Corruption Policy and the Anti-Money Laundering Policy, prior to consideration by Cabinet.

The Authority has strived to maintain a high level of probity and integrity when carrying on its business and with corporate governance continuing to become a key business driver the need to maintain, review and update key priorities is as ever an important part of the governance toolkit.

Both the Anti-Fraud, Bribery and Corruption Policy and the Anti-Money Laundering Policy are key elements within a suite of policies that focus on the prevention of fraud and wrong doing and set out the standards by which the organisation operates.

The existing policies were last reviewed in 2011 and have now been updated to account for operational changes and to reflect best practice and ongoing compliance with current legislative requirements.

It is unlikely that the Anti-Money Laundering Policy will be particularly relevant to our day to day activities but as a complimentary policy sitting alongside the Anti-Fraud, Bribery and Corruption Policy it will increase awareness and provide guidance to both Members and Officers should a potential situation arise with large sums of cash.

Both policies act as statements of the Council's attitude towards fraud and corruption and contain the following key elements: -

- They will apply to Members and Officers;
- They will apply to third parties who have dealings with the Authority;
- They will underpin the culture of the Authority;
- The role and responsibilities of Members and Officers in contributing to a culture of honesty and openness are laid out; and
- Training and awareness are key contributing factors.

A Member queried whether any referrals were made to the Gwent Police Anti-Fraud Unit. Officers confirmed that nothing has been received to warrant a referral.

Following consideration and discussion it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed:

RECOMMENDED that for the reasons outlined in the Officers report, the updated Anti-Fraud, Bribery and Corruption Policy and updated Anti-Money Laundering Policy be approved by Cabinet.

## **7. DATES AND TIMES FOR FUTURE MEETINGS**

At the previous meeting of the Audit Committee, held on Wednesday 14th June, the Committee requested a change in the day and times of future meetings. Following discussion, it was agreed that future meetings will be held at 2pm on Tuesday afternoons.

The meeting closed at 10.40pm.

Approved as a correct record and subject to any amendments or corrections agreed and recorded in the minutes of the meeting held on 17th October 2017, they were signed by the Chair.

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CHAIR

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## AUDIT COMMITTEE – 17TH OCTOBER 2017

**SUBJECT: CORPORATE REVISED RISK STRATEGY AND GUIDANCE**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151 OFFICER**

- 
- 1.1 The report, which was presented to Cabinet on 7th June 2017, provided an updated and revised Risk Management Strategy 2017 (and guidance) following changes in legislation and sought Cabinet approval, prior to consideration at Audit Committee on 17th October 2017.
  - 1.2 Members have a critical role to play in evaluating the council's risk management arrangements and in particular understanding how the council identifies, manages and, where possible mitigates or removes risk. Risk Management is crucial to the effective delivery of council services.
  - 1.3 It was noted that the Council's Risk Management Strategy was approved in 2013, since that time there have been several changes; one in particular was the introduction of the Well-being of Future Generations (Wales) Act 2015 which requires the Council to change the way it views risk in keeping with the principles of sustainability. As a result the Strategy has been updated for 2017 to reflect these changes.
  - 1.4 In considering the report, Cabinet noted that there was limited reference to cross cutting risks and the impacts laterally between services within the Authority and it was also noted that specific changes between versions could be highlighted for ease of reference. Officers thanked Members for the feedback and noted the suggestions for the future.
  - 1.5 Following consideration and discussion, it was moved and seconded that the recommendation in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officers report and having consideration for the revisions made to the Corporate Risk Strategy, the Strategy be endorsed prior to presentation to the Audit Committee.

- 1.6 Members are asked to consider the report and note the Corporate Revised Risk Strategy and Guidance.

Author: C. Evans, Committee Services Officer, Democratic Services  
Ext. 4210

Appendix:  
Report to Cabinet dated 7th June 2017

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## **CABINET – 7TH JUNE 2017**

**SUBJECT: CORPORATE REVISED RISK STRATEGY AND GUIDANCE**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES**

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### **1. PURPOSE OF REPORT**

- 1.1 To present an updated and revised Risk Management Strategy 2017 (and guidance) following changes in legislation.
- 1.2 The Council's Risk Management Strategy was approved by Cabinet in 2013. Since that time the Well-being of Future Generations (Wales) Act 2015 came into place in 2016 and requires Public bodies to view risk in a different way. The Strategy has been revised to reflect this and we are seeking the views and approval of Cabinet prior to its presentation to Audit Committee on the 13th September 2017.
- 1.3 Members have a critical role to play in evaluating the council's risk management arrangements and in particular understanding how the council identifies, manages and, where possible, mitigates or removes risk. Risk Management is crucial to the effective delivery of council services.

### **2. SUMMARY**

- 2.1 The Council Risk Management Strategy was approved in 2013, since that time there has been several changes; one in particular is the introduction of the Well-being of Future Generations (Wales) Act 2015 which requires the Council to change the way it views risk in keeping with the principles of sustainability. As a result the Strategy has been updated for 2017 and is attached as Appendix 1, with accompanying guidance as Appendix 2.

### **3. LINKS TO STRATEGY**

- 3.1 Management of risk is an important element in delivering council priorities and ensuring contribution to the well-being goals set out in the Well-being of Future Generations (Wales) Act 2015 (WBFGA):
  - A prosperous Wales
  - A resilient Wales
  - A healthier Wales
  - A more equal Wales
  - A Wales of cohesive communities
  - A Wales of vibrant culture & thriving Welsh language
  - A globally responsible Wales

#### 4. THE REPORT

- 4.1 At its meeting on the 17th September 2013 Audit Committee accepted the Council's new Risk Management Strategy and supporting Guidelines, which were subsequently approved by Cabinet on the 2nd October 2013.
- 4.2 The Strategy identified the role of Cabinet in the risk monitoring process as being:
- Approve the Risk Management Strategy.
  - Approve the "risk appetite" of the Council i.e. the definition of high (red) risk, medium (amber) risk and low (green) risk as recommended by the Corporate Management Team.
  - Approve the risk "appetite"
  - Hold the Corporate Management Team accountable for the effective management of risk.
  - Monitor the arrangements for managing the Council's Corporate/Whole Authority Risks, through six-monthly progress reports.
  - Consider the risks involved when making any decisions; (this has not changed since the 2013 strategy although the way this is considered may change due to the sustainable development principle and the 5 ways of working).
  - Receive and review the risk register and resultant action plans for the top corporate risks.
  - Make an appropriate allocation of resources to address identified risks and risk management framework.
  - Ensure that appropriate and effective communication reporting lines are in place in the context of risk management.
  - The Leader approves the Annual Governance Statement, and publishes it in the Annual Statement of Accounts.
- 4.3 The revised Strategy (2017) does not change the identified role of Cabinet in the risk monitoring process as noted above but rather focuses on the way we view and monitor risk.
- 4.4 During the three years since the Risk Management Strategy was approved not surprisingly there has been several changes including the introduction of several pieces of legislation. These include the Environment Act 2015, the Social Services & Well-being Act 2014 and latterly the Well-being of Future Generations (Wales) Act 2015 (WBGFA). The themes of these acts are about protection, taking a longer term view and a particular focus on prevention. Also emphasised is a partnership approach to joint problem solving, whether that is sharing resources or intelligence and recognising how we can help each other to meet mutual goals for the benefit of the citizen.
- 4.5 The WBFGA requires public bodies to apply five ways of working (as demonstration of working to sustainable development principles). One of the five ways is to take a long term (10-25 years) view and to understand the causes of certain issues in order to prevent them occurring. We also need to look at the strengths of an area as a way to maximise potential solutions and to consider the 7 well-being goals in framing our risks.
- 4.6 This changes the way we view risk. Indeed the WBFGA legislation states in its guidance that a public body will need to change the way it manages risk. Under section 3 of 'where change needs to happen' the Welsh Government Guidance states that:  
*"There will be long term risks that will affect both the delivery of your services but also the communities you are enabling to improve. Use the well-being goals and five ways of working to frame what risks you may be subject to in the short, medium and long term and together with the steps you will take to ensure they are well managed".*
- 4.7 This means the way we view and rate our risks will alter, for example education attainment may be a medium risk when viewed against year on year attainment. However if lack of attainment is viewed over the long term, it could be argued that having young people leave school without attainment could result in low skilled or low paid employment opportunities



which affects individual life chances and provides a barrier to reducing poverty within communities. Seen in this light, lack of education attainment could now be considered a high risk.

- 4.8 Looking to the long term does not mean short term risks go away or that operational risks for example are less important, rather it means we have to broaden our scope to think of risks to the public, risks to services for those with protected characteristics and recognising strengths of communities as part of solutions to mitigate risk. This needs to be recognised in any strategy, guidance, and training and more importantly in practise going forward.
- 4.9 The main changes to the strategy are the inclusion of the Well being of Future Generations (Wales) Act 2015 and what that means for managing risk, the new Assurance Framework and the change of risk reporting frequency to Cabinet.
- 4.10 One item in the original strategy suggested an additional 'Risk Management Group' as a means of monitoring risk. Following a review a report went to Audit Committee in September 2014 suggesting this group were removed, as it was considered the increased focus on risk identification and monitoring particularly at CMT/Cabinet/Audit Committee/Directorate meant the establishment of another group was unnecessary. Internal Audit carried out a review of the Councils compliance with the Risk Strategy in 2015 and concluded that whilst we adhere to the strategy there were some aspects that were out of date for example the monitoring section had not been updated to reflect the deletion of a 'Risk Management Group' in 2014. The updated strategy now reflects these changes.

## 5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 The Well-being of Future Generations (Wales) Act 2015 (WBFGA) identifies a core set of activities that are common to the corporate governance of public bodies where change needs to happen:
- Corporate Planning
  - Financial Planning
  - Workforce Planning
  - Procurement
  - Assets
  - **Risk Management**
  - Performance Management
- 5.2 The Corporate Risk Register incorporates the five ways of working (ICLIP) identified within the sustainable development principle in the WBFGA. These are:
- **Involving** a diversity of the population in the decisions that affect them;
  - Working with others in a **collaborative** way to find shared sustainable solutions;
  - Looking to the **long-term** so that we do not compromise the ability of future generations to meet their own needs;
  - Taking an **integrated** approach so that public bodies look at all the well-being goals in deciding on their well-being objectives;
  - Understanding the root causes of issues to **prevent** them from occurring.

## 6. EQUALITIES IMPLICATIONS

- 6.1 The Local Government Measure 2009 defines fairness and access as one of the criteria that constitutes 'improvement' within the Wales Programme for Improvement.
- 6.2 Promoting equalities is a fundamental requirement of the Future Generations legislation, with specific resonance for meeting the well-being goals of - *A More Equal Wales*, and *A Wales of Cohesive Communities*.

## **7. FINANCIAL IMPLICATIONS**

7.1 There are no financial implications associated with this report.

## **8. PERSONNEL IMPLICATIONS**

8.1 There are no personnel implications associated with this report.

## **9. CONSULTATIONS**

9.1 This report has been sent to the Consultees listed below and all comments received are reflected in this report.

## **10. RECOMMENDATIONS**

10.1 That Cabinet provides their views on the Corporate Risk Strategy and having done so endorse the updated strategy prior to presentation to the Audit Committee.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To be assured that the Council is managing its risks effectively and complies with the Council's Risk Management Strategy.

## **12. STATUTORY POWER**

12.1 Local Government Measure 2009, Wales Programme for Improvement 2010, Well-being of Future Generations (Wales) Act 2015.

Author: Ros Roberts: Corporate Performance Manager  
Consultees: Rob Hartshorn: Head of Public Protection  
Nicole Scammell: Acting Director of Corporate Services  
Kathryn Peters: Corporate Policy Manager  
Richard Harris: Internal Audit Manager  
Dave Street: Corporate Director of Social Services  
Christina HARRY: Corporate Director of Communities  
Chris Burns: Interim Chief Executive  
David Roberts: Principal Group Accountant, Social Services  
Anwen Rees: Senior Policy Officer, Equalities and Welsh Language  
Shaun Watkins: Principal Personnel Officer, Social Services  
Gail Williams: Interim Head of Legal Services & Monitoring Officer

Background Papers:  
Risk Management Policy & Guidelines

Appendices:  
Appendix 1 Risk Management Strategy (Revised) Feb 2017  
Appendix 2 Risk Management Guidance (Revised) April 2017

# CAERPHILLY COUNTY BOROUGH COUNCIL

## RISK MANAGEMENT STRATEGY

Reviewed and Updated 2017



Version	Who approved	Date approved
V1	Cabinet	17 <sup>th</sup> September 2013
V2	Audit	14 <sup>th</sup> September 2014
V3 (revision)	Cabinet	7 <sup>th</sup> June 2017
V3	Audit	13 <sup>th</sup> September 2017



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# **Risk Management Strategy 2017**

## **1.0 Introduction**

During the three years since the strategy was approved there have been a number of changes to the risk management process, including the introduction of several pieces of legislation. In particular one of the key changes is the Well-being of Future Generations (Wales) Act 2015 which gives a statutory duty for a public body to use the sustainable development principle (defined by 5 ways of working) in our decision making and wider work. These principles encourage us to change the way we view risk as they focus more on long term risks for the citizen with a focus on prevention by identification of root causes.

This strategy has been updated to be more in keeping with the Well-being of Future Generations (Wales) Act 2015 and other organisational changes such as the introduction of the Corporate Governance Assurance Framework.

## **1.1 Purpose of the Strategy**

The purpose of this Risk Management Strategy is to establish a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council and makes a real contribution to the achievement of the Council's vision and objectives.

The objectives of this strategy are:

- Define what risk management is about and what drives risk management in the Council.
- Set out the benefits of risk management and the strategic approach to risk management.
- Outline how the strategy will be implemented.
- Identify the relevant roles and responsibilities for risk management within the Council.

Risk management is not a new responsibility, but simply the formalisation of what is already part of normal good working practices. It is important to emphasise, that Risk Management should not be an 'add on'. It is not a separate activity that happens once a year along-side other management activities. Rather, it should form an integral part of the performance management approach of the Council.

There is a detailed Risk Management Guidance document that accompanies this Strategy and gives further detail on how the risk management process should be carried out.

## **1.2 Approval, Communication and Review of the Risk Management Strategy**

This Risk Management Strategy will be endorsed by the Executive and reviewed by the Audit Committee and, following approval, issued to:

- All Members of the Council.
- Corporate Management Team.

- Managers and all staff.
- Key Stakeholders such as local strategic partners.
- Other interested parties such as the Wales Audit Office.

It will be placed on the Council’s intranet and internet site so that all members of staff and the public can have access and easily refer to it.

The strategy will be reviewed internally periodically and following any key changes in Welsh Government policy or inspection regimes, and after any internal reorganisation or changes in policy.

### 1.3 What Is Risk Management?

**Risk** can be defined as;

The uncertainty of outcome, whether a positive opportunity or a negative threat, of actions or events.

Risk **Management** can be defined as;

“The management of integrated or holistic business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence it is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. The latter is achieved through controlling, transferring and living with risks”

*ZMMS/SOLACE. Chance or choice? Julv 2000*

Risk Management is about identifying and managing those obstacles and weaknesses that could have a negative impact on service delivery and corporate objectives. The holistic approach is vital to ensuring that all elements of the organisation are challenged, including decision making processes, working with partners, consultation processes, existing policies and procedures and, also, the effective use of assets – both staff and physical assets.

Once the obstacles have been identified, the next stage is to prioritise them to identify the key obstacles to the organisation moving forward. Once prioritised, it is essential that steps are taken to then effectively manage those key obstacles/risks. The result is that major obstacles or blockages that exist within the organisation can be mitigated to provide the Council with a greater chance of being able to achieve its objectives.

The risks facing the Council will change over time, some changing continually, so this is not a one-off process. Instead, the approach to risk management should be continual and the risks and the approach to managing them should be reviewed regularly.

It is important to note that risks can also have an upside; their impact can in some cases be positive as well as negative. Risk is also often said to be the flipside of opportunity, so the whole risk management process can also help the Council identify positive opportunities that will take it forward. Risk management needs to be seen as a strategic tool and will become an essential part of effective and efficient management and planning.

#### **1.4 Why Do We Want (and Need) Risk Management?**

The purpose of risk management is to identify problems before they occur so that they can be prevented or the opportunities capitalised on. In this regard risk management is part of normal day to day business planning practice and performance management processes and will strengthen the ability of the Council to achieve its objectives by identifying the barriers to achieving those objectives.

Additionally risk management is something that the Council is required to do as noted below:

- CIPFA's 'Delivering Good Governance in Local Government: Framework' is considered by Welsh Government to best represent proper practices in relation to the statement of internal controls which requires an annual governance statement to be produced. The 2016 Guidance for Welsh Authorities 4.3 (1.4) states '*The Welsh Government accepts that relevant bodies will prepare an annual governance statement on internal controls*' and this includes mechanisms to identify high level authority risks
- The Accounts and Audit (Wales) 2014 Regulations Part 3 which look at the responsibility for internal control and financial management state that a sound system of internal control should include (a) *arrangements for the management of risk*

Whilst the above regulations are in relation to financial risk the Annual Governance Statement will often identify other types of risk, whether environmental, demographic, political or operational and this completes our whole risk management structure and process across the Council.

##### **1.4.1 Benefits of Managing Risk**

Successful implementation of risk management produces benefits for the Council if it becomes a living tool. These include:

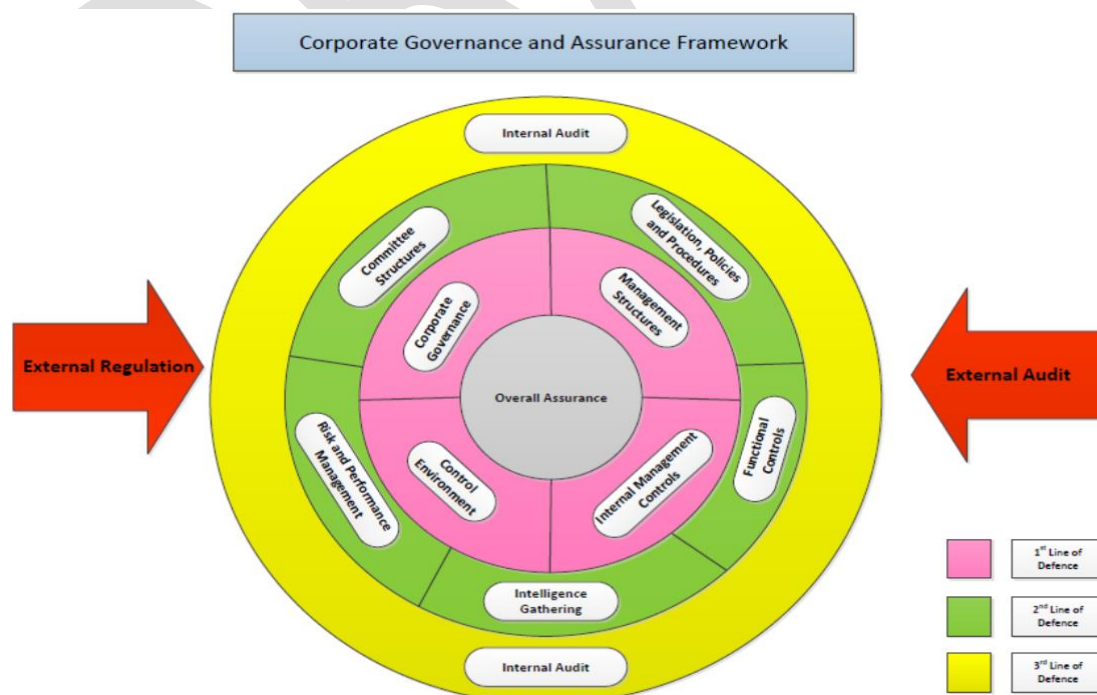
- A consistent approach to the way risks are managed throughout the Council.
- Improved informed decision making – risks reported and considered within Council decision making.
- Becoming less risk averse in innovation (because you understand) and, hence, are more innovative.
- Improved business planning through a risk based decision making process.
- A focus on outcomes not processes.
- Improved performance (accountability and prioritisation) - feeds into performance management framework.
- Better governance - and demonstration of it to stakeholders.
- Helping to protect the organisation.

The main benefit though is that the Council will be more likely to achieve its vision and the key objectives underpinning this, because the barriers are being actively identified and managed.

### 1.5 Where Does Risk Management Fit?

In short, the answer is “everywhere”. Effective risk management should be applied within all decision making processes at an *appropriate scale*. So, the risk management approach should encompass the Council’s:

- Strategic and Corporate risks, which includes risks that would impact on the lives of citizens and their communities.
- Risks that need to be taken into account in judgment about the medium to long term goals and objectives of the Council.
- Risks that affect the successful delivery of corporate objectives and impact across the Council as a whole.
- Service risks that affect the successful delivery of individual service objectives. They are often built into the service planning process.
- Operational risks that managers and staff will encounter in the daily course of their work.
- Project risks - effective management of risk within projects is key to their eventual success and major projects should have a robust risk management approach.
- Partnership risks - The increasing number and scale of partnership working with public, private and voluntary sector partners exposes us to risk, so significant partnerships should have a robust risk management approach.
- The diagram below shows where risk fits in within the Corporate Governance and Assurance Framework within the 2<sup>nd</sup> line of defence and shows the connectivity of risk within the wider assurance framework.





This means that a consistent approach from the top to the bottom of the Council is required with a mechanism for risks to be escalated up (bottom up) within the Council whilst the top risks are also explicitly identified and managed (top down).

In practice this means that the Council will carry out risk assessments and develop the following risk registers:

- Corporate Risk Register (CRR) – Whole Authority - the strategic and corporate risks, related specifically to the Corporate Plan and the Well-being Objectives and where appropriate, the Councils contribution to the PSB Well-being Plan.
- Directorate Risk Register (DRR) – high levels risks identified in Service Risk Registers, which require close monitoring or intervention, and/or are common to several services within the directorate (collective control).
- Service Risk Register (SRR) – the risks facing the service and the achievement of its service objectives, as outlined in the Service Business Plan.
- Business Unit Risk Register (BURR) - Depending on the structure and complexity of the service, there may also be a need to have, Business Unit Risk Registers, which feeds into the Service Risk Register.
- Specific Project Risk Registers (SPRR) – These may be required for specific high level projects, particularly those with external partners as identified in section 1.5.2

### 1.5.1 Risk Management of Projects

A project can be defined as:

*“A temporary organisation that is needed to produce a unique and predefined outcome or result at a pre-specified time using predetermined resources”* PRINCE2

And, to be effective, managers need to be able to manage three aspects of the project:

- That the project delivers on time.
- That the project delivers to the quality.
- That the project delivers to budget.

It is quite obvious that effective risk management will help this process, and is a requirement of all effective project management approaches. Risks should be identified and managed from the very outset and throughout the life of the project. It is essential that risks are effectively communicated and escalated within the project structure.

All major projects will have their own risk registers relevant to the project objectives and plan. Any significant risks identified should be reported to the relevant officers, group, or committee and included in the relevant service and / or corporate risk register.

## 1.5.2 Partnership Risk Management

*“A third of those working in partnerships, experience problems, according to auditors. These problems arise when governance and accountability are weak: leadership, decision-making, scrutiny and systems and processes such as **risk management** are all under-developed in partnerships.”* Governing Partnerships, Audit Commission, 2005

Effective risk management of the Council’s significant partnerships is, therefore, essential. This will require clarity of what partnerships are and, in particular, which are significant. Those then require a twin track approach to risk management:

- Outside looking in – the risks to the Council in getting involved in the partnership.
- Inside out – the risks to the partnership achieving its objectives.

The outside looking in risk should be included in the relevant service and / or corporate risk register. Each significant partnership should develop their own risk register relevant to the partnership’s objectives and plan. This should be developed in conjunction with all of the partners. Risk management should be integrated within the governance processes of the partnership.

This will take on greater significance as the Government White Paper ‘Reforming Local Government: Resilient and Renewed (2017) places a much greater emphasis on regional working.

## RISK MANAGEMENT STRUCTURE

### 2.1 Reporting Structure

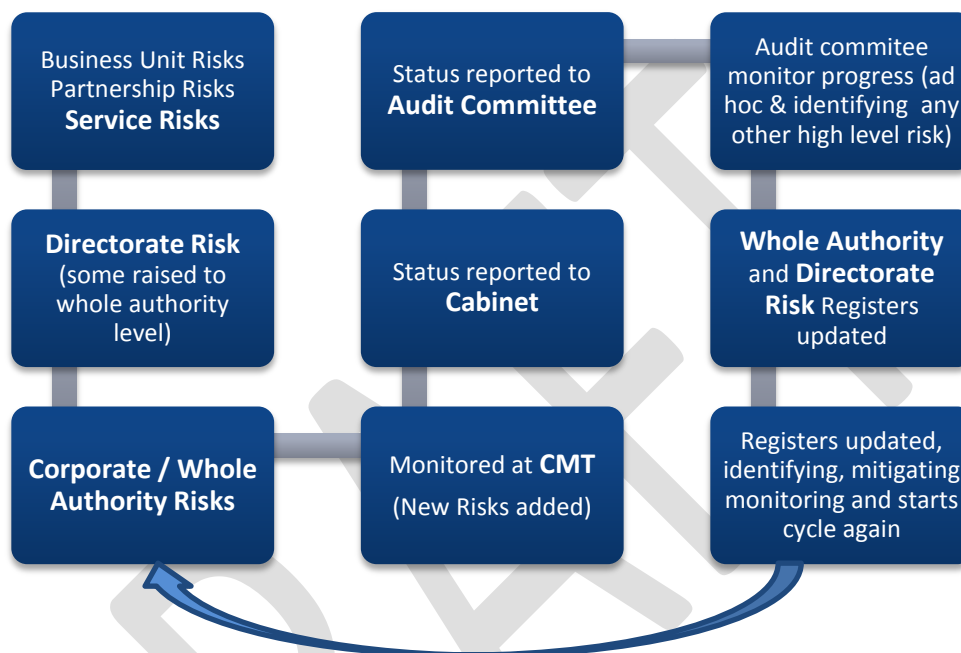
The risk management process is a continuous one and risks can therefore, be reported at any time. However, risks will be formally reported in accordance with the existing business planning process and at least quarterly within the performance management part of senior management team agendas.

Services will therefore, be required to revisit their risks in the light of any change and at least on a quarterly basis. They will report any new risks, identified progress on actions to mitigate existing risks and any changes to the perceived level of risk, as part of quarterly performance management meetings or on an exceptions basis if any significant activity occurs between the quarterly meetings.

Corporate Management Team will consider new corporate risks, changes to existing risks and escalated risks on at least a quarterly basis. They will report on the top corporate risks, the progress on actions to mitigate those existing risks, and any significant changes to the perceived level of those risks formally to Cabinet and Audit Committee on a six-monthly basis (twice a year). Risk reporting is part of service performance scrutiny reporting. Any significant activity occurring between the formal reporting will be considered and reported on an exceptions basis.

Each senior management team from the directorate will act as a filter to assess service risks which need to be escalated for consideration by the Corporate Management Team and also the corporate risks which need consideration at a Service level. This will ensure a consistent top down and bottom up approach and that there is always an up to date view of the key risks facing the Council and how they are being managed.

This Risk Management Strategy should also be periodically reviewed and updated if considered necessary. The reporting structure is represented below:



## 2.2 Roles and Responsibilities

The following describes the roles and responsibilities that Members and officers will play in introducing, embedding and owning the risk management process:

### 2.2.1 Cabinet

- Approve the Risk Management Strategy.
- Approve the “risk appetite” of the Council i.e. the definition of high (red) risk, medium (amber) risk and low (green) risk as recommended by the Corporate Management Team.
- Approve the risk “appetite” in light of the new way to view risk through the lens of the sustainable development principles, the short/medium/long term, and the 7 Well-being Goals (Well-being of Future Generations (Wales) Act 2015).
- Hold the Corporate Management Team accountable for the effective management of risk.
- Monitor the arrangements for managing the Council’s Corporate/Whole Authority Risks, through six-monthly progress reports.

- Consider the risks involved when making any decisions; considering the sustainable development principle (5 ways of working).
- Receive and review the risk register and resultant action plans for the top corporate risks.
- Make an appropriate allocation of resources to address identified risks and risk management framework.
- Ensure that appropriate and effective communication reporting lines are in place in the context of risk management.
- The Leader approves the Annual Governance Statement, and publishes it in the Annual Statement of Accounts.

### **2.2.2 Audit Committee**

- Review the effectiveness of the risk management and internal control framework.
- Review the Council's Risk Management Strategy and how it is being implemented.
- Review and challenge the risk register and resultant action plans for the top corporate risks.
- Receive, review and challenge progress in implementing action plans for the Council's key strategic and corporate risks.
- Satisfy themselves' that robust processes and procedures exist and are applied for the management of operational risks, including health & safety risks.
- Participate in mandatory or updated training in the area of risk management.

### **2.2.3 Scrutiny Committee**

- Identify significant risks to be scrutinised in more detail as part of their annual work programme, as appropriate.
- Satisfies itself, that robust processes and procedures exist and are applied for the management of risks within the organisation, including health & safety risks.

### **2.2.4 Lead Member – Risk Management**

The Lead Member for risk management is the Cabinet member with responsibility for performance. Responsibilities include:

- Champions and encourages the use of effective risk management within the Council – to both members and officers.
- Raise awareness of risk management within the Council and to ensure that training and education needs in respect of risk management are identified and addressed.
- Attends the Audit Committee and Scrutiny Committees to report progress on risk management, with appropriate officers.

- Attempts to resolve issues/barriers facing the embedding of effective risk management.

### **2.2.5 All Members**

Members are responsible for governing the delivery of services to the local community and have a responsibility to understand the risks that their Council faces and be aware of how these risks are being managed. One way of gaining assurance that identified risks are being effectively managed is by robust, constructive challenge and scrutiny. Members can also raise 'strategic risks' either through their committee, or by contacting the relevant Director or the Performance Management Unit if they are unsure of where to raise the emergent risk.

### **2.2.6 Chief Executive and Corporate Management Team**

The Chief Executive and Corporate Management Team are pivotal in the promotion and embedding of risk management by managing a culture change within the Council. They are responsible for managing strategic and corporate risks, as well as the service risks in their individual areas of responsibility.

Their key tasks are to:

- Review the Council's approach to risk management and supporting processes and recommend for approval any subsequent changes.
- Recommend the Risk Management Strategy to members.
- Propose the "risk appetite" of the Council i.e. the definition of high (red) risk, medium (amber) risk and low (green) risk.
- Support and promote risk management throughout the Council – with each member ensuring that it works effectively in their own areas of responsibility.
- Actively identify, analyse and profile strategic and corporate risks at least quarterly.
- Determine and prioritise action on strategic and corporate risks, allocating individual ownership of the key risks to appropriate members of Corporate Management Team.
- Each Director will act as lead officer for the risks allocated to them and be held accountable for ensuring that risk improvements are delivered.
- Receive escalated service risks and consider their inclusion onto the corporate risk register.
- Monitor progress of risk arrangements as part of existing performance management arrangements.
- Report quarterly to the Executive on the key risks and their management.
- Ensure that (where appropriate) "key decision" reports include a section to demonstrate that arrangements are in place to manage any risks.
- Ensure that the Council has robust processes and procedures in place that are consistently applied, for the management of operational risks, including health & safety risks.
- The Chief Executive is required to agree and sign the Annual Governance Statement, ensure publication of it in the annual Statement of Accounts.

### **2.2.7 Officer Risk Champion**

The Acting Director of Corporate Services is the Officer Risk Champion and leads on all risk management issues. Responsibilities include:

- Ensuring that a Risk Management Strategy is developed to reflect the changing nature of the Council.
- Ensure that a robust framework is developed to deliver and implement the strategy.
- Inform on a regular basis of developments in the risk management processes and outcomes.
- Champion the process of risk management as good management practice and a valuable management tool.

### **2.2.8 Heads of Service**

Their primary role is to manage service risks by:

- Promoting risk awareness within their service.
- Facilitate risk assessments within their service area to develop a Service Risk Register – linked to the Self-Evaluation and Service Performance Plan.
- Receive escalated Business Unit risks and consider their inclusion onto the Service Risk Register.
- Actively identify, analyse and profile service risks on a quarterly basis - linked to the Service Performance Plan.
- Determining and prioritising action on service risks, allocating individual ownership of the key risks to appropriate managers within their service.
- Escalate the top risks, those above the acceptable tolerance line.
- Incorporating the risk management process into service planning processes ensuring that these are fed into the business plan.
- Promoting and encouraging staff to be open and honest in identifying risks or missed opportunities.
- Ensuring that the risk management process is an explicit part of all major projects and change management initiatives.
- Monitor and report progress of risk management activities as part of existing performance management arrangements.
- Ensure that processes and procedures for the management of operational and Health & Safety risks are consistently and robustly applied within the Service.

### **2.2.9 Internal Audit**

To maintain independence and objectivity, Internal Audit is not responsible or accountable for risk management or for managing risks on management's behalf. Internal Audit will:

- Audit the risk management process.
- Support risk identification and assessment workshops, as appropriate.
- Assess the adequacy of the mechanisms for identifying, analysing and mitigating key risks.

- Provide assurance to officers and Members on the effectiveness of controls.
- The Risk Register will in part drive the Internal Audit Strategic Plan to ensure resources are used on the areas of highest risk and where the need for assurance is greatest. Page 7 of the accompanying 'Risk Guidance' shows the diagrammatical representation of the Councils Assurance Framework'

### 2.2.10 Project and Partnership Leaders

Project and partnership leaders have a responsibility to ensure that the risks associated with their activity are identified, recorded and regularly reviewed as part of the project management process. Significant risks must be reported and included in the relevant Service Risk Register or the Corporate Risk Register.

### 2.2.11 All Staff

All staff have a responsibility to:

- Manage risk effectively in their job and report opportunities and risks to their service managers.
- Identify and escalate risks when they arise for example as part of the **corporate safeguarding policy** (information on the intranet).
- Participate in risk assessment and action planning where appropriate.
- Adhere to Council policies and procedures.
- Attend training and development sessions as appropriate.

## 2.3 Links to Other Business Processes

There is a link between risk management, self-evaluation and service planning, emergency planning and business continuity. However, it is important for the success of risk management that the roles of each, and the linkages, are clearly understood.

**Self-Evaluation and Service Plans:** The process of Self-Evaluation (SE) is about gaining organisational intelligence as to what is working, what is not and what the risks are. The SE gives a structure of which to test thinking around service judgements and its risks. The management of the risks are then transferred into the Service Plan (SP) to identify mitigating actions and monitor the effectiveness of those actions (although not all risks can have mitigating actions) and this links the SE and the SP to the risk management process. This process should be inclusive of the staff who are often the best placed to action plan for improvement.

**Risk Management;** is about trying to identify and manage those risks which are more than likely to occur and where the impact on our objectives can be critical or even catastrophic.

**Business Continuity Management;** is about trying to identify and put in place measures to protect your priority functions against catastrophic risks that can stop your organisation in its tracks. There are some areas of overlap e.g. where the I.T

infrastructure is not robust then this will feature as part of the organisation risk assessment and also be factored into the business continuity plans.

**Emergency Planning;** is about managing those incidents that can impact on the community (in some cases they could also be a business continuity issue) e.g. a plane crash is an emergency, but may impact on service delivery also.

### **3.0 CONCLUSION**

This strategy sets the foundation for continued integration of risk management into the Council culture. It shows the process being applied across the Council to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The quarterly reporting and escalation of risks should interlock with the existing quarterly arrangements for performance reporting. The intention being that the management of risks is incorporated into business plans so that reporting on performance naturally reports progress on the mitigation of risks.

The strategy now reflects the longer term view of risk as required by the Well-being of Future Generations (Wales) Act 2015 and to view risk within the sustainable development principles as to how our potential decisions can affect the well-being of the communities we serve.

#### **3.1 Contact details for support or help**

For further details on this strategy or how to apply it, please contact Performance Management on 01443 864238 or email [www.PMU@caerphilly.co.uk](mailto:www.PMU@caerphilly.co.uk)

The Strategy can be read in conjunction with the Risk Guidance. The guidance provides the details in how to apply the strategy at an operational level.



Goal	Description of the Goal
<b>A prosperous Wales</b>	An innovative, productive and low carbon society which recognises the limits of the global environment and therefore uses resources efficiently and proportionately (including acting on climate change), and which develops a skilled and well-educated population in an economy which generates wealth and provides employment opportunities, allowing people to take advantage of the wealth generated through securing decent work.
<b>A resilient Wales</b>	A nation which maintains and enhances a biodiverse natural environment with healthy functioning ecosystems that support social, economic and ecological resilience and the capacity to adapt to change (for example climate change).
<b>A healthier Wales</b>	A society in which people's physical and mental well-being is maximised and in which choices and behaviours that benefit future health are understood.
<b>A more equal Wales</b>	A society that enables people to fulfil their potential no matter what their background or circumstances (including their socio economic background and circumstances).
<b>A Wales of cohesive communities</b>	Attractive, viable, safe and well-connected communities.
<b>A Wales of vibrant culture and thriving Welsh language</b>	A society that promotes and protects culture, heritage and the Welsh language, and which encourages people to participate in the arts, and sports and recreation
<b>A globally responsible Wales</b>	A nation which, when doing anything to improve the economic, social, environmental and cultural well-being of Wales, takes account of whether doing such a thing make a positive contribution to global well-being.

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# CAERPHILLY COUNTY BOROUGH COUNCIL

## RISK MANAGEMENT GUIDANCE 2017

To accompany the Council's  
Risk Management Strategy 2017



Version	Who approved	Date approved
V1	Cabinet	17 <sup>th</sup> September 2013
V2	Audit	14 <sup>th</sup> September 2014
V3 (revised)	Cabinet	7 <sup>th</sup> June 2017
V3	Audit	13 <sup>th</sup> September 2017

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## Implementing Risk Management

This guidance document accompanies the Council's Risk Management Strategy and the current Service Plan Guidance, so reference should be made to all documents.

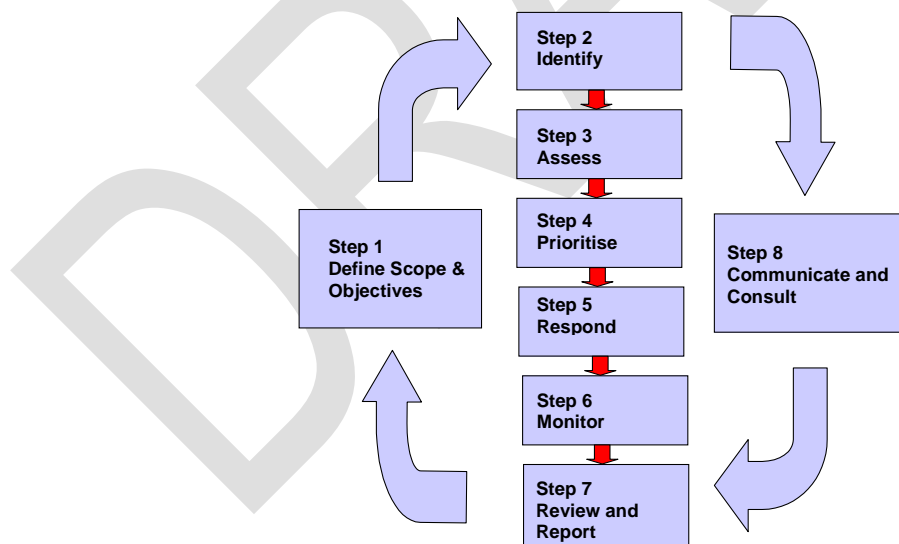
The purpose of this document is to provide practical advice on how to implement the strategy and provide a consistent approach across the Council.

### The Risk Management Process

The process for identifying, assessing, managing and monitoring risk is an integral part of the management process. The continual identification and assessment of risk is key to the successful delivery of our outcomes.

The changing external environment and the decisions made in the course of running the Council will continuously alter the status of risks identified and new risks emerging. The risk assessment process should support this on-going and forward-looking identification and assessment of risk as part of running the Council.

An overview of the risk assessment process is shown below:



The risk register is how risks are documented. The current risk register format is included in Appendix 1. Its purpose is to provide a consistent method for capturing risk information. While it should be used at all steps in the process, it is important to make it a relevant and dynamic document. Its main purpose is to help ensure we take action where we need to.

The **Corporate Risk** Register documents the risks to the Council as a whole. In addition, each Directorate, Service and Partnership is required to maintain an up-to-date risk register. It is left to the Service to decide whether it also records its risk assessment and maintains risk registers at business unit level. This will depend on the size, complexity and range of activities in the service.

Project risks should be identified during the Project Initiation Document (PID) stage and, where a project progresses, the Project Manager is required to maintain an up-to-date risk register for that project.

Risk assessment will not be relevant or dynamic if we just go through the motions of writing down lists of risks.

Risk assessments, at all levels, are carried out within the regular business planning cycle, making risk management part of an established process, and ensures that the mitigation actions for key risks are included within business plans. As risk management is integrated with business planning, the existing performance management system is used to measure risk management performance.

### **Stage 1 – Define Objectives**

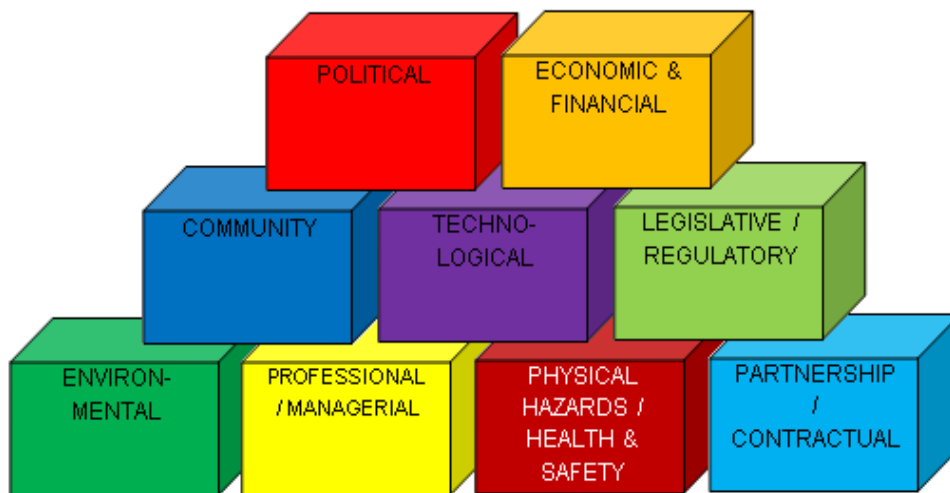
It is important that those involved in the risk assessment process clearly understand the relevant key business objectives i.e. '*what we want to achieve*' in order to be able to identify '*the barriers to achievement*'. The more clearly objectives are defined; the easier it will be to consider those risks that could actually impact on objectives. Objectives must therefore be SMART (Specific, Measurable, Agreed, Realistic and Time bound). It follows therefore that:-

- Corporate and strategic risks are identified and prioritised in relation to the Council's Vision and key objectives.
- Directorate and Service risks are identified and prioritised in relation to the service business plan.
- Partnership and project risks are identified and prioritised in relation to the particular objectives of the partnership / project.
- All of the above are identified within the 5 ways of working (the sustainable development principle).

### **Stage 2 – Risk Identification**

Risk identification attempts to identify the Council's and citizens exposure to uncertainty. To ensure that key risks are identified, the process requires imagination, creativity, ingenuity and wide involvement as well as a methodical framework.

This is probably one of the most important steps of the process, as we can only attempt to manage risks we have identified. To try and achieve a robust risk assessment, it is useful to consider the whole spectrum of risk, which is all of the various areas where the Council or service may face risk. The following categories may be used as prompts to aid the thought process:



These are explained in more detail within Appendix 2 (which gives examples but is not an exhaustive list). Using the prompts, various techniques can be used to begin to identify risks including:-

- Risks in relation the achievement of the national Well being goals and the statutory duty to the 5 ways of working (ICIP) see below
- Brainstorming / workshops
- Horizon scanning (10-15 years) (looking to the future over a longer term.
- Past experience; (needs a mixed group)
- SWOT/PESTLE analysis or similar.
- Exchange of information/good practice with others.
- Or to ask a 'one off' question of staff who do the work – “What happens now?”

It is important to also identify those risks where their contribution to objectives are not totally clear, particularly at operational or service levels where risks to safety and financial loss should also be considered, as should risks around compliance and statutory requirements.

A move away from traditional risk identification is to consider risks that will affect the public or citizen not just internal risks. We need to show how our decisions and risks of those decisions will affect the well-being of future generations in the short, medium and long-term.

No one person holds all the risks, so it is critical to good identification and understanding to ensure that the process is as comprehensive as possible, meaning a mixed group of all grades of staff should identify the risks whatever method(s) are used.

We have a 'duty' to maximise our contribution to the Well-being Goals, so we need to show this in our planning and our risk identification and assessment in understanding how we maximise our contribution to the Well being Goals.

**Appendix 4** details the **5 ways of working** and how this will impact risk identification. This is also available within the service planning guidance which is on the intranet.

Risks should be captured whether they are under the Council's direct control or not. For significant partnerships, the risks to the Council as well as the risks to the partnership itself need to be considered.

Risk can also be identified in the service's annual self evaluation where the relevant managers take an evidenced based approach to identify how good (or otherwise) the service is performing. Depending on the evidence and the conclusions reached this process will also identify risks that are emerging.

Finding the right words (which is explained in the Service Plan guidance), to properly define a risk is important so it is clear to someone unfamiliar with the service as to what the risk is. A good guide is that we must be able to look back and say whether the risk event occurred or not. It is advisable to start a description with "The risk that...", or "The risk of.....". Only using a short phrase normally leaves too much room for different interpretation, e.g. "IT failure" compared to "The risk that failure of the outdated system will results in... (then be as specific as possible)". This way risk registers will be clear to those who may not be familiar with the background of the risk when the register is being monitored.

Staff should be able to raise risks with managers at any time to allow for emerging risks so it is not just at a fixed period in time. Alternatively staff or members can contact the Performance Management Unit for advice on identifying risks, contact details are on page 10.

### **Stage 3 – Assess**

Having identified a risk (or vulnerability) it is important to assess the causes or triggers, the potential consequences/impact and how effectively it is being managed. It is the management of the cause(s) and consequence(s) that determines how well a risk is controlled. This, in turn, determines what further actions may be necessary.

The vulnerability is essentially the risk, or the weakness that currently exists. The triggers are what are or could cause the risk to materialise, whilst the consequences are the 'worst likely' chain of events that could occur were the trigger to occur.

When assessing the risk impact and likelihood we do so on a residual basis. The residual risk is the risk as it currently stands with existing controls in place.

### **Stage 4 – Prioritise Risks**

As there is finite time and resources available, not all identified risks can be managed, so following identification and analysis the risks will need to be evaluated to assess the really key ones. The likelihood and severity or impact of each risk is, therefore, assessed within the relevant timeframe of the business plan/project.

Likelihood is assessed by asking how likely it is that the trigger event should occur in the given timeframe.

The challenge for each risk is how much impact it could have or is having on the ability to achieve or deliver an objective or to the public detriment.

Appendix 3 provides risk assessment criteria for corporate risks. The risk assessment criteria used is for guidance and allows the assessment to be more objective enabling risks to be prioritised and escalated consistently.

The risk assessment criteria can be used as a guide for Service, Project, and Partnership risks but will need to be scaled in relation to size, budget and prominence of the Service, Project or Partnership concerned.

When looking at likelihood of occurrence, the following is for guidance:

Likelihood of Occurrence Table	Score Rating
Unlikely to Occur	1
Lower than average chance of occurrence in most circumstances	2
Moderate chance of occurrence	3
Higher than moderate chance of occurrence	4
Expected to occur in most circumstances	5

When looking at the impact of the risk if it were to occur the following is for guidance:

Impact Table (considerations)	Score Rating
<ul style="list-style-type: none"> <li>Operational performance of service area would not be materially affected and the authority would not encounter any significant accountability implications.</li> <li>The interest of stakeholders would not be affected.</li> <li>Public perception of the organisation would remain intact</li> <li>Minor detrimental impact on the <b>well-being of future generations</b> in the short term or missed opportunity to improve the social, economic, cultural and environmental well-being of an area or its citizens,</li> </ul>	1
<ul style="list-style-type: none"> <li>Slight Inconvenience for the performance of the service area.</li> <li>Some accountability implications, but would not affect the ability to meet key reporting requirements.</li> <li>Recovery from such consequences would be prompt.</li> <li>Some minor effects on ability of stakeholders to pursue rights and entitlements.</li> <li>Public perception of the organisation would alter slightly, but no significant damage or disruption.</li> <li>Minor impact of the risk on the <b>well being of future generations</b> but impact could escalate badly for our citizens if not addressed.</li> </ul>	2
<ul style="list-style-type: none"> <li>Operational performance would be compromised and revised planning maybe required.</li> <li>The organisation would have trouble in complying with key reporting requirements.</li> <li>Recovery would be more gradual and require redirection of resources and planning adjustments.</li> <li>Stakeholders would experience considerable difficulty in pursuing rights and entitlements.</li> <li>Adverse public reaction would result in some damage and disruption to the authority.</li> <li>Medium detrimental impact (or missed opportunity) to the <b>social, economic, cultural and environmental well-being</b> of an area or its citizens particularly over the medium term (10 years plus)</li> </ul>	3

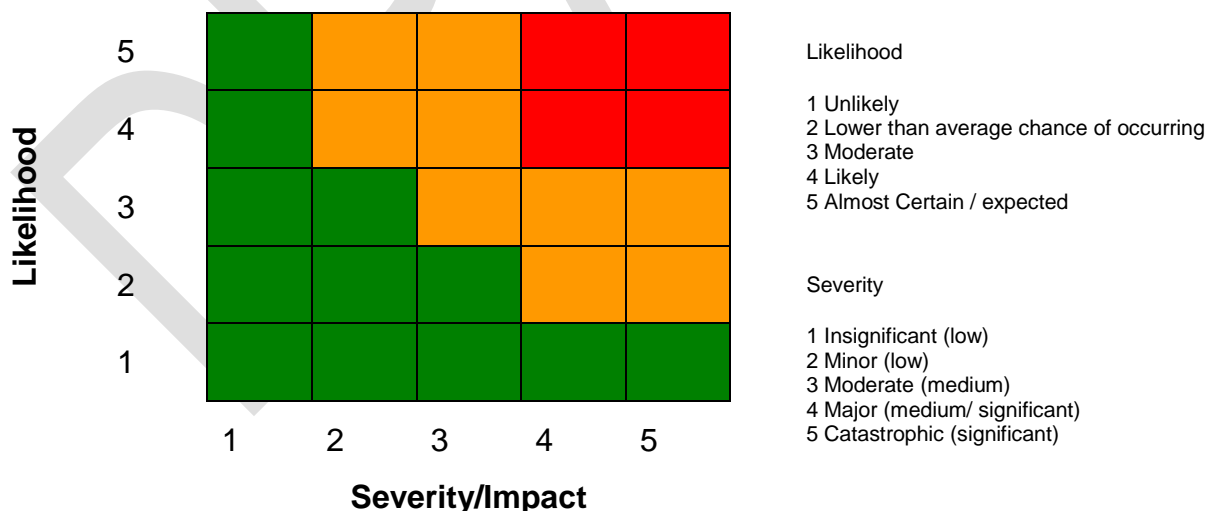


<ul style="list-style-type: none"> <li>Operational performance would be severely affected.</li> <li>The organisation would not be able to comply with the majority of its reporting requirements effectively.</li> <li>Recovery from consequences would be highly compromised.</li> <li>Stakeholders would be unable to pursue their rights and entitlements.</li> <li>Public Reaction would result in major disruptions.</li> <li>The <b>well being of future generations</b> would be severely impacted</li> </ul>	<b>4</b>
<ul style="list-style-type: none"> <li>Operational performance would be severely compromised.</li> <li>Accountability implications would result in not being able to meet reporting requirements.</li> <li>There would be significant financial losses.</li> <li>Recovery would be severely compromised.</li> <li>Stakeholders would face severe consequences.</li> <li>Major adverse repercussions would affect large sectors of the authority, its clients and the public.</li> </ul> <p>Significant detrimental impact or missed opportunity to improve the <b>well-being of future generations</b> and the social, economic, cultural and environmental well-being of an area and or its citizens, particularly over long term (25 years)</p>	<b>5</b>

It is important when scoring the likelihood and impact of risks that a balanced view is taken. Once the likelihood and impact is scored the risk can be rated and prioritised.

For example if an impact is 3 x 4 Likelihood of Occurrence this would give a score of 12, identifying this as a risk category of *Medium*.

The combination of likelihood and severity/impact provides a risk score allowing risks to be plotted on the matrix and set the risks in perspective against each other.



Those risks towards the top right hand corner with higher likelihoods and impacts (red) are the most pressing with the priority falling as we move down to the bottom left hand corner.

This prioritisation helps us decide where to focus our risk management efforts. Those risks in the green blocks should not be ignored but no significant effort or resource will be used to manage them.

## Stage 5 – Respond to Risks

This is vitally important as it is during this stage that improvement actually occurs. There are normally options for improving the management of a risk and they fall into the following categories.

Response	Which means?	Example
Tolerate	Do nothing 'extra' to manage the risk	Where current control measures are sufficient to reduce the likelihood and impact of risk to a tolerable level that there is no added value in doing more, or not cost effective or realistic to try and manage it further. Where risks that are outside of our control and we have no influence over them e.g. Government introducing legislation that has a negative impact on the Council. These risks have to be accepted, but can be monitored.
Treat	Mitigating the risk by managing: <ul style="list-style-type: none"> <li>• the likelihood</li> <li>• the impact</li> <li>• or both</li> <li>• Use the ICLIP model for potential solutions</li> </ul>	The most likely form of management for the majority of risks. Developing SMART actions to manage the likelihood of risks occurring, their impact if they were to occur, or both. Preventative controls are used to mitigate likelihood – to ensure something does not happen e.g. training so that staffs do not do something in the wrong way or firewalls to prevent computer virus attack. Impact is often mitigated with some kind of contingency e.g. alternative service providers or alternative service arrangements.
Transfer	Insurance / outsourcing / partnerships	Insurance, although will not be applicable for most of the risks faced. Outsourcing or entering into partnerships may transfer certain risks, however, will inevitably create new and different risks which have to be managed.
Terminate	Stop doing an activity	Where a risk could be so serious that there is no other option but to terminate the activity that is generating the risk. This can be difficult for a local authority given the number of statutory functions, however, non-statutory services could cease.

Where required, specific actions should be developed with defined ownership and timescales. When the risk assessment is conducted alongside the business planning process, actions should be integrated in the business plan.

In determining what actions are required, it is important to consider the effect these will have on controlling the risk in question, and specifically what change they will make to the impact and/or likelihood of the risk. Consideration should also be given here as to the 'Cost-Benefit' of each control weighed against the potential cost /impact of the risk occurring. N.B. 'cost/impact' here includes all aspects including financial, resourcing, but also reputational.

## **Stage 6 – Monitoring Risks**

The monitoring of risks is a normal management activity and as such should be integrated as part of normal line management responsibilities. Risk Management is not a one off exercise – it needs to be an integral part of the way we work. Progress in managing risks will be monitored and reported so that losses are minimised and intended objectives are achieved.

Monitoring of risks and the actions identified to mitigate them is, therefore:

- part of existing performance monitoring timetables;
- focused on those risks that have been given the higher priority (red).

Service risks and the actions identified to mitigate them will be formally monitored and reviewed as part of quarterly Service Plan Reviews.

Risks identified and assessed as per stage 2 to 4 can be monitored at a Directorate Risk level and each Directorate has a risk register identical to the register in Appendix 1

## **Stage 7/8 – Review and Report / Communicate And Consult**

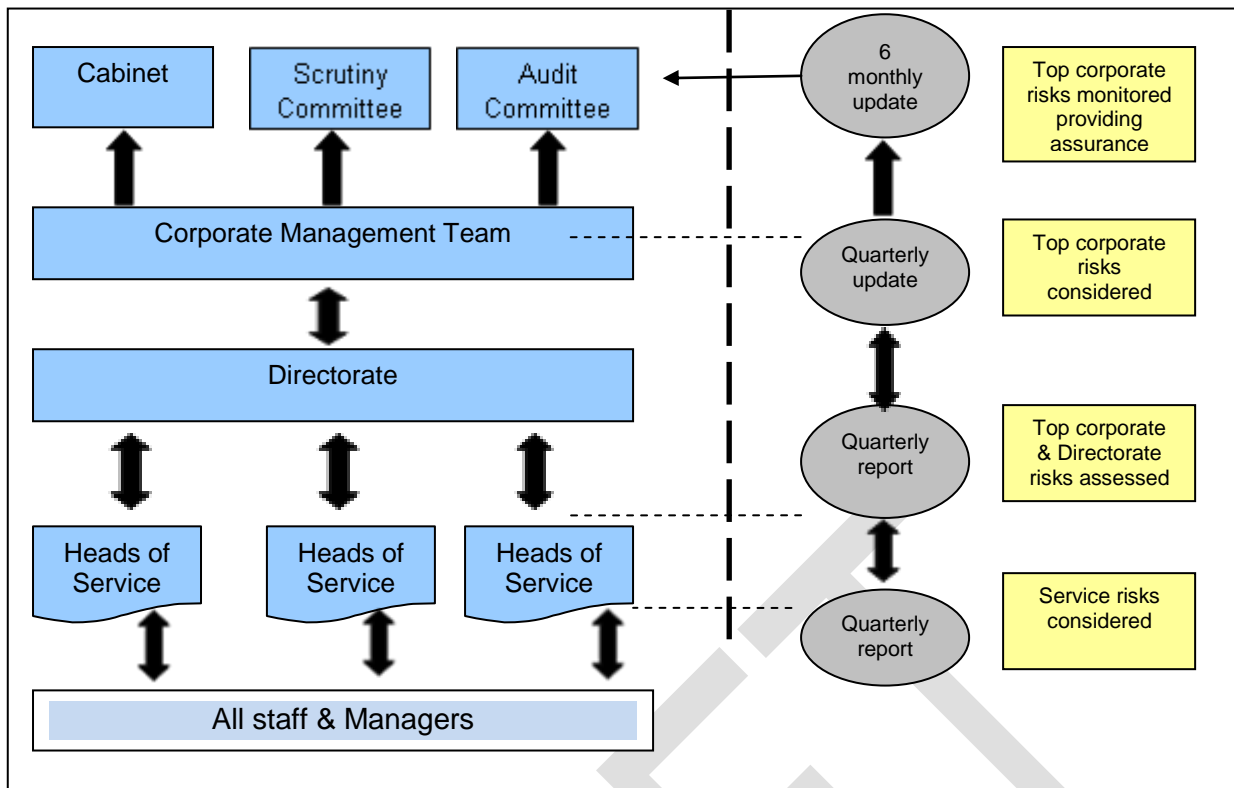
The annual planning process is the point at which outcomes are reviewed and revised and is, therefore, a logical point at which to also review key risks and how they are managed. Service Evaluation and planning presents the opportunity to be forward looking and pro-active in our management of risk. Within the planning process (e.g. business cases, service plans) it is necessary to answer three main questions:

- Have we considered what we need to do in the year(s) ahead to deliver our plans, and the risks of not doing these things? (the opportunities)
- Have we considered what might go wrong, with significant impact, to the well being of our citizens, and how we would spot it in a timely manner?
- Have we considered external risks and identified those it is realistic for us to plan for? (this can be identified in section 7 of the self-evaluation)

Discussion, review and reporting of risk should take place at regular management and team meetings. Key risks and action progress should be reviewed at these meetings as determined by the severity of the risk.

Regular internal reports enable managers and Members to be fully aware of the extent of the risks and the changes occurring to them. In practice, risks will be reported as part of the performance management and business planning processes.

Internal reporting arrangements provide different levels of the Council with the most appropriate information. The reporting process is explained in detail in the Risk Management Strategy but is summarised below:



Directorates and Performance Management will act as “gatekeeper” for those risks being pushed up from Service and Directorate Risk Registers to the Corporate Risk Register and risks pushed down from the Corporate Risk Register to Directorate or Service Risk Registers. This will ensure consistency and identify common themes.

**New risks identified should be added to the relevant risk register as soon as they have been identified.** Where this is a significant (red) risk it must be reported on an exception basis through the relevant management structure and not left until the next routine round of reporting.

The likelihood and impact of each risk must be regularly reviewed in the light of the effects of control measures or other factors affecting the risk. Where the control measures are successful the risk score should reduce but where the control measures are ineffective or inadequate the risk score could increase. Under such circumstances the existing mitigation action must be reviewed and consideration given to introducing additional control measures.

Where a previously identified risk is no longer a risk to the objectives, consideration should be given to removing the risk from the relevant risk register. This should only be done once the risk has been sufficiently scrutinised as part of the relevant performance management or member review.

The updated CMT risk register will go on the intranet following its update.

All aspects of the risk management process will reviewed at least once a year.

Training materials and training workshops are available from the Performance Management Unit as our templates for monitoring specific risk actions and improvements on 01443 – 864238 or [www.pmu.gov.uk](http://www.pmu.gov.uk)



## Appendix 2 – Categories of Risk

<p style="text-align: center;"><b>Political</b></p> <p>Arising from the political situation</p> <ul style="list-style-type: none"> <li>• Change of Government Policy</li> <li>• Political make-up</li> <li>• Election cycles</li> <li>• Decision-making structure</li> <li>• Abuse (e.g. fraud, corruption)</li> <li>• Reputation management</li> </ul>	<p style="text-align: center;"><b>Economic &amp; Financial</b></p> <p>Arising from the economic situation and the financial planning framework</p> <ul style="list-style-type: none"> <li>• Treasury – investment, reforms</li> <li>• Demand predictions</li> <li>• Competition and the effect on price</li> <li>• General/regional economic situation</li> <li>• Value/cost of capital assets</li> </ul>	<p style="text-align: center;"><b>Community</b></p> <p>Demographics, social trends and meeting customer needs or expectations</p> <ul style="list-style-type: none"> <li>• Residential patterns and profile</li> <li>• Social care</li> <li>• Regeneration</li> <li>• <b>Customer care</b></li> <li>• Quality of community consultation</li> </ul>
<p style="text-align: center;"><b>Technological</b></p> <p>Arising from the ability to deal with pace of change, and the technological situation</p> <ul style="list-style-type: none"> <li>• Capacity to deal with change/advance</li> <li>• State of architecture</li> <li>• Obsolescence of technology</li> <li>• Current performance and reliability</li> <li>• Security and standards</li> <li>• Failure of key system or project</li> </ul>	<p style="text-align: center;"><b>Legislative/Regulatory</b></p> <p>Arising from current and potential legal changes and/or possible breaches and the organisation's regulatory information</p> <ul style="list-style-type: none"> <li>• New legislation and regulations e.g. Well being of Future Generations (Wales) Act 2015</li> <li>• Exposure to regulators</li> <li>• Legal challenges/judicial review</li> <li>• Adequacy of legal support</li> </ul>	<p style="text-align: center;"><b>Environmental</b></p> <p>Concerned with the physical environment</p> <ul style="list-style-type: none"> <li>• Type of environment (urban, rural, mixed)</li> <li>• Land use – green belt, brown field sites</li> <li>• Waste disposal and recycling issues</li> <li>• Impact of civil emergency (i.e. flood)</li> <li>• Traffic problems, planning &amp; transport</li> <li>• Pollution, emissions, noise</li> <li>• Climate change &amp; energy efficiency</li> </ul>
<p style="text-align: center;"><b>Professional/Managerial</b></p> <p>The need to be managerially and professionally competent</p> <ul style="list-style-type: none"> <li>• Peer reviews (e.g other authorities)</li> <li>• Stability of officer structure</li> <li>• Competency and capacity</li> <li>• Management frameworks and processes</li> <li>• Turnover, recruitment and retention</li> <li>• Profession-specific issues</li> <li>• Morale / sickness / productivity</li> </ul>	<p style="text-align: center;"><b>Physical Hazards and Health &amp; Safety</b></p> <p>Physical hazards associated with people, land, buildings, vehicles and equipment</p> <ul style="list-style-type: none"> <li>• Health, safety and wellbeing of staff, partners and the community</li> <li>• Accident and incident record keeping</li> <li>• Maintenance practises</li> <li>• Security of staff, assets, buildings, equipment</li> <li>• Nature and state of asset base</li> </ul>	<p style="text-align: center;"><b>Partnership/Contractual</b></p> <p>Partnerships, contracts and collaboration</p> <ul style="list-style-type: none"> <li>• Key partners - public, private &amp; voluntary</li> <li>• Accountability frameworks and partnership boundaries</li> <li>• Large-scale projects with joint ventures</li> <li>• Outsourced services</li> <li>• Relationship management</li> <li>• Change control/exit strategies</li> <li>• Business continuity</li> <li>• Partnerships – contractual liabilities</li> </ul>

### Appendix 3 – Risk Assessment Criteria

LIKELIHOOD	Event is expected to occur or occurs regularly	Monthly or more frequently	Almost Certain	5						
	Event will probably occur	Annually	Likely	4						
	Event may occur	1 in 2 years	Possible / Moderate	3						
	Event could occur	1 in 3 years	Unlikely	2						
	Event may occur in certain circumstances	1 in 10 years	Rare	1						
					1	2	3	4	5	
					Insignificant	Minor	Moderate	Major	Catastrophic	
<div style="border: 1px solid black; padding: 5px; width: fit-content;">                     A detailed impact description is available in the Council Service Plan guidance 2017                 </div>					Service / Operations	No impact to service quality, limited disruption to operations	Minor impact on service quality, minor service standards are not met, short term disruption to operations	Significant fall in service quality, serious disruption to service standards	Major impact to service quality, multiple service standards not met, long term disruption to operations	Catastrophic fall in service quality and key service standards are not met, long term catastrophic interruption to operations
					Reputation	Public concern restricted to local complaints	Minor adverse local / public / media attention and complaints	Adverse regional or national media public attention	Serious negative regional or national criticism	Prolonged regional & national condemnation
					Financial	Cost (£)	< £50k	£50k - £350k	£350k - £1m	£1m - £5m
					SEVERITY/IMPACT					

## Appendix 4 – The Sustainable Development Principle



**Long Term** – We must take account of the importance of balancing short-term needs with the need to safeguard the ability to also meet long-term needs especially where things done to meet short term needs may have detrimental long term effect. The intended effect of the long term requirement is that you are aware of, and address, the well-being of current and future generations whilst addressing the needs of the people you currently serve. Taking a long term view (up to 25 years) changes how we **view and score risk**. Specific examples are available in the Service Plan Guidance.



**Integration** - How our well-being objectives may impact upon each of the well-being goals, or on the objectives of other public bodies. The purpose of taking an integrated approach is to ensure that you recognise the interdependence that exists between the national and local well-being objectives. This interdependence also applies to **risk identification** (cause and effect) and to solutions that support other peoples goals.



**Prevention** - How acting to prevent problems occurring or getting worse may help public bodies meet their objectives. We must deploy resources to prevent problems occurring, or getting worse may contribute to meeting the body's well-being objectives or another body's objectives. Understanding the underlying causes of the problems people and communities face can help us find different solutions, intervene early and prevent problems from getting worse or arising in the future. This connects to any **mitigation actions** that we put in place to mitigate **risk** or build on opportunities



**Collaboration** - Acting in collaboration with any other person (or different parts of the body itself) that could help the body to meet its well-being objectives. The purpose of taking a collaborative approach is to recognise the different roles that public bodies play in tackling long-term challenges, and to ensure actions (**to mitigate risks or create opportunities**) are complimentary and maximise their collective impact.



**Involvement:** The importance of involving other persons with an interest in achieving the well-being goals and of ensuring those persons reflect the diversity of the population: Effective involvement of people and communities is at the heart of improving well-being currently and in the future. It recognises the importance of involving people in decisions that affect them. This is turn can make sure actions **to address risk** are the right ones.





## AUDIT COMMITTEE – 17TH OCTOBER 2017

**SUBJECT: CORPORATE RISK MONITORING**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES**

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### 1. PURPOSE OF REPORT

- 1.1 To provide an update of the Corporate Risk Register in accordance with the Council's Risk Management Strategy.
- 1.2 The updated Corporate Risk Register (CRR) is presented to Audit Committee so there is opportunity for the Committee to satisfy itself that appropriate arrangements are in place for the council's risk management processes to be regularly and robustly monitored and scrutinised
- 1.3 Members have a critical role to play in evaluating the council's risk management arrangements and in particular understanding how the council identifies, manages and, where possible, mitigates/removes risk.

### 2. SUMMARY

- 2.1 Under the Council's Risk Management Strategy, Corporate Management Team (CMT) monitors the CRR quarterly and Cabinet receive six monthly progress reports. The six month progress updates are then provided to Audit Committee who have the role of reviewing and challenging the risk register and resultant action plans for the council's key strategic and corporate risks.
- 2.2 The Risk Register has been updated after the review by CMT on the 7<sup>th</sup> September 2017 and the changes made summarised in the table below.

### 3. LINKS TO STRATEGY

- 3.1 Management of risk is an important element in delivering council priorities and ensuring contribution to the Well-being Goals as set out in the Well-being of Future Generations (Wales) Act 2015 [WBFGA]:
  - A prosperous Wales
  - A resilient Wales
  - A healthier Wales
  - A more equal Wales
  - A Wales of cohesive communities
  - A Wales of vibrant culture & thriving Welsh language
  - A globally responsible Wales

#### 4. THE REPORT

4.1 Audit Committees role (as noted in the Council Risk Management Strategy 2017) is to:

- Review the effectiveness of the risk management and internal control framework.
- Review the Council’s Risk Management Strategy and how it is being implemented.
- Review and challenge the risk register and resultant action plans for the top corporate risks.
- Receive, review and challenge progress in implementing action plans for the Council’s key strategic and corporate risks.
- Satisfy themselves’ that robust processes and procedures exist and are applied for the management of operational risks, including health & safety risks.
- Participate in mandatory or updated training in the area of risk management

4.2 As CMT are the owners and managers of the risk register they will update the register at least quarterly. Cabinet and Audit Committee will receive the most recent update on a six monthly basis. In order to present the most recent information this report focuses on the CMT update of 7<sup>th</sup> September 2017. The register that Cabinet reviewed and endorsed is available on the intranet under Cabinet Papers for the Agenda on the 17<sup>th</sup> July 2017.

4.3 The CRR is compiled generally in the following ways:

1. CMT collectively identify organisational risks that arise from such sources as national/regional agendas, changing legislation, budget settlements, partnership risks, project risks. Whole authority operational risks could also result from regulatory inspections/reviews, political influences, work-force planning, performance management and from risks escalating from Directorate Risk Registers.
2. Directors escalate operational risks that, in their opinion, require a corporate approach to their management.
3. Strategic risks suggested by members.

4.4 The CRR is a ‘living document’ and changes at every review as new risks are introduced, existing risks are closed, or existing risk’s RAG (red/amber/green) status is updated.

4.5 A summary of the main changes in the Register agreed by CMT is provided in the table below.

<b>Risks Removed</b>	<b>Risks Added</b>	<b>Risks Amended</b>
No risks were removed for this update	No new risks were added to this update	<p>CMT18 – School rationalisation. New update on situation in comments section.</p> <p>CMT29 – WHQS - mitigating actions removed as completed. Rating increased from medium to high</p> <p>CMT 12 &amp; 37 – Waste – Update to actual risk narrative.</p> <p>CMT44 – Local Development Plan Risk moved from medium to high.</p>

4.6 The attached register has been updated to reflect changes in the way risk is identified and assessed in light of the ‘duty’ to act sustainably (para 5.2) which emphasises a long term and prevention aspect in the way we view risk, particularly its effects on citizens or their communities. The WBFGA legislation states in its guidance that a public body will need to change the way it manages risk. Under section 3 of ‘where change needs to happen’ of the Welsh Government Guidance, it states that:

*“There will be long term risks that will affect both the delivery of your services but also the communities you are enabling to improve. Use the well-being goals and five ways of working to frame what risks you may be subject to in the short, medium and long term and together with the steps you will take to ensure they are well managed”.*

- 4.7 Looking to the long term does not mean short term risks go away, or, that operational risks for example, are less important, rather it means we have to broaden our scope to include risks to the public, risks to services for those with protected characteristics and recognising strengths of communities as opportunities. The register template (Appendix 1) has been altered to reflect this.

## 5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 The Well-being of Future Generations (Wales) Act 2015 [WBFGA] identifies a core set of activities that are common to the corporate governance of public bodies where change needs to happen:

- Corporate Planning
- Financial Planning
- Workforce Planning
- Procurement
- Assets
- **Risk Management**
- Performance Management

- 5.2 The CRR incorporates the five ways of working (ICLIP) identified within the sustainable development principle in the WBFGA. These are:

- **Involving** a diversity of the population in the decisions that affect them.
- Working with others in a **Collaborative** way to find shared sustainable solutions.
- Looking to the **Long-term** so that we do not compromise the ability of future generations to meet their-own needs.
- Taking an **Integrated** approach so that public bodies look at all the well-being goals in deciding on their well-being objectives.
- Understanding the root causes of issues to **prevent** them from occurring.

- 5.3 Risks are assessed in terms of their implications for the wellbeing of future generations.

## 6. EQUALITIES IMPLICATIONS

- 6.1 The Local Government Measure defines fairness and access as one of the criteria that constitutes ‘improvement’ within the Wales programme for Improvement 2009.

- 6.2 Promoting equalities is a fundamental requirement of the Future Generations legislation, with specific resonance for meeting the Well-being Goals of: *A More Equal Wales*, and *A Wales of Cohesive Communities*.

## 7. FINANCIAL IMPLICATIONS

- 7.1 There are no financial implications associated with this report.

## 8. PERSONNEL IMPLICATIONS

- 8.1 There are no personnel implications associated with this report.

## **9. CONSULTATIONS**

- 9.1 This report has been sent to the Consultees listed below and all comments received are reflected in this report.

## **10. RECOMMENDATIONS**

- 10.1 That Audit Committee consider and offer any comments on the Corporate Risk Register.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To be assured that the Council is managing its Risks effectively and in compliance with the Council's Risk Management Strategy.

## **12. STATUTORY POWER**

- 12.1 Local Government Measure 2009, Wales Programme for Improvement 2010, Well-being of Future Generations (Wales) Act 2015.

Author:	Ros Roberts	Performance Manager
Consultees:	Nicole Scammell	Acting Director of Corporate Services
	Cllr Barbara Jones	Deputy Leader and Cabinet Member for Finance, Performance and Governance
	Robert Hartshorn	Head of Public Protection
	Kathryn Peters	Corporate Policy Manager
	Ian Raymond	Performance Officer
	Richard Harris	Internal Audit Manager
	Anwen Cullinane	Senior Policy Officer- Equalities & Welsh Language
	David Roberts	Principal Group Accountant
	Shaun Watkins	Principal Personnel Officer

### Appendices:

- Appendix 1 Corporate Risk Register updated by CMT 7<sup>th</sup> September 2017

Ref	Area	Background information	Actual Risk	Mitigation actions - what we are doing to reduce the risk and by when. Have we considered the five ways of working to help with a solution? (see ICLIP key)	Additional Resources Required	Risk Level 2017-18 Q1	Risk Level 2017-18 Q2	Comments from latest risk review	Does this effect the Well-being of Future Generations in our Communities?	Long term (20-25 years) / medium / or short-term risk	FGA Risk Level	Risk Owner
CMT01	Medium Term Financial Planning (MTFP):  MTFP Strategy 2017/22  Capital Budget Pressures	Budget pressures will potentially have a negative effect on service delivery across all services.  Inadequate funds to maintain assets. Need to rationalise.	1. Workforce Planning: less staff to deliver services. 2. Failure to maintain and/or improve service delivery 3. Failure to take early decisions on which services should be cut could limit planning for changes. 4. Managing staff morale in light of cuts 5. Revenue Support Grant (RSG) formula change 6. National living wage 7. Member/public expectation levels and reputation risk. 8. CCBC priorities moving forward 9. National and Regional change agenda 10. Inability to invest in assets e.g. progress 'Band B' of the 21st Century Schools Programme.	1. Human Resources (HR) have a suite of policies agreed by Cabinet/Council to help downsize the workforce, although these will need to be kept under review 2. Decisions taken so far have aimed to reduce rather than remove services. This will not be possible in the light of future projections. 3. 2017/18 savings proposals totalling £9.046M were approved by Council on the 22nd Feb 2017. 4. Development of an appropriate communication strategy 5. Consultation with the public, and affected service users. 6. Need to be pursue Asset rationalisation programme. 7. Reviewing principles with Members and public. 8. A Members Seminar was held in September 2017. 9. Savings targets have been allocated to Heads of Service.	1-4 None	High	High	The MTFP has been extended to 5 years with potential/draft savings of £9.046M identified for 17/18 (Cabinet Report 15/02/17). No indicative settlement figures have been provided by WG at this stage for future years beyond 2017/18.  <b>Medium-Term Financial Strategy:</b> At its meeting on the 24th February 2016 Council was presented with a Medium-Term Financial Plan (MTFP) which showed an indicative savings requirement of £36.252m for the period 2016/17 to 2020/21. This has now been updated/predicted to be £37.835 for the period 2017/18 to 2021/22. (assuming no increase or decrease in Welsh Government (WG) funding over the same period).	Yes, the financial resources available will impact on the services we deliver and the way we deliver them. This will affect the community.	Medium-term	High	Corporate Management Team
CMT16	School Attainment	School attainment levels are still below the all Wales average, along with pupil attendance. Low levels of attainment and relative achievement are continual risks for the borough.	1. Attainment levels are below the Welsh average. 2. There is a gap between the attainment of Free School Meals pupils and Non-Free School Meals pupils which must be addressed.	1. Standards of attainment are monitored and reported to the; Senior Management Team (SMT) / Corporate Management Team (CMT) / Scrutiny Committee, through an annual programme of reporting described in the Directorate Plan Handbook.	1 None	Medium	Medium	Improvement has been continuous in the majority of key indicators for several years but remains a priority, especially at L2+ KS4. The Chief Executive and Chief Education Officer are working with the Education Achievement Service (EAS) and Headteachers to develop a comprehensive strategy for improvement. To be reviewed in August after the next set of results become available.	Yes, this limits contribution to 'Prosperous and More Equal Wales'. Standards of attainment and gaps in inequality can result in a low skilled, low paid workforce, and higher levels of unemployment leading to poverty. Over the long-term (25 years) in the life of a young child to adult the potential outcome of the attainment gap makes this a high risk.	Long-term	High	Interim Chief Executive
CMT17	Sustainability of service provision via grant funding	Heads of Service and Directors are aware of all the grant funded schemes within their service areas.	1. There is lack of security or sustainability in maintaining grant funded programmes 2. Critical workforce levels cannot be maintained as staff are lost. 3. Grant funding is sustaining some key areas of work. If this is lost there will be a reduction in service that may impact on customer satisfaction levels.	1. The risk will be closely monitored in light of the expected worsening settlement from Central Government to WG. 2. Staff are placed on temporary contracts. 3. Officers have prepared detailed transition plans (31.05.17) for Communities First(CF) for submission to Welsh Government (WG). The focus of revised WG programme will be on employment, early years and empowerment. 4. Details reported to the Public Services Board 5.9.2017. 5. Proposals to address the funding and policy criteria offered by WG presented to Scrutiny 19.9.2017 prior to Cabinet 4.10.2017.	1-2 None	High	High	This risk is predicted to be HIGH going forward to 2017-20	Yes, grants are usually allocated to support vulnerable communities and improve the prospects of individuals. Cuts affect the ability to contribute to a 'Prosperous and More Equal Wales'.	Medium-term	High	Corporate Management Team
CMT18	Secondary School rationalisation	Falling pupil numbers in some schools and excess demand in others. Sixth form viability is at risk.	1. Falling pupil rolls will affect the funding available to schools and put budgetary pressure on the LA 2. Some schools will be unable to provide the full curriculum 3. Difficulty in delivering the full range of subjects at 6th form due to financial pressures	The investment by the Council and Welsh Government (WG) in the 'Band A' 21st Century schools projects will significantly reduce surplus places, specifically within the Secondary sector with the creation of Islwyn High School (opened July 2017) and the proposed closure of Cwmcam School (October 2018). The School Place Planning Strategy will look to further address this issue by accessing Welsh Government 21st Century 'Band B' monies. There is also a review of sixth form provision planned to take place during the academic year 2017/18.	1 None	Medium	Medium	The recent decision of the Governing Body of Cwmcam High to discontinue the school after 2 years, combined with the establishment of Islwyn High School to replace Oakdale and Pontllanfraith Comprehensives will substantially reduce surplus secondary school places by 2018/19 academic year. Now Band A work is completed proposals for Band B improvements called the Strategic Outline Programme (SOP) will be considered by Scrutiny 26th September 17 This is regularly monitored by the Schools Strategy Board which meets on a monthly basis and has given its approval to the proposals.	Yes, ESTYN (Education and training inspectorate for Wales) and WG tend to evaluate this on yearly statistics. However the Wellbeing and Future Generations Act 2015 (WBFGA) requires a long term perspective, which shows growth in the population, making this a long term risk where preventative measures to maintain adequate future school provision may not be favoured in the short term.	Long-term	Medium	Interim Chief Executive

Ref	Area	Background information	Actual Risk	Mitigation actions - what we are doing to reduce the risk and by when. Have we considered the five ways of working to help with a solution? (see ICLIP key)	Additional Resources Required	Risk Level 2017-18 Q1	Risk Level 2017-18 Q2	Comments from latest risk review	Does this effect the Well-being of Future Generations in our Communities?	Long term (20-25 years) / medium / or short-term risk	FGA Risk Level	Risk Owner
CMT29	Welsh Housing Quality Standard (WHQS) programme	Everyone in Wales should have the opportunity to live in a good quality home within a safe and secure community. To help achieve this, the physical standard and condition of existing housing must be maintained and improved to the Welsh Housing Quality Standard (WHQS).	Although current performance of the contracts-for the internal works indicates the completion by March 2020 target is achievable, the recent issue whereby one of the contractors has ceased trading has increased this risk. The addition of the Sheltered schemes to the Housing Repair Operations - HRO (previously referred to as Direct Labour Organisation - DLO) programme has also slightly increased the risk for delivery by the HRO. However, the HRO are currently performing exceptionally well and are ahead of schedule. The full delivery of the external works is a major risk to the programme with only 3 years to complete the remainder of the work.	<p>The WHQS programme has its own specific risk register which was reviewed and updated by the Project Board quarterly.</p> <p>The last update was June 2017. The highest risks are:</p> <ul style="list-style-type: none"> <li>Failure to achieve programme objectives - the probability level has increased due to one of the main internal works contractors having ceased trading and still high risk in relation to the external works. Contingency arrangements have been implemented as identified below. There is also contingency built into the programme for the final year (2019/20) in relation to the internal works where there is currently no work allocated to the external contractors appointed to the internal works contracts.</li> </ul> <p>Staff resources, especially amongst front line roles such as Surveyors, Clerk of Works, Quantity Surveyors, etc. are critical to cope with the volume of work within a fixed timetable. The addition of the Sheltered schemes to the programme for 2017/18 has slightly increased the resource requirements in the immediate and short term. However, a business case to increase resources as and when required to deal with peaks and troughs has been approved and is in place to be used when necessary. New contract arrangements for the south of the borough have been put in place for the external works. This Dynamic Purchasing System arrangement (DPS) also provides opportunity to undertake both internal and external works around the authority should the need arise as a further contingency measure. As a result of one of the main internal works contractors having ceased trading, alternative arrangements are in the process of being implemented whereby the in-house workforce will pick up the majority of this workload by moving resources from other contract areas, with additional support being provided by external contractors via the DPS as and when required. A new programme is being developed based on more accurate cost information in place of previous Savill's estimates and the anticipated work that is being projected to 2020. Monthly Project Board meetings will continue to be held to monitor ongoing performance and to assist with the decision making process.</p>	None	Medium	High	<p>A review of the business plan has now taken place using accurate costs based on recent tender submissions and identified work based on in-house surveys, to replace the previous Savill's estimates which were known to be inaccurate. Whilst costs have increased above the estimates, the scope of work has reduced due to previously achieved work, acceptable fails and no accesses, which has resulted in the business plan remaining affordable and the overall programme being achievable.</p> <p>Due to the way the WHQS programme (phased delivery) has been structured i.e. internal and external works being undertaken separately and in different communities, the number of fully compliant with WHQS properties will increase significantly as these two workstreams combine, which will occur from 2017. To date however, approximately 80% of the stock has benefitted from WHQS improvements i.e. either internal or external works, although only 2.5% of the stock is fully WHQS compliant.</p> <p>During the second quarter of 2017/18 976 completions have been achieved, resulting in an overall total of 7,033 properties have benefitted from internal improvements. A number of external works contracts have reached practical completion relating to 1,200 property completions up to qtr2 resulting in an overall total of 2,500 properties having now been completed with external works since the start of the programme.</p>		Medium-term	Medium	Corporate Director Communities
CMT12 & CMT37	Waste Management Service Continuity & Target Achievement	The Welsh Government (WG) drive for source segregated collections and substantial change to the recycling Material Recovery Facility (MRF) market and restrictions on exporting low grade recycle could potentially affect service delivery to the public and/or target achievement if mitigation measures are not put in place.		<p>A Waste Board has been established, Chaired by the Director and including relevant senior officers.</p> <ol style="list-style-type: none"> <li>WG targets continue to be exceeded (2016/17 outturn was circa 65%) as result of some intervention put in place in the last 2-3 years.</li> <li>New 2 year MRF contract commenced in July 2017 and long term organics contract currently out to tender with response due in late october</li> <li>3rd annual doorstepping communications campaign has been completed with every household in the county borough being visited with a focus on reducing contamination levels in the recycling stream and using the food waset service...</li> <li>CCP modelling work with WG consultants nearing completion with the result that member decisions will be required on future service strategies over the coming 3-6 mths. The collection modelling is complete but we are awaiting further costed option on an alternative WTS/HWRC site.</li> <li>Corporate director is keen to build up the waste budgets from a zero base and has therefore set up a series of meetings to examine this commencing in September 2017.</li> <li>Slight amendments being made to dry recycling collection service to reduce contamination and black bag issues in light of new MRF contract now being operational</li> </ol>		Medium	Medium	Although the Authority is performing well against WG Targets, many of the risks (eg: budget, staffing, etc.) remain going forward.	Yes - the purpose of the landfill directive is to divert biodegradable waste away from landfill to reduce pollution. A diverse natural environment with healthy functioning ecosystems contributes to a 'Resilient Wales'. Failure to deal with waste properly affects future generations.	Long-term	Medium	Corporate Director Communities

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CMT39	Fragility of the Social Care market	The independent sector social care market across Wales is in an unprecedented position in terms of its fragility and this is starting to be felt in Caerphilly.		Fee levels for 2017/18 agreed at 3.1%.This was funded via a mix of core funding and CCBC's element of the Social Care Workforce grant paid by Welsh Government. A further element of workforce funding has recently been released by WG. Discussions are ongoing with commissioned providers to determine how these monies should be allocated.	Yes	High	High	No change.	Yes - reducing help that can be provided for the most vulnerable in our society will affect our ability to contribute to a 'Healthier Wales' which requires peoples mental and physical well-being to be maximised. Whilst this may be a medium risk operationally from a FGA perspective this would be high as it directly affects those most in need.	Medium-term	High	Corporate Director Social Services
CMT41	Local Climate Impacts Profile (July 2015)	Not being prepared for the impacts associated with climate change. For Caerphilly this will manifest as a more volatile weather pattern:		A Local Climate Impact Profile (LCLIP) has been prepared for use by services. It identifies the priority impacts to enable services to develop plans to address the impact. The LCLIP links to other plans including Highways Winter Maintenance Plans, Business Continuity Plans & Emergency Plans etc. Mitigation work being undertaken includes:  <ul style="list-style-type: none"> <li>Assessing the vulnerability of drainage infrastructure in excessive rainfall</li> <li>Installing flood risk measures at priority vulnerable locations</li> <li>Assessing the condition of trees</li> <li>Considering climate change in the Asset Management Programme</li> <li>Monitoring the temperature of corporate buildings in hot weather</li> <li>Tree Management Strategy prepared and has been considered by scrutiny.</li> </ul> A review of resources to manage tree stock currently being undertaken prior to consideration by scrutiny committee and cabinet		Medium		The Local Climate Impact Profile was approved by CMT in July 2015. It's recommendations should now be considered as business as usual and included in Self-Evaluation and Service Plans. Some projects/programmes currently active to address/minimise the effects/impacts are: <ul style="list-style-type: none"> <li>Local Flood Risk Management Strategy (Engineering) in place.</li> <li>Risca flood defences are being considered.</li> <li>Initiated works to install PV systems on 20 schools (4Kw).</li> <li>About to trial electric vehicles - 3 pilots (services), 2 sets of charge points and 5 vehicles.</li> <li>Tree Management Strategy has been prepared and has been considered by scrutiny.</li> <li>Several larger scale projects have been delivered for solar PV installations to Corporate Building (e.g Care Homes).</li> <li>The Winter Service Plan 2016/17 Highways) has been effectively delivered to date.</li> <li>Ongoing staff training is being delivered by the Corporate Energy Team re: Energy Efficiencies/Carbon Management and Effects of Climate Change.</li> </ul>	Yes - there is an impact to a 'Resilient Wales' by not proactively addressing the operational response to climate change. The contribution to global issues and a 'Globally Responsible Wales' is met through low carbon planning and sustainable development. There is a direct impact to Health also.	Short, medium & Long-term	Medium	Corporate Management Team
CMT42	Exit from the EU			CMT are continuing to monitor the situation.		Unable to assess due to level of uncertainty	Unable to assess due to level of uncertainty	There remains a great deal of uncertainty around the potential positive or negative impacts of the decision to leave the EU. Officers are continuing to monitor the situation.	Impacts are not yet fully understood, however they will take place over a longer time frame	Long-term	Unable to assess due to level of uncertainty	Corporate Management Team
CMT44	Local Development Plan (LDP)	Not having an up to date Local Development Plan (LDP) in place to address the shortfall on 5 year housing land supply. Following extensive consultation Councillors concluded in a vote 19th July to formally withdraw the draft Local Development Plan following opposition to some development sites.	The adopted LDP proposes a number of houses to be built over a 15 year period and allocates land for that housing development. However, the annual housing land available study conducted with the housebuilding industry and Welsh Government has revealed that many of the allocated sites are not available or viable, and there is therefore a shortfall of housing land on which the remaining number of houses can be built. Housing developers will therefore submit applications to develop land that is not allocated in the LDP. The Council will consider the applications, but the lack of a five-year housing land supply will be a strong material planning consideration that may outweigh other policies in the plan. A refusal of planning permission may lead to an increase in appeals and award of costs if the Council is considered to behave unreasonably, e.g. where a reason for refusal is not based on any sound evidence.	The Adopted LDP remains in force until 2021. In the interim, officers are working closely with Welsh Government officials to agree the appropriate footprint for strategic planning for the Cardiff Capital Region. It is unlikely that the 5 year land supply can be addressed in the short term. In the medium to long term a replacement plan will increase the land supply position.		Medium	High	A number of significant applications have been submitted and approved by Welsh Government on appeal. Resulting in significant cost to the authority. Having regard to the number of potential future developments there are concerns that existing infrastructure such as transport, schools, and other services is inadequate. Due to the number of impending developments being agreed by the WG Planning Inspector we have moved this into a high risk category.	Yes - the lack of an LDP threatens the timely delivery of land for development, particularly housing, making it more difficult to achieve the goal of prosperity.	Medium Term	Medium	Corporate Director of Communities
CMT45	Local Government Reform	Welsh Government White Paper: 'Reforming Local Government: Resilient and Renewed' - Published on 31st January 2017 and draft Local Government (Wales) Bill issued in November 2015.	<ol style="list-style-type: none"> <li>Logistics and impact of 'regionalising' certain services could lose sight of localised needs. This could have a negative effect on the well-being of some of our communities. (E.g. perceived priorities/disparities between: Cities v Town v Village v Rural areas).</li> <li>Changes to Governance arrangements could initially delay decision making, operational and service delivery and overall performance of the authority.</li> <li>Scrutiny may be diluted, creating an exposure and vulnerability to regulatory criticism.</li> <li>Staff re-structuring could cause service delivery interruptions at pressing times / there will be cost implications / and, uncertainties about retaining or recruiting appropriately educated and skills workforces throughout the organisation to continue delivery of high levels of performance.</li> <li>Current financially stable authority monies may be diverted / used to support the lesser financially stable authorities, reducing opportunities locally.</li> </ol>	<ol style="list-style-type: none"> <li>Report to Council - 7th March 2017: To seek Council approval for the proposed Caerphilly County Borough Council response to the consultation on the Welsh Government White Paper: 'Reforming Local Government: Resilient and Renewed'. Approved.</li> <li>Welsh Government are currently working to a timetable which would see a Local Government Bill introduced in summer 2018, to commence in 2019, with mandated regional working arrangements in place in 2020.</li> </ol>		Low	Low	New risk. Await the result of the Local Government Reform White Paper. The Welsh Local Government Association (WLGA) has submitted a response to the consultation, which does not support mandated regional delivery.	Yes - However, impacts are not yet fully understood.	Medium and Long term	Medium	Corporate Management Team

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CMT46	Cardiff Capital Region City Deal (CCRCD)	CCRCD signed by all 10 Local Authorities in January 2017	<ol style="list-style-type: none"> <li>1. That the business plan detailing themes &amp; indicative spend is not agreed by all 10 LA's.</li> <li>2. CCRCD is unable to pass scheduled gateway reviews potentially leading to financial liability.</li> <li>3. Challenging timeframes.</li> <li>4. Senior managers ability to lead on CCRCD proposal.</li> </ol>	<ol style="list-style-type: none"> <li>1a. Director working as part of thematic lead team will input into the draft proposals. Working closely with the CEO we will ensure Members fully understand the proposals offered for approval, which will capture the benefits of this regional initiative, and that activities in other county boroughs will benefit the region as a whole, including Caerphilly borough.</li> <li>1b CCBC Regeneration Strategy/Resilience Strategy to be drafted as soon as possible to identify CCBC regeneration priorities.</li> <li>1c A project development fund is included within the CCRCD Programme office which can be accessed for bid development.</li> <li>2. The process will be closely monitored so that any potential liabilities are identified well before the gateway reviews.</li> <li>3. Work priorities will be reviewed to accommodate the timeframes.</li> <li>4. Skills amongst senior managers within the constituent authorities will be identified to ensure that the necessary leadership is available.</li> </ol>		Low	Low		The CCRCD is intended to bring significant benefits in terms of greater prosperity for the region and to maximise the ability of the authority to capitalise on training and employment opportunities for the area	Long-term	Low	Corporate Director of Communities
CMT47	Asset Management.	Insufficient budget to manage existing assets or pursue necessary development. The authority has too many buildings and insufficient capital programme allocation to maintain them. Additionally revenue budgets for building maintenance are being diverted to meeting the demands of the necessary legal standards, in particular health and safety legislation and that might well mean that normal building maintenance will suffer.	<ol style="list-style-type: none"> <li>1. Maintenance of existing sites will not be to a required standard</li> <li>2. Disposal of assets must be managed carefully to minimise community and service impacts</li> <li>3. Community Asset Transfer as an option brings risks in relation to continued liability</li> <li>4. Asset disposal may not realise expected returns</li> <li>5. Inability to pursue issues that we would wish, to improve service provision and community outcomes e.g. Band B of 21st Century Schools</li> </ol>	<ol style="list-style-type: none"> <li>1. Development of asset management and rationalisation programmes</li> <li>2. Cost benefit assessment before planned expenditure supported by business case where relevant</li> <li>2. Early stakeholder and community consultation before asset disposal</li> <li>3. Support for recipient organisations accepted for Community Asset Transfer</li> <li>4. Long term view of the needs of local communities balanced against the need to secure budget savings in the short to medium term.</li> <li>5. Services to identify what buildings they can realise as a consequence of Medium Term Financial Plan (MTFP) savings.</li> </ol>		Medium	Medium	Risk added to reflect MTFP pressures on capital decisions and inadequacy of capital funds.	Potentially disposal of assets across the authority may affect some communities disproportionately in the short to medium term. However, this has to be balanced against the need to manage a 'fit for use' portfolio to secure provisions for future generations over a longer timeframe.	Medium-term	Medium	Corporate Management Team

**ICLIP Key:**

**Involving** a diversity of the population in the decisions that affect them;

Working with others in a **collaborative** way to find shared sustainable solutions;

Looking to the **long term** so that we do not compromise the ability of future generations to meet their own needs;

Taking an **integrated** approach so that public bodies look at all the well-being goals in deciding on their well-being objectives;

Understanding the root causes of issues to **prevent** them from occurring.





## AUDIT COMMITTEE – 17TH OCTOBER 2017

**SUBJECT: 2016/17 STATEMENT OF ACCOUNTS – UNCORRECTED MISSTATEMENT OF £629K**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151 OFFICER**

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### 1. PURPOSE OF REPORT

- 1.1 To present details of the action required to deal with the uncorrected misstatement of £629k highlighted in the External Auditor's 'Audit of Financial Statements Report' presented to the Audit Committee on the 25th July 2017.

### 2. SUMMARY

- 2.1 The External Auditor's 'Audit of Financial Statements Report' was presented to the Audit Committee on the 25th July 2017.
- 2.2 The Auditor's Report provided details of an uncorrected misstatement that was being looked into further by Officers. This related to ongoing work on cash balances within the Accounts and a balance of £629k held as a reconciling item within the bank reconciliation. This arose in 2013/14 when the Council was in the process of transferring its banking activities from the Co-Operative Bank to Barclays Bank, with the temporary transfer of some cash and investment balances to the Bank of Scotland.
- 2.3 The 2016/17 Statement of Accounts was presented to and agreed by Council at its meeting on the 31st July 2017. At that time the uncorrected misstatement of £629k was still being looked into by Officers and consequently it was agreed with the External Auditor that once the appropriate accounting adjustments have been agreed they would be actioned in the 2017/18 financial year. Furthermore, it was agreed that a report on the outcome of the ongoing work and resulting adjustments would be presented to the Audit Committee at its next meeting.

### 3. LINKS TO STRATEGY

- 3.1 The Financial Accounts deal with resources available to the Authority that influence the delivery of policies and strategies.
- 3.2 Effective financial planning and robust budget management support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
  - A resilient Wales.
  - A healthier Wales.
  - A more equal Wales.
  - A Wales of cohesive communities.
  - A Wales of vibrant culture and thriving Welsh Language.
  - A globally responsible Wales.

## **4. THE REPORT**

### **4.1 Background**

- 4.1.1 During the 2013/14 financial year, the Authority utilised the services of the Co-Operative Bank (Co-Op) for its day-to-day banking activities. This contractual arrangement had been in place for many years but throughout 2013/14 the financial stability of the bank had deteriorated resulting in a number of credit rating downgrades by the three main credit rating agencies. The Authority's treasury management advisor, Arlingclose, recommended that balances at the Co-Op should be kept to a minimum and that a contingency plan should be put in place in the event that the Co-Op should cease to exist.
- 4.1.2 The Authority progressed with an emergency tender to appoint a new banker in December 2013 and Barclays Bank was awarded a short-term contract. Whilst the tender process was being undertaken a risk mitigation strategy was put in place that involved diverting the Authority's incoming cash receipts to bank accounts held outside of the Co-Op. One of these accounts was the Bank of Scotland Treasury Call Account.
- 4.1.3 Due to the events taking place at the Co-Op and the speed of the deterioration, the Authority had a duty of care to notify the Education Trust Fund and Caerphilly County Borough cheque book Schools that banked with the Co-Op, and bring to their attention the potential insolvency issue and the risk of loss to their cash balances. The cheque book Schools agreed to temporarily transfer over surplus balances to the Authority for safeguarding.
- 4.1.4 The Authority had successfully switched from the Co-Op to Barclays by early February 2014. Balances continued to be held in the Bank of Scotland account until new accounts were set up with Barclays. By June 2014, the Council was fully operational with Barclays and the remaining balances held at the Bank of Scotland account had been transferred to the new Schools and Trust Fund bank accounts held with Barclays.

### **4.2 2016/17 Statement of Accounts**

- 4.2.1 During the external audit of the Authority's 2016/17 Statement of Accounts a balance of £629k was identified as being held as a reconciling item in the main cash balances in the Balance Sheet.
- 4.2.2 The £629k balance represents the residual amount of cash that had not been returned to four cheque book Schools and the Education Trust Fund, and was held in the Bank of Scotland Call Account as at the 31st March 2014. The Schools balance totalled £464k with the Education Trust Fund balance being £165k.
- 4.2.3 The External Auditor's 'Audit of Financial Statements Report' presented to the Audit Committee on the 25<sup>th</sup> July 2017 identified the £629k as an uncorrected misstatement in the Statement of Accounts with a recommendation that Officers further investigate the issue with a view to removing this as an ongoing reconciling item.
- 4.2.4 The 2016/17 Statement of Accounts was presented to and agreed by Council at its meeting on the 31<sup>st</sup> July 2017. At that time the uncorrected misstatement of £629k was still being looked into by Officers and consequently it was agreed with the External Auditor that once the appropriate accounting adjustments have been agreed they would be actioned in the 2017/18 financial year.

### **4.3 Internal Officer Review**

- 4.3.1 In line with the recommendation in the External Auditor's 'Audit of Financial Statements Report', Officers have undertaken a review of the accounting entries leading to the balance of £629k.

### Schools Balances

- 4.3.2 The year-end procedures and the Balance Sheet position of the Schools balances included within the Balance Sheet have been reviewed as at the 31<sup>st</sup> March 2014.
- 4.3.3 At 2013/14 year-end the cheque book Schools financial systems were fully reconciled to the Authority's General Ledger and cumulative carry-forward balances were agreed with the Schools. In all instances the monies held in the Bank of Scotland account were included by the Schools and consequently form part of their carry-forwards into the 2014/15 financial year.
- 4.3.4 This procedure is consistent with all years (relating to the cheque book Schools); the £464k was part of the Schools balances as at the 31<sup>st</sup> March 2014 and would ordinarily have been held within the Co-Op account at year end with no impact on the corporate position (as it was reconciled by the Education Finance Team).
- 4.3.5 Consequently, the Schools have correctly accounted for the £464k in the year-end closure for 2013/14. However, the issue has arisen because the Schools cash balance was also treated as a corporate investment balance due to the £464k being held in the Bank of Scotland Investment Account. In effect the Schools have accrued for the income which is physically being held in the Authority's Bank account, hence a double count.

### Trust Fund Balances

- 4.3.6 The year-end procedures and the Balance Sheet position of the Education Trust Fund balances included within the Balance sheet have been reviewed as at the 31<sup>st</sup> March 2014. The procedure is consistent with previous years.
- 4.3.7 The Education Trust Fund Balance Sheet position as at the 31<sup>st</sup> March 2014 was found to be correct and inclusive of the £165k balance held within the Bank of Scotland Call account. The Trust Fund had accrued for the income which was physically being held in the Authority's Bank account as at the 31<sup>st</sup> March 2014. However, Corporate Finance simultaneously treated the £165k as a corporate investment balance, hence a double count.

### Investments

- 4.3.8 Officers have reviewed investment balances held as at the 31<sup>st</sup> March 2014. The review has identified that the £629k balance held upon the Bank of Scotland call account had been included within investment balances at this date.
- 4.3.9 The review also established that the balance held within the cash balance arose in 2014/15 when the investment balance was corrected by transferring the balance to cash.

### Conclusion of Internal Review

- 4.3.10 The Schools cash balances and Education Trust Fund cash balance are outside the General Fund so the balances should not have been included within the Authority's main bank reconciliation account. This cash is accounted for in the Schools Balance Sheet and Trust Fund Balance Sheet and there has therefore been a double count of the cash. The balance of £629k held corporately does not therefore support General Fund working balances.
- 4.3.11 Given that the Balance Sheet position for the Schools and the Education Trust Fund accurately reflect the bank position as at the 31<sup>st</sup> March 2017, it is necessary to clear the duplicate entry of £629k currently held in error as a cash balance to working balances. This is on the basis that this cash balance is not available to support the current General Fund balance of £13.910m. This will reduce the General Fund balance by £629k to £13.281m.

#### **4.4 External Auditor Comments**

- 4.4.1 As a result of the audit work performed on the 2016/17 Financial Statements a £629k difference was identified as a reconciling item within the bank reconciliation. In our view, this did not represent a cash balance and we recommended that this should be removed from Cash within the Balance Sheet. This remained as an uncorrected misstatement when the accounts were signed by the Assistant Auditor General for Wales on the 3<sup>rd</sup> August 2017. We recommended that Officers investigate this difference and correct it in year.
- 4.4.2 Subsequently, Officers have reviewed this issue further and concluded that the cash balance was double counted in error in the accounts year ending the 31<sup>st</sup> March 2014. We have verified that the Trust and Schools' balances included their proportion of this fund in the Bank of Scotland Call Account as at the 31<sup>st</sup> March 2014 and all bank reconciliations are inclusive of this amount subsequent to this date. However, at this time the cash was being held by the Authority and was included within the investment balance at the 31<sup>st</sup> March 2014. This is where the double count occurred. Within the 2014/15 financial year, the £629k was incorrectly transferred to the cash and cash equivalents line in the Balance Sheet. Subsequently, this has resulted in a reconciling item within this line.
- 4.4.3 We are satisfied with the proposed adjustment based on the evidence reviewed as this cash does not support the main Authority's General Fund balances.

#### **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 Effective financial planning and robust budget management are key elements in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

#### **6. EQUALITIES IMPLICATIONS**

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

#### **7. FINANCIAL IMPLICATIONS**

- 7.1 The double count of the £629k cash balance means that the current General Fund balance of £13.910m has been incorrectly overstated. The proposed adjustment of £629k will ensure that the General Fund balance is corrected to £13.281m.
- 7.2 At its meeting on the 28th February 2018 Council will be presented with a report providing details of the 2018/19 budget and an updated Medium-Term Financial Plan covering the period 2018/19 to 2022/23. This report will include details of movements on the General Fund and an explanation will be provided of the adjustment that is required to correct the £629k misstatement identified as part of the audit of the 2016/17 Accounts.

#### **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

#### **9. CONSULTATIONS**

- 9.1 There are no consultation responses that have not been reflected in this report.

## **10. RECOMMENDATIONS**

10.1 The Audit Committee is asked: -

10.1.1 To note the action required to deal with the uncorrected misstatement of £629k highlighted in the External Auditor's 'Audit of Financial Statements Report'.

10.1.2 To note that details of movements on the General Fund and an explanation of the adjustment that is required to correct the £629k misstatement will be incorporated into the 2018/19 budget report that will be presented to Council on the 28<sup>th</sup> February 2018.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To ensure that the uncorrected misstatement of £629k is rectified and that the current General Fund balance is correctly stated at £13.281m.

## **12. STATUTORY POWER**

12.1 Accounts and Audit (Wales) Regulations 2014.

Author: Andrew Southcombe, Finance Manager (Corporate Finance)  
Tel: 01443 863214 E-mail: [southak@caerphilly.gov.uk](mailto:southak@caerphilly.gov.uk)

Consultees: Nicole Scammell, Acting Director of Corporate Services & S151 Officer  
Stephen Harris, Interim Head of Corporate Finance  
Nadeem Akhtar, Group Accountant  
Nicola Roberts, Group Accountant  
Gail Williams, Interim Head of Legal Services & Monitoring Officer

Background Papers:

Audit Committee 25/07/17 – Financial Statements for 2016/17.

Council 31/07/17 – Financial Statements for 2016/17.

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## AUDIT COMMITTEE – 17TH OCTOBER 2017

**SUBJECT: INTERNAL AUDIT SERVICES – ANNUAL OUTTURN REPORT 2016/17**

**REPORT BY: INTERNAL AUDIT MANAGER**

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### 1. PURPOSE OF REPORT

1.1 To inform Members of the work carried out by Internal Audit Services during 2016/2017.

### 2. SUMMARY

2.1 It is a requirement both of the Public Sector Internal Audit Standards (PSIAS) and the Council's own Financial Regulations that an annual audit activity plan is prepared to ensure that there is an effective and efficient use of audit resources. In addition to producing the audit plan, it is also a requirement that the Internal Audit Manager produces an outturn report which provides members of the Audit Committee with an overview of the work undertaken by Internal Audit Services during the previous financial year and provides an insight into the range of issues that the service is involved with in addition to the core audit work undertaken.

### 3. LINKS TO STRATEGY

3.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement. Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

### 4. THE REPORT

4.1 The 2016/17 Annual Audit Plan was prepared on a risk-based approach and is structured around four key principles: -

**Systems** System audits would be prioritised and would focus on both controls in operation and compliance with approved processes and procedures.

**Establishments** There would be a medium-term strategy to ensure adequate coverage in this area in order that all establishments receive a periodic audit visit. Details of the visits undertaken during the year are provided in Appendix A.

**Regularity** The safeguarding of assets, income and control of expenditure would remain a priority.

**Advisory** A consultative approach to be encouraged in order to promote an open and transparent culture to include the sharing of best practice and early input from Internal Audit in developing processes and procedures.

4.2 Internal Audit Services has continued to maintain its organisational independence throughout the year and continues to report functionally to the Audit Committee in accordance with the Public Sector Internal Audit Standards (PSIAS). The service has operated without interference or undue influence from those subject to audit and no impairments to independence or objectivity have arisen during the period.

4.3 As reported to the Audit Committee in December 2016 a self-assessment has been undertaken of compliance with the Public Sector Internal Audit Standards (PSIAS). The conclusion arising from the self-assessment was that the main areas of the Standards are well covered and no fundamental issues remain outstanding. Actions identified during the self-assessment process are being addressed by the Internal Audit Manager.

4.4 At the time of preparing the 2016/2017 Annual Audit Plan the Section's actual establishment was 8.24 fte (full time equivalent) staff, which equates to 2151 staff` days. Of this total, 1530 days were allocated to specific audits with the remaining 621 days being classified as overheads to cover holidays, sickness, training, management issues and other non-directly allocated time.

4.5 The following table provides an overview of the actual allocation of audit staff time for 2016/2017 against the original plan. One of the main performance measures currently adopted by Internal Audit is a comparison of how time is actually spent compared to the audit annual plan. This requires all staff to complete timesheets and allocate time spent against the appropriate client.

Directorate	Planned Coverage (Days)	Actual Coverage (Days)	Variance (Days)	Variance (%)
Education & Lifelong Learning	273	328	+55	+20.1
Social Services	171	113	-58	-33.9
Environment	288	170	-118	-40.9
Corporate Services	405	537	+132	+32.6
Corporate	313	217	-96	-30.7
Contingency	80	-	-80	-
<b>Total allocated time</b>	<b>1530</b>	<b>1365</b>	<b>-165</b>	<b>-10.8</b>
Overheads	621	646	+25	+4.0
<b>Total available days</b>	<b>2151</b>	<b>2011</b>	<b>-140</b>	<b>-6.5</b>

4.6 The above table shows how actual coverage has varied from that originally planned prior to the start of the year. Variances arise due to a number of factors including but not limited to the following: -

- A reduction in the total available days is due to a combination of a vacant post and a temporary work pattern reduction.
- The actual audit reviews may take longer than planned (this is a particular issue with new or unfamiliar areas).
- Initial findings may be complex and additional audit work or further requests for information and explanations may be required.



- Additional time may also be incurred on audits where adequate information and explanations are not supplied promptly by management thus requiring further time to be incurred chasing explanations.
  - Additional risk areas not originally scoped may be identified during audits which may require further work as part of an existing audit or an additional audit review.
- 4.7 As the Internal Audit Service becomes more responsive to the needs of the organisation the annual planning process is becoming more difficult to accurately predict what will be required over both the short and medium-term. Variances from the initial plan to outturn as noted above will not be unusual as new and emerging risk issues arise and this will inevitably result in re-prioritisation of audits within the plan. The pace of change in respect of structures and service delivery across the organisation will further complicate resource allocation and will inevitably lead to future audit plans becoming more generic in nature and thus more flexible to allow for new or emerging issues to be accommodated. As a result the Audit Committee will receive an in-year progress report on the agreed Audit Plan.
- 4.8 Due to the nature of internal auditing, performance monitoring and target setting have always been key drivers by which management can assess the effectiveness of the Internal Audit Service. Resource planning, time recording and benchmarking have long been used by Internal Audit to direct and inform the audit process. Performance measures are important for two reasons: -
- They enable progress over a period of time to be monitored (given that historic data is available to establish a sound base).
  - They enable targets to be set for future improvement.
- 4.9 The main performance measures for Internal Audit for 2016/17 covered the following areas: -
- Sickness Absence.
  - Productivity.
  - Completion of audit plan.
  - Costs remaining within budget.
- 4.10 Details of actual performance against specific performance measures are provided below: -
- 4.10.1 **Sickness Absence** - The percentage sickness absence during 2016/17 was 1.23% (1.06% in 2015/16).
- 4.10.2 **Draft reports to be issued to management within 10 working days following the completion of the audit fieldwork** - Based on a sample analysis an average of 16.5 days (11.6 days in 2015/16) was achieved. This measure tends to fluctuate year-on-year due to the impact of workload, unplanned work and the complexity of the audit work undertaken.
- 4.10.3 **The level of directly allocated time to be 70% of total time available** - A level of 68% (69% in 2015/16) was achieved.
- 4.10.4 **To issue all final reports within 5 days of management clearing the draft report** - Based on a sample analysis an average of 5.5 days (4.9 days in 2015/16) was achieved.
- 4.10.5 **Audit staff to be available from 8.30 to 5.00, Monday to Thursday, 8.30 to 4.30 on Fridays** - This target was achieved.
- 4.10.6 **To draw up and have agreed an Annual Plan by the 31<sup>st</sup> March** - The 2016/17 audit plan was agreed by the Audit Committee on 9<sup>th</sup> March 2016.
- 4.10.7 **To ensure costs are in line with budget** - This was achieved.

- 4.11 The regularity work carried out by Internal Audit Services is designed to assess overall compliance with management policies and procedures. This work is supplemented and complemented by system reviews to measure and recommend on the level and effectiveness of internal controls.
- 4.12 Internal Audit reviews concentrate on the negative aspects and this can sometimes give a misleading picture of the financial control environment of an organisation. Whilst there may be, in an organisation as large as Caerphilly CBC, areas of concern in relation to the detailed financial administration there are also many examples of good practice.
- 4.13 During 2016/17 all appropriate audit reports were given an audit opinion on the adequacy of the systems reviewed, the controls in place, and compliance with those controls to provide an overview of the whole control environment and evidence to support the financial element of the Council's annual governance review process.
- 4.14 Due to the diversity of the work undertaken reports and opinions are tailored to suit each situation. This approach has evolved over time based on experience and knowledge of the organisation. Reports arising from audit reviews of the Council's establishments use a three tier assessment consisting of (1) good (2) satisfactory and (3) in need of improvement. Audit reviews of systems although using the 1, 2, 3 system above, can include an assessment of both the system controls in place and the compliance with those controls, thus producing two opinions per review.
- 4.15 Audit reviews (including follow-up audits) have been carried out across a wide variety of areas in order to gain an overall opinion on the effectiveness of the internal control system operating within the Council, which has been reflected in the Annual Governance Statement (AGS).
- 4.16 In the majority of cases management and the auditees have accepted the recommendations made by Internal Audit. Recipients of audit reports (excl. establishments) are required to submit action plans to the Internal Audit Section to ensure proposals have been actioned or are being adequately progressed. During the year 11 action plans relating to previous years systems audits were reviewed and of the three establishments identified as needing to improve during the previous year two were visited again and the other one is due to be revisited in the current year.
- 4.17 Those areas identified as not being satisfactory have been or are being dealt with via an ongoing audit process thus ensuring issues are resolved appropriately. None of the issues identified are considered to be material in the context of the whole authority and are not felt to be significant enough to warrant disclosure within the annual review of the Council's governance arrangements.
- 4.18 The following sections of the report provide further details of the variety of activities that the Internal Audit Service was involved in during the year: -
- 4.19 Establishment Audits
- 4.19.1 Due to the decentralised nature of some of the Council's operations additional risks occur that are best reviewed and dealt with on site. Periodic visits to stand alone sites not only acts as a deterrent but also provides an opportunity to fill knowledge gaps, correct poor practices or errors and to identify and pass on best practice. Visits to operational establishments are made on cyclical basis with those that are given the 'in need of improvement' ranking receiving a revisit to monitor improvement progress.
- 4.19.2 Eleven establishment audits that were undertaken in the previous financial year were finalised with the final reports being agreed and issued. Of these eleven audits one was rated as 'good', eight were rated as 'satisfactory' and the remaining two were rated as 'in need of improvement'. The 'in need of improvement' establishments are both schools, one was revisited and a date for a revisit has been arranged for later in the year for the other. In both schools attention was drawn to the accuracy and completeness of the school meals records,

expenditure documentation and control, and the administration of the school private funds. There were also some specific issues for each school which were highlighted for the school management to focus upon.

- 4.19.3 Establishments in receipt of an audit visit during the year included 27 schools, 1 leisure facility, 4 social services establishments and 2 other miscellaneous establishments (see Appendix A). Twenty six of these have been finalised and reports agreed and issued. The remaining eight were at the draft report stage at the end of the year, awaiting final agreement from clients prior to the issue of the final reports.
- 4.19.4 In respect of the twenty six finalised audits nine were rated as 'good', fourteen rated as 'satisfactory' and three as 'in need of improvement'. The three rated as 'in need of improvement' are all schools and two have been scheduled for a revisit and one has already been visited and has shown sufficient improvement to have its opinion upgraded to 'satisfactory'.
- 4.19.5 In respect of the eight audits at the draft report stage at the year end, six were considered to be satisfactory and two were ranked as 'in need of improvement' (both schools). Both schools ranked as 'in need of improvement' were re-visits and both have received a visit from the Internal Audit Manager.
- 4.19.6 The themes identified during the audit process were around school meal administration and records, income records and banking, payroll documentation, ordering procedures and the administration of school private funds.
- 4.19.7 At the request of one of our comprehensive schools an exercise was undertaken to look into a potential irregularity within the school's financial administration. A report was issued to the Headteacher which was used in an investigation and also later informed improvements in procedures and practices.

#### 4.20 Systems Audits

- 4.20.1 Systems work is carried out on the main financial systems of the Council e.g. payroll, creditor payments etc., together with other financial and non-financial systems. Systems audits are prioritised on a risk based approach with those involving cash handling, large values or high volumes of transactions being considered to be higher risk. Systems audits assess the risks and controls in existence in a system, together with an opinion on the compliance to these controls.
- 4.20.2 All system audits with findings of moderate risk or above will result in an agreed action plan of recommended improvements and these are subject to review once the respective implementation dates have elapsed.
- 4.20.3 Fifteen system audit jobs were brought forward from the previous year. Fourteen of these have since been finalised with twelve having final reports agreed and issued. These audits produced twenty four opinions of which four were 'good', eight were 'satisfactory' and twelve were 'in need of improvement'. The six audits generating the twelve 'in need of improvement' opinions were Customer First cash offices, purchase ledger, purchase ledger feeders, expenses, Supporting People and school meal income and arrears. Action plans have been agreed with management and the follow-up process will revisit these areas to ensure that agreed improvements have been made. Further details of the issues identified are set out in Appendix B of this report.
- 4.20.4 During the year twenty systems audits, ten grant audits and eleven action plan reviews were undertaken. Eight systems audits producing finalised and issued reports resulted in eleven audit opinions of which ten were satisfactory or above. The remaining 'in need of improvement' opinion was in respect of the WHQS project, further details of which are provided in Appendix B. All ten grant audits were found to be satisfactory and the grant certificates were signed accordingly, with the total value of the grant claims being

approximately £21.5 million. The action plan reviews were all signed-off in response to management assurances that improvements have been actioned.

- 4.20.5 Analysis of reported findings and opinions from these audits is an ongoing process which is used to inform the planning, prioritisation and risk assessments of future annual plans.
- 4.21 Other advisory or miscellaneous work undertaken
- 4.21.1 Audit staff have participated in a working group and undertake periodic testing of our conformity with the Payment Card Industry (PCI) Standards. The Authority continues to be fully compliant with the PCI Standard. This is an ongoing requirement.
- 4.21.2 Audit staff have also contributed to a corporate services working group looking at the potential risks and suitable solutions to administering and complying with a new taxation regulation in respect of self-employment and small registered companies, referred to as IR35. This work will be ongoing into the New Year.
- 4.21.3 The Internal Audit Manager has met with the Head of Internal Audit in Bridgend CBC to share best practice and explore lessons learned from Bridgend's roll-out of a formal governance review process in respect of educational establishments. Work has been undertaken to adapt our corporate governance checklist process for use by schools.
- 4.21.4 A proportion of the work of the Internal Audit Service during 2016/17 requires involvement in the development of new and existing systems and procedures. Whilst this work does not form part of the assurance work undertaken it is considered beneficial for early audit involvement to avoid future problems due to control weaknesses. All opportunities are taken to proactively promote good practice and to strengthen both existing and new control processes and as such resource and time is allocated to this advisory/consultancy role. This is reflected in the opinions reported in the Annual Governance Statement (AGS).
- 4.21.5 Advice has been provided in the early discussions around cashless catering systems and procedures in relation to schools.
- 4.21.6 Internal Audit staff have continued to provide advice and support to staff on Standing Orders for Contracts, Financial Regulations and financial best practice including tailored training or instruction as and when required. An interim consultation and review of the appropriateness of Financial Regulations and Standing Orders for Contracts was undertaken during the year and this did not identify any major issues that required immediate attention.
- 4.21.7 The Internal Audit Manager is a member of the Corporate Governance Review Panel and facilitates the annual review process which takes place throughout the year culminating in the draft Annual Governance Statement being presented to the Audit Committee for consideration. Work has also been ongoing throughout the year to keep the corporate process in line with current guidance and to monitor progress in respect of actions identified in previous reviews.
- 4.21.8 The Internal Audit Manager also produced an Assurance Framework document which was endorsed by the Audit Committee in December 2016 and is intended to be a useful diagrammatical representation of the processes and control mechanisms that the Authority has in place contributing to the governance of the Authority. It will also aid understanding of the connections between the various elements of the governance structure along with the responsibility for the various tiers on assurance.
- 4.21.9 Internal Audit has continued supporting the Welsh Housing Quality Standard (WHQS) project with the ongoing development of systems and processes. Ongoing monitoring work has taken place in respect of reviews of data compliance, contract pain/gain mechanism and risk management processes and advice and support in respect of E invoicing and contract benchmarking.

- 4.21.10 An exercise has been undertaken to review the values and volumes of retrospective orders being processed within the corporate payment system and monitoring has continued throughout the year to establish a base line against which future performance improvements will be measured.
- 4.21.11 An exercise was undertaken to review the administrative processes and procedures in operation within the Outdoor Education Service. A report was agreed and issued with an overall opinion of satisfactory.
- 4.21.12 The Internal Audit Manager has been supporting the Acting Head of Human Resources & Organisational Development, as appropriate, with the ongoing investigation in respect of three senior officers.
- 4.21.13 Internal Audit staff facilitated the biennial National Fraud Initiative (NFI) data matching exercise, which is a national mandatory programme involving 1300 public sector organisations to help prevent and detect fraud. The NFI plays an important role in protecting the public purse and is one element of an effective anti-fraud strategy. The NFI is run by the Cabinet Office and the Wales Audit Office (WAO). Data was uploaded in late 2016 and matches were published in January and work is ongoing in a number of service areas to investigate these, and the exercise is due to be completed later in 2017. WAO have advised they have selected Caerphilly for review in respect of our participation and contribution to the exercise and WAO have met with audit staff to discuss this. When the exercise is completed the national findings will then be collated and published by WAO in 2018 and subsequently reported to the Audit Committee.
- 4.21.14 Ninety five contractors' final accounts were audited during the year with a combined value of over £41m (2015/16 - 97 accounts with a value of £23m). Apart from two minor overpayments and six procedural reporting issues the discipline of having to submit accounts for auditing is continuing to work well and is minimising the incidence of errors or procedural issues being overlooked.
- 4.21.15 Internal Audit Services receives and assesses all anonymous communications received by the Authority to ensure that they are properly considered. During the year there were 106 anonymous letters logged by Internal Audit which, where appropriate, were passed to the relevant departments for action (76 in 2015/16). These communications cover a wide range of issues from possible benefit frauds, neighbour disputes, anti-social behaviour and other potential illegal behaviours. However, Internal Audit Services focus on system control failures and staff related issues and only three such issues were raised during the year with all being satisfactorily investigated. Additionally, cheques returned to the Council are also scrutinised within Internal Audit Services to identify system and/or control issues. Eighty four cheques were returned during the year. Both these operations act as a barometer in respect of underlying issues and are used to inform the Internal Audit planning process in respect of identifying areas that require future coverage.
- 4.21.16 Internal Audit Services staff have attended the Learning from Complaints Group which compliments the work undertaken within Internal Audit in respect of anonymous referrals.
- 4.21.17 Compliance work was undertaken to assist with the ongoing IT security accreditation (BSISO/IEC27001:2013). As part of a rolling review process, 5 reviews have been undertaken within the IT department which contribute to the ongoing BSI 27001 accreditation in respect of the security arrangements within the service area. All five reviews were determined to be satisfactory.
- 4.21.18 A review of the Authority's counter fraud framework was undertaken using a Chartered Institute of Public Finance (CIPFA) checklist to assess its potential for future reviews. In addition a fraud risk register was drafted to sit alongside the assessment and both draft documents are currently being considered as potential assurance documents in future years.

- 4.21.19 The Audit team undertook a self assessment review against the requirements of the Public Sector Internal Audit Standard (PSIAS) the results of which were reported to the Audit Committee in December 2016. Overall it was considered that no fundamental issues were identified and all areas of the Standards had been covered. Some areas for improvement were identified and the self-assessment is currently undergoing a peer review to validate its robustness, the results of which will be reported to the Audit Committee once completed.
- 4.21.20 As part of a reciprocal arrangement set up by the Welsh Chief Auditors Group the Internal Audit Manager undertook a peer review of Rhonda Cynon Taff Internal Audit Service's self-assessment.

#### 4.22 Training and advice

- 4.22.1 Internal Audit Services continue to participate in the South Wales Chief Auditor Group Training Programme and during the year three staff attended a session on Project Management. Two audit staff also attended a WAO seminar considering the type of involvement and role Internal Audit Sections could have in the future in respect of the 'Well being of Future Generations Act'.
- 4.22.2 The Internal Audit Manager attended one Welsh Chief Auditors Group meeting and also contributed to the annual benchmarking exercise that is co-ordinated by the Group. This annual exercise allows a number of comparisons to be made between Welsh Authorities' audit teams which can then be used for improvement purposes.
- 4.22.3 Internal Audit staff have continued to participate in the specialist practitioners groups, set up by the Welsh Chief Auditors Group, dealing with topical audit issues and the development of a best practice approach. This is seen as an important ingredient in ensuring Internal Audit staff are continuing their professional development and are aware of the wider issues affecting the delivery of an effective Internal Audit Service.
- 4.22.4 The Interim Head of Corporate Finance has held an 'Away-Day' with the Internal Audit Team to consider the proposals for improvement relating to Internal Audit in the WAO report "Review of arrangements to address external audit, inspection and regulation recommendations and proposals for improvement – Caerphilly CBC". A follow up session has also taken place to update the staff on progress made with the completion of the agreed actions and the position going forward.

### 5. **CONCLUSIONS**

- 5.1 This report has been prepared as a review of Internal Audit activity during 2016/2017. It not only highlights the extent of the work completed but also the diversity.
- 5.2 No fundamental issues have come to light as a result of audits carried out on both the major financial systems and other financial and administrative systems and procedures. Where issues have been identified and brought to the attention of management an action planning process is in place to drive through the necessary improvements. Overall it is considered that the Council continues to operate within a control environment that should minimise the risk of loss to the Authority.

### 6. **EQUALITIES IMPLICATIONS**

- 6.1 This report is for information purposes only, therefore the Council's full equalities impact assessment process has not been applied.

## **7. FINANCIAL IMPLICATIONS**

7.1 There are no direct financial implications arising from this report.

## **8. PERSONNEL IMPLICATIONS**

8.1 There are no direct personnel implications arising from this report.

## **9. CONSULTATION**

9.1 All consultation responses have been reflected in this report.

## **10. RECOMMENDATIONS**

10.1 The Audit Committee is asked to note the content of this annual review of the operation of the Internal Audit Service.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To ensure that the Audit Committee is aware of the level of Internal Audit coverage and the overall opinion derived from undertaking this work.

## **12. STATUTORY POWER**

12.1 Local Government Act 2000.

Author: Richard M Harris, Internal Audit Manager

Tel: 01443 864044 E-mail: [harrirm@caerphilly.gov.uk](mailto:harrirm@caerphilly.gov.uk)

Consultees: Nicole Scammell, Acting Director of Corporate Services & Section 151 Officer  
Stephen Harris, Interim Head of Corporate Finance

Appendices:

Appendix 1 Schedule of establishment visits undertaken during 2016/17

Appendix 2 Table of issues identified for those audits ranked as in need of improvement

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# Caerphilly County Borough Council

## INTERNAL AUDIT SERVICES

### Schedule of establishment visits undertaken during 2016/2017

#### Primary Schools

<i>MAESYCWMMER PRIMARY</i>	<i>YSGOL GYMRAEG CWM GWYDDON</i>	<i>TYNEWYDD PRIMARY</i>
<i>CRUMLIN HIGH LEVEL PRIMARY</i>	<i>YSGOL BRO SANNAN</i>	<i>FOCHRIW PRIMARY</i>
<i>DERWENDEG PRIMARY</i>	<i>YSGOL GYMRAEG TRELYN</i>	<i>CWMCARN PRIMARY</i>
<i>TY SIGH PRIMARY</i>	<i>UPPER RHYMNEY PRIMARY</i>	<i>PANTSIDE INFANTS</i>
<i>ABERCARN PRIMARY</i>	<i>PONTLOTTYN PRIMARY</i>	<i>WHITE ROSE PRIMARY</i>
<i>ST GWLADYS PRIMARY (replaced by</i>	<i>RHIW SYR DAFYDD PRIMARY (replaced by</i>	<i>PENTWYNMAWR PRIMARY</i>
<i>YNYSDDU PRIMARY</i>	<i>HENDRE INFANTS)</i>	
<i>YSGOL GYNRADD GYMRAEG CAERFFILI</i>	<i>TWYN PRIMARY (replaced by BRYNAWEL</i>	<i>TYNYWERN PRIMARY (replaced by</i>
<i>(replaced by HENGOED PRIMARY)</i>	<i>PRIMARY)</i>	<i>HENGOED PRIMARY)</i>

*GLAN Y NANT LEARNING CENTRE*

#### Comprehensive Schools

<i>YSGOL GYFUN CWM RHYMNI</i>	<i>BLACKWOOD COMPREHENSIVE</i>
<i>CWMCARN HIGH SCHOOL</i>	<i>RISCA COMPREHENSIVE</i>
<i>LEWIS SCHOOL PENGAM</i>	

#### Leisure Centres

*BEDWAS LEISURE CENTRE*

#### Other

*CWMCARN FOREST DRIVE VISITORS  
CENTRE*  
*RISCA LIBRARY*

#### Social Services

<i>BRONDEG DAY CENTRE</i>	<i>TY CLYD HFE</i>
<i>HEOL ANEURIN COMMUNITY HOME</i>	<i>MARKHAM RESOURCE CENTRE ( replaced by EBENEZER RESOURCE BASE)</i>

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Table of issues identified for those audits ranked as in need of improvement in 2016/17

Establishment Audits	Issues noted	Progress / updates
<b>Started 15/16 finished 16/17</b>		
<b>School 1</b>	<ul style="list-style-type: none"> <li>• School meal arrears exceed the levels set out in the School Meals Credits/Arrears Procedure.</li> <li>• Material differences between meals ordered and meals served</li> <li>• Purchasing card transactions not authorised by Head Teacher</li> <li>• Ex-employee overpaid substantially because of late submission of leavers forms</li> <li>• School Private Fund bank reconciliations not being carried out</li> </ul>	Follow up audit to be undertaken November 2017
<b>School 2</b>	<ul style="list-style-type: none"> <li>• Duplicate payments income banked without reference to Collections &amp; Deposits return</li> <li>• Monthly Collections &amp; Deposits return not certified by Head Teacher</li> <li>• School meal arrears exceed the levels set out in the School Meals Credits/Arrears Procedure</li> <li>• All School Private Fund income analysed as miscellaneous</li> <li>• No daily record of income for School Private Fund</li> </ul>	Follow up audit undertaken January 2017. Still in need of improvement (see School 7 below)
<b>Started 16/17 finished 16/17</b>		
<b>School 3</b>	<ul style="list-style-type: none"> <li>• No process to ensure free school meals provided by supplier and paid by School are accurate</li> <li>• No evidence to substantiate value for money/safety of transport to School</li> <li>• VAT on leases for the School Minibus &amp; Computers had not been reclaimed</li> <li>• Insurance policy not available</li> <li>• Absence of Computer/Information Security Policy &amp; Internet Usage Policy</li> <li>• Minibuses - No proof of MOT/tax/insurance</li> </ul>	Follow up audit to be undertaken 2017/18

<b>School 4</b>	<ul style="list-style-type: none"> <li>• Delays in banking School money</li> <li>• No daily record of income for School income</li> <li>• School meal arrears exceed the levels set out in the School Meals Credits/Arrears Procedure</li> <li>• School meal arrears not brought forward from one School year to the next</li> <li>• Unsatisfactory ordering and payment processes</li> <li>• Delivery notes not retained and not noted on copy orders</li> <li>• Invoice checking process poor</li> <li>• School Private Fund bank reconciliations not being carried out</li> <li>• No daily record of income for School Private Fund</li> <li>• No procedure for accurately accounting for School trips</li> </ul>	Follow up audit to be undertaken 2017/18
<b>School 5</b>	<ul style="list-style-type: none"> <li>• Material differences between meals ordered and meals served</li> <li>• School meal arrears exceed the levels set out in the School Meals Credits/Arrears Procedure</li> <li>• Ex-employee overpaid substantially because of late submission of leavers forms</li> <li>• School Private Fund bank reconciliations not being carried out</li> <li>• No daily record of income for School Private Fund</li> <li>• Lack of expenditure receipts in School Private Fund</li> <li>• Overdrawn bank account in School Private Fund</li> </ul>	Follow up visit undertaken in February 2017. Progress made, now classed as satisfactory
<b>Started 16/17 finished 17/18</b>		
<b>School 6</b>	<ul style="list-style-type: none"> <li>• Unsatisfactory ordering and payment processes</li> <li>• Long delays and over banking in School Private Fund</li> <li>• Lack of expenditure receipts in School Private Fund</li> <li>• Income not recorded on daily income record when received</li> </ul>	Visited Headteacher in March 2017, providing targeted training Follow up audit to be undertaken in November 2017

<b>School 7</b>	<ul style="list-style-type: none"> <li>• School meal arrears exceed the levels set out in the School Meals Credits/Arrears Procedure</li> <li>• Free School meals without correct authorisation</li> <li>• Duplicate payments</li> <li>• Unsatisfactory ordering and payment processes</li> <li>• Few leases and contracts available</li> <li>• School Private Fund bank reconciliations not being carried out</li> <li>• No evidence of Private Fund audit</li> <li>• No Private Fund Income records retained by staff</li> <li>• Lack of expenditure receipts in School Private Fund</li> </ul>	Visit made to Governing body in June 2017 Follow up audit to be undertaken to assess progress
<b>Systems Audits</b>	<b>Issues noted</b>	<b>Progress / updates</b>
<b>Customer First cash offices</b>	<ul style="list-style-type: none"> <li>• Cash income, balancing, administration and record keeping.</li> <li>• Mobile van</li> </ul>	Follow up audit due 2017. Processes and procedures under review by Head of Service
<b>Purchase ledger</b>	<ul style="list-style-type: none"> <li>• Payment of staff expenses via purchase ledger</li> <li>• New suppliers being set up with insufficient information</li> <li>• Process over supplier amendments</li> </ul>	New processes set up so that payments to individuals and staff members are scrutinised before payment. New processes set up relating to new supplier accounts and account amendment
<b>Purchase ledger feeders</b>	<ul style="list-style-type: none"> <li>• Status of time sheets entered onto Agency workers payments system</li> <li>• Electronic feeder system operating over energy payments and communication between departments require improvements</li> </ul>	Energy feeder systems replaced with a manual system until resolved
<b>Expenses</b>	<ul style="list-style-type: none"> <li>• Management review and monitoring to ensure compliance with policies.</li> </ul>	To be followed up
<b>Supporting People</b>	<ul style="list-style-type: none"> <li>• Compliance with Welsh Government timetables</li> <li>• Contracting and payment arrangements particularly with some long standing suppliers</li> <li>• Evidence to support some payments/rates</li> </ul>	Grant subject to annual audit and improvements are being made.
<b>School Meals income and arrears</b>	<ul style="list-style-type: none"> <li>• Current system based on old software</li> <li>• Current processes</li> <li>• Individual schools delays in submitting income and arrears returned</li> <li>• Errors in schools data</li> </ul>	Under review by Service area which is seeking an IT based solution and cashless system.

	<ul style="list-style-type: none"><li>• Individual schools breaching arrears policies</li><li>• Inefficient and costly methods of collection of arrears</li></ul>	
<b>WHQS - pain/gain process</b>	<ul style="list-style-type: none"><li>• Pain/gain process not completed within agreed timescales</li><li>• Concerns over methodology employed in ordering process</li><li>• Pain/gain not reported to Project Board</li></ul>	Report discussed with both Head of Programme and Relationship Manager - annual process



## **AUDIT COMMITTEE – 17TH OCTOBER 2017**

**SUBJECT: AUDIT COMMITTEE FORWARD WORK PROGRAMME**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & SECTION 151 OFFICER**

- 
1. The attached report demonstrates the Audit Committee Forward Work Programme.
  2. Forward Work Programmes are essential to ensure that Audit Committee agendas reflect the strategic issues facing the Council and other priorities raised by Members, the public or stakeholders.
  3. The Audit Committee Forward Work Programme identifies reports that are due to be presented to the Committee until January 2018. The document is a working document and is regularly updated when additional reports are identified.
  4. The latest Audit Committee Forward Work Programme is attached at Appendix 1.

Author: C. Evans, Committee Services Officer, Ext. 4210

Appendices:

Appendix 1 Audit Committee Forward Work Programme

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## FORWARD WORK PROGRAMME FOR AUDIT COMMITTEE

Deadline (12 Noon) Reports To Committee Services	Meeting Date	TOPIC	RESPONSIBILITY
15.01.18	30.01.18	Forward Work Programme	N. Scammell
		Regulator Proposals for Improvement Progress Update.	R. Roberts
		Internal Audit – Mid Year Progress Report	R. Harris
		Update – Areas for Improvement included in AGS 2016/17	N. Scammell
		<i>Regulation of Investigatory Powers Act 2000 - Information</i>	G. Williams
		<i>Officers Declarations of Gifts and Hospitality - Information</i>	L. Donovan
		<i>Corporate Complaints Report – 6 monthly update – Information</i>	G. Williams
		<i>WAO Local risk based reviews: Asset management and Information Management and Technology – Caerphilly County Borough Council - information.</i>	N. Scammell
		Outcome of External Peer Review on Compliance with the Public Sector Internal Audit Standards	S. Harris
<i>Corporate Governance Panel Mins – Information</i>	R. Harris		
General Data Protection Regulation (GDPR) – Statutory Role of Data Protection Officer.	S. Harris		

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## **AUDIT COMMITTEE – 17TH OCTOBER 2017**

**SUBJECT: REGULATION OF INVESTIGATORY POWERS ACT 2000**

**REPORT BY: INTERIM HEAD OF LEGAL SERVICES & MONITORING OFFICER**

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### **1. PURPOSE OF REPORT**

- 1.1 To advise Members of the numbers of covert surveillance operations undertaken by the Council in accordance with the provisions of the Regulation of Investigatory Powers Act 2000 (RIPA).

### **2. SUMMARY**

- 2.1 To provide an update on the number of operations undertaken in accordance with RIPA.

### **3. LINKS TO STRATEGY**

- 3.1 The Council is under an obligation to comply with legislative requirements - this report helps to achieve that.
- 3.2 The Regulation of Investigatory Powers Act 2000 (RIPA) provides a statutory mechanism for authorising directed surveillance and the use of a covert human intelligence source, which aims to ensure that any interference with the individual's right to privacy under Article 8 of the European Convention is necessary and proportionate, and that both the public interest and the human rights of individuals are protected and as such contributes to the following well-being goals within the Well-being of Future Generations act (Wales) 2015.
- A prosperous Wales
  - A resilient Wales
  - A healthier Wales
  - A globally responsible Wales

### **4. THE REPORT**

- 4.1 The Regulation of Investigatory Powers Act 2000 (RIPA) sets out strict controls for public authorities wishing to carry out covert surveillance of individual members of the public as part of their exercise of their statutory functions. In addition to the Act, advice and guidance is found within the Codes of Practice issued by the Home Office.
- 4.2 The Authority has a corporate policy, which provides guidance on how surveillance should be used by the relevant officers.

- 4.3 Public Authorities undertaking covert surveillance of individual members of the public are subject to inspection by an Assistant Surveillance Commissioner or by a Surveillance Inspector (or in some cases both).
- 4.4 Members are advised that for the period 1<sup>st</sup> June to 30<sup>th</sup> September, 2017, there has been one RIPA operation undertaken which related to the sale of alcohol to minors.

## **5. EQUALITIES IMPLICATIONS**

- 5.1 None, the report is for information only.

## **6. WELL BEING OF FUTURE GENERATIONS**

- 6.1 This report contributes to the Well-being goals as set out in the Links to Strategy above as compliance with the provisions of RIPA ensures that any interference with an individual's right to privacy under Article 8 of the European convention is necessary and proportionate, and that both the public interest and the human rights of individuals are protected.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 None, the report is for information only.

## **8. PERSONNEL IMPLICATIONS**

- 7.1 None, the report is for information only.

## **9. CONSULTATIONS**

- 9.1 None. The report is for information only.

## **10. RECOMMENDATIONS**

- 10.1 None. Members note the information provided.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To ensure compliance with statutory requirements.

## **12. STATUTORY POWER**

- 12.1 Regulation of Investigatory Powers Act 2000.

Author: Gail Williams, Interim Monitoring Officer ([willige@caerphilly.gov.uk](mailto:willige@caerphilly.gov.uk))  
Consultees: Nicole Scammell, Acting Director of Corporate Finance and Section 151 Officer



## **AUDIT COMMITTEE – 17TH OCTOBER 2017**

**SUBJECT: OFFICERS DECLARATIONS OF GIFTS AND HOSPITALITY  
APRIL TO JUNE 2017**

**REPORT BY: ACTING HEAD OF HUMAN RESOURCES AND ORGANISATIONAL  
DEVELOPMENT**

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### **1. PURPOSE OF REPORT**

- 1.1 The purpose of the report is to provide the Audit Committee with information regarding the Register of Employees' Interests Forms completed by officers of the Council (excluding Schools) regarding Gifts and Hospitality for the period 1 April to 30 June 2017 ie the first quarter of the financial year 2017/18 and a comparison with the previous three quarters.

### **2. SUMMARY**

- 2.1 Enclosed as Appendix 1 is a list of Register of Employees' Interests Forms in respect of Gifts and Hospitality completed by officers of the Council (excluding Schools) for the 3 months 1 April to 30 June 2017.

### **3. LINKS TO STRATEGY**

- 3.1 The Council's Code of Conduct for Employees confirms that in performing their duties, employees must act with integrity, honesty, impartiality and objectivity and that they must act in accordance with the principles set out in this Code, recognising the duty of all public sector employees to discharge public functions reasonably and according to the law. This is a Statutory Code requirement.
- 3.2 The Council acting through the Audit Committee is required to report officer declarations regarding Gifts and Hospitality on a quarterly basis.

### **4. THE REPORT**

- 4.1 The Council's Code of Conduct for Employees sets out guidance for employees on a range of issues, including the completion of a Register of Employee Interests form, which will help maintain and improve the high standards of conduct within local government and protect employees from misunderstandings and confusion.
- 4.2 Completed Register of Employees' Interests forms are submitted to Heads of Service, Directors or the Chief Executive who countersign the forms to show they are aware of the declaration. The form also records details of any controls / action taken to protect the Council's interests in the circumstances outlined on the form. A copy of the countersigned form is given to the employee and a copy sent to Human Resources for filing on the employee's personal file.

- 4.3 The Head of Service, Director or Chief Executive retains the original form and maintains a summary spreadsheet to record the forms. On a monthly basis the summary spreadsheet or a nil return is submitted to Human Resources for collation and monitoring for consistency and compliance.
- 4.4 In accordance with the Council's Code of Conduct for Employees, Gifts / Hospitality of less than £25 may be accepted by the employee but any Gift / Hospitality which could be seen by a third party as placing the employee under an improper obligation such as more than one Gift / Hospitality from the same party must be refused, irrespective of its value.
- 4.5 Employees may accept small offers of Hospitality only where the activity is of a nature where there is a genuine need to impart information or to represent the Council in the community. Offers to attend purely social or sporting functions should be accepted only when these are part of the life of the community or where the Council should be seen to be represented.
- 4.6 The table below details the number of declarations regarding Gifts submitted by Directorate for the period 1 April to 30 June 2017 and the previous three quarters for comparison.

Directorate	Number of declarations received - Gifts			
	April – June 2017	Jan – March 2017	Oct – Dec 2016	July – Sept 2016
Communities	1	0	3	1
Corporate Services	0	0	4	0
Education and Lifelong Learning	0	0	0	0
Social Services	0	0	2	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>9</b>	<b>1</b>

- 4.7 The table below details the number of declarations regarding Hospitality submitted by Directorate for the period 1 April to 30 June 2017 and the previous three quarters for comparison.

Directorate	Number of declarations received - Hospitality			
	April – June 2017	Jan – March 2017	Oct – Dec 2016	July – Sept 2016
Communities	1	0	7	0
Corporate Services	0	0	0	0
Education and Lifelong Learning	0	0	0	0
Social Services	0	0	0	0
<b>Total</b>	<b>1</b>	<b>0</b>	<b>7</b>	<b>0</b>

- 4.8 The Acting Head of Human Resources and Organisational Development will continue to monitor the declarations submitted and work with Heads of Service, Directors and the Chief Executive to improve their understanding, promote best practice and corporate compliance to the Code of Conduct where appropriate.

## **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 Having considered the five ways of working, they will not be affected by the contents of this report.

## **6. EQUALITIES IMPLICATIONS**

- 6.1 There are no equalities implications, as the reason for declaring an interest applies equally to all staff, regardless of their individual characteristics.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 None.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 The personnel implications are included in this report.

## **9. CONSULTATIONS**

- 9.1 There are no consultation responses that have not been included in the report.

## **10. RECOMMENDATIONS**

- 10.1 The Audit Committee are asked to note the contents of this report.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 The recommendations are designed to ensure members of the Audit Committee have an oversight of the position in relation to officers' Gifts and Hospitality.

## **12. STATUTORY POWER**

- 12.1 Local Government Act 2000.

Author: Lynne Donovan, Acting Head of Human Resources and Organisational Development.  
Consultees: Nicole Scammell, Acting Director of Corporate Services and Section 151 Officer  
Gail Williams, Interim Head of Legal Services and Monitoring Officer  
Cllr Colin Gordon, Cabinet Member for Corporate Services

Appendices:  
Appendix 1 Declarations of Gifts and Hospitality 1 April to 30 June 2017

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**Appendix 1**  
**Declarations of Gifts and Hospitality – 1 April to 30 June 2017**

Directorate	Service Area	Post Title of Employee Making the Declaration	Type of Declaration	Details Of Declaration	Post Title of Head of Service, Director or Chief Executive who authorised the Declaration	Outcome
Communities	Caerphilly Homes	Tenancy Enforcement Officer	Gift	Gift (£20) given for child's forthcoming birthday from a tenant. Continued refusal was causing offence.	Chief Housing Officer	Accepted
Communities	Caerphilly Homes	Deputy Head of Programme	Hospitality	Supplier/Contractor paid for attendance at Institution of Civil Engineers annual dinner. Approximate value £40. Accepted to network and promote CCBC within the Civil Engineering sector in Wales.	Chief Housing Officer	Accepted

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## AUDIT COMMITTEE – 17TH OCTOBER 2017

**SUBJECT: WAO GOOD GOVERNANCE WHEN DETERMINING SIGNIFICANT SERVICE CHANGES – CAERPHILLY COUNTY BOROUGH COUNCIL**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151 OFFICER**

- 
- 1.1 The report, which was presented to Cabinet on 5th July 2017, presented the Wales Audit Office (WAO) report on Good Governance when determining significant changes.
  - 1.2 It was noted that in February 2017 the Authority received a report from the WAO in respect of good governance when determining significant services changes. The report focused on a review of the effectiveness of Caerphilly County Borough Council's (the Council) governance arrangements for determining significant service changes. WAO define this as any significant change in delivering services and/or any significant change in how services are experienced by external service users..
  - 1.3 The review concluded that the Council's approach to service change has been proportionate to the scale of changes it has made to date and it is strengthening its arrangements to prepare for potentially more significant future changes.
  - 1.4 Following consideration and discussion, it was moved and seconded that the recommendations in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officers report:-

- (i) the content of the WAO Good Governance When Determining Significant Service Changes – Caerphilly County Borough Council be noted;
  - (ii) the Officer response to the WAO proposals for improvement as detailed in 4.5 of the report be noted.
- 1.5 Members are asked to consider the report and note the Wales Audit Office (WAO) report on Good Governance when determining significant changes.

Author: C. Evans, Committee Services Officer, Democratic Services  
Ext. 4210

Appendix:  
Report to Cabinet dated 5th July 2017

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## CABINET – 5TH JULY 2017

**SUBJECT: WAO GOOD GOVERNANCE WHEN DETERMINING SIGNIFICANT SERVICE CHANGES – CAERPHILLY COUNTY BOROUGH COUNCIL**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER**

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### 1. PURPOSE OF REPORT

- 1.1 To present Cabinet with the Wales Audit Office (WAO) report on Good Governance when determining significant service changes.

### 2. SUMMARY

- 2.1 In February 2017 the Authority received a report from the WAO in respect of good governance when determining significant service changes. This report focused on a review of the effectiveness of Caerphilly County Borough Council's (the Council) governance arrangements for determining significant service changes. WAO define this as any significant change in delivering services and/or any significant change in how services are experienced by external service users.
- 2.2 The review concluded that the Council's approach to service change has been proportionate to the scale of changes it has made to date and it is strengthening its arrangements to prepare for potentially more significant future changes.

### 3. LINKS TO STRATEGY

- 3.1 Good governance is essential for the effective stewardship of public money and the continued delivery of efficient and trusted public services.
- 3.2 This report and its recommendations contribute to the following Well-being Goal within the Well-being of Future Generations Act (Wales) 2015:
- *A resilient Wales*
- 3.3 Good governance leads to sound and robust decision making that makes a public body more resilient.

### 4. THE REPORT

- 4.1 The WAO report on 'Good governance when determining significant service changes' was issued February 2017 and is attached as Appendix 1. Due to the pre-election period, local elections and establishment of a new Cabinet the report was deferred until early July.

4.2 This WAO report and the assessment was based on a review undertaken during the period September to November 2016, WAO looked at aspects of decision-making arrangements in relation to a range of significant service change proposals. The examples of service changes WAO looked at included:

- Ceasing the mobile customer service centre;
- Independent sector domiciliary care – elderly - review of shopping service;
- Parks and playing fields – cessation of pitch marking and handing over responsibilities to the clubs;
- Closure of Bedwas swimming pool on Sundays;
- Closure of civic amenity sites for one day a week;
- Review of library opening hours; and
- Review of day centre provision.

WAO did not look in detail at each of the individual service change decisions, but rather used them as examples to draw from and inform how the Council goes about making decisions in relation to service changes.

4.3 The review concluded that the Council's approach to service change has been proportionate to the scale of changes it has made to date and it is strengthening its arrangements to prepare for potentially more significant future changes.

4.4 The WAO review concluded that there were a number of proposals for improvement.

<b>Proposal(s) for improvement</b>	
The Council's governance arrangements could be strengthened by:	
P1	Introducing a more systematic and transparent arrangement for monitoring the impact of service changes.
P2	More clearly setting out in reports how feedback from engagement and consultation has been taken account of in developing proposals for service change.

4.5 The officer response to the above proposals for improvement are as follows:-

**P1** – As part of the Council Report in February each year to establish a balanced budget for the next financial year an Appendix will be attached to this report listing all the service changes due to take place in the next financial year. This Appendix will include a description of the service, estimated date for implementation of changes and the relevant responsible Senior Officer and Cabinet Member. This list will be reviewed half yearly in the first instance by Corporate Management Team, followed by a report to Cabinet during the Autumn of each year as part of the mid-year budget monitoring report. This report will provide a commentary on any adverse impacts not originally envisaged/reported with actions where possible to address or mitigate these variations.

**P2** – Final reports to Cabinet/Council in respect of proposals for service change will describe in the relevant section titled "Consultations" how any consultation or engagement has influenced/changed the final proposal.

## 5. WELL-BEING OF FUTURE GENERATIONS

5.1 This report contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development principle in the Act as detailed below:-

- Long Term – Good governance and decision making will take account of long term consequences/benefits of service changes.
- Prevention – Good governance and decision making should consider how service

changes stop a problem worsening.

- Collaboration – Opportunities to collaborate should be considered where appropriate when service changes are determined, where there is a viable business case.
- Involvement – Proposed service changes should be subject to consultation and engagement. There should be evidence that the feedback has been considered prior to the decision being made.
- Integration – not applicable.

## **6. EQUALITIES IMPLICATIONS**

- 6.1 This report is for information purposes so the Council's Equalities Impact Assessment process does not need to be applied.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 There are no direct financial implications arising from this report.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

## **9. CONSULTATIONS**

- 9.1 There are no consultation responses that have not been reflected in this report.

## **10. RECOMMENDATIONS**

- 10.1 Cabinet is asked to:-

10.1.1 Consider and comment upon the content of the WAO report.

10.1.2 Note the officer response to the WAO proposals for improvement as detailed in paragraph 4.5.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To ensure that Cabinet is aware of the review work undertaken by the WAO and the resultant findings, conclusion and proposals for improvement.

## **12. STATUTORY POWER**

- 12.1 Local Government Acts 1972 and 2003.

Author: Nicole Scammell, Acting Director of Corporate Services & S151 Officer  
Tel: 01443 863031 E-mail: [nicolescammell@caerphilly.gov.uk](mailto:nicolescammell@caerphilly.gov.uk)

Consultees: Corporate Management Team  
Gail Williams, Interim Head of Legal Services/Monitoring Officer  
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Finance, Performance and Governance  
Rob Hartshorn, Head of Public Protection  
Stephen Harris, Interim Head of Corporate Finance

Stephen Pugh, Corporate Communications Manager

Background Papers:

WAO File – Reviews 2016/17

Appendices:

Appendix 1 WAO Report – Good governance when determining significant service changes –  
Caerphilly County Borough Council – February 2017





WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Good governance when determining significant service changes – **Caerphilly County Borough Council**

Audit year: 2016-17

Date issued: February 2017

Document reference: 118A2017

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [info.officer@audit.wales](mailto:info.officer@audit.wales).

The team who delivered the work comprised Sara-Jane Byrne, Tim Buckle and Non Jenkins under the direction of Jane Holownia.

# Contents

The Council's approach to service change has been proportionate to the scale of changes it has made to date and it is strengthening its arrangements to prepare for potentially more significant future service changes.

## Summary report

Summary	4
Proposals for improvement	5

## Detailed report

The Council has a clear set of principles for determining service change that support its current vision, but it recognises the need to review its strategic vision and the principles	6
The Council continues to strengthen its governance and accountability arrangements and these have the potential to assist it to deliver future service change effectively	7
Options appraisals are generally sound and improving but there is a need for more consistency in the quality of information included	8
The Council's arrangements to engage stakeholders in service changes have been effective	9
The Council monitors the impact of service changes but arrangements are not systematic or transparent	10
In recent years, the Council has strengthened its governance and decision-making arrangements, and has responded positively to our audit reports	10

# Summary report

## Summary

- 1 Governance is about how public bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which public bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.<sup>1</sup>
- 2 Good governance is essential for the effective stewardship of public money and the continued delivery of efficient and trusted public services. The current financial climate and reduced settlements for local government as well as rising demand for some services mean that all councils are likely to continue to need to make decisions regarding the future configuration and level of service delivery. It is appropriate that public bodies continuously seek to improve. Small, incremental changes to service delivery are made at a managerial and operational level as part of normal, operational decision-making. However, good governance supported by effective planning and rigorous processes is critical when determining significant service changes. Such decisions are often controversial, generate considerable local interest and can have significant impacts on the individuals and groups affected.
- 3 From April 2016, councils are required to comply with the Well-being of Future Generations (Wales) Act and associated Statutory Guidance. The Statutory Guidance states that: 'Together, the seven wellbeing goals and five ways of working provided by the Act are designed to support and deliver a public service that meets the needs of the present without compromising the ability of future generations to meet their own needs.'<sup>2</sup> This legislation emphasises the importance of effective governance in achieving wellbeing goals.
- 4 The focus of this review is on the effectiveness of Caerphilly County Borough Council's (the Council) governance arrangements for determining significant service changes. We define this as any significant change in delivering services and/or any significant change in how services are experienced by external service users. This could include, for example, significant changes to the way the service is delivered, the level of service provided, the availability of the service or the cost of the service.
- 5 Taking the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised framework for 'Delivering good governance in local government' as an appropriate standard, this review provides the Council with a baseline, from which to plan further improvement. In this assessment, undertaken during the period

<sup>1</sup> **CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2007**

<sup>2</sup> **Welsh Government, Shared Purpose: Shared Future, Statutory guidance on the Well-being of Future Generations (Wales) Act 2015**

September to November 2016, we looked at aspects of decision-making arrangements in relation to a range of significant service change proposals. The examples of service changes we looked at included:

- ceasing the mobile customer service centre;
- independent sector domiciliary care – elderly – review of shopping service;
- parks and playing fields – cessation of pitch marking and handing over responsibilities to the clubs;
- closure of Bedwas swimming pool on Sundays;
- closure of civic amenity sites for one day a week;
- review of library opening hours; and
- review of day centre provision.

We did not look in detail at each of the individual service change decisions, but rather used them as examples to draw from and inform how the Council goes about making decisions in relation to service changes.

6 In this review, we concluded that **the Council’s approach to service change has been proportionate to the scale of changes it has made to date and it is strengthening its arrangements to prepare for potentially more significant future service changes.**

## Proposals for improvement

### Exhibit 1: proposals for improvement

The table below sets out the areas of improvement identified through our review.

Proposal(s) for improvement	
The Council’s governance arrangements could be strengthened by:	
P1	Introducing a more systematic and transparent arrangement for monitoring the impact of service changes.
P2	More clearly setting out in reports how feedback from engagement and consultation has been taken account of in developing proposals for service change.

# Detailed report

## The Council has a clear set of principles for determining service change that support its current vision, but it recognises the need to review its strategic vision and principles

- 7 To date, like most councils, the primary driver for service changes has been the need to deliver financial savings. In 2014, the Council agreed a set of principles that would underpin its budget and service change proposals and it has used these principles to drive service changes to date. These principles are:
- protecting front-line services where the Council can;
  - reducing expenditure on management and administrative costs;
  - increasing fees and charges where appropriate;
  - reducing, rather than removing services where possible; and
  - focussing on priorities and looking at alternative ways of delivering services.
- 8 We found evidence of the Council applying these principles to service change decisions, in particular, where Members have opted to reduce rather than remove a service. Examples of this include decisions to reduce the opening times of customer care centres and civic amenity sites rather than close some centres/sites altogether.
- 9 The Council has consulted stakeholders on the principles for service changes via a number of channels. Officers have recognised that the Council will need a new vision from 2017 and have begun to develop this for the newly elected Council to consider following the local government elections in May 2017. The Council is aware that it has not yet had to make some of the relatively significant or controversial decisions on service changes that other councils have made. The Council has not yet had to take such steps because it has had a prudent approach to its finances in the past. However, now that the financial climate has become more difficult, the Council accepts that more significant changes will be required. The Council set up a Business Improvement Board in June 2016 to monitor the progress with its key strategic projects, and it is now considering a number of work streams for more significant service change, such as for its leisure and waste services.

## The Council continues to strengthen its governance and accountability arrangements and these have the potential to assist it to deliver future service change effectively

- 10 Roles and responsibilities in relation to developing and determining service changes are generally clear and understood by officers and members. Governance roles and responsibilities are set out in the Council's Constitution. As part of its improving governance programme, the Council undertook a number of training and awareness sessions to reinforce the understanding of these roles and responsibilities. Guidance relating to decision making is also available on the Council's intranet.
- 11 The Council has not had to make significant service changes to date, and has not needed to set up any specific governance or programme management arrangements to manage its service change programme as some other councils have done. However, in June 2016, the Council established a Business Improvement Board, and consolidated its policy team to strengthen corporate capacity and oversight of its key service change programmes.
- 12 The Council has reinforced the role and status of the Monitoring Officer and the Section 151 Officer. The Council's Corporate Management Team reviews the draft Council, Cabinet and Scrutiny reports, including those relating to service change. Other officers, with expertise in areas such as equalities and procurement, also review such reports where appropriate.
- 13 The Council has also undertaken significant work with officers and members to strengthen governance more generally and develop capacity and capability, for example in relation to transparency and report writing.
- 14 The Council is taking action to respond to the Well-being of Future Generations (Wales) Act (the WFG Act). The Council's report template and savings proforma both now include reference to the sustainable development principle. Senior officers have received presentations on the WFG Act and the Council has produced a guide for staff on the Act. We also heard from a number of members and officers during our interviews that the Council is actively trying to embed the sustainable development principle into its governance arrangements, and that the Council's Constitution was also due to be updated to reflect this.

## Options appraisals are generally sound and improving but there is a need for more consistency in the quality of information included

- 15 We reviewed a number of service changes that the Council determined during 2015-16 and 2016-17 to date. We found that officers generally provide Members with a range of options in formal reports when service changes are proposed. We found one example where the Council considered only one option in relation to a reduction in opening hours of a swimming pool. However, the Council provided a reasonable rationale as to why it only considered one option.
- 16 We found that the Council did not always clearly articulate the criteria against which it assessed options for service change in reports, although we recognise that the approach the Council has taken has been proportionate to the scale of service changes considered to date. The Council has more recently developed a business case template for future service changes, which requires the inclusion of key criteria for assessing options.
- 17 Generally, we found that the level of information provided to Members in relation to options appraisals is appropriate and comprehensive. However, our review of the changes to the shopping service for the elderly found that officers were required to review the accuracy of some information provided to a scrutiny meeting, which resulted in significantly reducing the value of the potential saving. In future, as the significance of the service changes the Council considers potentially increases, it will be important for the Council to assure itself that it consistently provides accurate information to Members.
- 18 There is extensive and well-established use of pre-decision scrutiny in the Council and examples of early engagement of scrutiny in proposed service changes. This has enabled both the Cabinet and scrutiny committees to challenge and scrutinise options and proposals. There are examples where the Council has considered additional options for service changes following feedback from scrutiny committees.
- 19 The creation of its Business Improvement Board also provides the Council with an opportunity for better corporate oversight of significant service change programmes and additional challenge to proposals and options. However, the Business Improvement Board is relatively new and it is, therefore, too early to evaluate its effectiveness.



## The Council's arrangements to engage stakeholders in service changes have been effective

- 20 The Council has effective mechanisms for engaging and informing stakeholders of service changes. We found that the Council actively feeds back the outcome of consultation to service users as well as signposting changes due to take place in affected services. The Council also provided the public with an opportunity to prioritise discretionary services as part of the 2015-16 budget setting process, and sought views on the future shape of its services for its 2016-17 budget process. Every two years, the Council also undertakes a residents' survey to determine levels of satisfaction with Council services.
- 21 During our on-site interviews, we found that there is active consideration of stakeholder views in decision making, for example about changes to its customer service centres. However, we also found that the Council does not always clearly set out in reports how it has used the feedback from consultation and engagement to inform subsequent proposals or decisions.
- 22 There are opportunities for stakeholders to find out about forthcoming Council business and to get involved in the decision-making process, particularly in relation to the Council's Scrutiny function. The Council's website has a [Get Involved in Scrutiny](#) webpage that clearly sets out the different ways in which the public can engage with scrutiny including suggesting items, giving views on items and attending to speak at scrutiny committee meetings. Scrutiny work programmes are accessible on the Council's website, and are regularly updated and relatively easy to find. They provide details of the issues to be discussed including the purpose of items and key issues associated with them.
- 23 However, when we examined the Council's webpages as part of the review, we found that the version of the Cabinet Forward Work Programme on the Council's website had not been updated. It is important that the Council ensures that the Cabinet work programme is accessible to the public and kept up to date on its website so that members of the public can see forthcoming agenda items. Cabinet decision notices are relatively easy to access on the website and these were up to date at the time we reviewed it.
- 24 As the Council begins to consider potentially more significant service changes, it will be important that it continues to assure itself that arrangements for engaging, consulting and communicating with stakeholders remain commensurate with the scale of any planned service changes.

## The Council monitors the impact of service changes but arrangements are not systematic or transparent

- 25 The Council does not have a systematic process for monitoring the subsequent impact of its service change decisions. We found that officers are responsible for initially monitoring the impact of decisions and would then escalate any issues or concerns to Cabinet members and scrutiny committees. We found evidence of the escalation of issues to scrutiny committees where concerns had been raised. For instance, the Regeneration and Environment Scrutiny Committee raised concerns about charging for replacement waste bins and officers subsequently provided a report setting out the implications of re-introducing free replacement bins. We are also aware that the Regeneration and Environment Committee is due to consider the impact of the introduction of LED street lighting following concerns raised by Members. However, arrangements and criteria for monitoring the impact of decisions are not set out in business cases or reports relating to service changes. There is scope for the Council to formalise the process for monitoring the impact of service changes to help improve the transparency and effectiveness of current arrangements.
- 26 The Council has introduced a number of processes to ensure that the potential impact of service changes on groups with protected characteristics are taken into account in decision-making on service change. The Council produces equality impact assessments (EIAs) as part of its annual budget exercise. It has also produced guidance setting out when officers need to produce EIAs, including for service change, budgets and projects. In addition, equalities is a section in the Council's formal report template. The Council's equalities officer reviews all EIAs attached to reports and the Council's monitoring officer checks that applicable statements around equalities are included in reports to ensure that the Council has considered EIAs. The Council has also provided equalities training for Members.

## In recent years, the Council has strengthened its governance and decision-making arrangements and has responded positively to our audit reports

- 27 We have undertaken a significant amount of work focusing on the Council's governance arrangements in recent years and the Council has responded positively to our findings, proposals for improvement and recommendations.
- 28 The Council has continued to review and strengthen its arrangements through its Improving Governance Programme and its Corporate Governance Board. The Council has also developed its governance arrangements in relation to service change. Developments include the introduction of the set of guiding principles referred to in paragraph 7 above, the establishment of the Business Improvement

Board, and taking account of the requirements of the WFG Act in its formal report template. The Council also has a scrutiny improvement programme and as part of this is about to launch a further peer observation programme with two neighbouring councils. The Council is able to demonstrate a willingness to learn from experience and consequently, implement changes to governance arrangements.

- 29 As the Council recognises that it has not yet had to make the more significant service changes that some other councils have made, there is an opportunity for the Council to learn from other councils' experiences in delivering more significant and potentially controversial service changes. This would help the Council to prepare for possible future challenges and the likelihood that more significant service changes will be necessary in the medium and long term.

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone : 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)



## AUDIT COMMITTEE – 17TH OCTOBER 2017

**SUBJECT: WAO REPORT – SAVINGS PLANNING (CAERPHILLY COUNTY BOROUGH COUNCIL)**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151 OFFICER**

- 
- 1.1 The report, which was presented to Cabinet on 5th July 2017, presented the Wales Audit Office (WAO) report on its savings planning assessment of Caerphilly CBC.
  - 1.2 In recent years the WAO has carried out financial resilience assessments of all Councils in Wales and the latest review undertaken between June and December 2016 focussed on the extent to which the Council achieved its 2015/16 savings plans, the quality of the Medium-Term Financial Plan and the robustness of savings plans for 2016/17.
  - 1.3 The WAO report detailing the findings of this latest review was issued in March 2017 and overall the report concluded that the Council has an effective and improving savings planning approach, which is supporting future financial resilience. Cabinet were pleased to note that the WAO report acknowledged that this is an improving picture.
  - 1.4 The WAO report contained one proposal for improvement, which is to strengthen financial planning arrangements by ensuring that savings plans are underpinned by robust business cases. In response to this, officers have developed a new template to capture detailed information on future savings proposals.
  - 1.5 Following consideration and discussion, it was moved and seconded that the recommendations contained in the report be approved. By a show of hands this was unanimously agreed.

RESOLVED that for the reasons contained in the Officers report:-

- (i) the content of the WAO Report – Savings Planning (Caerphilly County Borough Council) be noted
  - (ii) the Officer response to the WAO proposals for improvement as detailed in paragraph 4.4 of the report be noted.
- 1.6 Members of the Audit Committee are asked to note the WAO Report – Savings Planning (Caerphilly County Borough Council).

Author: C. Evans, Committee Services Officer, Democratic Services  
Ext. 4210

Appendix:  
Report to Cabinet dated 7th June 2017

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## CABINET – 5TH JULY 2017

**SUBJECT: WAO REPORT – SAVINGS PLANNING (CAERPHILLY COUNTY BOROUGH COUNCIL)**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S151 OFFICER**

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### **1. PURPOSE OF REPORT**

- 1.1 To present Cabinet with the Wales Audit Office (WAO) report on its savings planning assessment of Caerphilly CBC.

### **2. SUMMARY**

- 2.1 During the 2015/16 financial year the WAO undertook work at all Councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report was also produced.
- 2.2 The report on the findings of the review for Caerphilly CBC was presented to Cabinet on the 27<sup>th</sup> July 2016 and concluded that: -

*The Council had effective financial control arrangements and a track record of achieving savings in advance but its Medium-Term Financial Plan (MTFP) and supporting savings plans for future years were not yet fully developed and links between the MTFP and corporate priorities could be strengthened.*

- 2.3 The WAO has now undertaken a further review between June and December 2016 focussing on work to identify, plan for and deliver savings. The WAO examined the extent to which the Council achieved its 2015/16 savings plans, the quality of the MTFP and the robustness of savings plans for 2016/17.
- 2.4 The WAO report detailing the findings of this latest review was issued in March 2017 and is attached as Appendix 1.

### **3. LINKS TO STRATEGY**

- 3.1 Strong financial management is a key component in supporting the Council to deliver its strategic plans and priorities.
- 3.2 Effective financial planning and maintaining expenditure within approved budgets support the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
  - A resilient Wales.
  - A healthier Wales.
  - A more equal Wales.

- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

#### **4. THE REPORT**

4.1 The WAO report on the outcome of the savings planning review was issued in March 2017 and is attached as Appendix 1. The main conclusions of the report are as follows: -

- The Council has an effective and improving savings planning approach, which is supporting future financial resilience.
- The Council has reported achievement of 96% of its planned 2015/16 savings in year and can demonstrate that individual savings have been delivered.
- The Council has an effective corporate framework for financial planning and whilst the Council has well considered savings plans, some savings proposals are insufficiently developed when the budget is agreed.
- The Council has detailed savings plans and is forecasting that 96% of its 2016/17 savings plan will be achieved in year.

4.2 The WAO report acknowledges that this is an improving picture, that the Council has developed a more comprehensive MTFP covering a five year period and that the Council has identified indicative high level savings plans to fill the gap for the earlier years of the MTFP.

4.3 The WAO report contains one proposal for improvement: -

*Strengthen financial planning arrangements by ensuring that savings plans are underpinned by robust business cases.*

4.4 The officer response to the proposal for improvement is as follows: -

*A new template has been developed to capture detailed information on future savings proposals. This will ensure that all relevant information is available to assess the robustness of proposals and to aid the decision-making process. The template is structured under the following headings: -*

- General information.
- Public impact analysis.
- Organisational impact analysis.
- Consultation.
- Risks and sensitivities.
- Options analysis.
- Links to policy and strategy (including WFG Act 2015).
- Other relevant information.

*A guidance note has also been prepared to assist Managers in completing the template.*

4.5 The new template will be used as part of the process for developing savings proposals for 2018/19 to 2021/22.

#### **5. WELL-BEING OF FUTURE GENERATIONS**

5.1 Effective financial planning and the management of expenditure within approved budgets are key elements in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.



## **6. EQUALITIES IMPLICATIONS**

- 6.1 This report is for information purposes so the Council's Equalities Impact Assessment process does not need to be applied.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 There are no direct financial implications arising from this report.

## **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no direct personnel implications arising from this report.

## **9. CONSULTATIONS**

- 9.1 There are no consultation responses that have not been reflected in this report.

## **10. RECOMMENDATIONS**

- 10.1 Cabinet is asked to: -

10.1.1 Consider and comment upon the content of the WAO report.

10.1.2 Note the officer response to the WAO proposal for improvement as detailed in paragraph 4.4 of this report.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To ensure that Cabinet is aware of the review work undertaken by the WAO and the resultant findings, conclusions and proposal for improvement.

## **12. STATUTORY POWER**

- 12.1 Local Government Acts 1972 and 2003.

Author: Stephen Harris, Interim Head of Corporate Finance  
Tel: 01443 863022 E-mail: [harrisr@caerphilly.gov.uk](mailto:harrisr@caerphilly.gov.uk)

Consultees: Corporate Management Team  
Gail Williams, Interim Head of Legal Services/Monitoring Officer  
Cllr David Poole, Leader  
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Finance, Performance and Governance

Background Papers:  
Cabinet (27/7/16) – WAO Financial Resilience Assessment, Caerphilly CBC, April 2016.

Appendices:  
Appendix 1 – WAO Report - Savings Planning, Caerphilly CBC, March 2017



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Savings Planning – **Caerphilly County Borough Council**

Audit year: 2016-17

Date issued: March 2017

Document reference: 654A2016

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

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The team who delivered the work comprised Alison Rees, Janet Smith, Sara-Jane Byrne and Jeremy Evans, under the direction of Alan Morris

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The Council has detailed savings plans and is forecasting that 96% of its 2016-17 savings plan will be achieved in year 12

# Summary report

## Summary

- 1 Good financial management is essential for the effective stewardship of public money and the continual delivery of efficient public services. The current financial climate and the reduced settlements for local government mean that good financial planning, with well-considered savings plans, is critical to financial resilience.
- 2 This review focuses on answering the following question: **Do the council's financial savings planning arrangements support financial resilience?**
- 3 Good financial planning:
  - helps councils take the right decisions for the short, medium and long term;
  - helps councils deliver services to meet statutory obligations and the needs of local communities;
  - is essential for good corporate governance;
  - is about managing performance and achieving strategic objectives as much as it is about managing money;
  - underpins service quality and improvement;
  - is the basis of accountability to stakeholders for the stewardship and use of resources; and
  - is a key management discipline.
- 4 Financial planning for the medium to long term involves understanding future demand, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and, where necessary, developing appropriate savings strategies.
- 5 A council's strategic priorities and its financial health should be the basis for deciding what is practicable. Well-considered and detailed long-term financial strategies and Medium-Term Financial Plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
- 6 Councils receive about 80% of their net income from Welsh Government, the exact amount is only known 4-5 months before the start of the financial year. Whilst this has an impact on financial planning councils can use a range of information to anticipate changing circumstances, set priorities, make choices and manage service delivery. They can calculate how much they would need to deliver services (at current or future prices) and review alternative income and spending scenarios to identify gaps and prepare for the future by investigating different approaches.

- 7 During 2015-16 the Wales Audit Office undertook work at all councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The national summary report concluded that **strategic planning arrangements are improving but councils have difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.**
- 8 In this assessment, undertaken during the period June to September 2016, we have focused on work to identify, plan for and deliver savings. We examined the extent to which Caerphilly County Borough Council (the Council) achieved its 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans.
- 9 We sampled three savings proposals for 2016-17 and looked at the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale.
- 10 We followed up our 2015-16 work to determine what the Council did as a consequence of what it learnt and how it has responded to our proposals for improvement in relation to financial planning if we made any.
- 11 In this report we have described some key characteristics of effective financial planning – **What good looks like**. Auditors have used these and other factors to reach a balanced view on the effectiveness of a council's financial planning arrangements and to evaluate the ability of a council to deliver its Medium-Term Financial Plan (MTFP) and planned savings.
- 12 In our 2015-16 review we concluded that **the Council had effective financial control arrangements and a track record of achieving savings in advance but its medium term financial plan and supporting savings plans for future years were not yet fully developed and links between its MTFP and corporate priorities could be strengthened.**
- 13 In this review we concluded that **the Council has an effective and improving savings planning approach which is supporting future financial resilience.**
- 14 This is an **improved position from 2015-16**. The Council has developed a more comprehensive MTFP which covers a five year period and identified indicative high level savings plans to fill the gap for the earlier years of the MTFP.

## Proposals for improvement

### Exhibit 1: proposals for improvement

It would be unusual if we did not find things that can be improved and, where we do, The Auditor General can take a variety of steps. In this case a proposal for improvement has been made and we would expect the Council to do something about it.

#### Proposals for improvement

- |    |  |
|----|--|
| P1 | Strengthen financial planning arrangements by: <ul style="list-style-type: none"><li>ensuring that savings plans are underpinned by robust business cases.</li></ul> |
|----|--|

# Detailed report

## The Council has an effective and improving savings planning approach which is supporting future financial resilience

### Context

- 15 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to local councils has reduced each year. So far, most local councils have managed to reduce expenditure and balance budgets, but the scale of annual reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there is a real-terms reduction of £483 million (10.9%) in this core funding<sup>1</sup>.
- 16 The impact of the decision to leave the European Union may represent a threat to local councils and the wider public sector in Wales. In the immediate aftermath of the decision there was reaction across financial markets resulting in volatility in, for example, share prices, currency exchange rates, oil prices and bond yields, and the UK continues to face a great deal of uncertainty on top of significant questions regarding future economic and trading relationships with Europe. The Welsh Local Government Association (WLGA) has expressed concerns over the implications of the European Union referendum outcome, calling it a 'seismic change in UK public policy'<sup>2</sup> especially as local councils are collectively the largest employer in Wales and the deliverer of many important public services.

<sup>1</sup> Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in core funding, it is not necessarily a net increase in funding. The net value of grants incorporated into core funding since 2013-14 is around £76 million in real terms (adjusted for inflation).

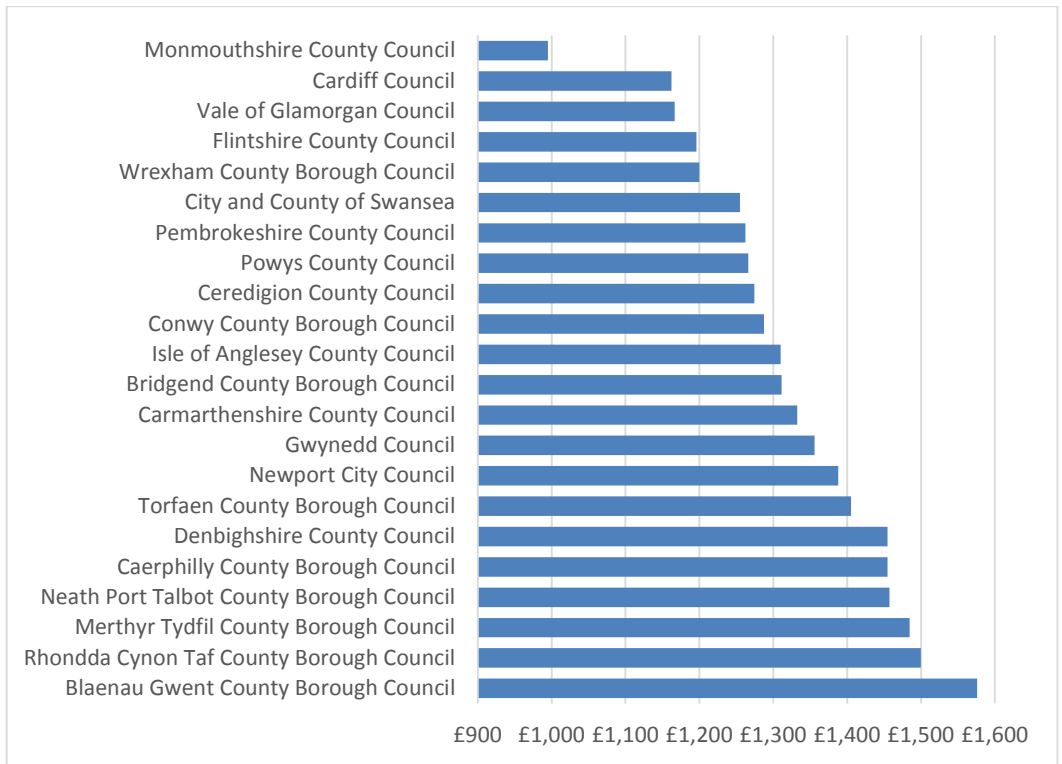
<sup>2</sup> Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016



- 17 Whilst the overall Welsh Government funding has reduced, councils have been expected to protect schools and social care from the bulk of the pressures. Social care in particular has struggled even with this protection as, for example, demographic changes have led to increased demand. However, this does mean that other services have borne the majority of the cuts and have seen reductions in budgets of 30% or more in real terms since 2013-14.
- 18 The Council received £263.3 million in support from Welsh Government in 2016-17. This represents £1,455 per person in the county, above the average for Wales but a real-terms reduction of 8.68%<sup>3</sup> per head since 2013-14. There are other key issues that impact on any councils overall financial position, for example the overall Council tax base, the ability to generate income locally and the levels of deprivation.

**Exhibit 2: Welsh Government support in 2016-17**

The graph below illustrates the amount of money each council gets per head of population from the Welsh Government.



Source: Stats Wales ([www.statswales.gov.wales](http://www.statswales.gov.wales))

<sup>3</sup> The percentage reduction per head figure varies from the 2013-14 core funding reduction due to population variation over the same period.

## Savings achievement 2015-16

The Council has reported achievement of 96% of its planned 2015-16 savings in year and can demonstrate that individual savings have been delivered

### What good looks like

19 Councils that have a good track record of delivering the majority of planned in-year savings should have well developed savings and delivery plans in place which are underpinned by robust monitoring processes. These councils do not have to continually bridge the gap year on year, by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

### What we found

- 20 The Council achieved 96% of its 2015-16 planned savings. Unachieved savings were either met from underspends elsewhere in 2015-16 service budgets or from savings achieved in advance of the following year's budget.
- 21 The Council's 2015-16 outturn report shows that the Council achieved a surplus of £10.1 million on its revenue budget. The surplus included a £6.1 million underspend on directorate budgets, £2.6 million on capital financing budgets and additional council tax income of £1.4 million. The underspend on directorate budgets was partially due to services curtailing expenditure and achieving some savings in advance to contribute to future years savings plans. In line with the Council's policy for carrying forward underspends on directorate budgets, it transferred £3.5 million to specific directorate reserves and the remaining £6.6 million to the general reserve.
- 22 The Council splits its saving plans into those which impact the public and those which do not. Savings plans which do not impact the public amount to approximately 55% of the total savings plans value. These are efficiency type savings plans which mainly comprise changes to staff structures, budget realignment and minor changes to service provision. These are included as a single amalgamated savings figure for each directorate. Service specific savings which have a public impact are identified individually.
- 23 The Council identifies and achieves a proportion of the efficiency type savings plans in advance of setting the following year's annual budget. Problems with achieving savings proposals are identified in the quarterly service budget monitoring reports. Directorates are expected to achieve all savings plans and to meet any unachieved savings from elsewhere in their base budgets.

## Financial planning arrangements

The Council has an effective corporate framework for financial planning and whilst the Council has well considered savings plans, some savings proposals are insufficiently developed when the budget is agreed

### What good looks like

- 24 The MTFP is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting should reflect the council's strategic objectives and priorities for the year, and over the longer term. MTFPs typically span a three-to-five year period and should identify how resources will be allocated to both the delivery of services and the council's priorities. The impact on citizens and other stakeholders should also be considered.
- 25 Good MTFPs include consideration of key financial risks together with their mitigation. Councils have to make assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services, and these need to be based on reasonable predictions. The council should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The MTFP should be frequently reviewed and updated to reflect changes in assumptions and risks.
- 26 Councils should operate within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by Members, and appropriate to the strategic, operational and financial risks it faces. Councils should include details on how reserves will be used over the period of the MTFP.
- 27 The Council must demonstrate that it understands its sources of income and the risks arising from these, and that it has reviewed its approach to fees and charges, for its services, to achieve value for money.

### What we found

- 28 In our 2015-16 Financial Resilience Assessment, we made a proposal for improvement that the Council should strengthen its financial resilience by developing more explicit links between its MTFP and corporate priorities.
- 29 The Council's Corporate Plan covers the period 2013-17 and was refreshed in June 2016 to reflect the transition from improvement priorities to well-being objectives in preparation of the Well Being of Future Generations (Wales) Act 2015. This is the final year of the 2013-17 corporate priorities and during the next twelve months, the Council will set and define well-being objectives, which will be informed by the well-being assessment being carried out by the newly established Caerphilly Public Services Board.

- 30 Whilst links between the Council's MTFP and corporate priorities are not clearly defined, the Council has established a set of principles for formulating its savings plans, which are influenced by corporate priorities. The principles are: protecting front-line services where the Council can; reducing expenditure on management and administrative costs; increasing fees and charges where appropriate; reducing, rather than removing services where possible; focusing on priorities and looking at alternative ways of delivering services.
- 31 The Council has also recently developed a medium term financial plan savings template, which it will use for its 2017-18 savings proposals. In this template, there is a section for officers to set out links to policy and strategy including the Council's corporate priorities and improvement objectives. This requirement will help to strengthen the links between the Council's MTFP and its priorities.
- 32 In our 2015-16 Financial Resilience Assessment, we made a proposal for improvement that the Council should strengthen its financial resilience by developing a longer-term MTFP with comprehensive multi-year savings plans to cover the period.
- 33 The Council reviews its MTFP twice a year, normally in July and February but this timetable is not aligned with the review of its Corporate Plan. The Council reviewed its MTFP in February 2016 and extended its MTFP forecast from a three to a five year period. The MTFP 2016-17 to 2020-21 identifies a budget gap of £36 million. The Council has identified indicative savings over the period of £29 million, leaving a budget gap of £7 million.
- 34 The Council's MTFP forecasts are comprehensive, include sensitivity analysis, and are modelled on best, most likely and least optimistic scenarios. The MTFP is also underpinned by reasonable and appropriate assumptions for key variables such as pay awards, price inflation, and funding and council tax levels. The impact of demographic changes, demand changes and inescapable pressures is also assessed.
- 35 The Council rolls forward its MTFP annually and normally reports to Cabinet in July each year. In addition, Corporate Management Team receives regular updates on MTFP assumptions to take account of changes in key variables and any other emerging issues.
- 36 The Council holds approximately £10 million as a working balance in its general reserve. The general reserve level is reviewed when setting the annual budget and producing its statement of accounts. Whilst the annual budget includes a report on the projected use of the general reserve and proposals for the use of earmarked reserves, neither the annual budget report nor MFTP include a comprehensive statement on the reserves position or planned use of reserves. The Council outlined details of its useable reserves and proposals for the use of its reserves in reports to the Policy and Resources scrutiny committee in April 2015 and November 2016, and to Cabinet in December 2016,
- 37 The Council's planned budget strategy includes the use of the previous year's actual council tax surplus income to fund its base budget. For example, the surplus council tax income achieved in 2014-15 of £1.2 million was used to fund the 2015-

16 budget. The surplus council tax income is transferred into the Council's general reserve at year end. Whilst this is additional income, as it would normally be put into reserves, the Council is in effect using reserves to fund its base budget.

- 38 The Council has a reserves strategy, which Cabinet approved in July 2016. The strategy consolidates its existing arrangements for the establishment and management of the use of its reserves. The Council's reserve strategy places a 3% cap on the amount of general reserves directorates can hold from accumulated revenue budget underspends. The Council also proposes to carry out annual reviews of useable reserves, which it intends to report to its Policy and Resources Committee six months before the financial year end.
- 39 In our 2015-16 Financial Resilience Assessment, we made a proposal for improvement that the Council should strengthen its financial resilience by developing an income generation/charging policy.
- 40 During our 2016-17 Financial Resilience Assessment, we found that whilst the Council does not yet have an income generation/charging policy, it has a corporate fees and charges register. It has also identified income generation as one of the work streams of its Business Improvement Board to consider the opportunities around income generation for the Council.
- 41 The Council has set income generation targets for some discretionary service areas for 2016-17. However, the Council's mid-year budget monitoring report suggests that the Council is not meeting some of these targets and increased charges are not necessarily resulting in increased income levels. Therefore, the Council is looking to shift the focus of the income generation work stream to review current income levels against the targets set. It plans to establish what needs to be done to achieve these targets or whether alternative savings need to be identified. As part of this approach, the Council plans to review its strategy around fees, charging and income generation learning from its approach to date.

## Savings Plan 2016-17

The Council has detailed savings plans and is forecasting that 96% of its 2016-17 savings plan will be achieved in year

### What good looks like

- 42 Councils that deliver savings effectively have well-considered savings plans that sit within longer-term savings strategies which are underpinned by well-developed fully costed individual savings and delivery plans aligned with the MTFP. Savings proposals should be specific and risk assessed in terms of likelihood of achievement.

## What we found

- 43 The Council has identified savings plans of £11.1 million to meet its 2016-17 budget strategy, which includes savings achieved in advance of £1.9 million. The Council's quarter one financial monitoring report forecasts that it will achieve 96% of all savings plans for 2016-17. The Council plans to mitigate unachieved savings from other directorate budgets or from directorate reserves. Any unachieved savings plans will have to be found from elsewhere in directorate budgets or directorate reserves.
- 44 The Council classified its 2016-17 savings plans into those which have no impact on the public and service users (efficiency type savings) and those which do have an impact. The Council consults on those savings plans which have a public impact and in 2016-17 these amounted to approximately £500,000. The savings that are considered to have a public impact were also subject to an Equalities Impact Assessment.
- 45 The Council's 2016-17 savings proposals are not formally risk assessed in terms of achievability. However, prior to being included in the Council's budget, finance officers work with service managers to challenge proposals before presenting them to Members. The Council only includes savings in its annual budget if they are deemed to be fully achievable.
- 46 General efficiency type savings plans are included as a global target sum but no specific detail is made available in the public domain, because these proposals are deemed to have no impact on service users or stakeholders. However, the Council maintains and monitors a comprehensive schedule of the proposals that are included in the Council's budget.
- 47 The Council lists savings which have a public impact individually and monitors them on a line by line basis, with reports being considered by Scrutiny Committees. The Council has told us that as at the 30 September 2016 that some proposals of this type will not be achieved and will be rolled into the following year.
- 48 Previously, the Council has not regularly reported the 'Whole-Council' financial position and progress on savings plans to Cabinet during the year as on the whole, savings have been on schedule. However, the Council has now instigated 'Whole-Council' mid-year budget monitoring reports to Cabinet. These reports outline projected expenditure for the year and progress on achieving savings plans. The Council has taken this step as it recognises that the risk of non-delivery of savings has increased. Cabinet considered the first such report on 30 November 2016.
- 49 The Council's scrutiny committees consider quarterly service budget monitoring reports up to the third quarter of the year, but in 2015-16, the Council did not report the year end position on savings plans to its Scrutiny Committees or Cabinet.
- 50 The three savings proposals for 2016-17 we sampled, to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale, were:
- reduce operational breakfast clubs by 1 hour of staffing per day;
  - countryside maintenance income; and

- customer services. Further reduction in opening hours.

51 We found that the information to support each of the 2016-17 savings we reviewed was fragmented and of variable quality. The Council recognises that as budgets reduce, the nature of the savings it will need to make will shift from base budget efficiency type savings to service change savings. These will need to be supported by more robust business cases. Therefore, the Council has developed a business case template, which it intends to introduce to support the development of future savings plans.





Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone : 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)

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# Agenda Item 14

## CORPORATE GOVERNANCE PANEL MINUTES 28th April 2017 Executive Boardroom 9.30 a.m.

Panel Members: Nicole Scammell, Cllr. Forehead, Gail Williams, Paul Lewis, Richard Harris, Rob Hartshorn.

### 1. APOLOGIES

Apologies were received from Rob Hartshorn (RHn).

### 2. MINUTES

The minutes of the meeting held on the 10.3.2017 were agreed as accurate.

### 3. CHECKLIST SUMMARY

The summarised checklist comments were introduced by RH who pointed out a theme running through the document was around refreshing staff awareness and knowledge of core policies and procedures. The panel agreed to work through the comments made by the various Heads of Service and consider their significance both individually and as a whole. In discussing each area's comments specific discussions took place around Social Services, PL providing an explanation of an issue around the changes and implementation of the new integrated social care system and reassured the panel that although it was a big project it was in hand. Concerns were discussed about the quantity of issues raised on the Education return and the fact that many of the improvement actions were scheduled for a forthcoming EMT meeting. RH was requested to clarify with the Chief Education Officer the nature of the concerns and to report back to the panel.

NS made the panel aware of some H&S issues within the Community and Leisure Services area and some contract management issues within the Caerphilly Homes service area however it was considered that both were down to operational issues specific to the service areas concerned and the issues were being dealt with. PL outlined the content of his submission confirming that he had included a number of operational items which shouldn't be of concern to the panel.

Overall it was considered by the panel that no fundamental governance issues had been raised and the low level operational issues did not warrant inclusion within the annual governance statement.

### 4. EXPERT GROUP

The comments made by the overview group were reviewed with some of the key discussion points being around:-

Information governance and data protection, it was agreed that the recent attendance at CMT to obtain endorsement of a proposed new approach to addressing the ongoing risks was a big step forward and PL & JJ will now be presenting to management Network in June 2017.

Procurement, it was felt by the panel that some of the procurement processes adopted need to be sensitive to existing arrangements and that there are different ways of assessing value for money in addition to market testing. It was considered that compliance risk and cost of change are additional factors that our existing processes take into account when considering the optimum procurement solution.

General governance issues raised by GW were discussed and seen as a key element of the new scrutiny arrangements. The failure to ensure that cabinet FWP is routinely updated and reports are submitted on time and that delegated decisions are fully and promptly recorded were both seen as candidates for inclusion within the annual statement due to their importance within the authority's governance systems and processes.

#### **5. DRAFT SHELL AGS STATEMENT**

RH updated the panel on the position with the shell draft AGS which had been updated for comments made by GW & RHn. The panel also discussed and suggested that the newly developed Assurance Framework should be referenced within the document and RH indicated that the external auditors have suggested inclusion of the Internal Audit Managers opinion within the document.

It was agreed that the redraft of the shell should include points on :-

1. Strengthening the procedures around the operation and maintenance of the cabinet forward work program.
2. An assessment of the recording of delegated decisions
3. The preparedness for the new General Data Protection Regulation 2018.

NS also stated that the revised draft would be discussion by CMT on the 11<sup>th</sup> May.

#### **6. DRAFT CODE OF CORPORATE GOVERNANCE**

RH updated that no further comments had been received regarding the updated document.

#### **7. DRAFT REVISED TERMS OF REFERENCE FOR PANEL**

RH introduced the slightly amended Terms of Reference and suggested that they be put to the Audit Committee at the same time as the revised Code of Corporate Governance. The panel agreed, with no additional comments on the document.

#### **8. AUDIT COMMITTEE FORWARD WORK PROGRAMME**

The Audit Committee forward work programme was reviewed and one revision identified. The draft annual governance statement will be presented by S Harris due to NS being unavailable-on pre-booked leave.

#### **9. A.O.B.**

With the Local Government elections before the next meeting of the review panel Cllr Forehead was thanked for her attendance and participation at both the review panel and the Improving Governance Project Board.

Due to his retirement Colin Jones was also thanked for his participation and input to the review panel.