

GOVERNANCE AND AUDIT COMMITTEE

17 NOVEMBER 2020

Present: Councillor Hugh Thomas(Chairperson)
Councillors Goodway, Howells and Williams

1 : APOLOGIES FOR ABSENCE

Apologies were received from Councillors Cunnah, Lister and Simmons

2 : DECLARATIONS OF INTEREST

No declarations of interest were received.

3 : MINUTES

The minutes of the meetings held on 8 September and 20 October 2020 were approved by the Committee as a correct record. A typographical error was noted and corrected in the minutes of 20 October 2020.

Audit Committee Matters

4 : IAN ARUNDALE - LEAVE OF ABSENCE REQUEST

The Committee was asked to consider the request to extend an Independent Member's leave of absence ahead formal Council approval. Members were reminded that Council has approved Mr Ian Arundale's leave of absence on 28 November 2019 to enable him to take up a short-term contract with Cleveland Police. They were provided with details of Mr Arundale's formal request that his leave of absence be extended to cover the remainder of the municipal year.

The Chair advised that the Independent Member had discussed the request with him personally, and advised of his ongoing strong commitment to returning as an active Member of the Audit Committee. Members supported the leave of absence request and resolved to recommend approval of the request to Full Council.

RESOLVED – That the Audit Committee:

- (1) notes the request for an extension of the leave of absence of Ian Arundale to the end of the municipal year 2020/21;
- (2) Recommends the approval of the request to Full Council.

5 : AUDIT COMMITTEE MEETING TIMES

The Committee received a briefing note providing Members with an opportunity to review the timings of meetings in order to support effective participation. Members were requested to share their views on the timing of Committee meetings and to determine the most suitable time for future meetings to be held.

Every members was invited to comment. Gary Jones, Head of Democratic Services stated that two members who were not present have indicated that their preference would be for evening meetings due to difficulties with work commitments. Members of the Committee expressed their views and made a number of suggestions including alternating the start time of meetings between afternoon and evening meetings. Members expressed a preference to have a meetings on a fixed day of the week and to have dates and times agreed well in advance. The Committee was asked to have regard to the business to be transacted on the agenda when considering the start times of meetings.

Members also discussed the possibility of continuing to attend meetings remotely in the future in order to allow Members some flexibility in terms of how they attend meetings. The Head of Democratic Services stated that the logistics and technical issues around the possibility of holding 'hybrid' meetings, where some members attend in person and some members attend remotely, are currently being assessed.

Officers were unanimous in their view that their role is to support the Committee and they would be guided by the start times are Members deem appropriate. External invitees concurred with that view.

The Head of Democratic Services advised that there are two Audit Committee due to be held in the remainder of the municipal year. With the Committee's approval, it was suggested that Audit Committee remain on Tuesdays but start times be alternated between an afternoon and an evening as a pilot, following which, Members will then be asked to indicate their preference going forward.

RESOLVED – That:

- (1) the Committee meeting on 26 January 2020 be held at 4.30pm and the meeting on 23 March 2021 be held at 2.00pm;
- (2) following the meeting on 23 March 2021 Members be asked to indicate their preference for the start times of meetings going forward.

Finance

6 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources provided a verbal financial update, including reference to resilience issues and Covid-19 related matters.

Members were advised that the Statement of Accounts for 2019/20 were approved by Council. A Month 6 monitoring report will be presented to the Cabinet shortly. The general highlights in the Month 6 report were reported. Covid related spend to the end of September totalled approximately £32 million. Expenditure has been claimed from Welsh Government until the end of August totalling £27.4 million of which £25.3 million had been received. In terms of income, the Quarter 1 loss of income was £13.4 million, of which £13.1 million has been reimbursed. The Quarter 2 claim was submitted to Welsh Government during November totalling almost £9 million. Members were ask to note the continued support and engagement with Welsh Government throughout the pandemic. Support to local authorities across Wales to date totals £510 million.

In terms of the Month 6 position, a net overspend of £1.133 million is projected. This represents an improvement of the Month 4 position of around £850,000 following improvements in the financial position in Children's Services and Education. The directorate position is offset by the general contingency set aside in the budget. In year savings of £3.1 million have been identified which have allowed directorates to offset against areas where savings were not being realised.

A Medium Year Financial Plan has been prepared and was presented to both Cabinet and Council. The plan showed a budget gap of £25 million in the next financial year with an assumption of Welsh Government support at +1.5%. The pandemic has been a major issue in terms of estimating the position in 2021/22 and has impacted upon the authority's ability to set a robust budget strategy for the year. This has also been compounded by delays in the process during the current year. The provisional settlement from Welsh Government will not be released until 22 December 2020. Consultation on budget proposals will now take place immediately after Christmas.

7 : COMMERCIALISATION IN LOCAL GOVERNMENT

In October 2020, the Auditor General for Wales issued a report on Commercialisation in Local Government. The report recommended that Councils use Audit Wales self-evaluation tools to develop a strategy for the extent to which they wish to pursue commercialisation. Members were asked to consider and comment on the report.

The Head of Finance was invited to introduce the report. The Committee was advised that the intention was for the authority to commence a self-review exercise and report to the Audit Committee in late Spring.

Members were invited to comment or seek clarification on the report.

A Member raised concerns about the language used in the Audit Wales report. The Member considered that public services are not commercial services. Therefore, it must be questioned why such services would be delivered in a commercial way.

A Member asked why officers were contemplating bringing these issues before the Council when the current administration is unlikely to entertain the commercialisation of its services. The Head of Finance stated that intention was to acknowledge the Audit Wales report and to consider the recommendations in order to establish what can be learnt, adapted and rejected as officers.

Concerns were expressed that there was no policy direction from the administration regarding the commercialisation of services and therefore, in order to protect public services, such a self-assessment exercise should not be considered. Members of the Committee considered that the issue of commercialisation was a political decision for the Council. Members questioned whether the Audit Committee was the appropriate forum to debate this issue.

The Corporate Director Resources stated in completing the analysis there may be an opportunity to articulate the concerns expressed by Members. Sara-Jane Byrne welcomed the active consideration of the report. Members advised that the Audit

Wales report was not prescriptive in terms of its definition of 'commercialisation' and there was a broad spectrum in approaches to how commercialisation is applied.

RESOLVED – That:

- (1) The Committee notes the report;
- (2) The Committee receives an update on the results of the self-review exercise by April 2021

Governance and Risk Management

8 : CORPORATE RISK MANAGEMENT 2020/21 (MID-YEAR UPDATE)

The Head of Finance presented the Corporate Risk Management Mid-Year update for 2020/21. The Committee received a summary of the report including the impact and challenges associated with the Covid-19 pandemic on the risk register and the continuing work ensuring risks associated with Brexit are managed appropriately.

Members were asked to note that two Corporate Risks in relation to workforce planning and delivery of the Capital Ambition delivery programme are being managed at a directorate level. It was also proposed that a risk titled School Organisational Planning be broadened to ensure that there is a corporate view on the risks associated with infrastructure planning across the Council.

In relation to the Health and Safety risk, a Member noted the repurposing of infection controls in response to Covid-19. Members asked whether the impact likelihood on that risk should be re-evaluated. Officers welcomed the comment and agreed to pass the observation back to the risk owner.

RESOLVED – That the report be noted.

Internal Audit

9 : AUDIT AND INVESTIGATION TEAM - PROGRESS UPDATE

The Audit Manager presented the Internal Audit and Investigation Team Progress reports for Quarter 2.

The reports provided a summary of current activities. The Audit Manager asked Members to note that the Audit Plan is behind schedule as the Covid-19 crisis has impacted significantly on audit clients and the capacity of the Audit Team.

The Audit Manager requested the Committee's approval to defer 32 audit engagements from the Audit Plan. A Member sought assurance that there were no significant risks associated with that action. The Audit Manager advised that it was not possible to guarantee that there was no risk, but that there was a systematic and risk-based approach to prioritising audits, through which all fundamental systems are scheduled for audit, with none deferred. Members were advised that the prioritisation of all other audits has taken into account matters such as the extent of inherent change and risk, the content of risk registers, management assurance statements and the opinion and scope of the last audit together with the time since the last audit review.

The Audit Manager advised that there is always a level of the Audit Plan that is not achieved, and that the audits proposed to be deferred represent areas where assurance will be sought going forward, but for which there is less direct importance to the annual audit opinion for 2020/21, in consideration of audit coverage, risk, and through director discussion.

Members asked whether the Audit Manager was concerned at the level of 'red/amber' recommendations that are currently outstanding and passed their deadline, particularly in Education and Economic Development. The Audit Manager considered that it was vital that recommendations are delivered and acted upon. As part of the Council's response to the Covid-19 crisis, service areas have rightly focussed on addressing critical priority needs, but that there is a need to ensure that recommendations are delivered on a timely basis. The Audit Manager advised that he was due to report the position in terms of open recommendations to the Senior Management Team and that the Chief Executive continues to emphasise the need for audit recommendations to be promptly progressed.

RESOLVED – That:

- (1) The Committee notes the report;
- (2) The Committee approved the deferral of 32 audit engagements from the Audit Plan 2020/21.

10 : DRAFT ANTI-MONEY LAUNDERING POLICY

The Audit Manager presented a report on the Draft Anti-Money Laundering Strategy. The report was prepared to provide Audit Committee with an opportunity to comment on and consider the Anti-Money Laundering Strategy prior its consideration for approval by Cabinet in December 2020.

Members were advised that the revised strategy updated the existing policy by incorporating the requirements of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and the Money Laundering and Terrorist Financing (amendment) Regulations 2019. The draft policy was subject to consideration and comment from the portfolio Cabinet Member, Senior Management Team, Trade Union colleagues and the Equalities Team and comments received were incorporated into the draft policy attached at Appendix A of the report.

A Member advised that he had no substantive comments, but that given time constraints he would like to discuss technical matters with the Audit Manager outside the meeting, which was agreed.

RESOLVED – That the report be noted.

Treasury Management

11 : PERFORMANCE REPORT

The Operational Manager (OM), Capital, Corporate and Treasury presented the Treasury Management Performance report as at 30 September 2020.

Members were advised that investments totalled £165.8 million. Members were asked to note that interest rates on short-term investments had turned negative.

No new loans have been undertaken during the year to date. Loans for specific capital projects from Welsh Government and Salix are being considered subject to approval of those projects and included loans for energy efficiency and distribution projects and town centre loan schemes which may be received during the remainder of the year. Current assumptions are that the only loans that will be replaced are £20 million of short term maturing loans in January 2021, initially taken towards the acquisition of the Red Dragon Centre.

RESOLVED – That the report be noted.

12 : HALF YEAR REPORT

The Committee received a report on the Council's treasury management activities since 1 April 2020 and the position as at 30 September 2020.

A Member referred to the Capital Financing Requirement. It was noted that capital financing would increase from approximately £800 million to £1.1 billion over the next 5 years. The Operational Manager Capital, Corporate and Treasury was asked how this would impact on the revenue account in terms of the interest payments associated with that rise.

The Operational Manager advised that the rise in the requirement was associated with significant investment in new housing and, the 21st Century Schools Programme. School investment is predicated on a financial model where affordability and mechanisms are in place to meet any interest payments arising. The administration also aims to create 2,000 affordable homes within the Housing Revenue Account which is paid for by rent income assumed. The position is reviewed annually as part of the capital programme. The Treasury Strategy includes indicators that demonstrate how much of the revenue budget is used to service interest payments each year.

Members asked when the Welsh Government's interest-free town centre and energy projects loans will need to be repaid and whether this would result in further borrowing. The Operational Manager indicated that the energy efficiency loans would be repaid over an 8 year from savings identified from energy saving measures. The town centre loans are repayable within 15 years. As part of the Council's due diligence a partial covenant is taken. Where the Council has given a developer a loan to bring a site back into beneficial use there is an expectation that that loan is repaid. The Welsh Government will expect the loan to be returned at a set point and the risk ultimately sits with the Council. This results in extra due diligence on the Council's part to ensure these loans can be repaid.

RESOLVED – That the report be noted.

13 : OUTSTANDING ACTIONS

RESOLVED – That the report be noted.

14 : CORRESPONDENCE

No correspondence was received.

15 : WORK PROGRAMME UPDATE

RESOLVED – That the report be noted.

16 : URGENT ITEMS (IF ANY)

No urgent items were received.

17 : DATE OF NEXT MEETING - 26 JANUARY 2021

The meeting terminated at 4.30 pm