

## AUDIT COMMITTEE

18 SEPTEMBER 2018

Present: Independent Members: Ian Arundale (Chair)

Councillors Bale, Cowan, Cunnah, Howells, McGarry, Singh and Walker

### 23 : APOLOGIES FOR ABSENCE

Apologies were received from Councillor Chris Lay, Gavin McArthur, David Price and D. Hugh Thomas.

### 24 : DECLARATIONS OF INTEREST

The following declarations of interest were received:

Cllr Bale	Item 4 Item 5	School Governor Member of Pension Fund
Cllr Cowan	Item 4	School Governor
Cllr Cunnah	Item 4.1.2 Item 5.2	School Governor Members of Pension Fund
Cllr Howells	Item 4.1.2 Item 5.2	School Governor Members of Pension Fund
Cllr McGarry	Item 4.1 Item 5	School Governor
Cllr Walker	Item 4	School Governor

### 25 : MINUTES

The minutes of the meeting held on 26 June 2018 were approved by the Committee as a correct record and were signed by the Chairperson.

### 26 : NICK BATCHELAR, DIRECTOR EDUCATION AND LIFELONG LEARNING - ANNUAL REPORT ON SCHOOL GOVERNANCE (INCLUDING BALANCES AND DEFICITS)

The Chairperson welcomed the Director of Education to the meeting. The Director was invited to deliver two reports: a report on the Directorate 'Internal Control Environment'; and a report on 'Governance in Schools and School Balances'.

Members were advised that the Directorate is responsible for early years education, statutory age education, education in school sixth forms and the youth service, with a net budget of £256.425 million, of which £230.923 million is delegated to the 127 schools in Cardiff.

The report set out the directorate structure, the seven key strategic priorities, its directorate's risk management response and the Senior Management Assurance Statement arrangements and position. The report also provided an overview of the monitoring and implementation of Internal Audit Monitoring reports undertaken during 2017/18 and 2018/19.

The Director presented his annual report on school governance and school balances. The report provided details of the audits undertaken in schools during 2017/18, an analysis of individual school financial balances at 31 March 2018 and school balances for the previous six years. The overall surplus balances held by schools had increased from £4.242 million in 31 March 2017 to £7.319 million on 31 March 2018. This was partly due to a late grant from Welsh Government which was received in 2018/19 but was to be spent in 2019/20. There are 59 school balances in excess of the Welsh Government recommended level (£50,000 for primary schools and £100,000 for secondary schools). The Council has the power to reclaim part or whole of the surplus balance, if the governing body does not have a robust plan to spend.

The Director welcomed the use of the Control Risk Self-Assessment Tool and the thematic school audits and provided assurance in the use of powers of intervention for schools with poor financial management and poor governance. Members were reminded that Eastern High School and Cantonian High School had had their delegation withdrawn and that sufficient progress had been made for consideration to be given to returning delegation to them during the coming year.

The Chairperson invited comments and questions from Members of the Committee. Those discussions are summarised as follows:

- Members considered that more information should be included in the report in terms of what the LEA is doing to challenge identified risks, for example, the risk that the Central South Consortium does not deliver effective services that challenge and support Cardiff schools to improve and attainment does not improve at the required rate. The Director stated that he could offer absolute assurance that Cardiff is challenging the Central South Consortium, and gave an undertaking to provide further detail in next year's report.
- The Committee asked the Director to comment on school budget surpluses. The Director stated that the concerns identified were not directed at any school in particular, but drew attention to a Government conversation at a national level voiced by the Cabinet Minister on managing surplus balances.
- Members noted that Head Teachers and Chairs of Governing bodies are not typically invited to appear before the Committee in instances where limited assurance opinion is given. The Chairperson requested the Section 151 Officer and Director of Education consider an approach to reinforce the messages and expectations of the Audit Committee, which balances the impact and focus of the Audit Committee agenda.
- Members raised concerns about the evaluation of performance in the Youth Service Commissioning Model, and sought assurance on the transparency of the arrangements. The Director advised that the approach taken has

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worked well in some areas and not so well in other areas and the commissioning model is currently subject to a review. The Chairperson requested that a report on the Youth Service Commissioning Model be brought to a future meeting of the Committee, to address the points raised by Members.

- Members welcomed progress made around building maintenance in the schools estate, reflecting on the management of risk, the impact of the older buildings on revenue budgets and the lack of Governing body funding for this purpose. Members were advised that the Directorate has refreshed the School Maintenance Handbook, supported the appointment of Health and Safety Officers and together with the management of prioritisation of increased budgets means that the governance of the asset renewal budget is stronger than previously. Members were advised that an additional £25 million has been allocated to the asset renewal budget over the next 4 years. The School Budget Forum has recognised that some school buildings are in a poor state and in order to reflect this a change in the funding formula has been agreed.
- A Member raised concerns regarding the confusion between ESTYN and the Welsh Government regarding school categorisation grading. The Director shared the concerns on the limitations of the categorisation referencing the Donaldson review of ESTYN, which posed questions regarding the move away from summative judgements.
- Responding to a point raised by the Committee in respect of school balances, officers stated that a percentage threshold was agreed by the School Budget Forum of 4% of the overall budget. Twenty schools have held surpluses in excess of 4% for a number of years and some schools are consistently exceeding that level.
- Members asked whether as part of the 21<sup>st</sup> Century Schools Programme any risk has been identified in terms of the growth of pupil numbers impacting on the sequencing of the programme and whether there was any associated financial risk. The Director stated that as the City grows there will be capacity. There is a reasonable degree of certainty regarding pupil numbers in primary schools. The 21<sup>st</sup> Century Schools proposals are based on existing data and the Directorate is aware of where school places are needed. The programme is co-dependent on funding from Welsh Government. Discussions regarding phasing are ongoing and some uncertainty remains. There is a level of uncertainty related to the Local Development Plan in relation to policy issues and the balance between Welsh and English medium education.

RESOLVED – That:

- (1) the report be noted;
- (2) with regard to the Head Teachers and Chairs of Governing Bodies, the Section 151 Officer and Director of Education consider an approach to reinforce the messages and expectations of the Audit Committee, which balances the impact

and focus of the Audit Committee agenda

- (3) a report on the Youth Service Commissioning Model be brought to a future meeting of the Committee, to address the points raised by Members.

27 : ANDREW GREGORY, DIRECTOR PLANNING, TRANSPORT & ENVIRONMENT - UPDATE ON THE INTERNAL CONTROL ENVIRONMENT

The Chairperson welcomed Andrew Gregory, Director of Planning, Transport and Environment to the meeting. The Committee received a presentation on the 'Internal Control Environment' for the Directorate.

Members were advised of the processes in place to manage the Corporate Risks led by the Directorate, which included Waste Management, Air Quality, City Security, Climate Change and Energy Security.

Members were advised that the Directorate Management Team is actively engaged in the review of the Senior Management Assurance Statement (SMAS), with an overall strong application of good governance reported across the Directorate. The position in implementing recommendations of Internal Audit was also presented. Members were invited to comment, seek clarification or raise questions on the information received. Those discussions are summarised as follows:

- Members noted that the report contained details of the governance arrangements in place but did not contain any information regarding performance, customer service or engagement. The Director stated that the Directorate is broadly achieving its aims with the majority of targets rated green or green/amber. Members were advised that in terms of the Welsh Government's recycling target, the service aims to achieve a recycling rate of 64% by 2020 which is a challenging and a substantial undertaking.
- Members noted that a strategic priority for the Local Development Plan was the provision of housing. However, there was little reference to provision for the gypsy traveller community in terms of progress or a timetable for delivery. The Directorate stated that discussions with the landowners and the Welsh Government are ongoing.
- A Member raised concerns regarding the lack of land identified for the provision of burial space in the LDP. The Director advised that the Head of the Bereavement Service has undertaken a review of the Bereavement Strategy and has identified an increased need for burial provision. Any application for a new burial site would be assessed under planning law and a decision must be robust. The Director stated that the review highlighted that additional burial space in the city is necessary and an immediate response was needed.

RESOLVED – That the report be noted.

28 : EXCLUSION OF THE PUBLIC

RESOLVED – That the public be excluded during discussion of the following items of business on the grounds that if members of the public were present during the

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discussions, due to the nature of the business to be transacted there would be disclosure to them of exempt information as defined in the Local Government Act 1972 and Category 3 of the Local Authority's (Access to Information) (Variation) (Wales) Order 2007 as follows:-

'Information relating to the financial or business affairs of any particular person (including the authority holding that information).'

#### 29 : CONFIDENTIAL UPDATE

The Committee received a confidential update on a Contingent Liability matter identified in the Statement of Accounts 2017/18.

#### 30 : FINANCIAL UPDATE INCLUDING RESILIENCE ISSUES

The Corporate Director Resources presented a report advising the Committee of the latest position in relation to budget monitoring in the current year and providing an update on the preparatory work for the 2019/20 budget and the medium term.

Members were advised that the Month 4 Budget Monitoring Report was due to be considered by the Cabinet on 20 September 2018. The report projected a balanced position with financial pressures and shortfall against budget savings targets being offset by projected savings on capital financing, an anticipated surplus on Council Tax collection and NDR refunds on council properties. Directorate budgets are projected to be overspent by £5 million, however it is anticipated that management actions will enable this to be reduced by year end. The overspends were partly offset by underspends in other directorates and by the £3 million general contingency budget.

Members were asked to note the Month 4 position in Directorates; a savings shortfall of £2.8 million anticipated against the £14.296 million directorate savings target; and the variation in the £109 million capital programme of £2.7 million due to slippage.

The Corporate Director Resources advised that the CIPFA Prudential Code was updated in December 2017. The Code requires that the Council approves a Capital Strategy that sets out the long-term context in which both capital expenditure and investment decisions are made. The Budget Strategy report set out the key components of a Capital Strategy and the extent to which this is already reflected in the Council's approach to budget setting. The Capital Strategy will form part of the Budget Report for consideration in February 2019.

Members referred to the acquisition of the former Toys 'R' Us site in Cardiff Bay. The Head of Finance stated that some unallocated capital receipts were being used to fund this expenditure. Officers in Finance are working closely with the Director of Economic Development to ensure that the necessary funding is in place. A Member sought reassurance that other priorities will not be impacted upon. The Head of Finance stated that the Capital Strategy will help provide that level of transparency.

**RESOLVED** – That the Audit Committee note the latest position in respect of the Council's budget monitoring for the current year and the work being undertaken in respect of the budget preparation for 2019/20 and the medium term.

## 31 : FINAL STATEMENT OF ACCOUNTS FOR 2017-18 (INCLUDING THE AGS)

The Committee received the audited Statement of Accounts 2017/18 for the City and County of Cardiff, the Cardiff Harbour Authority, the Cardiff and Vale of Glamorgan Pension Fund and the Annual Governance Statement. The Committee received the draft Accounts and Annual Governance statement on 26 June 2018 and officers confirmed that issues raised at that meeting were addressed with responses set out in Appendix 4 of the report.

The Committee discussed the report and the following comments were made:

- Members referred to the categories of debtors listed in the report. Officers were asked whether the recovery of £1 million in overpayments of Housing Benefit was achievable. Officers advised that the authority attempts to recover all overpayments, but this can be phased. Members were asked to note that the overpayment figure arises as a result of the year-end accounting.
- Wales Audit Office advised that an unqualified report would be issued on all 3 sets of accounts.
- In response to a question from a Member, the Committee was advised that there have been no loan transactions with Cardiff Bus during the year to date. Officers advised that any potential loan to Cardiff Bus, will follow appropriate due diligence.
- An explanation was sought in respect to the deferred liabilities for Rent Smart Wales. Officers advised that the income received by Rent Smart Wales covers a five year period and needs to be treated accordingly in the accounts.
- The Committee asked whether there was an internal limit on the level of reserves retained by the authority and how reserves are reviewed. Officers reminded the Committee that when benchmarking reserves with other Welsh local authorities, Cardiff has a comparatively lower level of reserves held. A Reserves Policy is published the Corporate Director Resources which states that the authority requires a prudent level of general reserve. The Council has been able to create a Strategic Budget reserve which will be used over the next 2 or three years.

RESOLVED – That the Statement of Accounts for 2017/18 and Annual Governance Statement be noted.

## 32 : AUDIT COMMITTEE'S RESPONSE TO THE WALES AUDIT OFFICE CONSULTATION ON FEE SCALES 2019/20 (VERBAL ITEM)

The Head of Finance advised that responses have been received from the Audit Committee to the Wales Audit Office consultation on fee scales for 2019/20. The Chairperson requested the Head of Finance draft a letter to Wales Audit Office setting out the Committee's formal response to the consultation.

RESOLVED – That the Head of Finance draft a letter to Wales Audit Office setting out the Committee's formal response to the consultation

### 33 : CORPORATE RISK MANAGEMENT (QTR 1)

The Committee received a report providing an update on the risk management position at end of quarter 1, 2018/19.

Members were advised that 296 directorate risks were reported to Senior Management Team (SMT) in September 2018, and 8 directorate risks were at the SMT escalation point. Details of the changes to the Corporate Risk Register in quarter 1 were outlined.

A Member emphasised the importance of cyber security and information governance. The Head of Finance advised that the Chief Digital Officer is on the Work Programme and would be invited to attend the Committee in November 2018. The Work Programme would be considered under agenda item 12.

RESOLVED – That the Audit Committee note the risk management activity and the contents of the Corporate Risk Register.

### 34 : WAO ACTIVITY/REPORT PROGRESS UPDATE

No progress update presented at the meeting.

### 35 : WAO TRACKER/OTHER STUDIES

The Head of Finance provided a verbal update on the WAO tracker.

### 36 : TREASURY MANAGEMENT PERFORMANCE REPORT

The Committee received the Treasury Management Performance Report and a position statement as at 31 August 2018 for information.

RESOLVED – That the report be noted.

### 37 : TREASURY MANAGEMENT ANNUAL REPORT

The Committee received the Treasury Management Annual Report prior to its submission to Council on 27 September 2018. Officers summarised the key points of the report. Members were advised that at the start of the year the Council is required to set a number of prudential indicators for capital and revenue expenditure. During 2017/18 no indicators were breached.

Responding to a question from the Committee, officers confirmed that whilst a number of local authorities have had LOBO loans called in, there was no indication that Cardiff's loans will be called in. In the event that these loans are called in, officers will consult advisors and spread any risk if pertinent to do so.

Members were advised that CIPFA were developing a risk index around wider procedures and governance. This was in response to treasury management issues in some Councils.

The Chair asked whether 'Brexit' had any implications for investments held in the EU (Republic of Ireland). Officers advised that there were no risks as investments domiciled in Ireland are in Sterling and can be returned the following day.

Members asked whether there were any plans to get better rates on investments that investments that are due to expire soon. Officers stated that current strategy is to keep investments short. The authority will need cash to minimise the need for borrowing. Additionally, local authorities receive less favourable rates than private investors. Commitments made under the City Deal project will mean that cash will be required this year and therefore, to allow certainty, it was decided not to invest beyond 1 year in respect of City Deal monies.

Members asked whether the Council was close to the maximum permitted Capital Financing Requirement (CFR). Officers advised that the Council is required to set an affordable borrowing limit. There is no maximum permitted level. The Section 151 Officer stresses as part of the budget what the authority can afford.

RESOLVED – That the Treasury Management Annual Report 2017/18 be noted.

#### 38 : AUDIT TEAM PROGRESS UPDATE 2018/19

The Head of Finance advised Members that a recent recruitment exercise has led to the appointment of a new Audit Manager. Members were advised that the new Audit Manager is anticipated to take up post in October 2018.

The Head of Finance proceeded to present the Internal Audit Progress Report as at August 2018, focussing on the work of the Internal Audit Team, performance information and the Red and Red/Amber recommendations completed and outstanding.

Members were asked to note that 4 auditors have been supported in their pursuit of the Institute of Internal Auditors qualification.

RESOLVED – That the Audit Committee notes the contents of the report.

#### 39 : INVESTIGATION TEAM PROGRESS UPDATE 2018/19

RESOLVED – That the Investigation Team Progress Report be noted.

#### 40 : OUTSTANDING ACTIONS

RESOLVED – That the outstanding actions be noted.

#### 41 : WORK PROGRAMME UPDATE

The Committee considered its Work Programme. Members considered that it would be beneficial to receive a briefing on the authority's 'Brexit' Strategy.

#### 42 : URGENT ITEMS (IF ANY)

No urgent items were received.



43 : DATE OF NEXT MEETING

The next meeting will take place on 13 November 2018.

The meeting terminated at 4.25 pm