

# **AUDIT AND GOVERNANCE COMMITTEE**

## **Minutes of the meeting held on 4 December, 2018**

<b>PRESENT:</b>	Councillor Peter Rogers (Chair) Councillor Robert Llewelyn Jones (Vice-Chair)  Councillors John Griffith, Dylan Rees, Alun Roberts, Margaret Roberts.  Lay Members: Dilwyn Evans, Jonathan Mendoza
<b>IN ATTENDANCE:</b>	Chief Executive Head of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Head of Democratic Services (for item 3) Committee Officer (ATH)
<b>APOLOGIES:</b>	Councillors G.O.Jones, Robin Williams (Portfolio Member for Finance)
<b>ALSO PRESENT:</b>	Mr Alan Hughes and Charlotte Owen (Wales Audit Office), Principal Auditor (EW), Senior Auditor (NW), Senior Auditor (JR)

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### **1. DECLARATION OF INTEREST**

No declaration of interest was received.

### **2. MINUTES OF THE 19<sup>TH</sup> SEPTEMBER, 2018 MEETING**

The minutes of the previous meeting of the Audit and Governance Committee held on 19<sup>th</sup> September, 2018, were presented and were confirmed as correct subject to amending the reference to 31 March, 2017 in the first bullet point under item 8.2 to read 31 March, 2018.

Arising thereon –

- The Head of Audit and Risk reported that the Audit and Governance Committee's revised Terms of Reference were endorsed by the Executive on 29 October and will now be presented to the Full Council for approval on 11 December, 2018.

The Committee noted that the new terms of reference extend its responsibilities appreciably; the Committee was concerned that it is not meeting those expectations currently and it sought assurance therefore that it will be able to do all that is expected of it within the schedule of meetings assigned to the Committee over the course of the year.

The Head of Audit and Risk said that the new guidelines issued by CIPFA on the function and operation of Audit Committees in local authority and police bodies have increased their responsibilities meaning that the Committee will have to be provided with the information that will enable it to meet all its oversight responsibilities. It is unlikely that all audit committees are fully compliant with the CIPFA terms of reference at this point in time; the CIPFA guidance also includes a self-assessment of good practice which the

Audit Committee will undertake to establish where it is at; whether further training might be necessary or desirable and to assess the reports and papers it is likely to need in future to fulfil its enhanced oversight role and to perform effectively. The Officer said that the new expectations on audit committees in relation to this Committee specifically did not overly concern her as taking on the new responsibilities will be a step by step process with the plan being to introduce the new duties incrementally. In addition, a sub-group of the North and Mid-Wales Auditor Partnership (the Heads of Audit) is looking at the issue in terms of moving audit committees forward to ensure they are doing what is expected of them. A meeting of the sub-group scheduled for January, 2019 will consider a plan of action to enable audit committees to reach a position of full compliance. They are working on a plan from the perspective of the region with one of the suggestions being that Audit Committee members may benefit from sitting in on a meeting of an audit committee in another local authority area to observe practice in other audit committees.

- The Committee noted that previously there was a provision whereby the Chair and Vice-Chair could meet privately with Internal/External Audit which was useful in terms of being able to raise issues which could then be reported back to the Committee as necessary.

The Head of Audit and Risk said that arrangements for the Chair and Vice-Chair to meet privately with Internal and External Audit without the presence of Management are formalised within the new Terms of Reference.

**The information was noted and there were no proposals for additional action.**

### **3. EXTERNAL AUDIT: ISLE OF ANGLESEY COUNTY COUNCIL: OVERVIEW AND SCRUTINY – FIT FOR THE FUTURE?**

The report of External Audit on the outcome of a review of the scrutiny arrangements at the Isle of Anglesey County Council was presented for the Committee's consideration. The review explored with each of the 22 councils in Wales how "fit for the future" their scrutiny functions are and how well councils are responding to current challenges in relation to their scrutiny activity as well as how councils are beginning to carry out their scrutiny of Public Service Boards. The review also examined how well placed councils are to respond to future challenges in particular the continued pressure on public finances and the possible move towards more regional working between local authorities.

Mr Alan Hughes, WAO reported that the review of the scrutiny function at the Isle of Anglesey County Council found that the Council has strengthened its overview and scrutiny function and is making arrangements to meet future challenges. The review came to this conclusion because –

- The Council is supportive of overview and scrutiny, and arrangements necessary to help overview and scrutiny members meet future challenges are being put in place.
- Overview and scrutiny committee practice is improving, the range of evidence sources they draw on has increased, and scrutiny committees' forward work programmes align with the work of the Executive, and
- The overview and scrutiny function is contributing to improvements in performance and decision-making, and the Council regularly evaluates its effectiveness.

The review made the two following proposals for ways in which the Council could further improve the effectiveness of its overview and scrutiny function to make it better placed to meet current and future challenges –

- The Council's Overview and Scrutiny function should further improve arrangements for promoting the engagement of the public and other stakeholders in scrutiny activity.

- The Council should build on its experience through further self-assessment, to consider more innovative methods of undertaking scrutiny activity.

Some of the improvements made to Overview and Scrutiny at the Council which has strengthened the function include the following –

- Councillor roles and responsibilities for scrutiny are clearly set out in the Constitution with member and chair role descriptions, and the member training and development programme has enabled those involved in the scrutiny function to develop a clear understanding of their roles.
- The Council provides training on effective scrutiny and chairing skills as part of its councillor induction and scrutiny members' development.
- The Council has recognised the need to strengthen scrutiny of the Public Services Board and has begun to scrutinise elements of PSB activity including its draft well-being plan in March, 2018. The Scrutiny Improvement Programme action plan also identifies the further work that needs to be done in relation to scrutinising the PSB. This is set out in the report.
- The quality of papers that were observed being presented to scrutiny committees is generally good and the Scrutiny Template provides guiding principles for scrutiny members including references to the Well-being of Future Generations Act's five ways of working.
- Overview and scrutiny committees regularly challenge and hold lead members and officers to account.
- The scrutiny meetings observed as part of the review were well run.
- The Council regularly evaluates the effectiveness of the scrutiny function and has identified good progress in a number of areas. These are noted in the report.

The Head of Democratic Services said that improving the Scrutiny function at the Council has been a collective endeavour between Officers and Councillors and has been effected through the three scrutiny panels as well as the scrutiny committees. Work to further improve and enhance the Scrutiny function will continue building upon the foundation which has been put in place and which is recognised in the report. The Scrutiny Improvement Action Plan will also be updated to reflect the recommendations of the External Audit report.

The Committee welcomed the report as a positive endorsement of the way the Scrutiny function is being developed at the Council, and in considering the information it made the following points –

- The Committee sought clarification of whether there are examples of good practice with regard to communicating and engaging with the public in terms of better enabling their views and concerns to be heard in scrutiny and policy development.

The Committee did note that the Democratic Services Sub-Committee has given consideration to webcasting the Council's scrutiny committees as a means of reaching the public but due to the costs involved and the current financial constraints on the Council, doing so was not recommended by the Democratic Services Committee at this time. Also an analysis of the data shows that the numbers viewing the committee meetings that are already webcasted by the Council are generally low unless the business covered includes issues that are or have proven contentious.

Mr Alan Hughes, WAO said that although Scrutiny at the Council is not lagging behind as regards its arrangements for promoting public engagement it needs to assess whether it is doing so consistently enough and whether there have been missed opportunities in terms of areas/topics that might have benefited from greater public involvement. It should

form part of the ongoing dialogue about further improving and developing the Scrutiny function at the Council.

- The Committee noted that the WAO recommends that the Council should consider more innovative methods of undertaking scrutiny activity. The Committee sought clarification of what forms of innovation might be introduced and whether there is evidence from other councils that innovation is required.

Mr Alan Hughes, WAO said that councils are operating under pressure in an ever-changing environment which as well as posing challenges, offers opportunities to find new and different solutions to the problems that they face. Councils also need to be in a position to respond to those changes. Public services are always evolving for example through technological change and increased communication and public awareness through social media. It is therefore a matter of scanning the horizon to see what methods are available to maximise public engagement with the scrutiny process.

**It was resolved to accept the external audit report and its proposals for further improving the Scrutiny function at the Council.**

#### **NO ADDITIONAL ACTION WAS PROPOSED**

#### **4. INTERNAL AUDIT PROGRESS UPDATE**

The report of the Head of Audit and Risk which provided an update on Internal Audit's latest progress with regard to service delivery, assurance provision and reviews completed was presented for the Committee's consideration.

The Head of Audit and Risk highlighted the main points as follows –

- That two audit review reports were finalised during the period the one relating to School Income Collection Arrangements which resulted in a Limited Assurance opinion and the other relating to Concessionary Travel Fraud which produced a Reasonable Assurance opinion.
- The **Concessionary Travel Fraud** review was undertaken following the press reports of fraud against Gwynedd Council which led to the conviction of the owners of two bus companies for offences including conspiracy to commit fraud by false representations. Enquiries were made with Gwynedd Council and the Council's Transport Service to ensure that the Council is not exposed to this fraud. One of the companies had operated two contracts for which the Council reimbursed concessionary fares but was not successful when the Council re-tendered the contracts in 2015. The other had not received payments since June, 2014. In addition the following controls are in place which should ensure that the Council's exposure to risk in the reimbursement of concessionary fares is minimised -
  - Flintshire County Council on behalf of all the North Wales Councils provides summary reports directly from the Wayfarer system to support reimbursement claims of concessionary fares so contractors cannot tamper with them. The Council's Transport Service checks all claims for concessionary fares submitted by the bus operator against the reports.
  - From July, 2016 the Welsh Government introduced monthly detailed system reports to allow Councils to monitor smart card activity. The new reporting system means that the Council can identify and investigate anomalies and so there is a reduced risk of losses due to inflated or fraudulent claims for reimbursement of concessionary fares.

- The Council participates in the “Tell Us Once” scheme and cancels cards when informed of deaths. The Council retains damaged cards and any card reported lost is de-activated.
- The Internal Audit review of **School Income Collection Arrangements** was undertaken at the request of the previous Head of Learning due to various concerns about income collections processes within schools. Three primary schools were visited as part of the audit. The review identified policies and procedures in relation to income that were outdated; inconsistencies in accounting for income; lack of corporate monitoring, variations between schools in the monitoring of debt; weak governance of school funds and inappropriate system access controls. Most of the weaknesses found within the income collection processes adopted by schools were due to lack of knowledge and training with the Learning Service not having issued schools with up to date policies supported by procedures and training. There is also a lack of corporate compliance monitoring by the Learning Service which leaves the Council exposed to risks.
- That four follow-up reviews of Limited Assurance reports were finalised in the period relating to Sundry Debtors (remains a Limited Assurance rating); Corporate Procurement Framework (upgraded to Reasonable Assurance); Council’s Preparation for GDPR (upgraded to Reasonable Assurance) and Corporate Safeguarding (upgraded to Reasonable Assurance).
- The **Sundry Debtors first Follow-Up review** found that although the Debtors Team has undertaken significant work to address the issues and risks raised during the original review including implementing major changes to systems while maintaining the daily workload, in many case it has been insufficient to fully address the risk and so the Limited Assurance rating still stands. Of the 19 issues/risks raised during the initial audit review, the Revenue and Benefits Manager has tolerated one Minor risk around refunds and the risk of fraud; 5 have been addressed, 11 are in the process of being addressed and work is yet to start on 2. Where work has commenced and this has reduced the likelihood of the risk occurring, it has been reflected in the risk rating. Internal Audit will revisit the service in July, 2019 to monitor the progress of addressing the risks.
- That three reports with a Limited Assurance rating are scheduled for a follow-up review before the end of the current financial year. These are Child Care Court Orders under the Public Law Outline (PLO); (Follow-Up scheduled for July, 2018) Payment Card Industry Data Security Standards (Follow-Up scheduled for October, 2018), and System Controls – Logical Access and Segregation of Duties (Follow-Up scheduled for December, 2018). All three follow-up reviews are currently in progress.
- The Council has steadily improved its performance in addressing issues/risks raised during audits during 2017/18 and has continued to maintain good performance over the first two quarters of 2018/19. A new and upgraded version of the action tracking system will shortly be available, which provides extra functionality and reduces the administrative burden.
- That since the appointment of the two new Senior Auditors, work on the 2018/19 Internal Audit Operational Plan (Appendix A to the report) has progressed well. However, due to the length of these vacancies, protracted investigations, significant follow-up work and the maternity leave of the third Senior Auditor, the target for undertaking 80% of the red and amber risk in the corporate risk register will be difficult to achieve. To date 29% of the red and amber residual risk in the corporate risk register have been covered and work is ongoing in the 7 areas listed in paragraph 42 of the report. Where the Operational Plan shows no target date for reporting to the Committee, it is because it is anticipated no work will be carried out in those areas – there may be other work being undertaken in these areas e.g. ongoing systems implementation with regard to Payroll which will need to be in before Internal Audit can review the area or an area may not be a priority at this time or an area may be subject to other regulatory/oversight work e.g.

Energy Island Programme/Wylfa Newydd which because of its significance has, and is receiving a great deal of scrutiny from other sources.

- The Council's Insurers, Zurich Municipal have undertaken an independent Risk Management Health Check. The outcome is largely as expected with a few opportunities for improvement. The Strategic Risk Consultants' report along with the improvement action plan, will be shared with the Committee once the report is finalised.
- During the last quarter, Internal Audit has been requesting, collating, reviewing and uploading all the required data for the 2018/19 National Fraud Initiative exercise – a biennial exercise which matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The previous NFI exercise in 2016/17 has been one of the most successful to date already resulting in the identification of £5.4m of fraud and overpayment in Wales and £301m across the UK.

The Committee considered the report and made points as follows –

- The Committee noted that the travel fraud against Gwynedd Council in relation to concessionary fares has highlighted an issue that posed a significant risk. The Committee sought clarification of whether there is data available with regard to past and present usage across authorities

Mr Alan Hughes, WAO said that he understood but could not confirm, that Welsh Government has undertaken a review to establish whether the problem that surfaced in Gwynedd was more extensive. The Head of Audit and Risk said that she would contact Welsh Government to see if the information is available bearing in mind that Welsh Government funds the all Wales Concessionary Travel Scheme.

- The Committee noted with regard to the audit of School Income Collection arrangements that the issues/risks raised are primarily financial in nature. The Committee sought clarification therefore of whether the Finance rather than the Learning Service should be taking the lead on addressing those issues given that it would be expected that Finance has the greater expertise in relation to income collection processes and is therefore best placed to rectify the situation.

The Head of Function (Resources)/Section 151 Officer said that although the responsibility for income collection lies ultimately with the Section 151 Officer the involvement of schools in this case complicates the matter. As schools are legal entities in their own right and have different levels of administrative support, establishing a process that works for all in the same way is difficult. Previously income was collected manually which although laborious was a tried and tested process; however the introduction of the School Comms system and cashless payment in some schools is an added complexity in terms of making it more difficult to reconcile income that is actually collected by a school with payments made digitally via Schools Comms where the school has not handled any cash. The system was introduced with grant funding but was not subject to any subsequent review and although the audit has not uncovered any issue as regards monies missing the inconsistencies and variations along with the lack of oversight and corporate compliance monitoring means that no assurance can be provided that the Council is not at risk of losing money because of the issues with the reconciliation process. It is a matter for the Finance Service to ensure that the appropriate controls are put in place, and with the input of the Learning Service and schools, to devise a process that works for all, that everyone understands and that provides the required level of assurance.

- The Committee noted that only three schools were visited as part of the audit; the Committee sought clarification of how this sample was arrived at and whether it could be taken as representative.

The Head of Audit and Risk said that the audit visit was targeted at a new school that had had the system installed for a short time only; a school which had been operating the system for a long time where the process was expected to have embedded and a school known to have issues. The different results from each school which the audit produced confirmed the lack of consistency which it could be assumed was replicated in the remaining schools. The core issues is that the software has been installed without the parallel training and guidance and additionally it has been installed to do different things in different schools. The Officer said that she was however assured by the newly appointed Schools Business Support Officer and her action plan for progressing the matter and addressing the identified risks/issues.

The Chief Executive in acknowledging that the situation highlighted by the audit review was unacceptable said that he too was encouraged by the comprehensiveness of the Action Plan which he assured members would be implemented.

- The Committee noted that a lesson to be taken from the audit review of school income collection arrangements is that projects, whether to introduce a new system or otherwise need to have a post-implementation review which in this case could have helped identify the pitfalls sooner and allowed them to be addressed in a more timely way. The Committee also sought clarification as to the availability of benchmarking data for school meals income collection which would help the Committee gain some perspective on the issue.

The Head of Audit and Risk said that she would endeavour to provide the information.

- The Committee noted with regard to the Sundry Debtors First Follow-up Review that nearly two years will have elapsed since the original Internal Audit review in November 2017 and the planned Second Follow-Up review in July, 2019 which it viewed as an excessively long timescale to address the issues and risks raised. The Committee also noted that lack of capacity seems to have hampered the Debtors Team from making greater progress and it sought clarification of whether there was a case to be made for additional resources. The Committee further queried whether in the light of the financial pressures on the Council and the ongoing need to identify savings, the maximisation of income, income collection and debt recovery should be priorities.

The Head of Function (Resources)/Section 151 Officer explained what the large-scale investment in systems encompassing Debtors, Cash Collection and Accounting, Council Tax and Housing Benefits which the Finance Service has made over the last two years has entailed specifically for the Debtors and Income Collection teams. In that time also a complete staff restructure has been implemented which itself became a lengthy process. Having improved the Debtors System to a point where it is working reasonably well with invoices being raised promptly and the team working to a 3 day target for the authorisation of new debtors, the Finance Service is now looking to roll out those tasks for services themselves to undertake. Whilst there remains a backlog which the team is working through there are now processes in place to ensure that backlogs are not allowed to accumulate. The other element of the process is the cash system with new software with greater functionality now being introduced. This is as a result of a successful bid for resources under the Invest to Save initiative whereby funding is released for projects that improve the Council's business processes the aim with the new cash system being to better facilitate in advance online payment for services. There has

been some delay in implementation because of complications arising from dual software systems. However, once the planned alternative methods of payment are established i.e. online, by touchtone - it will release resources for other tasks within the Income and Debtor Teams. A great deal of progress has been made over the past two years and the improvements and systems upgrade when they are all completed should allow the Service to direct resources to where they are needed and to deal with matters before they become problems.

In respect of outstanding debt and debt recovery, the Officers said that the Council raised a total of £15.7m through the Debtor system in 2017/18 or 11,500 invoices. At the end of Quarter 2 of the current financial year the outstanding balance was around £4m of which £2.3m was debt over 120 days old. This figure could contain one or two large debts by public bodies which when cleared would reduce the sum significantly. The Recovery Team has also been restructured and an officer has been recruited on a performance basis who has been tasked with dealing with old debts initially to the value of £1.5m. To date the officer has dealt with over £500k of which £250k has been collected. Extra resources are therefore being allocated to debt recovery in the knowledge that the return will be greater than the cost of employing the officer to do the work.

- The Committee noted with regard to the Corporate Procurement Framework Second Follow-Up that of the 20 issues/risk raised in the original review in September, 2017, six remain unaddressed and noted also that the Corporate Procurement Manager had extended the deadline dates for addressing these remaining risks. The Committee sought assurance that the outstanding issues do not impact on the efficiency of the process.

The Head of Audit and Risk confirmed that the facility which enables managers to extend implementation dates has now been withdrawn. The Officer proceeded to outline the areas to which the outstanding issues relate which include uploading the Central Contracts Register to the external website which because of reconfiguration work on the website has been delayed; revising Contract Procedure Rules and establishing a suite of PIs to measure the effectiveness of procurement activity.

- The Committee noted with regard to GDPR that although the Council's arrangements are now assessed as providing Reasonable assurance, the Annual Report of the Senior Information Risk Owner presented to the Committee's previous meeting highlighted that in the region of 50% of the Council's staff had not completed the e-learning training on data protection. The Committee sought assurance that work is ongoing to ensure that all staff fulfil this requirement. The Committee also noted that GDPR has been an issue for schools and that there has been some difficulty in recruiting to the post of Schools' Data Protection Officer.

The Head of Audit and Risk said that Heads of Service are responsible for ensuring their staff complete data protection training and they are provided with reports on the number of staff who have done so. The Click to Accept policy acceptance facility within the Policy Portal provides assurance that policies are being read and accepted by individual staff. With regard to schools, the Internal Audit Service will be undertaking an Information Governance Health check of schools in Quarter 4 2018/19 which will cover data protection.

**It was resolved that having considered the information presented and the clarifications provided by Officers, the Audit and Governance Committee accepts and notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.**



**ADDITINAL ACTION PROPOSED: Head of Audit and Risk to provide the Committee with the following –**

- **Data on past and present usage in relation to concessionary travel**
- **Benchmarking data in relation to school meals income collection**

## **5. EXTERNAL AUDIT: FOLLOW-UP REVIEW OF PROPOSALS FOR IMPROVEMENT- ISLE OF ANGLESEY COUNTY COUNCIL**

The report of External Audit on the outcome of a review of the effectiveness of the Council's arrangements for addressing proposals for improvement and recommendations made by the Wales Audit Office was presented for the Committee's consideration. The report also considered whether the Council is evaluating the extent to which its actions are contributing to delivering improved service performance and outcomes for citizens.

Charlotte Owen, WAO reported that in December 2015, the Auditor General published his Annual Improvement Report for the Council. The report which included findings from the 2015 Corporate Assessment concluded that the Council's self-awareness and its track record of improving governance and management were likely to support it in making arrangements to secure continuous improvement in 2015/16. The report made 6 proposals for improvements which are detailed in the report above. To gain assurance that the Council has effective arrangements for addressing the proposals for improvement, in June 2018 the WAO reviewed the progress the Council had made in implementing those proposals for improvement and the effectiveness of its arrangements for doing so. The review found that the Council has satisfactory processes for addressing proposals for improvement and recommendations from the Wales Audit Office but arrangements could be strengthened to provide greater assurance on progress to elected members. The review came to this conclusion because –

- The Council has satisfactory arrangements for responding to proposals for improvement and recommendations from the Wales Audit Office, but elected members are not consistently informed of progress; and
- The Council has addressed the proposals for improvement issued in the selected reports.

The report makes the following proposals for ways in which the Council could improve its arrangements for responding to proposals for improvement and recommendations –

- Keep elected members informed of Wales Audit Office proposals for improvement and recommendations, and the Council's progress against them by:
  - Circulating all Wales Audit Office reports to Audit and Governance Committee members for information, and
  - Reporting annually to the Audit and Governance Committee on progress made against outstanding Wales Audit Office proposals for improvement and recommendations.

The Committee in accepting the report and its proposals noted with reference to comments about the ICT Service that there remains an outstanding recommendation from the external review of the ICT Service which relates to the application of corporate project management arrangements to technology based projects. The recommendation has not been implemented because the Council is deciding on its approach to project management. The

Committee further noted that it has previously emphasised the usefulness of project management input in implementing Internal Audit recommendations as a way of co-ordinating the response to actioning Internal Audit proposals for improvement thereby reducing the delay that can occur particularly in complex or cross service reviews or where a number of officers are involved.

**It was resolved to accept the external audit report and its proposals for further improving the Council's arrangements for responding to proposals for improvement and recommendations by the WAO.**

## **NO ADDITIONAL ACTION WAS PROPOSED**

### **6. TREASURY MANAGEMENT: MID-YEAR REVIEW 2018/19**

The report of the Head of Function (Resources)/Section 151 Officer incorporating a review of the Treasury Management position and activity mid-way through the 2018/19 financial year in accordance with the requirements of CIPFA's Code of Practice on Treasury Management was presented for the Committee's consideration.

The Head of Function (Resources)/Section 151 Officer highlighted the main points as follows –

- The Council held £6.089m of investments as at 30 September, 2018 and the investment portfolio yield for the first 6 months of the year was 0.65%. A full list of investments as at 30 September, 2018 is provided in Appendix 3 to the report.
- The approved limits within the Annual Investment Strategy was not breached during the first 6 months of 2018/19.
- The Council's budgeted investment return for the whole of 2018/19 is £0.017m; performance for the year to date exceeds the budget with £0.023m received to the end of Quarter 2. This is due to the increase in bank rate from 0.5% to 0.75% in August, 2018.
- No borrowing was undertaken during the first half of this financial year. However, it is anticipated that borrowing will need to be undertaken during the second half of the financial year.
- During the first half of the financial year, a short term borrowing of £5m from the Tyne and Wear Pension Fund taken out in January 2018 at an interest rate of 0.5% matured and was repaid in April, 2018.
- Debt rescheduling opportunities have been very limited in the current economic climate as detailed in paragraph 6.4 of the report. No debt rescheduling has taken place to date in the current financial year.
- Since Quarter 2 ended, the Authority has arranged to borrow £5m from North Yorkshire County Council. The borrowing will take place from 16 October, 2018 to 16 January, 2019 at a rate of 0.85%. This decision is in keeping with the current borrowing strategy of only borrowing longer term when the funding is required and not to borrow simply to take advantage of low borrowing rates as the cost of carry is too high.
- Section 7 of the report describes the Council's capital position and performance in relation to the key Prudential Indicators including that for capital expenditure (Table 7.2 of the report).
- Table 7.4.3 of the report shows the Capital Financing Requirement which is the underlying external need to borrow to pay for capital expenditure. The Authority is currently slightly below the original forecast CFR because of the forecast underspend in borrowing mainly down to the 21<sup>st</sup> Century Schools' Programme and the revised funding method for the Seiriol Extra Care facility.
- The Authority is also keeping within the Operational Boundary which shows the expected debt position over the period. The 2018/19 opening borrowing position was £117.778m

with the end of year position estimated at £125.623m which is well within the £172m operational boundary set out in the Treasury Management Strategy.

- Section 7.5 of the report sets out the Authority's position in relation to gross borrowing and the Capital Financing Requirement. In order to ensure that over the medium term, net borrowing will only be for a capital purpose, the Authority should ensure that gross external borrowing should not except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the next two financial years. It is not envisaged that there will be any difficulties in complying with this prudential indicator in the current year as Table 7.5.1 demonstrates.
- A further prudential indicator controls the overall level of borrowing which is the authorised limit beyond which borrowing is prohibited. This is currently set at £177m and reflects the level of borrowing which while not desirable could be afforded in the short-term but is not sustainable in the long-term. The Council's current borrowing position as at 30 September, 2018 is £112,588m.

In considering the report the Committee made the following points –

- The Committee noted that the capital programme is again expected to be underspent at year end; it sought clarification of whether a more sceptical approach to the capital budget needs to be adopted.

The Head of Function (Resources)/Section 151 Officer said that there a number of projects in the Capital programme some of which are large scale and are outside the Authority's control e.g. improvements to the A5025 to Wylfa, Gypsy and Travellers' Sites, Holyhead Strategic Infrastructure which have be delayed due to various reasons including having to wait for approval from funding providers and delayed planning consent. However, there is nothing arising from the capital underspend that will lead to the loss of external funding and it is not a cause for undue concern. Where a level of expenditure has to be incurred in order to be able to draw down a grant, then the Authority ensures that the required expenditure occurs.

- The Committee noted that the Authority has been using cash reserves to fund part of its capital expenditure in order to reduce its borrowing the rationale being that the cost of borrowing is higher than the returns were the cash to be put on deposit. The Committee sought clarification of how much longer can the Council sustain this policy.

The Head of Function(Resources)/Section 151 Officers said that the cash the Council has matches its cash backed reserves i.e. the General Fund, Earmarked Reserves, School balances and the HRA balance. As the Council's financial position worsens it has been drawing on its reserves with the result that the level of reserves which the Council holds has reduced meaning there is less cash in the business. The point is approaching therefore when the Council will have to look to external borrowing instead of using its cash balances otherwise those will be depleted. This does not mean that the Council is in any financial difficulty but rather that it has to replenish its cash balances with external borrowing. This has already been done with smaller scale borrowing over a short-term; however the time has come to bolster the Council's cash balances by external borrowing which will likely take on the form of a £10m or £15m loan over a 5 to 10 year repayment period.

- The Committee noted that an element of the Council's part of the funding of the 21<sup>st</sup> Century Schools' Programme are the capital receipts from the sale of redundant school buildings. The Committee also noted that the marketing and sale of those assets are not always timely when realising their value could help the Council

reduce its borrowing requirements and the costs of borrowing that then fall to the Revenue budget.

The Head of Function (Resources)/Section 151 Officer said that the disposal of assets is a matter of timing in order to maximise the price obtained but that this sometimes involves holding on to an asset for a period of time until the market improves especially if the sale involves more than one of the same type of asset in a particular area e.g. schools where a staggered sale might bring in more income.

**It was resolved to accept and to note the mid-year review report on Treasury Management without any additional comments.**

**NO ADDITIONAL ACTION WAS PROPOSED**

#### **7. EXTERNAL AUDIT: ANNUAL AUDIT LETTER 2017/18**

Mr Alan Hughes, WAO apologised to the Committee for the non-presentation of the 2017/18 Isle of Anglesey County Council Audit Letter to this meeting; the Anglesey Letter along with the Audit Letters pertaining to a few other councils have been delayed as a result of a moderation exercise of the Wales Audit Office's own internal processes for verifying contents relative to each council. The Audit Letter is expected to be completed shortly but unfortunately not in time for this meeting and will be forwarded to the Council towards the end of the week or at the beginning of next week. The Audit Letter for the 2017/18 financial year is expected to make reference to the financial challenge that is facing councils across Wales and the delay is in part due to the need to agree how this message is to be articulated.

In accepting the explanation for the absence of the 2017/18 Audit Letter and in noting that the delay is not because of any issue relating to this Council, the Committee expressed its disappointment that it will not now have sight of the Letter until its next scheduled meeting in February, 2019 which is nearing the end of the current financial year and which it felt was an excessive delay.

Mr Alan Hughes in confirming that he would convey the Committee's concerns to the Wales Audit Office said that whilst it is the procedure in Anglesey to present the Audit Letter to the Audit and Governance Committee, this is not the practice in all councils.

**It was resolved to accept the explanation for the delay in presenting the 2017/18 Audit Letter for Anglesey.**

**NO ADDITIONAL ACTION WAS PROPOSED**

#### **8. FORWARD WORK PROGRAMME 2018/19**

The Committee's Forward Work programme was presented or review and comment.

**It was resolved to note and accept the Forward Work programme subject to the including the 2017/18 Audit Letter as an item for the Committee's February, 2019 meeting.**

**ADDITIONAL ACTION: Head of Audit and Risk to update the Forward Work Programme accordingly.**

**Councillor Peter Rogers  
Chair**