

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the virtual meeting held on 23 June 2021

- PRESENT:** Councillor Peter Rogers (Chair)
Mr Dilwyn Evans (Lay Member) (Vice-Chair)
- Councillors Jeff Evans, John Griffith, Richard Griffiths, Dylan Rees, Alun Roberts, Margaret Roberts.
- IN ATTENDANCE:** Chief Executive
Director of Function (Resources) and Section 151 Officer
Head of Internal Audit & Risk (MP)
Programme, Business Planning and Performance Manager (GM)
Committee Officer (ATH)
- APOLOGIES:** Councillor G. O. Jones, Mrs Carys Edwards (Head of Profession (HR) and Transformation)
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance), Councillor Dafydd Rhys Thomas (Portfolio Member for Corporate Business), Yvonne Thomas (Financial Audit Lead – Audit Wales), Accountancy Services Manager (BHO), Principal Auditor (NRW), Scrutiny Officer (SR)
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The Chair welcomed all those in attendance to this virtual meeting of the Governance and Audit Committee following which introductions were made and the apologies for absence were noted.

1 **DECLARATION OF INTEREST**

No declaration of interest was received.

2 **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting of the Governance and Audit Committee held on 25 May, 2021 were presented and were confirmed as correct.

3 **DRAFT ANNUAL GOVERNANCE STATEMENT 2020/21**

The report of the Head of Profession (Human Resources) and Transformation incorporating the draft Annual Governance Statement for 2020/21 was presented for the Committee's consideration. The purpose of the Annual Governance Statement (AGS) is to provide assurance that the Council's governance arrangements are appropriate, adequate and are working effectively.

The Programme, Business Planning and Performance Manager reported that the Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and used economically, efficiently and effectively. The Council also has a duty under the Local Government (Wales) Measure 2009 to make arrangements to secure continuous improvement in the way in which its

functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk together with adequate and effective financial management. The Council has approved and adopted a local code of governance that is consistent with the principles contained within the Framework for Delivering Good Governance in Local Government (CIPFA/Solace, 2016). This local code was due to be revised during 2020/21 but because of the pandemic, this work has been rescheduled to 2021/22. The AGS explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014 in relation to a publication of a statement on internal control.

The AGS reports on the governance framework that has been in place at the Isle of Anglesey County Council for the year ended 31 March, 2021. Elements of that framework were highlighted as follows –

- Political Management arrangements an overview of which is provided at page 7 of the Statement. The governance framework was substantially amended due to the emergency powers delegated to the Leader and Chief Executive as a result of the pandemic. The Coronavirus Act 2020 and the Local Authorities (Coronavirus) (Meetings) (Wales) Regulations 2020 reduced the legal obligations on local authorities in relation to meetings. Accordingly the Council reviewed its programme of committee meetings. In an effort to ensure that the Council maintained its core business, whilst ensuring democratic accountability and being realistic about the uncertainty that it faced, a strategy for committee meetings to 30 April, 2021 was approved in principle by elected members on 12 May, 2020.
- Dealing with the Covid 19 crisis has been a significant challenge for the Council – not only in maintaining key front-line services and conducting normal business where possible, but also in ensuring that health and safety arrangements are in place to protect the Council’s staff whilst providing services. On 18 March, 2020 an Emergency Management Response Team (EMRT) comprising of the Senior Leadership Team, Heads of Services, the Council Leader and Deputy Leader and key personnel from an emergency response perspective was set up; the EMRT became the main decision making forum for Coronavirus related activities on Anglesey ensuring that decisions taken were evidence based and consistently implemented across the Council to respond effectively to key risks. The Council Leader exercised her executive decision making powers at the start of the outbreak when meetings of the Executive and Council were unable to be held. The first remote meeting of the Planning and Orders Committee was held on 20 May, 2020 and thereafter all committee meetings have been held remotely and recordings have subsequently been made available on the Council’s website. More recently, committee meetings have begun to be live streamed on the Council’s YouTube channel.
- The Council annually reviews its governance arrangements. The key sources of assurance that inform this review are set out on Page 8 of the AGS and include the work of managers within the Council who have responsibility for the development and maintenance of the governance environment; the Head of Audit and Risk’s annual report and comments made by the external auditors and other review agencies and inspectorates. In addition, regular in-year review and monitoring takes place and involves the activities as listed.
- The overall assessment for this report follows a self-assessment grading system where “Excellent” denotes many strengths including significant examples of sector leading practice and “Unsatisfactory” denotes that important areas for improvement outweigh strengths. As summarised in the table at page 18 of the Statement, the annual review of the effectiveness of the Council’s Governance Framework concludes that the

Council's performance against all seven core principles of the CIPFA/Solace Delivering Good Governance in Local Government is "Good" meaning that it is characterised by many strengths and that no important areas requiring significant improvement have been identified. A more detailed analysis is provided in Appendix 1 to the AGS.

- Despite the challenges of the past twelve months the Head of Audit and Risk's Annual Report for 2020/21 confirmed that there were no areas of significant corporate concern but that some areas required the introduction or improvement of internal control to ensure the achievement of objectives which are the subject of monitoring.
- The AGS also reports on any key governance matters that have been identified along with a commitment to address them. Whilst no significant governance matters were identified during 2020/21, the self-assessment process did identify the governance issues set out at page 14 of the Statement which will be addressed in 2021/22.

The Committee thanked the Programme, Business Planning and Performance Manager for presenting the Annual Governance Statement for 2020/21 and for providing an overview of its content. The Committee also commented on the improved readability and layout of the Statement which was appreciated. In considering the document, the Committee noted that although the Council has made a commitment to continuous improvement, the outcome of its self-assessment has remained unchanged over the past few years and it suggested that the rationale for the evaluation should be examined. Further, the Committee queried whether there has been any external input into the Statement in terms of validating the self-assessment as a fair and accurate estimation of attainment and compliance.

The Programme, Business Planning and Performance Manager clarified that it is important to note that self-assessing as "Good" against the seven core principles of the CIPFA/Solace Framework means that no significant areas requiring improvement have been identified; a step-up to the next level to an "Excellent" grading would require the Council to be able to demonstrate and to provide significant examples of sector leading practice which is not deemed a fair reflection of its current position. With regard to external input, the Council's activities across a range of services are the subject of external regulatory oversight including by Audit Wales, Estyn and CIW; it is considered that based on the findings of reviews by the external regulators the conclusion of the self-assessment is fair.

The Director of Function (Resources) and Section 151 Officer advised that the Annual Governance Statement forms part of the Statement of the Accounts 2020/21 and as such the AGS and the evidence on which is based will be subject to external audit.

It was resolved –

- **To approve the Draft Annual Governance Statement that will form part of the 2020/21 Statement of the Accounts.**
- **To delegate authority to the Chair of the Committee and the Director of Function (Resources) and Section 151 Officer to make further minor amendments to the Annual Governance Statement prior to its inclusion in the final version in the Statement of the Accounts.**

ADDITIONAL ACTION: That members of the Committee be invited if they so wish to offer minor amendments to the Annual Governance Statement before it is included in the Statement of the Accounts.

4 DRAFT STATEMENT OF THE ACCOUNTS 2020/21

The report of the Director of Function (Resources) and Section 151 Officers incorporating the draft pre-audit Statement of the Accounts for the 2020/21 financial year was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer advised that the Accounts and Audit (Wales) Regulations 2014 (as amended) require that the Responsible Officer for the Isle of Anglesey County Council sign and date the statement of accounts and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for the year. The regulations require that this be completed by the 31 May, 2021. However the extended publication deadlines introduced for the 2019/20 accounts process in recognition of the impact of Covid 19 on local authorities and their staff have been applied to the 2020/21 accounts publication process as well meaning that local authorities have until 31 August, 2021 to approve their draft accounts for 2020/21 and until 30 November, 2021 to publish their final audited accounts. Nevertheless the Authority's draft 2020/21 accounts were signed by the Section 151 Officer on 15 June, 2021 and thanks are due to the staff of the Finance Service for their work in completing the draft accounts earlier than required. The process has again been challenging this year because of the continuing pressure of dealing with Covid 19 and also because of the need to account for the significant additional funding provided by Welsh Government to support councils through the pandemic.

The Statement of the Accounts 2020/21 has been prepared and set out in a format prescribed by CIPFA's Local Authority Code of Practice and the requirements of accounting regulations and practices; it is a statement that is produced annually to give electors, local taxpayers, Members of the Council, employees and other interested parties clear information about the Council's finances. The main elements of the Statement of the Accounts include the following –

- The Narrative Report which provides an effective guide to the most significant matters reported in the accounts. The report also contains additional information about the Council in general and the main influences on the financial statements which link between the Council's activities and challenges and how these impact on the financial resources. In 2020/21, the Council reported an underspend of £4.204m against a planned activity of £142.146m (net budget) and achieved £0.244m of savings. The table at 3.4.1 reflects the final budget for 2020/21 and actual income and expenditure against it. The impact of the underspend means that the Council increased its general reserves by £4.204m to £11.594m which equates to 7.87% of its net revenue budget for 2021/22. The Capital Budget was underspent in the year with the total spend amounting to £33.129m against a total Capital Budget for 2020/21 of £58.425m.
- Comprehensive Income and Expenditure Statement (page 17 of the accounts) – shows the cost of providing the Authority's services during the year in accordance with accounting practices rather than the amount to be funded from taxation hence the figure of £24.231m. The amount that is chargeable to council tax requires a number of adjustments which are explained in Note 7 (Adjustments between accounting basis and funding basis under regulations). The CIES also shows gains or losses with regard to the authority's assets and liabilities including pension liability and changes as a result of the revaluation of assets.
- Summary of Movements in Council Reserves (page 23 of the accounts) – shows the movement in the year on the different reserves held by the Council analysed between usable (can be spent in the future) and unusable (cannot be spent) reserves. The Council's General Fund Balance increased to £11.594m at the end of the year; the Earmarked Reserve Fund Balance was £14.079m; the HRA Balance was £9.743m; the

Capital Receipts Fund was £767k and School Balances amounted to £4.015m. The Council's total usable reserves as at 31 March, 2021 showed a significant increase on the previous year's total standing at £40.198m. This is not dissimilar to the position in which a number of other authorities find themselves in having received additional funding from Welsh Government to cover Covid-19 related expenditure and having spent less on the delivery of services because of the closures/restrictions imposed as a result of the pandemic. Likewise, the Authority's schools have received Welsh Government grants some of which were received late in the financial year and have been carried forward into 2021/22 hence the increase in school balances. It is expected that this funding will be used by schools this year leading to a reduction in the total value of school balances.

- The Balance Sheet (Page 24 of the accounts) – shows the value of the assets owned by the Council and what it owes in terms of liabilities as at 31 March, 2021 although not all the Council's assets are included only those required to be shown by the Code. The Balance Sheet reflects a good financial position at the end of 2020/21 with net assets of £164.056m. This is a decrease of £24.230m from the previous year which is the result of a £38.484m decrease in unusable reserves and a £14.254m increase in usable balances including the HRA. The Council's overall net pension liability has increased from £124.520m as at 31 March, 2020 to £176.261m as at 31 March, 2021. The figure is based on an assessment at a specific point in time and can fluctuate significantly, and although it is not an immediate deficit that has to be met now, it is a liability that the Authority has incurred which will have to be funded in the long-term.
- The Cash Flow Statement – shows the changes in the Council's cash and cash equivalents during the financial year divided into operating, investing and financing activities (Analysis provided in Notes 28, 29 and 30). The Council's cash and cash equivalent balance has increased to £28.738m.
- Notes to the core Financial Statements – provide additional information and clarify the figures in the main financial statements. Of most interest to the taxpayer are Note 8 - earmarked reserves and their purpose; Note 9 - school balances position; Note 15 - non-current assets – property, plant and equipment; ; Note 17 – heritage assets; Note 20 – capital expenditure and financing; Note 24 – Debtors; Note 26 – Creditors; Note 27 – Provisions (for possible known costs); Note 33 - Members' allowances; Note 34 - Officers' remuneration; Note 37 – Grants income (including the RSG); Note 41- Local Government Pension Scheme; Note 42 – Contingent liabilities (where the potential costs are not known); Note 48 – Council Tax; Note 49 – Non-Domestic Rates and Note 51 – Agency where the Council has been acting as an agent for schemes on behalf of Welsh Government including Covid 19 related support schemes.
- A separate and supplementary Financial Statement is included for the Housing Revenue Account.
- The Annual Governance Statement for 2020/21 (discussed under the previous item) will follow at the end of the Statement of the Accounts.

The accounts are in the process of being audited; the audited accounts will be presented to meetings of the Governance and Audit Committee and Full Council in September although the timescale for the presentation and approval of the 2020/21 final accounts extends to the end of November, 2021.

In considering the financial statements the Committee discussed the following points –

- The increase in the figure for Debtors (up £4m from 2019/20) as well as for bad debt provision including for Council Tax and rents in the context of the pandemic having likely exacerbated financial hardship and money problems with a resulting and concerning impact on mental well-being.

The Director of Function (Resources)/Section 151 Officer provided assurance that although the collection of Council Tax is important in order to help fund services the Authority has sought to be as flexible as possible in its approach to people who are experiencing financial hardship because of Covid 19 including by suspending Council tax instalments for April and May, 2020 and by not pursuing court based enforcement action or the debt recovery process to the same extent as it would have normally. Consequently the Authority's Council Tax collection rate for 2020/21 fell from in the region of 97% to 95.5%. It is anticipated that the full effect of Covid related Council Tax arrears will be felt this year and could mean that the amount of debt having to be written off will be higher. A new scheme called Breathing Space has been introduced in England and Wales which aims to give people experiencing financial difficulties time and opportunity to receive advice and to set up a plan to pay their debts; it is an approach which the Authority would encourage everyone having problems paying their Council Tax to take given that although the Authority will use the measures at its disposal to recover Council Tax arrears it does prefer to work with individuals to come to an agreement on ways to pay.

- Whether refunds for examination fees paid in full or in part by schools will appear in the 2020/21 or 2021/22 balance sheet.

The Director of Function (Resources) advised that the figure in the accounts reflects the best assessment of what the payment should have been; if the payment made by schools was higher, then the refund will have been incorporated as income into the accounts; if the payment was less, then the sum assessed as being owed by schools will have been accrued for. The policy requires that expenditure be accounted for in the year in which the service was received. If a refund is due it will have been accounted for in the 2020/21 accounts. Should the amount paid by schools be higher than the sum eventually agreed with the WJEC as owing then the difference will be accounted for in the 2021/22 accounts. Additionally, in setting the Council's budget, the delegated schools budget reflected the funding required by schools on the presumption they would be open throughout the school year; part of the increase in school balances is due therefore to schools having incurred less costs than the budget they received because they were closed for parts of the year. The Authority has not sought to recoup the unused element of the delegated schools budget which has fed through to schools' balances.

- Whether the increase in the net liability on the Local Government Pension Scheme has implications for the future security of the scheme.

The Director of Function (Resources) and Section 151 Officer advised that the value of the Pension Fund is assessed in two ways - one being an annual assessment for the purpose of the accounts which is based on specific assumptions the Actuary is required to use to that end; the other is the Actuary's triennial valuation of the fund for the purpose of determining the employer's contribution rate which is based on a different set of assumptions. He clarified the factors involved in calculating the fund's liabilities and provided assurance that although the deficit on the pension fund appears significant on paper whilst the scheme remains active and contributions continue to be made into the fund, the debt will not crystallise. The last triennial actuarial valuation in 2019 showed the fund to be in a healthy position. From the Authority's perspective the employer contribution rate is a more immediate issue as it is funded by the Council and therefore has an impact on the level of Council Tax.

The Portfolio Member for Finance confirmed that at the last meeting of the Gwynedd Pensions Fund Committee, the valuation of the fund was given as around £2.3b.

- The Council's intentions with regard to helping people in urgent housing need given that the Housing Revenue Account shows that the Council's housing stock has increased by only 3 units from 2019/20, and the use to which the resources earmarked for this purpose have actually been put if they have not been spent on acquiring stock.

The Director of Function(Resources)/Section 151 Officer advised the Authority's long-term plans for additional housing stock are contained within the HRA 30 year Business Plan with the aim being to realise 200 additional units in the first five years of the Plan. The Council did take possession of units prior to March 2020 but as these were not in a position to be let, they were not classified as stock. However, they were let early in the new financial year meaning that the number of new units coming into use in 2020/21 was higher than three. A number of projects in different areas of the Island have been or are near completion since the end of March, 2021 and these will add to the housing stock significantly. The Business Plan is based on the balance of the HRA which is currently £9.7m; in the long-term the intention is to reduce the balance of the reserve to £1m leaving £8.7m to fund new council housing following which the ability to borrow against the HRA will be utilised to continue with housing development. Details of actual and planned housing development as well as the HRA Financial Plan are contained within the Business Plan. The Authority also plans to buy back in the region of 10 to 15 former council properties where doing so would fulfil a housing need and where the cost of bringing the units to WHQS standards is not prohibitive.

- Having regard to the Council's financial standing and associated risks the need to monitor the allocation of funding under the UK Shared Prosperity Fund to ensure that Wales receives its fair share the concern being that it will be Westminster rather than Welsh Government which will determine how much funds will be allocated and where they will be spent. The Prosperity fund replaces EU funds of which Wales was one of the highest recipients and from which Anglesey benefitted significantly.

The Chief Executive referred to the Community Renewal Fund which paves the way for the UK Shared Prosperity Fund and is based on a competitive process, and the Levelling Up fund which provides funding for infrastructure projects. A bid for funding covering a number of projects has been put forward under the Community Renewal Fund the outcome of which is awaited. Under the Levelling Up Fund which is not as yet accepting bids, Anglesey has not been designated a priority one area having instead been placed in category 2 which is a concern.

- Whether it is prudent to be using the Council's reserves to fund revenue expenditure it being noted that the Council intends to reduce the General Fund balance to fund any deficit on the revenue budget. Reference was made to the fact that Audit Wales had in a previous communication commented that it is not sustainable to rely on reserves to support ongoing costs or planned revenue expenditure.

The Director of Function (Resources) and Section 151 Officer clarified that with the exception of the 2021/22 financial year there has been no planned use of the Council's reserves to balance the revenue budget the aim being to fund the revenue budget from Aggregate External Funding and Council Tax. For 2021/22, £300k from reserves is being used to balance the budget. The comments made by Audit Wales were in connection with overspends in the 2017/18 and 2018/19 financial years which were then funded from the General Fund thereby reducing the balance of the Fund to below the 5% (of the net revenue budget) minimum reserve level set by the Council. The revenue budget was underspent in 2019/20 and 2020/21 taking the General Fund Balance to its current £11.6m total. There is concern that as Covid related restrictions are eased the demand for some services particularly Children and Adults' services, will

increase thereby leading to overspend on the 2021/22 budget which is based on a normal year's level of demand. There is also an argument for setting the minimum reserve level above 5% for the next few years given that it is uncertain for how long any upsurge in demand may last. Nevertheless there is scope to consider utilising some of the General Fund balance to fund projects where those can be shown to bring benefits in the form of revenue savings and/or improved performance.

- The delivery rate on the 2020/21 Capital Programme and budget which at 56.7% has reduced from the previous year and whether as a result of a pattern of underspending the Council needs to review its projections for the capital budget and expenditure in order to avoid the risk of borrowing unnecessarily and also of raising expectations which are then not met.

The Director of Function (Resources)/Section 151 Officer advised that while it is challenging to achieve a 100% delivery rate on the capital budget and programme because of the complex and large scale nature of some of the projects involved, the 2020/21 financial year proved exceptional in that Covid 19 related restrictions had a significant impact on capital works during the first few months of the financial year. Other projects such as the Schools' Modernisation Programme in the Llangefni area did not make the progress expected because of a delay in finalising the proposals and the delivery of some of the fleet vehicles linked to the new waste contract was similarly delayed. The Finance Scrutiny Panel has asked that the timing of the capital budget setting process be looked at with a view to its being brought forward so that work is scheduled for a more favourable time of the year thereby increasing expenditure. The 2021/22 capital budget was re-profiled to take account of the schemes that had slipped in 2020/21 and the associated expenditure was included therein. The £58.425m capital budget therefore includes the slippage for the previous year as well as schemes that were added after the budget was set and which are grant funded.

Before closing the meeting, the Chair on behalf of the Committee thanked the Accountancy Services Manager and her team for their work in completing the draft accounts within time and in challenging circumstances.

Having considered the report, it was resolved to note the draft unaudited main financial statements for 2020/21.

**Councillor Peter Rogers
Chair**