

AUDIT AND GOVERNANCE COMMITTEE

Minutes of the virtual meeting held on 9 February, 2021

PRESENT:	Councillor Peter Rogers (Chair) Mr Dilwyn Evans (Lay Member)(Vice-Chair)
	Councillors John Griffith, G.O. Jones, R. Llewelyn Jones, Dylan Rees, Alun Roberts, Margaret M. Roberts.
IN ATTENDANCE:	Director of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Principal Auditor (NW) Commercial Leisure Manager (GR) (for item 8) Committee Officer (ATH)
APOLOGIES:	Councillor Richard Griffiths, Mrs Annwen Morgan (Chief Executive), Mr Dylan Williams (Deputy Chief Executive)
ALSO PRESENT:	Councillor Robin Williams (Portfolio Member for Finance), Councillor Llinos Medi (Leader and Portfolio Member for Social Services), Mr Alan Hughes (Audit Wales) Senior Auditor (NR), Senior Auditor (BJ), Head of Democratic Services (JHJ), Mr Gareth Wyn Williams, Local Democracy Reporter

Due to temporary connection issues experienced by Councillor Peter Rogers, the Committee's Chair, Mr Dilwyn Evans was elected Chair to start the meeting and took the first item on the agenda. The remainder of the meeting was chaired by Councillor Rogers.

1. ELECTION OF VICE-CHAIR

Mr Dilwyn Evans was elected Vice-Chair of the Audit and Governance Committee.

On his appointment Mr Dilwyn Evans referred to his predecessor in the post of Vice-Chair and fellow lay member on the Committee, Mr Jon Mendoza who had since resigned as a member of the Committee commenting that he had enjoyed working alongside Mr Mendoza during his time on the Audit and Governance Committee.

2. DECLARATION OF INTEREST

Councillor Peter Rogers declared a personal interest in item 10 on the agenda.

Councillor Rogers paid his own tribute to former Lay Member and Vice-Chair, Mr Jon Mendoza saying that he appreciated and was grateful for the latter's contribution as an independent member of the Committee. Those sentiments were echoed by the remainder of the Committee's members.

It was resolved that the Chair on behalf of the Committee, write to Mr Jon Mendoza to thank him for his contribution to the Audit and Governance Committee during his period as Lay Member and to wish him well for the future.

3. REPLACEMENT OF LAY MEMBER ON THE AUDIT AND GOVERNANCE COMMITTEE

The report of the Director of Function (Resources)/Section 151 Officer setting out the considerations with regard to the replacement of Lay Member of the Audit and Governance Committee was presented for the Committee's consideration. The matter had arisen following the resignation of Mr Jonathon Mendoza as Lay Member of the Committee with his last meeting being on 1 December, 2020.

The Director of Function (Resources)/Section 151 Officer reported that the Local Government (Wales) Measure 2011 required the Local Authority to ensure at least one member of its Audit Committee is a lay member. The Isle of Anglesey County Council has extended this requirement; its Constitution provides for the Audit and Governance Committee to consist of two lay members to serve for a fixed term to coincide with the length of the Council i.e. 5 years, currently until May, 2022. The Local Government and Elections (Wales) Act 2021 passed on 20 January, 2021 introduces changes to the Audit and Governance Committee in the form of a new name, additional functions and responsibilities and the Act also amends the Committee's membership making it a requirement that one third of its members be lay members. If the Committee continues with 8 elected members, there would therefore be a requirement for 4 lay members. The Chair will also be required to be a lay member. Whilst the date on which the new provisions will commence remains to be confirmed, following enquiries made with Welsh Government by the WLGA it is understood that it is intended that the Committee's new name and new functions/ responsibilities will come into effect as from April 2021 and that the changes to membership will become effective as from May, 2022. The Council will therefore have to undertake a recruitment exercise in 2022 to recruit the lay members in preparation for this change.

In light of the above, the Committee was asked to consider whether it wished to recruit a replacement lay member for the remainder of the term to be served i.e. until May 2022 or for the Council's Constitution to be changed to reduce the number of lay members required to one until the new legislation commences.

In considering the matter, the Committee sought clarification of the recruitment timescale and the likelihood of success given the current pandemic related constraints and the shortened term of service until May 2022 which might be a disincentive to apply for potential applicants.

The Director of Function (Resources)/Section 151 Office advised that the recruitment process does take time from initial advertisement through to appointment meaning that a replacement is unlikely to be appointed before April/May. Added to that are the costs of advertising the position as well as the time needed for any appointee to settle in and to become familiar with the way the Committee operates over the limited number of meetings that will be held in the time the term of office will cover before the recruitment process begins again. For practical reasons therefore, he believed that the second option which is to continue with one member and amend the Constitution accordingly until such time as the new legislation becomes effective is the best option in the circumstances.

Although the majority of the Committee's members agreed that the second option i.e. to amend the Constitution to allow the Committee to continue with one lay member until the changes with regard to its composition come into effect - prospectively in May 2022 - when the Committee could then start afresh with new membership is the more reasonable way forward, a minority of the members thought that despite the practical issues in seeking to recruit at this time the additional expertise, knowledge and independent perspective which a second lay member could bring to the Committee would be to its advantage and accordingly they were in favour of undertaking recruitment for that reason.

In the vote which followed, the proposal to amend the Constitution to reduce the number of lay members required on the Audit and Governance Committee from two to one was carried.

It was resolved to ask the Council to amend the Council's Constitution to reduce the number of lay members required on the Audit and Governance Committee from two lay members to one, until such time as the provisions of the new legislation come into effect.

4. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting of the Audit and Governance Committee held on 1 December, 2020 were presented and were confirmed as correct.

Arising thereon –

The Head of Audit and Risk referred to the point raised in the discussion on the Cyber Security Annual Report for 2019/20 about ensuring that non-councillor members of the Council's Committees who have access to a range of information are included in cyber security training and protocols, and she clarified that having made enquiries with the HR Training and Development Team she could confirm that two members of the Audit and Governance Committee have to date completed the cyber security awareness E-learning module. She added that as undertaking this training is mandatory, members who have yet to complete the module are advised to schedule time to do so. In order to facilitate the process she would contact the HR Training and Development Team to ask that a reminder be circulated to the Committee's members along with guidance on accessing the E-Learning Portal.

ACTION: Head of Audit and Risk to contact the HR Training and Development Team to request that members of the Audit and Governance Committee who have not yet completed the Cyber Security awareness E-learning module be reminded to do so and that guidance on accessing the E-Learning Portal be also provided.

5. ISLE OF ANGLESEY COUNTY COUNCIL – ANNUAL AUDIT SUMMARY

The Annual Audit Summary report for 2020 for the Isle of Anglesey County by Audit Wales was presented for the Committee's consideration. The report shows the audit work completed since the last Annual Improvement Report issued in July, 2019 which it replaces and references pieces of work relating specifically to the Council including reports issued by other Inspectorates as well as national studies and inspections.

In presenting the Audit Summary Mr Alan Hughes, Audit Wales confirmed that the report provides a synopsis of the year's audit work at the Council and nationally and its outcome, and that there are no new issues or concerns to report arising therefrom.

In considering the report the following points were raised by the Committee –

- The projected demographic changes on Anglesey highlighted in the key facts section of the summary report and their implications for service planning. The Committee noted that the Island's population is projected to decrease by 0.6% between 2020 and 2040 from 69,896 to 69,499, including a 10.5% decrease in the number of children, an 8.3% decrease in the number of the working-age population and a 22.7% increase in the number of people aged 65 and over.

The Director of Function (Resources)/Section 151 Officer in acknowledging the point said that changes in demography influence the amount of funding the Council receives from Welsh Government through the funding formula since population characteristics are

a factor in how funding is distributed among local authorities. In recent years the more rural councils to the North and West of Wales have fared less well than councils in the South in relation to the funding formula due mainly to demographic changes which have seen an increasing proportion of the working age population moving to larger urban centres. Consequently this drift has implications for those council areas which have experienced a fall in the working population as this is then reflected in the amount of money they receive as part of the Revenue Support Grant. In the long term the decrease in funding as a result of population changes can lead to problems as those councils who lose out have to make up the shortfall either by cutting services or by raising taxes so demographic changes have implications for the Council's budget as well as for service planning.

- The delays in certifying Housing benefits claims. The Committee further noted that the auditors highlight that the volume of errors identified is higher than they would have expected and are recurrent thereby raising concerns about quality control arrangements and the basis for identifying and addressing the training needs of staff working in this area. The Committee enquired about progress in bringing the position up to date and also sought assurance with regard to the training and quality arrangements issues raised.

The Director of Function (Resources/Section 151 Officer advised that Audit Wales has completed its work on the 2017/18 Housing Benefit grant subsidy claim and the audit letter to be forwarded to the Department of Works and Pension in order for the subsidy to be released has been agreed and finalised. The substantive testing work on the 2018/19 and 2019/20 subsidy claims is ongoing with the objective being to complete the work and issue the audit letter for the 2018/19 subsidy claim by the end of March, 2021 and by the end of May, 2021 for the 2019/20 subsidy claim. If this timeline is achieved work can then focus on completing the 2020/21 subsidy claim by November, 2021 which is the customary schedule. The Officer added that the situation is much improved and progress has been made; the Authority's staff in this area and the auditors have developed a good mutual understanding of what is required and what needs to be done to get there. He was therefore confident that the situation will have been brought up to date in the next three months and that the outstanding subsidies amounting to approximately £5m can be released back to the Authority by the DWP.

In respect of quality control and training issues, these are not able to be remediated until the work on all three years of subsidy claims has been completed as this will show whether errors are one off mistakes within a single year or whether they are part of a recurring pattern and could therefore be indicative of fundamental weaknesses that need to be addressed by a programme of training. The DWP expects the Authority to quality assess the claims process; also the Service's Performance Team focuses attention on any issues arising from the subsidy to ensure that subsidy related problems are dealt with going forwards.

Mr Alan Hughes in reaffirming the timeline for the expected completion of the Housing Benefit grant subsidy audit work agreed that any recurrent errors suggest the need for training; however because of the time lapse between the end of the financial year and when the audit work is undertaken – around November, the same errors are likely to reoccur until such time as training to rectify those errors is implemented – it is therefore possible that the same errors will be identified by the audit of the 2020/21 Housing Benefit grant subsidy claim.

It was resolved to accept the Annual Audit Summary report for 2020 and to note the contents.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE.

6. UPDATE ON THE INTERNAL AUDIT STRATEGY AND PRIORITIES 2020/21

The report of the Head of Audit and Risk providing an update as at 27 January 2021 on the work of Internal Audit since the last report to Committee on Internal Audit activity in December, 2020 was presented for the Committee's consideration. The report outlined the current workload of the Internal Audit Service together with the priorities for the short to medium term.

The Head of Internal Audit and Risk updated the Committee on the following aspects of Internal Audit's work –

- The assurance work completed since the last update with reference to the table at paragraph 5 of the report. Of the six audits listed in the table, three had resulted in a Substantial Assurance rating; two had resulted in a Reasonable Assurance rating and one audit – Payments: Supplier Maintenance had resulted in a Limited Assurance rating. (In accordance with agreed practice the Limited Assurance report and accompanying action plan was issued separately to the Committee's members and relevant Portfolio Holders).
- Work in progress as illustrated by the table in paragraph 8 of the report which provides information regarding the audits underway, the stage reached at the time of writing and the anticipated reporting date. These will be prioritised for completion by the end of year whilst still ensuring that Internal Audit remains agile to react to any work at short notice as well as any request from the Senior Leadership Team. The previously identified priority areas for audit will be carried forward into the Internal Audit Strategy for 2021/22.
- The biennial National Fraud Initiative exercise which is underway. The first tranche of matches which involved matching Council Tax Single Person Discount and Electoral Register data to identify any fraudulent claims have been received. An initial review of the matches has highlighted a data quality issue which Internal Audit is currently investigating. The remainder of the matches is expected to be released in February, 2021.
- Overdue actions confirming that work is progressing to support services with implementing all outstanding actions as shown in the 4action dashboard at Appendix 1 to the report. Services have been working hard to address outstanding Issues/Risks leaving only three actions overdue relating to guidelines around Universal Credit, the payment of housing rent by standing order and independent check of payroll exception reports.
- Providing assistance to the Learning Service with developing new guidance about the proper operation and arrangements of school funds following the Internal Audit review of School Unofficial Funds which resulted in a Limited Assurance rating. Two training events for head teachers and governors on their responsibilities as regards the proper operation of a school fund have been provided and Internal Audit has also offered to arrange and fund an independent audit of funds where the head teacher is struggling to appoint an auditor or has not had the fund audited for some years.
- Providing assistance with three investigations at the request of Human Resources.

In the ensuing discussion the following points were raised by the Committee-

- That with regard to the Limited Assurance Internal Audit review of Payments – Supplier Maintenance and Payment, whether the issues raised in relation to duplicate accounts and/or payments merit a more urgent timescale for action than 31 December, 2021 given the nature of the risk. It was further suggested

that where addressing risks/issues involves more than one service, then a senior manager might be tasked with overseeing the progress of actions to ensure that completion dates are kept and that issues are resolved especially when those actions relate to matters of income and expenditure where the risk of fraud and error is high.

The Head of Audit and Risk clarified that whilst the due date for addressing the more critical issues/risks raised is by end of the current financial year the date for others has been put back. A number of the actions are to be undertaken collaboratively e.g. with Human Resources and also with the services themselves and are therefore likely to take more time to complete. Addressing the issues raised by the audit review also entails a cultural change ensuring that everyone involved in the payments chain has proper regard for agreed processes and procedures and follows them closely and consistently.

The Director of Function (Resources)/Section 151 Officer explained that the Civica financial system is fed information from Council staff across a range of services and schools some of whom due to frequency of use are more familiar with it than others; ensuring that all staff who access the system are properly versed in how the system works and appreciate why they have to follow certain practices in operating the system is problematic given the limited resources available. Whilst a programme of training was provided on the system's introduction, the Civica Team now comprises 4 members of staff who are mainly responsible for running and maintaining the system hence the amount of resource that can be made available to provide training for staff who are new to the system and to refresh the knowledge of those who use the system periodically only is challenging. Many of the control issues raised by the audit relate to shortcomings in procedural compliance stemming from a lack of understanding of the Civica system e.g. the need to raise purchase orders for every item of expenditure and to check goods received and invoices against purchase orders to ensure that the quantity and price are correct prior to payment. Not following the appropriate procedures or only following them in part can increase the risk of duplicate and/or fraudulent payments being made.

The matter is now being approached as a project headed by a Finance Manager who has been assigned to take the remedial actions forward on a project basis; and whilst issues that signify significant internal control weakness have a shorter timeframe for rectification, issues relating to training and to improving procedural awareness and understanding will likely take longer to fully address, based on current staffing, workload and remote working arrangements. Internal Audit has been asked to undertake an audit review with regard to identification of duplicate invoices and recovery of duplicate payments.

Responding to a further comment about the reduction over time in financial administration staff within services being a factor in the weaknesses identified, the Director of Function (Resources) in agreeing that that will have contributed to a lack of understanding and appreciation of why compliance with financial procedures is important, advised that budget monitoring reports and the accounts verification process are also additional end of process controls which will highlight any anomalies and/or discrepancies.

The Head of Audit and Risk confirmed that the internal audit review of duplicate invoices/payments is being conducted in consultation with a software provider who is carrying out an in-depth examination of invoices paid; a meeting to

discuss the outcome is scheduled for this coming Thursday and will be reported back to the Committee in April.

- With reference to the School Unofficial Funds the Committee asked for an update on the provision of guidance to schools on the operation and arrangements of the funds and also sought clarification with regard to the uptake for the two training events for head teachers and governors.

The Head of Audit and Risk confirmed that the guidance was circulated to schools around two months ago. A training event for school governors was held in December, 2020 and another session is planned for the coming June; the take-up to date has not been especially good. The Internal Audit Service has also assisted two schools with their audit of school funds and is working with the Learning Service to identify the status of the fund in each school and how recently they have been audited, if at all.

It was resolved to note Internal Audit's assurance provision and priorities going forward.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

7. INTERNAL AUDIT ASSURANCE PROVISION

The report of the Head of Audit and Risk in relation to the current arrangements for ensuring the Head of Audit and Risk will have sufficient assurance to support the Internal Audit Annual Opinion for 2020/21 to ensure no limitation of scope was presented for the Committee's consideration and approval.

The Head of Audit and Risk reported that the impact of dealing with Covid-19 on all public services has been considerable and for internal auditors it has raised the question of whether they will be able to undertake sufficient internal audit work to gain assurance during 2020/21 this being a key consideration to fulfil the requirement of the Public Sector Internal Audit Standards (PSIAS) where the Head of Audit and Risk is required to issue an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

In recognition of the considerable challenges under which local government bodies are currently operating in having to make difficult decisions about the best use of their available staff and financial resources to meet critical needs whilst the professional and regulatory expectations to ensure that internal audit arrangements conform with PSIAS have not changed, CIPFA has prepared guidance for internal auditors working in or for local government in the UK. The guidance details six key requirements for local government bodies that heads of internal audit or the chief audit executive, leadership teams and audit committees should follow; these are set out in paragraph 5 of the report. The Head of Audit and Risk has therefore revised and agreed the Internal Audit Team's priorities to cover the new risks and changes from the impact of Covid-19 with the Senior Leadership Team (SLT) to ensure that there will be no limitation of scope and that Internal Audit will have sufficient assurance to support the annual opinion. The key pieces of work that will contribute to the assurance are Corporate Risk register audits; Review of Covid-19 Emergency response (Self-Assessment) and Follow-up completed between April and June, 2020 and Emergency Management Assurance (First-line assurance) currently at fieldwork stage. As the risks continue to change and the risk registers are reviewed and updated by the SLT, Internal Audit will revise its priorities accordingly.

When delivering the risk-based audit strategy, the Head of Audit and Risk supported by the SLT has made every effort to make best use of available internal audit resources during the pandemic including by implementing the measures detailed in paragraph 10 of the report.

The Committee sought clarity on how limitation of scope is defined and applied. The Head of Audit and Risk clarified that a limitation of scope should be considered if it is deemed not enough work has been carried out to provide assurance in the three key areas relating to the Council's governance, risk management and internal control processes. Whilst the amount of work required to provide a full assurance opinion is left to professional judgement within each organisation, the CIPFA guidance is clear that efforts should not be made to provide assurance in circumstances where resources have been so limited that such assurance cannot be supported. The CIPFA guidance also suggests the possible wording to be used depending on the type of limitation and the area in which the limitation arises. However, it is the Head of Audit's view that having undertaken significant critical work during the year as well having prioritised the areas of greatest risk, a full assurance opinion can be provided and there will be no limitation of scope.

It was resolved –

- **To approve the arrangements for ensuring the Head of Audit and Risk will have sufficient assurance to support the Internal Audit Annual Opinion for 2020/21, and**
- **To note that there will be no limitation of scope.**

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

8. DELIVERING WITH LESS: LEISURE SERVICES – ISLE OF ANGLESEY COUNTY COUNCIL

The report of External Audit setting out the findings of a follow-up review to the Auditor General's 2015 national report – Delivering with Less – Leisure Services was presented for the Committee's consideration. The report considers the impact of reductions in local government funding on the Council's leisure services and the effectiveness of the Council's arrangements for delivering those services.

Mr Alan Hughes, Audit Wales referred to the context of the report and clarified that the fieldwork was completed and the contents of the report finalised prior to the onset of Covid-19 hence no reference is made to the impact of the pandemic on the leisure service; with this in mind it was agreed that the report should be released with this caveat. Overall the report is positive in its messages and concludes that the Council has continued to deliver its leisure centres with less resources and it has a clear vision for the future of the service, but that run down facilities pose a financial challenge. In detail, the report finds that –

- There has been a reduction in the Council's leisure service resources since 2014-15 and the service net cost has decreased. The leisure service budget has reduced by 77% in the last four years partly offset by an increase in income of 31% and a fall in expenditure of 11%.
- The Council has a clear vision for its leisure service and is effectively considering the service's financial sustainability. The Council recognises its run down leisure centres are a risk. The Council has considered the requirements of the Well-Being of Future Generations (Wales) Act 2015 in setting priorities and developing its new strategy for leisure services and is able to demonstrate examples of improved well-being through leisure. As part of that strategy the Council has focused on taking a more commercial approach to leisure by investing in its facilities and growing membership and income to make the service more self-sustaining; this is beginning to have an impact with income at the Plas Arthur Leisure Centre in Llangefni exceeding expenditure by 9% in 2018/19.

The Council has also reviewed and compared potential delivery options for its leisure service.

- The Council has robust performance monitoring and governance arrangements but recognises it could improve its understanding of the outcomes achieved. The Council has a clear accountability structure for its leisure service and a management information dashboard system that allows officers to monitor performance. However, the Council recognises it could make further use of its data and technology to improve understanding of the effects of its service e.g. to identify non users and target their services more effectively and by further analysis of data to reach a better understanding of the outcomes of different activities.
- Most service users are satisfied with the leisure service and the Council uses customer feedback to inform the design and delivery of the service. Most respondents to the survey by External Audit were happy with the Council's leisure service with 50% of the view that the quality of the service had improved in recent years and 83% of the view that the service provides good value for money.

Mr Alan Hughes added that since the report was drafted, the Council has in March, 2020 determined to make a capital investment in leisure which alleviates some of the concerns raised by the audit with regard to the condition of leisure buildings.

In welcoming the overall tenor of the report which it found very encouraging, the Committee raised the following issues –

- Whether External Audit finds that the Council made the right decision in continuing to deliver its leisure service in-house. Mr Alan Hughes said that the process undertaken internally by the Council shows that the Council evaluated the available options for the future delivery of its leisure service and that some of the factors that might have led other authorities to go down alternative delivery routes e.g. for non-domestic tax advantages were not so apparent locally. The Council came to a reasonable conclusion in light of local conditions.
- That the pandemic has shown the importance of leisure and physical activities in supporting people's mental and physical well-being and that this should be a key consideration for the future. In light of this and the likely strain on the Council's budget after the pandemic should not the Council be doing more with the Llangefni Golf Course which is currently unused in terms of realising the asset and thereby releasing much needed funds to support the Youth Service for example.

The Commercial Leisure Service Manager advised that work is going on with regard to assessing the options for the Llangefni Golf Course with the hope that should it be sold, the proceeds can be reinvested in youth and leisure services. In more general terms the report is to be welcomed since the demand on leisure services especially on the Exercise Referral scheme team is likely to increase significantly following the pandemic as the Health Board continues to utilise the scheme to address community health issues among the older population and increasingly among younger people; in addition Covid 19 has also shown the value of working in collaboration and has provided opportunities for strengthening the partnership with the Health Board. The pandemic has further shown how much leisure centres are appreciated by their users and as feedback indicates, how much they been missed when they have had to close. During the periods of enforced closure, Leisure Service staff have alternatively been involved in the range of community support work that has gone on throughout the emergency. The Commercial Leisure Manager said that he was confident that the recovery will see the Leisure Service adapting and coming back stronger.

- In noting that the report recognises that the Council's leisure buildings are run down and in need of refurbishment, the Committee sought clarity with regard to the prospects for the Council being able to modernise and update its leisure centres.

The Director of Function (Resources)/Section 151 Officer advised that the Council is aware that money needs to be spent on its leisure centres and that it did commission an outside company to review the service and to assess how best to bring the facilities up to standard. The problem of ageing facilities is compounded by the fact that three of the four leisure centres were built around the same time and are all now coming to the end of their lifespan. Holyhead Leisure Centre is in a slightly worse condition than the centres in Amlwch and Llangefni but replacing it would cost in the region of £15m to £20m which is capital investment on a level that is very difficult to make in the current circumstances. Had Wylfa Newydd proceeded then funds for a new centre in Amlwch and possibly in Holyhead could have become available through that process allowing the Council to then address issues in Plas Arthur in Llangefni. As it is, the strategy is to maintain and where possible, update the leisure centres to extend their lifespan for another ten years in the hope that the financial situation will by then have improved. If the Llangefni Golf Course is sold, then a decision in principle has been made to use the funds for the Plas Arthur Leisure Centre and options for Amlwch and Holyhead are being considered. However, the Council's property assets also includes schools and the Council headquarters which need to be maintained and updated; a long term strategy for these and other Council buildings will have to be developed and agreed.

- Following on from the above the Committee queried whether it would be feasible to link refurbishing the leisure centres with the Schools' Modernisation Programme.

The Director of Function (Resources)/Section 151 Officer advised that one way of continuing to fund the Schools Modernisation Programme which Welsh Government is looking at is the Mutual Investment Model (MIM) . Under the MIM private sector partners build and maintain public assets with the Council, supported by funding from Welsh Government paying an annual fee to the private partner over a set period to cover the cost of construction, maintenance and financing the project. At the end of the period, the asset transfers to the Council. The MIM is being considered for projects to the value of £15m upwards which could make it appropriate for a scheme involving Amlwch Secondary School although the inclusion of the leisure centre within that scheme would have to be discussed with Welsh Government as the model is only being considered for educational facilities at present. The Council has entered into an agreement with the body that will deliver MIM projects which gives it the opportunity to participate in a MIM project in future if it so wishes.

Responding to a question about a facilities upgrade in the context of the International Island Games which Anglesey has won the right to host, the Commercial Leisure Manager advised that the bid for the Island Games was made and approved on the basis of the current facilities and that no additional funds should be expected in the wake of being awarded the Games. Whilst some of the Islands which have staged the Games previously have spent a sizeable amount of money on upgrading their facilities, this has depended on the local financial situation.

It was resolved to accept the report and to note the contents.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

9. TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21

The report of the Director of Function (Resources)/Section 151 Officer incorporating the Treasury Management Strategy Statement for 2021/22 was presented for the Committee's consideration. The Statement sets out the Council's strategy for the forthcoming financial year with regard to borrowing and investment and the constraints on borrowing, determines the prudential indicators and the Council's risk appetite and also its approach to investments.

The Director of Function (Resources)/Section 151 Officer in highlighting the main points from the report as follows, confirmed that there are no proposed amendments to the core principles of the 2020/21 Statement –

- The external context in the form of the wider economic situation as that impacts on investment interest rates, the cost of borrowing and the financial strength of counterparties. A full summary of the economic outlook was set out in Appendix 3 to the report and a distillation of the main points provided in section 3. Having considered the available information and having taken advice from the Council's Treasury Management Advisors, the table at paragraph 3.2 of the report set out the Council's view on interest rate levels to March, 2024 which are not expected to change significantly in that period.
- The Council's current external borrowing position as set out in the table at paragraph 4.1.1 of the report which shows that it has approximately £122m of loans with PWLB and £2.6m of loans with Salix a publicly funded scheme that provides interest free loans for energy efficiency improvements.
- The proposed capital expenditure programme for 2021/22 to 2023/24 as set out in section 5.6 of the report including proposed capital spend, how this is to be financed and the balance to be funded from borrowing - £7.553m for the Schools Modernisation Programme
- The impact of the Council's capital expenditure plans and the Minimum Revenue Provision (MRP) charge on the Capital Financing Requirement (CFR) and the level of external and internal borrowing as shown in Table 4 of the report.
- The Minimum Revenue Provision – the charge which the Council is required to make to the revenue account each year to ensure that there are sufficient funds available to repay debt as it falls due. The MRP Policy is detailed in Appendix 6 to the report and has not changed since it was substantially revised in 2018.
- The Council is currently maintaining an under borrowed position. This approach is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. As part of its strategy, the ability to externally borrow to repay the reserves and balances if needed is important. Table 4 indicates that £8.884m may need to be externally borrowed if urgently required which is the amount of Council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.
- The Council will not borrow more than or in advance of its needs solely to profit from the investment of the extra sums borrowed. In determining whether borrowing will be undertaken in advance of need, the Council will have regard to the factors set out in paragraph 6.4.2 of the report.
- Rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur due to the very large differences between premature redemption rates and the new borrowing making it uneconomical to do so.
- The overriding strategy for the management of funds is ensuring first of all the security of the deposit, secondly the liquidity and thirdly the return on investment.
- The guidance from Welsh Government and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the means set out in section 7.2. of the report in terms of creditworthy counterparties, lending limits and credit ratings which are monitored daily.

- Section 8 of the report set out the governance and control arrangement with regard to treasury management processes, decisions and performance.
- Appendix 11 to the report contains the Prudential and Treasury Indicators which cover affordability and prudence and set out the limits for capital expenditure, external debt and the structure of the debt.

In considering the information presented the Committee discussed the Council's capital expenditure plans specifically whether the Council would achieve its planned capital expenditure for 2020/21 when only £11m was shown to have been spent against a reported figure of £33.7m when the Committee last met in December and whether in light of historic underspends on the capital budget the Council is being realistic in its forward plans for capital expenditure.

The Director of Function (Resources)/Section 151 Officer in referring to the Quarter 3 capital budget monitoring report that would be presented to the Executive on 1 March, 2021 clarified that the projected spend from a total budget of £56m is £34m. Of the £22m underspend, £8m relates to the HRA none of which involves borrowing as the expenditure is funded from HRA reserves; £7.7m relates to the Schools' Modernisation Programme funded by a combination of grants, and supported and unsupported borrowing; £1m relates to economic development made up of European grant funding which is secure and £2m relates to flood alleviation scheme works funded by 85% Welsh Government grants and 15% Council resources. Table 4 of the Treasury Management Strategy Statement report will be updated to reflect the current position ahead of its submission to the Executive. With regard to realising capital expenditure, a range of issues can lead to delay in the progress of capital projects against the approved profile and spend and the Council may be over optimistic about the prospects of its capital programme as regards time, delivery and external factors beyond its control. However, as the capital programme is approved ahead of the year in which the expenditure will take place the view can be taken that it is better to enter schemes for inclusion in the programme at the start of the year on the basis that they will be delivered than to have to go back to seek approval for schemes mid-year because of unutilised capital and capacity.

In response to further questions, the Director of Function (Resources)/Section 151 Officer confirmed that the Council does have regard to inflation rates based on advice provided by its Treasury Management Advisors (Appendix 3 refers) but that inflation is a more prominent factor on the revenue side rather than the capital side. The Officer also clarified that the impact on forecast borrowing of being over optimistic about the delivery of the capital programme is not so great as in practice on a day to day basis the Council uses the cash it holds to fund capital expenditure to avoid borrowing and the interest costs that go with it until such time as it then has borrow externally to replace the cash it has spent. The Officer also provided assurance that in using cash reserves to fund capital expenditure, cash flow management safeguards will not allow cash flow to reduce below a certain level and the Section 151 Officer will take steps to ensure that the Council holds a minimum balance of £10m in accessible deposit accounts at any given time.

It was resolved -

- **To accept the Treasury Management Strategy for 2021/22 and to forward the strategy to the Executive for approval subject to Table 4 being updated to reflect the current position.**
- **To note the increase in transaction limits in Appendix 8 to the report.**

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

10. INTERNAL AUDIT CHARTER

The report of the Head of Audit and Risk incorporating the Internal Audit Charter was presented for the Committee's consideration.

The Head of Audit and Risk reported that the Public Sector Internal Audit Standards provide for a periodic review of the Internal Audit Charter with final approval residing with the Audit and Governance Committee. The Committee last reviewed and approved the Charter in September, 2018. Whilst a review of the Charter by the Head of Audit and Risk has not identified any significant changes it should be noted that the statement on page 11 of the report with regard to Internal Audit resources that the service structure with all posts filled equates to 1,250 days applies only if the posts filled are full-time. At present, it has only been possible to recruit on a part time basis to back fill for one of the secondments meaning that the 1,250 days is currently reduced to 953 days. When the secondment ends it is intended to retain the part time hours to make up the difference.

In response to a question about preserving objectivity the Head of Audit and Risk clarified that arrangements are in place to limit the impairment of independence and objectivity due to the Head of Audit and Risk's line management of the Risk Management and Insurance Service. The Head of Audit and Risk will not scope or review internal audit activity relating to this service area and the reports will instead be signed off by the Director of Function (Resources)/Section 151 Officer.

It was resolved to note the review and to approve the continued appropriateness of the Internal Audit Charter.

NO PROPOSAL FOR ADDITIONAL ACTION WAS MADE

11. FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme to April, 2021 was presented for the Committee's consideration.

The Head of Audit and Risk advised that the Work Programme is limited to the April, 2021 meeting due to the uncertainty arising from the Local Government and Elections (Wales) Act 2021 which will come into force in April, 2021; the Act introduces new duties and responsibilities to the Audit and Governance Committee which will have to be incorporated into the Committee's work programme subsequently.

It was resolved to accept the Forward Work Programme without amendment.

**Councillor Peter Rogers
Chair**