

# GOVERNANCE AND AUDIT COMMITTEE

## Minutes of the hybrid meeting held on 26 July, 2022

- PRESENT:** Mr Dilwyn Evans (Lay Member) (Chair)  
Councillor Euryrn Morris (Deputy Chair)
- Councillors Dafydd Roberts, Keith Roberts, Margaret M. Roberts, Liz Wood.
- Lay Members: Sharon Warnes, William Parry, Michael Wilson
- IN ATTENDANCE:** Chief Executive  
Director of Function (Resources) and Section 151 Officer  
Head of Profession (HR) and Transformation  
Head of Internal Audit & Risk (MP)  
Principal Auditor (NW)  
Committee Officer (ATH)
- APOLOGIES:** Councillors Geraint Bebb, Neville Evans, Dyfed Wyn Jones
- ALSO PRESENT:** Councillor Robin Williams (Portfolio Member for Finance, Corporate Business and Customer Satisfaction), Yvonne Thomas (Audit Manager Financial Audit – Audit Wales), Andrew Lewis (Senior Internal Auditor)
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### 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 29 June, 2022 were presented and were confirmed as correct.

### 3. REVIEW OF THE DRAFT ANNUAL SELF-ASSESSMENT REPORT 2021/2022

The report of the Head of Profession (HR) and Transformation incorporating the Corporate Self-Assessment 2021/2022 was presented for the Committee's consideration.

Councillor Robin Williams, Portfolio Member for Finance, Corporate Business and Customer Satisfaction presented the Isle of Anglesey County Council's first Corporate Self-Assessment report which had been prepared to fulfil the new duty placed on councils in Wales by the Local Government and Elections (Wales) Act 2021 to keep their performance under review through self-assessment. Under the Act, each authority is expected to consider the extent to which it is exercising its functions effectively; it is using its resources economically, efficiently and effectively and whether its governance is effective for securing the two aforementioned matters, and it must publish a report setting out its conclusions for each financial year. The report for the Isle of Anglesey County Council 2021/22 reflects the output of the corporate planning and performance management framework at the Council and is the end of a process that brings together several different aspects of the framework. Councillor Robin Williams said that having considered the evidence provided in the form of

the service performance reviews; performance reports; Annual Governance Statement; external reviews; staff survey and stakeholder engagement the Council is satisfied that overall its performance management, its use of resources and its risk management are “Good” and reflect many strengths. Notwithstanding, the self-assessment has also highlighted areas where things can be improved and these issues are brought together at the end of the report and the source of assurance for each issue is noted.

The Chief Executive reported that the self-assessment report being the first of its kind for Anglesey under the new performance requirements introduced by the Local Government and Elections (Wales) Act 2021 is positive and encouraging but recognises also that further progress can be made with regard to certain aspects of performance. He stressed that the Council has been able to fulfil the duty placed upon it by the Act without having to introduce any new performance management approaches - the processes, procedures and arrangements that form the basis of the self-assessment are already well established within the Council. He hoped that this conveyed the message to all the Council’s stakeholders, partners and regulators that the Council is operating from a sound base and that many of the Act’s expectations in respect of performance are already embedded in the Council’s day to day work. He believed that there was much to be proud of in the report and that the Council could be satisfied that the arrangements it has in place help build improvement without adding additional bureaucracy. Performance management is part of the Council’s culture and continues to mature; the management and use of resources while challenging is supported by robust arrangements and risk management forms an integral part of the Council’s day to day operations and decision-making. Areas that have been identified for improvement will form part of an action plan and will be monitored for progress by the Leadership Team and reported through the established democratic channels.

The Committee considered the report raising the following points –

- Welcomed the report overall as a positive assessment demonstrating a number of strengths, and highlighted the staff survey as a strong measure reflecting well on the Council.
- Referred to the use of resources and questioned whether with the introduction of hybrid working practices the Council has considered its plans for the future given that it may find itself in a position of having more office space than it needs.

The Chief Executive advised that the Council had already undertaken a buildings rationalisation exercise during the years of austerity which had resulted in its retaining two central offices in Llangefni the one being the main Council Offices and the other the Anglesey Business Centre. As hybrid working arrangements are at an early stage, staff safety remains a priority meaning there is a limit on the number of staff that can be present in each building at any one time. This is to create confidence and an environment in which staff feel comfortable and are able to perform to their best within the Office. Whilst he therefore thought it premature to be thinking about office planning the Chief Executive said that he did not foresee that the Council would be in a position to lease or reduce the space in either of its two main buildings; it would be a challenge to accommodate staff were they all to be physically present at the same time. The Council and the community needs to better understand the long term projections in connection with a hybrid workforce and whether the part office, part remote model is here to stay which should then inform the Council as to whether there are any financial and economic benefits to be derived from further rationalisation.

- Referred to people management, questioning whether the staff turnover rate of 10% on average can be broken down further to highlight any specific areas where turnover is higher/more acute requiring particular attention and/or scrutiny.

The Chief Executive advised that staff turnover is counterbalanced to some extent by a high number of people joining the Council. Staff turnover while it applies to all categories is more especially felt in lower income, lower skilled sectors because of the competitive labour market. While the monitoring work undertaken by the Council shows it to be no different to the broader labour market, the Council is keen to improve its systems to provide a greater level of granularity that can be easily transposed into reports providing detailed information and data about staffing that can be accessed quickly.

The Head of Profession (HR) and Transformation said that a staff turnover rate of 10% on average compares well with the industry average for staff turnover of 15.5%. Turnover varies across services and posts particularly with regard to grant funded posts where the term may be limited if grant support ends leading staff to look elsewhere. The Council regularly monitors the situation and is currently focusing on its recruitment strategy. Evidence does however suggest that a number of staff who have left to work in other sectors have returned to the Council after a period of time which is encouraging in what it says about the Council's employment practices and working standards.

- Referred to the three self-assessment categories, noting that one of the reasons cited for the Council assessing its use of resources as "Good" was the "increased levels of reserves". The Committee suggested that as it stands the statement could be interpreted positively or negatively as the Council being in a strong financial position or just sitting on funds with no plans for their use which could be regarded as an ineffective use of resources. The Committee thought that the statement needed to be expanded to provide clarification of the purpose of holding a high level of reserves.

Likewise with reference to the schedule of identified improvements, the Committee thought that being a public document it would be helpful if some concrete data could be included e.g. by what percentage is the Council aiming to improve the waste reused, recycled or composted. It was suggested that the more quantitative rather than qualitative analysis the report contains, the better.

The Director of Function (Resources)/Section 151 Officer in acknowledging the point made about having a high level of reserves being seen negatively if the rationale for holding them is not clear said that the statement would be reworked to better reflect the situation. He clarified that the 2021/22 financial year had been exceptional with a significant amount of additional funding being provided by Welsh Government – some of it very late in the financial year – to deal with the ongoing effects of the pandemic which had contributed to the Council being underspent on its budget. The pandemic had also been a significant factor in the underspend on the capital budget. The point being made in the report by reference to a high level of reserves is that no monies have been lost in not being used which applies especially to grant funding, and that they remain available to be used in the current financial year. The quarterly budget monitoring reports to the Executive confirm that budgets allocated to services have been spent in accordance with expectations.

The Chief Executive advised that while the details in terms of targets, timescales and how those will be achieved etc. will be reflected in the action plan on the areas for improvement, the point made about the inclusion of more specific data would be considered in preparing next year's self-assessment report.

- Suggested that to counter any perception that the report may not be objective or that the Council may be complacent in its evaluation of its own performance, the self-assessment report should be subject to Internal Audit appraisal.

The Head of Internal Audit and Risk while confirming that Internal Audit has been working with the Corporate Performance Team on the document and has reviewed it as part of that work, said that Internal Audit's involvement could be formalised should the Committee so wish.

The Chair thought that the fact that it has been reviewed by Internal Audit should be acknowledged in the Self-Assessment report.

The Chief Executive advised that although it is possible for organisations to mark themselves favourably he believed Anglesey's self-assessment to be a balanced and fair reflection of the Council's position. The involvement of both the Council's political leadership and opposition in the process provides that assurance. Also, the Act requires that the self-assessment be produced annually and that further the Council must arrange a panel performance assessment once every five years. The panel must consult with local people and businesses on whether the Council is meeting its performance requirements and report on its conclusions with recommendations for improving performance if necessary thereby providing an additional independent layer of assurance.

- One suggestion was made that some of the infographics within the report could be toned down to make the document easier to read.

#### **Having reviewed the draft Self-Assessment, it was resolved –**

- **That the Governance and Audit Committee agrees with the contents of the self-assessment report for 2021/22 subject to consideration being given to the comments made about :**
  - **Expanding for clarification purposes, on the retention of a high level of reserves**
  - **The inclusion for the future of more quantitative data especially in relation to areas for improvement**
  - **Acknowledgment that the report has been reviewed by Internal Audit**
- **To delegate authority to the Head of Profession (HR) and Transformation in consultation with the Portfolio Holder to make further minor amendments to the Self-Assessment prior to its submission to the Full Council.**

#### **4. DRAFT ANNUAL GOVERNANCE STATEMENT 2021/22**

The report of the Head of Profession (HR) and Transformation incorporating the draft Annual Governance Statement (AGS) for 2021/22 was presented for the Committee's consideration.

Councillor Robin Williams, Portfolio Member for Finance, Corporate Business and Customer Satisfaction presented the draft Annual Governance Statement for 2021/22 which demonstrates how during the year, the Council's governance arrangements fulfilled each of the principles contained within the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government.

The Council is responsible for ensuring that it conducts its business in accordance with the law and proper standards and that it safeguards and properly accounts for public money and

how public money is used. The Council also has a duty under the Local Government and Elections (Wales) Act 2021 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 has also a duty to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk together with adequate financial management. The Council approved and adopted a revised local code of corporate governance in March, 2022 which is consistent with the principles of the CIPFA/SOLACE Framework. The AGS shows how the Council has complied with the Code and meets the requirements of proper practice and Accounts and Audit (Wales) Regulations.

The Head of Profession (HR) and Transformation said that the Annual Governance Statement and the previous Self-Assessment Report complement each other. She confirmed that while no significant governance matters were identified in 2021/22 the self-assessment process did identify the governance issues listed at page 10 of the report that will be addressed during 2022/23.

In the ensuing discussion the Committee made the following points –

- Requested clarification of action 3 in the table on the progress made in 2021/22 on governance matters identified during 2020/21 wherein it was confirmed that matters [pertaining to the Local Government and Elections (Wales) Act 2021] requiring attention in 2021/22 had been implemented but stated also that further work on remaining matters needing attention was planned for 2022/23.

The Chief Executive clarified that some elements of the work had been completed and implemented and that other elements e.g. reviewing and updating the Constitution and introducing a Petition Scheme are work in progress to be completed in the current financial year.

- Requested clarification of point 3 in the table which lists governance matters identified by the Self-Assessment process wherein it was stated that failure to comply with new responsibilities and changes introduced by the Local Government and Elections (Wales) Act 2021 could lead to further scrutiny by Welsh Government and a loss of reputation.

The Chief Executive clarified that the Act imposes new duties and responsibilities on the Council some of which have been implemented and others which are work in progress which if not fully implemented could have a reputational impact on the Council. It is the aim that next year's report should confirm that all matters identified in the 2021/22 report will have been addressed.

- Highlighted that despite the expectation that the council should strive to continuously improve, the overall assessment rating against the core principles of the Framework has remained "Good" in consecutive years with no movement upwards to the next level.

The Chief Executive advised that the categories are broad in scope and that to uprate to "Excellent" would require the Council to be able to demonstrate innovative practices which is not always easy to do with regard to governance. The Head of Profession (HR) and Transformation clarified that the rating system does not reflect movement within categories.

- Queried whether the objective is to keep refining the Annual Governance Statement to reduce its length and whether the Council benchmarks its AGS against that of other councils both within Wales and further afield. Although the inclusion of the more detailed information via appendices rather than in the body of the report was welcomed a suggestion was made that a condensed version might be helpful for public consumption while a longer version could be retained for the internal reference of the Council and for its regulators.

The Chief Executive advised that the Council is part of a range of networks which provide a platform for the exchange of best practice and that many of its processes have been recognised as best practice by other councils. The Head of Profession (HR) and Transformation confirmed that the practice in other councils has been considered and that efforts will continue to be made to ensure that the AGS is concise, readable and contains only the necessary key elements.

**It was resolved –**

- **To approve the Draft Annual Governance Statement that will form part of the 2021/22 Statement of Accounts.**
- **To delegate authority to the Chair and the Head of Function (Resources)/Section 151 Officer to make further minor amendments to the Annual Governance Statement prior to its inclusion in the final version of the Statement of Accounts.**

## **5. DRAFT STATEMENT OF THE ACCOUNTS 2021/22**

The report of the Director of Function (Resources)/Section 151 Officer incorporating the draft Statement of the Accounts for 2021/22 was presented for the Committee's consideration.

The Director of Function (Resources)/Section 151 Officer reported that the draft accounts were signed on 16 June, 2022 and are now being audited. He highlighted that additional work in connection with confirming the valuation of the Council's assets in the balance sheet might mean the audit process takes longer to complete; the issue arose during audits in England the previous year and has been raised with each council by Audit Wales. The Section 151 Officer clarified that Audit Wales is seeking assurance that the impact of changes to the current value of assets is not such as to amount to a material change in terms of the figure provided for by the accounts. While councils are not being asked to revalue their assets, what it means as regards the requirement on councils has been the subject of discussion between Audit Wales and CIPFA. The Council has asked its Principal Valuation Officer to undertake further work in respect of the valuation of the Council's assets which may lead to a delay in completing the audit.

The Director of Function (Resources)/Section 151 Officer highlighted the following –

- The Statement of the Accounts consists of the core financial statements listed in the first page of the accounts. These are preceded by the Narrative Report which is a key section of the accounts and which provides an effective guide to the most significant matters reported in the accounts including the Council's priorities and strategies and the principal risks it faces. The narrative report provides a commentary on how the Council has used its resources during the year to achieve its stated objectives.
- The draft Comprehensive Income and Expenditure Statement shows the cost of providing services in the year in accordance with statutory accounting requirements and covers both the Council Fund and the Housing Revenue Account. It includes accounting adjustments such as depreciation and pensions adjustments which are not funded by

Council Tax payers so the impact of these are excluded in the note called Adjustments between Accounting Basis and Funding Basis (Note 7 in the Statement of Accounts). This note for 2021/22 shows £11.852m of accounting adjustments which are cancelled out in the Movement of Reserves Statement. This means that the true impact on the Council and HRA reserves from the provision of services is reduced from a surplus of £5.940m to a surplus of £17.792m which is an increase in Council reserves. This is due to an underspend on the Council Fund and Housing Revenue Account and transfers into earmarked reserves.

- The balance of all usable reserves as at 31 March, 2022 was £57.772m, an increase of £17.792m. The HRA Reserve, School Balances and Capital Receipts Reserves are ring fenced and can only be used for the designated purpose. Table 1 of the report provides a summary of the movement in reserves due to the financial performance of the year and net movements to and from reserves, whilst Table 2 summarises the movement in reserves using information from the Statement of Accounts. Although how the information is presented is different, both result in the same reserve balance.
- The General Reserve as at 31 March, 2022 was £12.050m equating to 8.2% of the net revenue budget for 2021/22. The Council's financial performance for 2021/22 showed a net underspend of £4.798m due to the receipt of funding from Welsh Government during the pandemic and the provision of a limited amount of services to the public during that period.
- The draft overall net assets of the Council increased from £164.162m as at 31 March, 2021 to £247.577m as at 31 March, 2022. This is due to investment in new assets and the refurbishment of existing assets; revaluation of other Council assets and increased current assets such as cash, cash equivalents and short-term investments. In addition, the Council's liabilities reduced with the most significant being the reduction of the valuation of the pension liability by £55m due to a better than expected performance by the pension fund's assets and a change in the actuary's assumptions as a result of increasing interest rates. The Council participates in the Gwynedd Pension Fund which is administered by Gwynedd Council.

The Committee considered the report and the following matters were discussed –

- The increase in school balances. The Director of Function (Resources)/Section 151 Officer advised that school balances have been bolstered by Welsh Government grant funding part of which was to help schools deal with the ongoing impact of the pandemic and part of which was intended to help pupils catch up with missed learning during the pandemic. The funding is monitored by Welsh Government and schools are expected to report back to Welsh Government on their use of the funding.
- The valuation of the Council's property assets which does not include the Council's highway network. The Director of Function (Resources)/Section 151 Officer advised that the Council's internal valuer undertakes valuation in accordance with the requirements of the CIPFA Code. Historically, assets with a value of over £500k were valued annually and the remainder including the Council's housing stock were valued on a cyclical basis. Valuation of the Council's housing stock which makes up the largest element of the Council's property portfolio is undertaken on a different basis due to the properties having sitting tenants. They are valued at market value and discounted down to reflect the fact that the Council would not be able to sell them for market value. A valuation of the Council's housing stock is due to take place next year and will be done by inspecting a sample of properties from different categories of dwelling. The valuation is also informed by the stock condition survey which is conducted to ensure the Council's housing stock is maintained to Welsh Housing Quality Standards. While there has been discussion previously about including highways in the valuation of assets within the

accounts, the challenge around putting a precise value on highway infrastructure has meant that this has not as yet transpired.

- The liabilities on the Pension fund and its impact on the accounts. The Director of Function (Resources)/Section 151 Officer advised that the total net liability on the Council's Pension Fund decreased by £55m in 2021/22 from £178.2m in 2020/21 to £121.2 in 2021/22. The pension liability can vary significantly from one year to the next depending on changes in the assumptions used including the discount rates and the performance of the pension fund assets. Although the pension liability as shown in the accounts has an impact on the net worth of the Council as recorded in the Balance Sheet, statutory arrangements exist to fund the deficit to ensure the financial position of the Council remains healthy. The liability is unlikely to be realised whilst the scheme remains open and members continue to make contributions into the scheme. A more significant valuation from the Council's perspective is the appointed Actuary's triennial valuation of the pension fund for the purpose of setting the employer's contribution rates for the following three years which is based on different assumptions. The Council has a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years; funding levels are monitored annually.
- The underspend on both the Council's revenue and capital budgets and the implications as regards budget management. The Director of Function (Resources)/Section 151 Officer advised that as well as receiving a better than anticipated settlement for 2021/22, the allocation from Welsh Government changed during the year with additional funding of £1.389m being provided late in the year in March through the Revenue Settlement Grant. Funding was also provided to cover ongoing Covid related costs and income losses and in addition, a significant number of other grants were also received late in the financial year which included waste grants and social services pressures grants. The £4.798m underspend on the revenue budget is not a true reflection of the position of some of the Council's services since some services did not fully open until midway through the financial year and did not make full use of the grants provided. Demand for support especially in Adults and Children's social care is now on the rise and is expected to continue to grow; this coupled with the increased cost of placements make it likely that those services will overspend their budgets in the current financial year. The surplus on the Council's 2021/22 revenue budget has strengthened the Council's general balances which places it in a strong financial position to be able to deal with the extra demand on services and other challenges in this year and the next.

With regard to the capital budget, the Council's projections for capital expenditure may be overly optimistic especially with regard to council housing and new housing development and there may be a case for reviewing the Housing Revenue Account Business Plan. However, both 2020/21 and 2021/22 financial years have been exceptional in terms of the impact the pandemic has had on Council services and the progress of capital projects making it challenging to deliver projects to timescales. The rising costs and availability of builders and materials are new challenges with regard to capital expenditure.

- The challenge which the receipt of late funding as well as the economic situation poses for budget planning and forecasting. The Director of Function (Resources)/Section 151 Officer confirmed that the current increase in pay and prices is creating uncertainty over the Council's costs in 2022/23 and the level of budget required in 2023/24. However, the increased level of balances will help the Council mitigate those risks in 2022/23 and subsequently, and will enable the Council to buy time to remodel services and reduce costs.

- Corrections viz. the replacement of the word “reduced” at paragraph 3.3, page 75 of Appendix 1 with the word “increased”, and the replacement of “£8.143m” in the narrative between the two tables at page 84 with £”5.94m.”

The Director of Function (Resources)/Secion 151 Officer confirmed that to date no issues had been raised by the auditors with regard to the quality of the working papers presented. The Statement of the Accounts continues to be reviewed for the removal of any unnecessary clutter in line with recommendations made by the auditors.

**Having reviewed the draft Statement of Accounts for 2021/22, the Governance and Audit Committee resolved to note the draft unaudited financial statements for 2021/22.**

## **6. REVIEW OF FORWARD WORK PROGRAMME**

The report of the Head of Audit and Risk incorporating the Committee's Forward Work Programme and Training Programme for 2022/23 was presented for the Committee's consideration.

The Head of Audit and Risk advised that the Forward Work Programme has been developed to accommodate the Committee's new responsibilities under the Local Government and Elections (Wales) Act 2021 and the consequent amendments to the Committee's terms of reference and that it also reflects an additional meeting requested by the Committee which has been scheduled for October. In response to a question about the governance of partnerships and collaboration agreements, the Head of Audit and Risk confirmed that the Annual Report of the Partnerships and Regeneration Scrutiny Committee would be presented to the Committee's December, 2022 meeting.

**It was resolved to accept the Forward Work Programme proposed for 2022/23 as meeting the Committee's responsibilities in accordance with the terms of reference.**

**Mr Dilwyn Evans  
(Chair)**