

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held in the Committee Room and on Zoom on 18 July 2024

- PRESENT:** Mr Dilwyn Evans (Lay Member) (Chair)
Councillor Euryrn Morris (Deputy Chair)
- Councillors Geraint Bebb, Trefor Lloyd Hughes, MBE, Dyfed Wyn Jones, Keith Roberts, Margaret M. Roberts, Ieuan Williams.
- Lay Members: Michael Wilson, William Parry, Mrs Sharon Warnes
- IN ATTENDANCE:** Director of Function (Resources) and Section 151 Officer
Head of Audit and Risk
Corporate Planning, Performance and Programme Manager (GP) (for items 5 and 6)
Finance Manager (CK) (for item 4),
IT Team Manager (MH) (for item 7)
Committee Officer (ATH)
Webcasting Officer (FT)
- APOLOGIES:** None received.
- ALSO PRESENT:** Councillor Robin Williams (Deputy Leader and Portfolio Member for Finance), David Tomalin (Audit Wales), Principal Auditor (IoACC) (NW), Senior Auditor (IoACC) (AL).
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The Chair welcomed all those present to this meeting of the Governance and Audit Committee. The Chair extended his and the Committee's members' condolences to Mr Alan Hughes, Audit Wales's Performance Audit Lead on a recent close family bereavement.

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 the 27 June, 2024 were presented and were confirmed as correct subject to noting that Councillors Dyfed Wyn Jones and Margaret Roberts had tendered apologies for absence for the meeting.

3. GOVERNANCE AND AUDIT COMMITTEE ACTION LOG

The report of the Head of Audit and Risk incorporating the committee action log was presented for consideration. The report updated the Committee on the status of the actions/decisions it had agreed upon at its previous two meetings (the action log having been introduced for the 18 April 2024 meeting) to allow members to monitor progress against all actions.

The Head of Audit and Risk confirmed that two actions had been completed and would be removed from the log and that reports in connection with the remaining actions were not scheduled to be presented until later in the year. The action under number 10 is in progress and will be completed by December, 2024.

It was resolved to note the actions detailed in the action log table and to confirm that the Committee is content that the actions have been implemented to its satisfaction.

4. DRAFT STATEMENT OF THE ACCOUNTS 2023/24

The report of the Director of Function (Resources)/Section 151 Officer incorporating the draft Statement of the Accounts for the 2023/24 financial year was presented for the Committee's consideration. The Statement of the Accounts is a statutory document that is prepared in accordance with proper accounting practices and is produced annually to give electors, local taxpayers, members of the Council, employees, and other interested parties information about the Council's finances in the previous financial year.

The report was presented by the Director of Function (Resources)/Section 151 Officer who thanked the Finance team and all those who had had an input into the production of the draft accounts for their work in enabling the draft accounts to be published by the deadline which for 2023/24 has been extended by Welsh Government to 30 June 2024. The Director of Function (Resources)/Section 151 Officer referred to the principal purpose of the accounts as being to provide their readers with the information to allow them to form an opinion about the Council's financial position and its management and use of public money. He provided an overview of the main sections of the accounts comprising of the core financial statements and the key explanatory notes and what they reflect as regards the Council's financial standing, and referred to Tables 1, 2 and 3 in the introductory report which summarised the Council's reserves and balances position including how each type of reserve has changed over the year. The accounts show that at the end of 2023/24 the draft Council reserves stood at £15.604m and the total usable reserves stood at £50.099m. The value of the council's net assets increased by £37.682m from £404.650m last year to £442.332m as at 31 March 2024.

The following were points of discussion by the Committee –

- School balances and whether schools in a deficit position are an emerging development.
- Electrical Installation Condition Report (EICR) Certificates as a contingent liability. Questions were asked about the reasons why in some instances copies of the certificates confirming the completion of electrical checks were not provided to Council tenants as required as well as the total rent that might have to be repaid to those tenants who did not receive copies of the certificates as compensation and whether it would have a bearing on the accounts.
- The increase of £7.896m in short-term creditors to £42.465m as a result of a backlog of invoices.
- Clarification of the £6.615m of capital grants received in advance for the Council's share in the North Wales Economic Ambition Board (NWEAB) which it was noted was greater than the £4.618m stated as an increase in grants received in advance.
- The reduction in the Housing Revenue Account balance. Questions were also asked about whether S106 Housing Developer contributions and the affordable housing reserve are transferred to HRA balances.
- Over expenditure in Children and Families' Services as a risk to the Council's financial health going forward.
- The use of reserves to fund significant costs. Questions were asked about the amount of reserves used and whether any portion of that amount was REFCUS (Revenue Expenditure Funded from Capital under Statute).

- Expenditure that has been capitalised. It was suggested that the total capitalised amount as per the table at Page 4 of the narrative report should read £30.636m rather than £50.574m as £19.938m was charged to the Comprehensive Income and Expenditure Statement as it was either in support of assets that are not in direct Council ownership (£5.422m) or did not increase the value of the capital assets (14.516m).
- The substance of the expenditure on earmarked reserves.
- The 8.4% increase in Council Tax income against a 5% increase in the Council Tax rate for 2023/24 and whether the increased income was due to an improved collection rate.
- The usefulness of the Statement of Accounts as a document which the public can engage with and from which they can derive a clear picture of the Council's finances and position given its complexity and the level of technical detail it contains.

The Director of Function (Resources)/Section 151 Officer further advised as follows –

- That some schools have in previous years been in deficit and have been required to formulate a plan to address the deficit. During the pandemic, schools' finances were boosted by Covid funding grants provided by Welsh Government which eliminated deficits and improved school finances in aggregate nationally. Those grants were subsequently used in line with Welsh Government expectations to help pupils catch up with their education. Schools have since been drawing on their reserves to balance their budgets and although the Council has historically sought to protect the schools' budget, it was reduced by 1.5% in 2024/25. It is anticipated that school balances will continue to decline and unless the funding position improves, it is likely that more schools will fall into deficit. The five primary schools in deficit at 31 March 2024 have a plan to address the situation. The trend will be monitored notwithstanding that as a percentage of the total schools budget Anglesey's school balances are the highest by this measure.
- That although electrical checks have been carried out in Council properties and electrical installations confirmed as safe, not all tenants have received copies of the EICR certificates particularly tenants who have access to communal areas within blocks of flats which are subject to the checks. Should the Council have to repay rent to those tenants who did not receive copies of certificates, as compensation then the obligation would be in the region of £1.2m. It has been assessed as an unprovided contingent liability because it is not certain that the obligation will have to be met as the outcome of a court case relating to another local authority on this matter is pending the contention being that this is a technical rather than safety breach. In the event of payment having to be made the obligation would be covered by HRA balances.
- That the increase in short term creditors because of a backlog of invoices was due to a concurrence of factors including technical issues, capacity, and timing with the volume and value of invoices tending to increase towards the end of the financial year when issues were being experienced. Work to clear the backlog took place throughout April and May of the new financial year and the situation has now improved and the creditor balance has reduced.
- That the NWEAB is funded by Welsh and Westminster Government grants with the latter being received in fifteen instalments every year. This funding has not been spent due to a delay in starting projects but is still being received and is in a holding reserve. Welsh Government has taken the view that no further funding will be distributed until what has already been allocated is used.
- That the 30-year HRA Business Plan provides for the use of the HRA reserve to support the development of new housing. The revenue surplus on the HRA account is also used for capital purposes to maintain the current housing stock to WHQS standards as well as investment in new housing. The strategy is to wind down the HRA reserve to a level in the region of £1m with new development to be funded thereafter through borrowing. S106 developer contributions depending on the terms of the agreement, are contributions towards the provision of affordable housing and as such are an additional contribution to

the HRA. The Affordable Housing reserve is derived from the Council Tax premium on second homes and long-term empty properties and is used to fund housing grants, loans, and projects to help first time buyers. The annual allocation to the reserve was not made in 2024/25 because it was deemed there were sufficient funds in the reserve to meet these budgets. Income from the Council Tax premium is not allocated to the HRA because it is not used to develop new Council housing.

- That over expenditure on Children and Families' Services is a financial risk to the Council and is due to an increase in the number of children needing to be looked after by the Council, the complexity of needs, a shortage of suitable placements and rising costs. The Council has invested significantly in children's social care by increasing inhouse provision and by putting in place preventative measures that support children and families sooner in an effort to manage expenditure.
- That £4.425m of the Council's general balances was used to balance the budget in 2024/25 and in £3.78m in 2023/24. The Council has sought to be open and transparent about its use of reserves to balance its budget by specifying the allocation from reserves in its budget proposal; without the contribution from general reserves the Council would have been overspent which would in any case have had to be funded from reserves. REFCUS is where the Council funds capital expenditure on assets that it does not own e.g. Disabled Facilities adaptations to homes and as such this expenditure is ascribed to revenue. It does not affect the Council's balances as it is mainly grant funding.
- That £50.574m has been spent in capital funding of which £30.636m has resulted in an asset that has been created, is in use and has been included on the Balance Sheet. It includes work in progress and REFCUS. In response to further questions about the appropriateness of applying the term "capitalised" to the total sum of £50.574m, the Section 151 Officer advised that the use of the term in that context would be reviewed.
- That the Council's earmarked reserves are allocated for specific projects on which the Council plans to spend or risks which are known to the Council. The Director of Function (Resources)/Section 151 Officer said that he would forward to the Chair a copy of the report to the 23 July meeting of the Executive regarding the use of balances and reserves.
- That the increased Council Tax income includes the Council Tax premium on second homes which was increased from 75% to 100% as well as the Police and town and community council precepts. Changes to the Council Tax base with the addition of new home also increases the income received.
- That the Statement of the Accounts is a financial accounting statement that can be difficult to understand by people with no finance experience. The budget monitoring reports presented to the Executive provide a clearer picture of how the Council is performing financially and show that overall the general state of the Council's finances is currently healthy although some reserves have reduced as the Council continues to face financial pressures. An unforeseen event, extra pressures in children's social care resulting in costly placements or rising homelessness demands could test the Council's financial resilience. These are pressures which the public are not necessarily aware of and are areas where the expenditure is high.

Having scrutinised the draft Statement of the Accounts, the Governance and Audit Committee resolved to note the draft unaudited main financial statements for 2023/24.

Additional action - Director of Function (Resources)/Section 151 Officer to review the use of the term capitalisation in connection with the sum of £50.574m in the table on page 4 of the Narrative Report.

5. DRAFT ANNUAL GOVERNANCE STATEMENT 2023/24

The report of the Head of Profession (HR) and Transformation incorporating the draft Annual Governance Statement for 2023/24 was presented for the Committee's consideration. The

Governance Statement shows how the Council is complying with the core and supporting principles contained within CIPFA/Solace's Framework for Delivering Good Governance in Local Government 2016 in having proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk together with adequate and effective financial management.

The report was presented by the Corporate Planning, Performance and Programme Manager who provided an overview of the conclusion of the assessment of the effectiveness of the Council's Governance arrangements against the core principles of the CIPFA/Solace Framework as per the table at page 5 of the document. The report also contained a summary of progress against the governance matters identified last year as well as governance matters identified by the assessment process for 2023/24.

The following were points of discussion by the Committee –

- The discrepancy between the timeline of March 2026 which the Council has set for complying with the requirements of the new Procurement Act 2023 and the date on which the provisions of the Act will come into effect which is 28 October 2024.
- With regard to governance matters identified in 2022/23 in relation to the Local Government and Elections (Wales) Act 2021, it was suggested that the statement that the Council did not undertake the planned training on the General Power of Competence and has no plans to undertake this training is an unsatisfactory response and leaves the matter unresolved and requiring explanation especially as it relates to legislation which it might be inferred requires the training to be undertaken.
- With regard to managing and rationalising the Council's assets to ensure they are fit for purpose and if not, identify the work required to bring them up to standards, how success against this objective will be measured given that upgrading the Council's assets requires significant investment which is unlikely to be realised.
- Whether with regard to the financial resilience of the Council, the processes requiring review and streamlining to improve the efficiency and effectiveness of services and reduce the impact of reduced funding have been identified and a schedule compiled, whether there is capacity/expertise to undertake the task and whether the Committee will be party to that work.

The Committee was further advised as follows –

- That the Procurement Act 2023 provides a transition period for local authorities to comply with its requirements. The Council has put in place a strategic plan and work programme to ensure that it is in a position to meet the new requirements.
- That the training on the General Power of Competence is no longer offered by the WLGA due to the emergence of other priorities. The Local Government and Election (Wales) Act 2021 affords local authorities in Wales general powers of competence and it is a matter for the Council to decide whether and how the power is to be used. It was agreed that the Director of Function (Council Business)/Monitoring Officer be asked to clarify the requirements with regard to the General Power of Competence.
- That the Council has adopted a Capital Strategy 2024-29 along with an Asset Management Strategic Plan where it is recognised that the investment required to bring the Council's assets up to standard is beyond the resources available to the Council. The lack of investment means that the condition of assets continues to deteriorate creating further costs in terms of repair and maintenance. The capital funding which the Council receives from Welsh Government in grant and core funding is insufficient to meet the Council's capital requirements and any borrowing to that end would have implications for the revenue budget and thereby for Council Tax. The situation will be kept under review going forward.

- That the Council has commenced the work of reviewing its processes and is moving towards increased use of digital technology in its operations and in how it communicates and engages with residents with the introduction of the CRM and a new telephone system. Most services have their own Business Manager role to review the effectiveness of the service's business processes and each service produces an annual service delivery plan which identifies the service's priorities for the year including process review; those plans feed into the Annual Delivery Document which sets out the annual priorities for delivering on the Council's strategic objectives as defined by the Council Plan. While large scale projects are managed by the Transformation Boards, work to improve the efficiency of business processes takes place on multiple levels.

It was resolved to approve the draft Annual Governance Statement for 2023/24 that will form part of the 2023/24 Statement of the Accounts.

Additional Actions –

- **That the Director of Function (Council Business)/Monitoring Officer be asked to clarify the requirements with regard to the General Power of Competence.**
- **That the Committee be provided with an update at its December 2024 meeting on progress against the governance matters identified by the 2023/24 assessment process.**

6. REVIEW OF THE ANNUAL DRAFT CORPORATE SELF-ASSESSMENT REPORT 2023/24

The report of the Head of Profession (HR) and Transformation incorporating the draft Annual Corporate Self-Assessment Report for 2023/24 was presented for the Committee's consideration. The report provides an evidential basis of how the Council has performed over the year using its available resources whilst managing and mitigating associated risks in line with the expectations of the Local Government and Elections (Wales) Act 2021.

The report was presented by the Corporate Planning, Performance and Programme Manager who referred to the seven key areas which are the focus of the self-assessment. Four areas (service planning, financial planning, workforce planning and performance management) are assessed as exceeding expectations while three areas (asset management, procurement and contract management, and risk and audit management) are assessed as meeting expectations. The report also identifies several areas as presenting opportunities for improvement and monitoring throughout 2024/25.

The following were points of discussion by the Committee –

- The contradiction between financial planning which is an area where the performance has been assessed as exceeding expectations and the Council's financial resilience which has been identified as an area where the Council could do better due to the cost-of-living crisis and a decrease in funding. Similarly with regard to workforce planning which has also been assessed as exceeding expectations but where addressing workforce challenges is an area identified as presenting opportunities for improvement and monitoring throughout 2024/25.
- The Council's risk appetite and approach to risk. Questions were asked about the positive aspects of risk in terms of presenting opportunities for improvement and progress and the extent to which the Council is willing to take risks to maximise those opportunities.

The Committee was further advised as follows –

- That the overall assessment rating for each of the 7 key areas is based on each service's self-evaluation of its performance in those areas against one of 5 criteria as set out in the Council's Service Position Statement at the end of the document. Financial planning involves the strategic management of the Council's finances, creating plans to allocate resources and budgeting whilst financial resilience relates to the Council's preparedness and ability to withstand financial shocks that may occur in the longer term. Opportunities for improvement and monitoring have been recognised with regard to the latter. Similarly, the assessment recognised that the Council has a strong understanding of workforce planning and has the requirements in place for achieving its commitments, plans and objectives as regards human resources but that there are areas where implementing the actions identified could further improve performance to take it to the next level.
- That the Council's approach to risk and its risk appetite as evidenced by the strategic risk register is based on managing the risks that may prevent it from achieving its objectives rather than on taking risks in order to improve performance which may not lead to the desired outcome. The Council has not formally assessed its risk appetite from the perspective of how much risk it is willing to accept to realise additional benefits. The Council's change projects are tested before they are implemented to ensure as far as possible that they deliver as planned and to minimise any negative consequences.

Having reviewed the document and commented thereon, the Governance and Audit Committee resolved to endorse the draft Corporate Self-Assessment Report 2023/24 and to recommend the same to the Executive.

7. INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk providing an update as at 30 June, 2024 on the audits completed since the previous update as at 31 March 2024 was presented for the Committee's consideration. The report also set out the current workload of Internal Audit and its priorities for the short to medium term going forward. Members of the Committee were provided under separate cover with copies of the three internal audit reports finalised since the last update in relation to Destination – Maritime Team – Income Processes (Reasonable Assurance); IT Audit – IT Supplier Management (Limited Assurance); Robustness of estimates and adequacy of reserves assessment (Section 25 of the Local Government Act 2003) (Reasonable Assurance). The Limited Assurance report was accompanied by an action plan to address the issues/risks raised by the internal audit review.

The following were points of discussion by the Committee –

- That the Corporate Self-Assessment assessed procurement and contract management as meeting expectations whereas the internal audit review of IT Supplier Management has identified a number of procurement issues/risks that require management action.
- The capacity of Internal Audit and the savings derived from the vacancy set against the costs of engaging third party expertise.
- The issues raised by the audit review in relation to Destination – Maritime Team – Income Processes. This matter was taken in private at the end of the meeting the Chair having proposed and the Committee approved under Section 100 (A) (4) of the Local Government Act 1972 that the press and public be excluded from the meeting during the discussion on the grounds that the matter involved the disclosure of exempt information as defined in Paragraph 14 of Schedule 12A of the said Act as it refers to the business affairs of the Council which could prejudice the interests of the Council commercially, financially and legally. Members raised questions about the income generated set against the costs of the service and they also sought assurance regarding the vulnerabilities highlighted by the audit review and the actions required to overcome them.

The Committee was advised as follows –

- That the new Procurement Act 2023 places a number of responsibilities on local authorities and public sector organisations. Due to limited capacity, the Council has commissioned an external consultancy to review the Council's procurement arrangements and its readiness for the changes which the new legislation will introduce. They have developed a two-year improvement programme to ensure the Council complies with the new requirements and have been re-engaged to provide support in delivering the improvement plan. Not all requirements have to be met by October 2024 when the legislation comes into effect. The IT Team Manager updated the Committee with regard to the 2 issues pertaining to the IT Unit from the IT Supplier Management review and confirmed that they are progressing in line with the timeframe.
- That the savings in Internal Audit are from the vacancy at Senior Auditor level due to the continuation of a long-term secondment which are being used to commission third party support, as necessary. The delivery of the risk and insurance function is also being reviewed which may produce savings that could be applied to Internal Audit.
- The Head of Audit and Risk elaborated on the issues raised by the Destination – Maritime Team – Income Processes review and confirmed that actions to address those issues and to improve income processes had been agreed with management in an action plan that is available separately.

It was resolved to note the outcome of Internal Audit's work, and to accept the assurance provided and priorities going forward.

Additional Action – Head of Audit and Risk to provide the Committee's members with a copy of the Destination – Maritime Team – Income Processes review action plan.

8. NATIONAL FRAUD INITIATIVE 2022-24 OUTCOMES PROGRESS REPORT

The report of the Head of Audit and Risk setting out the latest outcomes from the National Fraud Initiative in relation to Council Tax Reduction and Housing Benefit was presented for the Committee's consideration. The report detailed the progress made by the Council in responding to the findings of the NFI and the relevant outcomes including the financial outcome estimated to be savings of £3,838.

The following was a point of discussion by the Committee –

- The inability of the Benefits team to allocate resources to analyse matches leading to missed counter-fraud opportunities and potential benefits. Questions were asked about the availability of resources for the next NFI exercise for 2024-26.

The Committee was advised that the Council did historically have a Counter Fraud service before the function was centralised by the DWP leading to the loss of the resource for the Council. The Council receives grant funding from the DWP to administer housing benefit on its behalf. This funding is reducing as claimants transition from Housing Benefit to Universal Credit. However the Council remains responsible for assessing claims under the Council Tax Reduction scheme which means that the caseload is not reducing at the same rate as the grant funding. The Council is using the DWP grant to focus on processing those applications meaning there is currently no resource available to assign to benefit fraud work. The Council has allocated resources to Council Tax to investigate single person discount claims and non-payment of the premium and the latter has generated additional income for the Council.

It was resolved to confirm that the Governance and Audit Committee takes assurance from the report that the council, taking account of the need to prioritise its resources, is seeking to actively embrace opportunities provided by the National Fraud Initiative to use data analytics to strengthen both the prevention and detection of fraud.

9. 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 2024/25 was presented for the Committee's consideration. One change to the scheduling of reports was highlighted by the Head of Audit and Risk.

It was noted by the Committee that the proposed agenda for the Committee's September 2024 meeting is especially busy; it was suggested that the Head of Audit and Risk in consultation with the Chair consider the feasibility of rescheduling some of the items of business proposed for the meeting and/or designating items for information only where appropriate.

It was resolved to accept the Forward Work Programme proposed for 2024/25 as meeting the Committee's responsibilities in accordance with its terms of reference.

Additional action - Head of Audit and Risk in consultation with the Chair to review the business scheduled for the Committee's September 2024 meeting with a view to streamlining the agenda.

**Mr Dilwyn Evans
Chair**