

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held in the Committee Room and on Zoom on 11 February, 2025

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| PRESENT: | Mr Dilwyn Evans (Lay Member) (Chair) Councillor Euryrn Morris (Deputy Chair) Councillors Geraint Bebb, Aled M. Jones, Keith Roberts, Margaret M. Roberts, Ieuan Williams. Lay Members: Sharon Warnes, William Parry, Michael Wilson. |
| IN ATTENDANCE: | Director of Function (Resources) and Section 151 Officer Head of Internal Audit & Risk (MP) Committee Officer (ATH) Webcasting officer (FT) |
| APOLOGIES: | Councillor Kenneth Hughes. |
| ALSO PRESENT: | Councillor Robin Williams (Deputy Leader & Portfolio Member for Finance), Alan Hughes (Performance Audit Lead – Audit Wales), Principal Auditor (NW)(IoACC), Senior Auditor (AL) (IoACC), Accountancy Services Manager (BHO) (IoACC) |

The Chair welcomed everyone to the meeting and extended a particular welcome to Councillor Aled M. Jones who was returning as a member of the committee and to Councillor Kenneth Hughes who could not be present at this meeting but who was a new member of the committee.

1. DECLARATION OF INTEREST

No declaration of interest was received.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meetings of the Governance and Audit Committee held on 27 November 2024 (extraordinary meeting) and 5 December 2024 were presented and were confirmed as correct.

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 and progress of the actions it had agreed upon.

The Head of Audit and Risk confirmed that one action had been completed, one was in progress and the remaining four actions on the log were due to be completed later in the year.

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. INTERNAL AUDIT UPDATE

The report of the Head of Audit and Risk providing an update as at 31 January, 2025 on the audits completed since the previous update as at 28 November 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 assurance reports finalised in the period in relation to Housing Development (Reasonable Assurance) and Recruitment and Retention (Reasonable Assurance). A third piece of work completed in the period involved a Property Services related investigation conducted in response to allegations of favouritism with regard to electrical work procurement to which an assurance opinion did not apply.

The Head of Audit and Risk provided an overview of the two assurance reports completed during the period and she confirmed that an action plan had been formulated and agreed to with management to address the issues /risks and opportunities raised in each case. She elaborated on the investigation in relation to Property Services and advised that although the allegations of favouritism were not substantiated opportunities to strengthen fraud risk controls were identified and the findings of the review were reported to the Chief Executive, Portfolio Holder, Head of Service, and the Monitoring Officer. She referred to Internal Audit's short to medium term priorities including work in progress as summarised in the schedule at paragraph 25 of the report along with the priorities for the longer term, and she briefed the committee on the latest position with regard to other developments including the introduction of the new global internal audit standards, CIPFA's new code of practice for the governance of local authority internal audit effective from 1 April 2025 and the update by CIPFA and SOLACE to the guidance for local government on completing a review of the effectiveness of its system of internal control and production of the Annual Governance Statement.

In considering the report, the following were points of discussion by the committee –

- Whether the feedback to Housing Services from the review of Housing Development included any specific recommendations with regard to arrangements for monitoring value for money.

The committee was advised by the Head of Audit and Risk that the review found with regard to the Right to Buy scheme that although the Council is on track to meet its buy-back goal in terms of the number of properties acquired the absence of a formal financial viability assessment made demonstrating value for money difficult. Additionally, a formal buy-back acquisitions policy would strengthen governance arrangements and clarify the approach to buying back properties including the wider non-financial considerations that are taken into account when considering purchasing former Council owned properties.

- Whether with regard to the review of recruitment and retention and the recruitment challenges faced by the Council in being able to attract suitable candidates, an analysis of the skills gap should be undertaken with a view to colleges targeting those areas where there are skills shortages.

The Head of Audit and Risk advised that the Council does have strong partnerships with local and regional colleges and collaborates with them on programmes and schemes to meet the local skills need including within the Council especially in relation to the care workforce. One of the main issues is a lack of candidates applying for roles within the Council. The Head of Audit and Risk confirmed that the Council conducts exit interviews to gain feedback from staff who are leaving.

It was suggested and agreed by the committee that a piece of work be undertaken to examine the benefits that working collaboratively with local and regional colleges has delivered in terms of enabling the Council to meet its recruitment and skills needs and fill vacancies.

- The extent to which the pay differential between the public and private sectors for similar roles is a barrier to recruitment in local authorities and whether the grading structure in the Council needs to be reviewed to enable the Council to attract the right staff.

The committee was advised that the Council's ability to change its pay levels is limited because local government pay scales are agreed and set nationally in England and Wales by the NJC. The pay scales comprise of different grades and scale points which correspond to a specific salary. Additionally, the nationally agreed Job Evaluation scheme whereby each post is systematically assessed and scored by an external assessor also means that there is limited scope to change pay levels to compete with the private sector.

- With regard to the investigation of a complaint against Property Services, whether as part of the investigation process, a complainant should be required to meet with Officers to provide further information and/or help with inquiries if invited to do so and whether attendance should be a condition of proceeding with the investigation.

The committee was advised that the complainant in this instance had approached and spoken with the Portfolio Member for Highways Waste and Property and that Internal Audit is obliged to investigate if requested to do so by the Portfolio Member and by the Monitoring Officer.

In response to a question whether the Council is planning to respond to the current consultation on the addendum to CIPFA and SOLACE's guidance on reviewing the system of internal control and production of the Annual Governance Statement the Head of Audit and Risk confirmed that the consultation had been forwarded to the Corporate Planning, Performance and Programme Manager who is responsible for compiling the Annual Governance Statement.

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

Additional action – to request the Council to consider examining the benefits that working collaboratively with local and regional colleges has delivered in terms of enabling the Council to meet its recruitment and skills needs and fill vacancies.

5. COUNTER FRAUD, BRIBERY AND CORRUPTION STRATEGY 2025-2028

The report of the Head of Audit and Risk incorporating the Counter Fraud, Bribery and Corruption Strategy for 2025 to 2028 was presented for the committee's consideration. The report set out the activity that Internal Audit will carry out during 2025 to 2028 to minimise the risk of fraud, bribery and corruption occurring within and against the Council.

The Head of Audit and Risk set the context to the strategy highlighting the scale of fraud and corruption in the public and private sectors and the significant cost of fraudulent activity to the public purse which is money that could otherwise be spent on services. She summarised the five pillars of activity/strategic objectives on which the Counter Fraud, Bribery and Corruption Strategy is based and on which the Council will concentrate its efforts which are "govern," "acknowledge," "prevent," "pursue" and "protect." These strategic objectives have been used to develop a delivery plan of counter fraud activity as detailed in Appendix 2 to

the report. Progress on delivering the activities in the plan will be provided to the committee annually with the Counter Fraud, Bribery and Corruption Annual Report.

In response to a question about the development of a counter fraud working group to help identify fraud risk within the Council, the Head of Audit and Risk confirmed that the group is key to identifying and understanding fraud risk across the Council and the support of the Leadership Team for the establishment of this group will be sought with a view to the group's being set up this year. The Head of Audit and Risk and the Director of Function (Resources)/Section 151 Officer further explained ongoing activity within the Council to counter fraud and highlighted particular success in reducing income lost through Council Tax fraud which is an area into which the Council is keen to put additional resource, funding permitting, as well as the value of the National Fraud Initiative in identifying potential fraud or error in claims and transactions. Responding to a further question about how the Council can obtain a realistic understanding of the income lost, the Section 151 Officer clarified that the only current measure is the additional income secured by the officer within the income and revenues team tasked with identifying Council Tax fraud and anomalies.

It was suggested that implementing AI technology in future to analyse data and detect patterns of fraudulent activity may also be helpful in increasing the Council's effectiveness in countering fraud.

Having reviewed the strategy, the Governance and Audit Committee resolved –

- **To note the activity that will be undertaken during 2025-28 to minimise the risk of fraud.**
- **To confirm that the committee takes assurance that the strategy meets with recommended practice, governance standards and legislation.**

6. TREASURY MANAGEMENT MID-YEAR REVIEW 2024/25

The report of the Director of Function (Resources)/Section 151 Officer providing an update on the treasury management position as at 30 September 2024 was presented for the committee's consideration.

The Director of Function (Resources)/Section 151 Officer confirmed that the Council's Treasury Management position has remained stable and that the Council has adhered to the prudential indicators set in the Treasury Management Strategy Statement for 2024/25. The Council did not enter into any new external borrowing in the period in order to save on interest payable and it has continued to maintain its strategy of using internal borrowing to fund capital expenditure. However, as cash reserves are utilised, the amount of surplus cash reduces thereby reducing the sums available to invest and the level of internal borrowing that can be supported which means that additional external borrowing is likely to be required in future to fund the capital programme. Investment returns to 30 September 2024 have been positive with estimated interest receivable for the full year on the investments active in the period forecast to be £1.322m. Investment performance for the six months to 30 September 2024 is summarised in Table 4 of the report. The Council's capital position is set out in Table 5 of the report and shows that the capital budget is expected to underspend by £6.550m for the year. Projects that are underspent and the funding which supports them will be carried forward into 2025/26.

In reviewing the report, the committee raised the following matters –

- The reasons why a loan dating back to 1969 is still payable and whether it would be more advantageous to settle the loan.

- The income/savings which the installation of solar panels on Council buildings using Salix loan funding is expected to generate once the loans have been fully repaid.

The Director of Function (Resources)/Section 15 Officer advised that the Council does take out long-term loans for various reasons including for infrastructure projects such as new schools and the loan from 1969 may have been for such a purpose. While the loans which the Council has taken out are regularly reviewed early settlement of PWLB loans comes with an early repayment charge which can be higher than any saving made. If the Council does not have the surplus cash to pay off the loan, then it would have to borrow to do so which may be at a higher rate than the original loan. He further advised that as part of meeting the qualifying criteria for a Salix loan, projects have to be supported by a business case which shows the expected saving/income to be made over a period of 10 years or less and that the information with regard to the solar panel projects although not immediately to hand, is available.

The Chair also requested that the format of the treasury management reports be amended to correspond with the Governance and Audit Committee report template and that where feasible the supporting appendices be reduced.

The Director of Function (Resources)/Section 151 Officer clarified that as the treasury management reports are also submitted subsequently to the Executive, for ease of reporting and because of the timescale the Executive template has been used. Quarterly treasury management update reports are also now produced the review of which has been delegated by the Executive to the Portfolio Member for Finance. The quarterly report has been shortened and could be used as a basis for reporting to this committee. The Section 151 Officer suggested that he forward a copy of the Treasury Management update report for Quarter 1 2024/25 to the Chair to see whether its format better meets the needs of this committee.

It was resolved to note the report, the treasury activity, and the prudential indicators as at 30 September 2024 and to forward the report to the Executive without further comment.

Additional actions –

- **The committee to be provided with information about the income/savings which the installation of solar panels on Council buildings using Salix funding is projected to generate.**
- **To ask the Director of Function (Resources)/Section 151 Officer to forward a copy of the Quarter 1 2024/25 Treasury Management update report to the Chair for a review of its format.**

7. TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26

The report of the Director of Function (Resources)/Section 151 Officer incorporating the Treasury Management Strategy Statement for 2025/26 was presented for the committee's consideration. The Council is required to produce and publish an annual Treasury Management Strategy Statement (TMSS) before the start of each financial year. The TMSS has been prepared in accordance with the requirements of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice.

The Director of Function (Resources) provided an overview of the strategy confirming that for 2025/26 the Council proposes to maintain its prudent approach to borrowing making use of internal borrowing where cash balances allow to reduce costs. However, it is envisaged that as reserves continue to be used to fund the revenue budget and the Housing Revenue

Account is used to fund capital expenditure, the Council's cash balances will reduce significantly and an increased level of external borrowing will have to be undertaken to fund the capital programme. If the need to borrow arises the Council will look to do so initially on a short term basis as this is currently more cost effective with interest rates still relatively high and to fill a gap ensuring that the Council does not accumulate too much debt at any one time and that repayment is spread out. The use of reserves as well as internal borrowing means that there is less cash to invest and so a conservative approach will be taken and investments in banks or building societies will only be placed in highly secure banks and building societies with high credit ratings. Loans to local authorities remain an option and will be considered after due diligence checks have been conducted. The Council's investment priorities continue to be security first, portfolio liquidity second followed by yield (return). The Section 151 Officer referred to the proposed Prudential Indicators for 2025/26 as set out in Appendix 10 to the strategy; these define the limits for the Council's treasury management activities during the year to ensure they remain prudent and sustainable.

The committee raised no issues on the proposed Treasury Management Strategy Statement for 2025/26 noting that it represents a continuation of the consistent and prudent approach to treasury management activity of previous years.

Following review, it was resolved to note the Treasury Management Strategy Statement for 2025/26 and to forward the report to the Executive without further comment.

8. EXTERNAL AUDIT: FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

The reports of Audit Wales regarding the financial sustainability of local government in Wales were presented for the committee's consideration. A national report which assessed the financial sustainability of the councils in Wales collectively was presented along with a local report which focused on the Isle of Anglesey County Council. The Audit Wales review examined the strategies to support councils' long-term financial sustainability, councils' understanding of their financial position and councils' reporting arrangements to support regular oversight of their financial sustainability.

Mr Alan Hughes, Performance Audit Lead for Audit Wales reported on the key messages from the national review which found that there are significant risks to the sustainability of local government finances which are likely to increase over the medium term without action to mitigate them although the pressure on local government funding has affected councils and services differently. The review highlighted the need for councils to develop more robust long term financial plans to address future funding gaps and to ensure financial sustainability and to adopt longer term transformation strategies to deal with the financial challenges they face. The review of the Isle of Anglesey County Council specifically concluded that the Council has good arrangements to respond to financial challenges in the short to medium term but has not formalised the planning and oversight of its longer term financial sustainability. The review recommended that the Council develop a longer term financial strategy that supports its understanding of its future financial position and informs its transformation and prioritisation of services.

The Director of Function (Resources)/Section 151 Officer advised that the one year funding settlement provided by Welsh Government as well as rising costs and increasing demand which are difficult to forecast and which are beyond the Council's control means that longer term planning and strategic use of reserves is a challenge. Councils have raised concerns about the timing of the funding settlement as well as the short term nature of the settlement and it is hoped that Welsh Government will respond by providing in future an indication of funding over multiple years rather than for one year at a time to enable the Council to plan for the longer term. The Council has used its reserves to balance the budget for the past two

years as a way of avoiding deep cuts in services that may prove unnecessary if the financial landscape improves whilst also ensuring that it retains sufficient reserves to be able to respond to challenges were the financial situation to deteriorate. The Section 151 Officer confirmed that the Council is developing a longer term financial strategy subject to Welsh Government providing information about the funding outlook for the next few years.

Points of discussion by the committee were as follows –

- The committee acknowledged that planning for the long-term in the current financial climate is challenging for the Council especially given there is no certainty about funding beyond the immediate year. The expectation that the Council develop a longer term funding strategy spanning more than two to three years was felt by members to be unrealistic until or unless Welsh Government can provide assurances regarding future funding and multi-year settlements.
- The committee also acknowledged that despite the challenges, the Council can make some inroads into planning for the long term by exploring different ways of delivering services more cost-effectively, using demographic data to make informed decisions, collaborating with other councils and organisations to share resources and expertise, and using technology to reduce costs.
- The committee recognised the economic and investment opportunities that may arise from the Anglesey Freeport and potential development of Wylfa which could mitigate the financial challenges facing the Council in future.
- The committee sought clarification of how Audit Wales proposes the Council uses its reserves strategically to plan for the longer term in the current circumstances.

Mr Alan Hughes, Audit Wales advised that while reserves can be used to meet a funding shortfall they can also be used to support long-term transformation projects to improve the efficiency and sustainability of services. Within the scope of the review the assessment of the twenty-two councils in Wales showed that councils are at different stages of adapting to the financial challenges they face with some more advanced than others. While it is acknowledged that planning for the long-term is challenging and that it is understandable that councils would want to try to avoid cutting services in the hope of better settlements to come, there are risks in not taking timely action including the depletion of reserves to a critical point. Councils face a difficult balancing act in continuing to provide services at the current level while managing their financial sustainability.

The Director of Function (Resources)/Section 15 Officer advised that reserves will only take the Council so far in seeking to transform services and without the provision of increased capital funding by Welsh Government, which is not covered by the Audit Wales review, the Council is limited in what it can do to improve its physical assets and consequently, service delivery. The Section 151 Officer gave examples of how the Council has used the capital resources available to it to enhance services and improve efficiency through the development of extra care housing for older people and the use of technology within that provision to reduce costs and building new modern schools to replace a number of smaller schools thereby reducing the schools estate and associated maintenance costs. Increased capital funding would enable the Council to further invest in upgrading its buildings e.g. leisure centres to improve efficiency and to better serve the island's residents and communities. If the opportunities which may arise from the Anglesey Freeport and the development of the Wylfa site are realised, it could improve the Council's financial position especially from a capital funding perspective.

In further discussion it was confirmed that the Council along with other councils in Wales through the WLGA have been lobbying Welsh Government for some time for adequate funding for local government including improved capital funding and for better funding

arrangements. Councillor Robin Williams, Deputy Leader and Portfolio Member for Finance and Housing highlighted that for much of his time as holder of the Finance portfolio the Council had been firefighting immediate pressures leaving little scope for long-term planning.

Having considered the reports, it was resolved to confirm that the Governance and Audit Committee takes assurance from the Council's response that it understands its financial position and is developing a longer-term financial strategy, subject to a longer term indication of future funding from Welsh Government.

(Councillor Aled M. Jones abstained from voting)

9. REVIEW OF FORWARD WORK PROGRAMME

The report of the Head of Audit and Risk incorporating the Committee's updated Forward Work Programme and Training Programme to the 8 May 2025 was presented for the Committee's consideration.

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

**Mr Dilwyn Evans
(Chair)**