AUDIT COMMITTEE 14-02-13

Present: Councillor Trevor Edwards (Chairman)
Councillor John Pughe Roberts (Vice-chairman)

Councillors: Anwen Davies, Eddie Dogan, Aled Ll. Evans, Aeron Jones, Charles W. Jones, Sion W. Jones, Dafydd Meurig, Dilwyn Morgan, Michael Sol Owen, Angela Russell, Gethin G. Williams, R.J. Wright and Peredur Jenkins (Cabinet Member for Resources)

Lay Member: Mr John Pollard

Also Present: Dafydd Edwards (Head of Finance Department), Dilwyn Williams (Corporate Director), Dewi Morgan (Senior Manager Audit and Risk Service), Caroline Roberts (Investment Manager), Janet Roberts (Senior Manager – Delivery and Support), Amanda Hughes (Local Manager – Wales Audit Office) and Gwyn Parry Williams (Committee Officer).

Apologies: Councillors Huw Edwards, Tom Ellis, Selwyn Griffiths, John B. Hughes.

1. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any members present.

2. 2013/14 BUDGET AND 2013/14 – 2016/17 FINANCIAL STRATEGY

The Cabinet Member for Resources set out the background and context of the report.

He noted that it was expected that on19 February 2013, the Cabinet would propose a budget for the Council which would include a recommendation regarding the increase in the Council Tax for 2013/14. Bearing in mind that it was good practice to set the budget in the context of the longer-term position, it was also intended to propose a financial strategy for the lifetime of this Council (2013/14 – 2016/17). This continued the practice that had existed for some years and which had been praised by the Wales Audit Office. The Cabinet had already given consideration to what was proposed and the Cabinet Member drew the attention of committee members to those initial ideas. Prior to the Cabinet coming to a final conclusion, an opportunity had being given to this committee to consider whether the draft Financial Strategy addressed the risks which the Council faced between 2013/14 and 2016/17 so that the Cabinet could consider any observations it may have when drawing-up the final proposals.

Dilwyn Williams, the Corporate Director reported that the majority of members had taken advantage of the opportunity to attend sessions held recently to explain the strategy. He noted that the duty of the Audit Committee was to consider the strategy in light of financial propriety and to examine the risks specifically. He drew members' attention to the main risks. He noted that one of the principal risks to the Council was salary inflation. At one time there was a risk with the new Council Tax since until recently it was expected that 8,000 residents in Gwynedd, who were not paying any Council Tax (as they were in receipt of full Council Tax Benefits) would have to pay 10% from April onwards. The collection rate was adjusted down but following this, the Welsh Government changed its mind which permitted those in receipt of 100% Council Tax Benefits to continue to receive full relief. This was good news for Gwynedd residents and it meant that there was spare funding because it was expected that the tax collection rate figure would be higher than planned. He referred to reducing income budgets and how these would be reflected in the budget when appropriate. He drew attention to the bids submitted by services to address problems to safeguard continuity of service. He noted that £1.2m would be allocated towards those bids. He referred to the contingency budget of £1.6m which already existed since the preparation of the 2012/13 budget. He was of the opinion that this Council was one of the most prudent because of the long-term view taken. He noted that the Cabinet was of the opinion that the Council Tax should be increased by 3.5% for 2013/14 in order to reduce the level of cuts for 2015/16 and 2016/17. He drew attention to the Equality Impact Assessment which analysed the risk that the financial strategy would have a disproportionate effect on some sections of society.

In response to a question by a member regarding the substantial risks and the contingency budget of £1.6m, the Corporate Director informed the committee that 1% of salaries equalled £1.3m. Not only the £1.6m which had been earmarked for risks but also the reserve balances.

A member asked for an explanation of central education. In response the Corporate Director informed the committee that the schools' budgets were managed by individual schools but the central education budget was not devolved to schools as it was for matters such as transport.

A member drew attention to the fact that there was a need to create savings of £32m over the next three years and he asked whether an increase of 3.5% in the council tax would also be operational for the next four years. In response, the Corporate Director confirmed that this was what was proposed. He noted that inflation alone in next year's budget would be 1.4% and the Welsh Government grant would be 1%. The grant, which was 80% of the expenditure, was increasing less than inflation. Should more services be needed to be provided for the elderly, learning disabilities etc. the actual expenditure increase would be 2.2%. In light of this, either the services could be cut back or council tax could be increased and the Cabinet was of the opinion that the correct balance would be an increase of 3.5% per annum but then cuts of £25m would have to be made. Following holding the sessions on the financial strategy, the general feeling was that this was the correct balance for the Council.

A member was of the opinion that an increase of 3.5% in the council tax was too high and it should be reduced to 3%. In response, the Cabinet Member for Resources informed the committee that there was an attempt to safeguard the services offered to Gwynedd residents by setting this strategy. If an increase of 3.5% was not agreed, then there would be a need to cut back more on different services in the Council.

A member referred to a report published recently by the Welsh Government asking for Councils to use the balances rather than increasing council tax. In response, the Corporate Director informed the committee that the report did not recommend this but rather it drew attention to the various balances and specific funds that Welsh councils had.

A member noted that a number of community / town councils had substantial balances and with this in view there was an opportunity for them not to increase the council tax so much. He enquired whether this Council would provide more guidance to town/community councils regarding the use of the balances. In response, the Corporate Director informed the committee that this Council had no right to interfere with town/community council matters as they were two completely separate statutory bodies. As the precept percentage of town/community councils was so small compared with the precept of this Council, it was the tax of this Council which had the greatest influence on council tax.

A member enquired that if an increase of 3.5% in the council tax was accepted, would that be sufficient to allow the Council to retain existing services or would cuts have to be made also. In response, the Corporate Director informed the committee that the expenditure increase requirements for 2013/14 were £17m and a grant of £13m would be received. Should the council tax raise £1.7m, namely a 3.5% increase, then the Council would be required to find £1.9m in savings. There would be an attempt not to have an effect on residents by offering services in an alternative way.

A member referred to the fact that there was no reference in the strategy to methods of raising income. In response, the Strategic Director drew attention to a reference in the financial strategy which noted an income increase of £0.1m in 2013/14. He noted that the Head of Finance Department had prepared a report for all Welsh councils to see whether there were opportunities for councils to increase their incomes.

The Head of Finance Department noted that this Council had been pricing at current rates over the years and the front-line services, in consultation with their accountants, had raised the fees where appropriate. He referred to a custom in Gwynedd which added inflation to the target income and then it was the responsibility of the service to increase fees or funding in the budget would be lost.

In response to a question by a member regarding school balances, the Corporate Director informed the committee that the Council had not until recently been able to interfere in school balances. School governing bodies were separate from the Council and it was a matter for them to decide how to deal with their budgets. Recently, the Welsh Government had adopted legislation which allowed councils to interfere and even take balances away from schools if it was found that they were higher than a certain point.He referred to the fact that the Schools Budget Forum, which had been established to discuss the financial issues in schools, was examining the situation of schools with balances over a certain figure. In addition, the Head of Education Department received directions from the Forum to examine whether it would be possible to look at changing the protection formula to ensure that those schools which received protection did not retain large balances.

A member noted that the Westminster Government had allocated funding for English councils which were not increasing council tax and the member asked what the situation was in Wales. In response, the Corporate Director noted that the Westminster Government had informed councils in England that they would be compensated slightly if they decided not to increase the council tax but this could cause problems in the future when the assistance ended. This would not be implemented by the Welsh Government.

RESOLVED to accept that the Financial Strategy addresses the relevant risks and that due consideration is given to the risks faced over the coming four year period.

3. REVENUE AND CAPITAL BIDS

Submitted – the report of the Head of Strategic and Improvement Department on revenue and capital bids.

The Senior Manager – Delivery and Support reported that the Council, as part of the key process of recognising and agreeing the Council's priorities and budget for 2013/14, had invited revenue and capital bids. In accordance with the business planning framework, the bids had been identified by the services whilst considering their priorities and annual service plans. Once again this year, in light of the terribly challenging financial situation, bids were only invited under the essential category, namely unavoidable expenditure to keep a service at its current level or to respond to significant new legislative requirements that cannot be met by the Department. It was recommended that only two bids for two new posts should be approved.

It was noted that bids had been received that did not accord with the definition of essential, since they were of a developmental nature. The relevant developmental bids would be considered later within the arrangements for developing the Council's new Strategic Plan and the recommendations for funding those recommendations would be submitted to the Council in May 2013.

In relation to the prioritisation process, revenue bids had been received amounting to £2,410,373 (permanent) and £714,200 (one-off), along with capital bids of £1,003,600. She noted that the amounts recommended to be funded were as follwos:
a) Permanent Revenue Bids - £1,265,980
b) One-off Revenue Bids - £394,250
c) Capital Bids - £435,000

She provided details of the main stages of the process for prioritising the bids.

A member noted that there was a more administrative element rather than a service element to the bids noted in the report and he was of the opinion that there was a need to be more adventurous regarding them. In response, the officer informed the committee that only two new posts would be created and these would be in the Social Services Department – one in the field of children and the other in the field of disabled children. The two posts responded to the increase in demand and there would be a risk to those services should these two posts not be created.

A member drew attention to the fact that a bid had been submitted of £59,814 for the post of Data Officer in the Education Department. He was of the opinion that this amount was rather high considering the managerial level within the Council. In response, the officer informed the committee that the bid for this post had not been approved.

In response to a question by a member regarding the bid to employ two officers to provide advice and guidance for ratepayers who would have to pay council tax for the first time in order to reduce the need to prosecute for very small amounts, the Head of Finance Department informed the committee that the bid had been submitted some months ago before the decision of the Minister in January 2013 to fund the deficit in the Council Tax Support Scheme budget. Following a late decision by the Minister, the Finance Department would not receive the additional budget in 2013/14 but the permanent bid would remain on the list and it was expected to be needed by 2014/15 and beyond.

In relation to the bid to upgrade the Council's software by arranging to lease Microsoft software, a member enquired whether it would be possible to have different information technology. In response, the officer informed the committee that this became effective in April 2013 as the old contract had expired and work would be undertaken across north Wales to ascertain what the best package would be for councils and what would be most cost-effective.

Dilwyn Williams, the Corporate Director noted that the assessment work for ascertaining whether it was value for money had been undertaken and it had been found that this was the best model.

RESOLVED to recommend to the Cabinet on 19 February 2013:-
a) To approve the revenue bids considered essential as they address the risk of lack of continuity of service and also to accept that the bids not recommended to be funded must not be funded.
(b) To approve the capital bids and recommendations outlined in the report of the Head of Strategic and Improvement Department.

4. REGISTER OF EXTERNAL AUDIT REPORTS

Submitted - the report of the Head of Strategic and Improvement Department on the register of external audit reports.

The Senior Manager – Delivery and Support noted that the requirements of the Local Government (Wales) Measure was that every external audit report was brought before this committee and for the committee to approve the benefits of implementing the recommendations noted by the external auditors. This would enable the committee to keep an overview of the implementation of the recommendations of the reports and provide the Cabinet with a brief summary. She provided details of examples from external audit reports.

She noted that reports could be exclusively relevant to Gwynedd or could be national reports that included a reference to Gwynedd Council. In addition to this, the Audit Committee had requested the Strategic and Improvement Department to maintain a corporate register of external audit reports and to submit this register to this committee every six months. She referred to the Register of External Audit Reports on the Council's services since 2009 which were a combination of annual reports, occasional reports and national reports where reference had been made to Gwynedd Council. No additional reports were to be considered at present but she drew attention to the 'live' audits highlighted in yellow in the appendix to the report as they would be considered in due course.

RESOLVED to note the content of the Register of External Audit Reports and that those highlighted in yellow in the appendix to the report will be considered in due course.

5 . TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY FOR 2013/14

The Head of Finance Department referred to the informal briefing meeting held on 29 January 2013 with Arlingclose, the Council's treasury consultants, to discuss Treasury Management. Members were reminded of the discussion with the consultants regarding the CIPFA Code of Practice on Treasury Management along with their functions and responsibilities regarding Treasury Management activity. It was noted that the consultants had highlighted various current risks to the treasury along with credit risks, counterparty risks, interest rate risks and inflation rate risks were discussed in detail. Also, members were reminded of discussions regarding the Council's debt portfolio, the net borrowing position and the prudential indicators.

The Head of Finance Department submitted his report formally asking the committee to scrutinise the policies in relation to the Council's borrowing and investment along with relevant restrictions on delegated powers. The committee was also asked to refer the Policy Statement and Strategies for 2013/14 and changes to the Treasury Management Schedules to the full Council for their adoption.

The Investment Manager noted that the consultants had reconsidered the type of specified and non-specified investment that could be invested in. In particular, organisations had been added that did not satisfy the criteria of specified investment that had been followed for years. This meant that any body in which investments were made would be given a comprehensive credit assessment and this would be assessed by the consultants to provide advice on whether it would be worth investing in them.

In response to a question from a member regarding the LOBO borrowing, the Head of Finance Department informed the committee that the borrower had a right for a call in every five years but this was unlikely at the moment because of the interest rate levels and the relevant forecasts.

RESOLVED to recommend that the full Council on 28 February 2013 adopts the Treasury Management Strategy Statement, the Minimum Revenue Provision Strategy and the Annual Investment Strategy for 2013/14 (Appendix A), the Prudential Indicators (Appendix B) and the Treasury Management Schedules (Appendix C).

6. INTERNAL AUDIT PLAN 2012/13

Submitted – the report of the Senior Manager Audit and Risk Service, providing an update of the current situation in terms of completing the 2012/13 internal audit plan.

He provided details of the situation as at 1 February 2013 along with the time spent on each audit to date. The following table was highlighted, which revealed the current status of the work in the operational plan -

Audit Status	**Number**
Planned	9
Working Papers Created	3
Field work started	18
Field Work Ended	1
Awaiting Review	2
Draft Report	2
Final Report	63
Closed	1
Total	**99**
Cancelled	11

He informed the committee that the 2012/13 performance target was to have 95% of the audits in the plan to be either closed or with the final report released by 31 March 2013. He noted that this continued to be challenging but that 88% of the audits (87 out of 99) had either been completed or at least the field work had commenced.

In relation to amending the plan, the officer noted that there were no further amendments in addition to those reported upon already to the committee at previous meetings.

In response to an enquiry from a member regarding the "Thin Client" audit, the Senior Manager Audit and Risk Service informed the committee that this was a computerised system that had been operational for about two years. An executive summary of the audit would be submitted to the next committee meeting.

A member enquired whether staff CRB checks had been completed. In response, the Senior Manager Audit and Risk Service notified the committee that much work had been undertaken in the Education Department. He noted that the initial findings of the audit were that too many data bases were being kept in different locations and there was a need to deal better with the data.

RESOLVED to note the contents of the report as an update on progress against the 2012/13 audit plan.

7. DRAFT INTERNAL AUDIT PLAN 2013/14

Submitted – the report of the Senior Manager Audit and Risk Service providing details of the draft plan of the Internal Audit Section's work for the 2013/14 financial year in order for members to voice their opinions on it and approve it, subject to further discussions with officers.

He noted that the 2012-2015 Internal Audit Strategy had been adopted by the Audit Committee in February 2012. This strategy formed the basis of Internal Audit work for the period in question and he explained how the Internal Audit work would offer assurance on the internal controls that were in place within

Gwynedd Council. The strategy also explained how the work of Internal Audit would be planned and prepared during the period in question and explained how it would assist the Council to improve in the interests of the citizen. Also, it outlined the resources expected to be available to it and stated the projections in relation to collaborating with others.

On the basis of analysing the available staffing resources, including the consideration of reasonable budgets for ‘unproductive’ work such as annual leave, illness, management and meetings, it had been anticipated that a resource requirement of approximately 1,680 audit days would be available to complete the audit plan. This was what remained after considering provisions for advising on controls and propriety, responsive work and follow-up work.

He noted that the strategy provided a detailed description of the steps that had been followed in order to create an operational audit plan for 2013/14. As a first step, consideration was given to matters which had to be included in the plan annually and then consideration would be given to other audits which needed to be planned for. A systematic procedure would be used to undertake an audit needs assessment and identify fields to be audited.

It was intended to hold discussions with the relevant heads of department and managers before commencing these audits and their suggestions would be incorporated in the final plan which would be submitted at the next committee meeting.

RESOLVED to approve the draft Audit Plan for the period 1 April 2013 to 31 March 2014, subject to minor amendments to be undertaken by the Senior Manager Audit and Risk Service, in consultation with the Head of Finance Department, following further discussions with officers.

The meeting commenced at 10.30am and concluded at 12.10pm