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## AUDIT AND GOVERNANCE COMMITTEE 8/2/18

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**Present:** Councillor R Medwyn Hughes (Chairman)  
Councillor John Brynmor Hughes (Vice-chair)

**Councillors:** Alwyn Gruffydd, Aled Wyn Jones, Berwyn Parry Jones, Huw G. Wyn Jones, Dewi Wyn Roberts, John Pughe Roberts, Paul Rowlinson, Angela Russell, Cemlyn Williams and Gethin Glyn Williams.

**Lay Member:** Sharon Warnes

**Others invited:** Peredur Jenkins (Cabinet Member for Finance)

**Also in Attendance:** Dafydd Edwards (Head of Finance Department), Dewi Morgan (Senior Revenue and Risk Manager), Luned Fôn Jones (Audit Manager), Ffion Madog Evans (Senior Finance Manager - for Items 5-8 on the agenda), Caroline Roberts (Investment Manager - for Item 9 on the agenda) and Bethan Adams (Member Support Officer).

**Apologies:** Councillors Aled Ll. Evans and Charles Wyn Jones.

### 1. DECLARATION OF PERSONAL INTEREST

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

### 2. MINUTES

The Chair signed the minutes of the previous meeting of this Committee, held on 30 November 2017, as a true record.

### 3. REVENUE BUDGET 2017/18 – THIRD QUARTER REVIEW

Submitted - the report of the Head of Finance Department noting that in accordance with the requirements of the Local Government (Wales) Measure 2011, the Audit and Governance Committee was expected to scrutinise some financial matters including budget monitoring reports, where appropriate.

The Cabinet Member for Finance set out the context and elaborated on the content of the report submitted to Cabinet on 16 January 2018.

He noted that, overall, the third quarter review of the budgets reflected acceptable financial control by a number of the Council's departments, however, a combination of specific actions were recommended to the Education, Adults, Health and Well-being, Children and Supporting Families and Highways and Municipal Departments to ensure control of their budgets by 31 March 2018.

He drew attention to the Cabinet's decision:

"To accept the report on the third quarter review of the Revenue Budget (as at 31 December 2017) and consider the latest financial position of each department/service's budget, and ask the Cabinet Members and the relevant heads of department to take appropriate steps on matters under their leadership/management.

It was resolved to harvest (£270k) from the underspend on Council Tax Reduction, (12k) one-off underspend on bids and (£803k) from grants received and favourable conditions on other Council budgets, and transfer them to the Financial Strategy Reserve to assist with unavoidable one-off pressures on the Council's budgets, with an element of it returned to compensate for the possible impact of school taxis overspend at year end."

During the ensuing discussion, officers and the Cabinet Member responded to members' enquiries as follows:

- In the context of gross expenditure of over £5m, an overspend of £198,000 under the 'Catering and Cleaning' heading in the Education Department was not a substantial sum. The Council had resolved to find savings by raising the price of school meals to increase income, and it was reflected in the figures that the income was less than what had been projected rather than there being an overspend;
- In terms of the overspend under the 'Transport' heading in the Education Department:
  - Discussions had been held with the Education Department and the Environment Department in terms of alternative solutions rather than using taxis to transport pupils to schools. As the overspend was unavoidable, bridging finance would be transferred to the Education Department at the end of the financial year;
  - There was a deficit in the income of post-16 transport ticket sales, as a consequence of the ticket costs increases, some pupils/students had made alternative arrangements. A member's observation as to whether there was a link between the shortfall and a change to the Council's post-16 Transport policy to an uniform ticket rate, would be sent to the Head of Education Department;
- The member would have to contact the Head of Highways and Municipal Department to obtain confirmation on where the recycling material was sold. It was explained that there had been a significant drop in the prices of recycling materials;
- In relation to the overspend under the 'Out of County Placements' heading within the Children and Families Department, the Council was seeking local solutions but that some children with more severe needs had been placed in specialist placements. It was a field that all north Wales Councils were overspending on and experts in the field were considering if joint special support could be provided.

**RESOLVED to note the situation and the relevant risks in the context of the Council's budgets and those of its departments.**

#### **4. CAPITAL PROGRAMME 2017/18 – THIRD QUARTER REVIEW**

Submitted - the report of the Head of Finance Department, providing details of the revised programme and the relevant sources of finance.

The Cabinet Member for Finance set out the context and elaborated on the content of the report submitted to the Cabinet on 16 January 2018. It was noted there were firm plans in place to invest approximately £30.6m in 2017/18, with £5.8m of it funded through specific grants. Attention was drawn to the increase of £0.776m in the budget for the three-year capital programme since the second quarter review position.

A member enquired, given that the portion spent in the first nine months of the current financial year accounted for 51%, did they anticipate further slippage in the capital programme? In response, the Cabinet Member for Finance noted that he was confident that the money would be spent in accordance with the capital programme, however should money be carried over to the 2018/19 financial year he was confident that this would not lead to a financial loss for the Council. The Head of Finance Department added that a further grant of £1.8m for highways improvements had been received since the report had been published and the Head of Highways and Municipal Department had arrangements in place to spend the money. He explained that expenditure in the last quarter of the financial year did usually tend to be relatively heavy.

In response to an observation by a member about the expenditure slippage under the heading 'Vehicles Renewals (Highways and Municipal Department)' to the 2018/19 financial year, the Head of Finance Department noted that historically, the Department used to lease vehicles, but following new legislation under the Prudential Code, the Department had invested money in a fund over time and would spend the money when there was a need to renew vehicles.

**RESOLVED to note the situation and the relevant risks in the context of the Council's capital programme.**

## 5. SAVINGS OVERVIEW: PROGRESS REPORT ON REALISING SAVINGS SCHEMES

Submitted - the report of the Head of Finance Department which reported on the latest situation on realising the saving schemes.

The Cabinet Member for Finance set out the context and elaborated on the content of the report submitted to Cabinet on 16 January 2018. He noted that 103 of 122 of the 2017/18 savings schemes had been realised in full or in part and seven were on track to be delivered on time. He highlighted that the slippage in realising the 2017/18 savings schemes included the significant challenge of realising on a number of schemes within the Adults, Health and Well-being Department and the Children and Families Department.

He notified the Committee that the Cabinet Member for Adults, Health and Well-being had confirmed to the Cabinet meeting his intention to submit a report on amalgamating the Department's savings scheme to the Cabinet in due course. In relation to the challenge of realising the 'Improving Benefits by Transforming Children Services' saving scheme within the Children and Families Department, the Cabinet Member for Children was currently addressing the matter. He noted that funding child care services was a matter of concern for many local authorities, but the Cabinet Member was urged to make a decision soon on the way forward with the transformation plan.

The Cabinet Member for Finance noted there was positive progress towards realising the 2015/16 - 2017/18 saving schemes.

A member referred to the Cabinet's decision on 13 December 2016, that the secondary schools proportion of savings within the schools saving scheme would be bridged by the Council for two years. He asked how sustainable this was. In response, the Head of Finance Department noted that the Council would be facing difficult decisions by this time next year, the next item on the agenda noted that it was recommended for the Cabinet to recommend to the Full Council that that the budget for 2018/19 should be balanced by increasing Council Tax and achieving the planned savings, with no further savings required. Furthermore, he explained that Welsh Government was transferring grants such as the Schools Improvement Grant into the general settlement the Council received from the Government, however there was no increase in the settlement. Therefore, reducing specific grants meant a significant reduction in school funding, however there would be no cuts in Gwynedd in the 2018/19 financial year.

In response to an observation by a member regarding which plan within the Highways and Municipal Department was continuing to cause concern, the Head of Finance Department noted that the reference was to the 'Reduction in the Frequency of Municipal Grass Cutting and Collection' scheme and that a report would be submitted to the Communities Scrutiny Committee in relation to the scheme. In response to a follow-up question, the Head of Finance Department noted that the Highways and Municipal Department had carried out grass cuts more often than what had been planned following requests from Councillors.

**RESOLVED to note the situation and the relevant risks in the context of the savings overview.**

## 6. 2018/19 BUDGET AND 2018/19 - 2020/21 FINANCIAL STRATEGY

Submitted – the report of the Cabinet Member for Finance on the Council Budget for 2018/19, providing an opportunity for the Audit and Governance Committee to scrutinise the information in terms of its financial propriety prior to the report being submitted to the Cabinet on 13 February.

The Cabinet Member for Finance set out the background and context of the report. He referred to the four budget seminars held during January/February to obtain members' input, noting that the discussions had been detailed, sensible and constructive.

The Head of Finance Department elaborated on the content of the report and noted that the Council would receive a reduction of approximately £2m from the Welsh Government in its 2019/20 settlement, and was also facing higher employment costs of approximately £6m as a result of a national agreement by the 2019/20 financial year. There would also be general inflation costs and increasing demands in care services. These factors indicated that 2019/20 was going to be challenging. He noted that there was a genuine need for the Welsh Local Government Association to press on Welsh Government to improve the grant settlement and reduce the financial pressure on local government.

He noted that in line with the midterm three year financial plan, there was a need to ensure that the Council's arrangements were flexible enough to be able to realise up to £20m savings over three years from 2018/19 - 2020/21. It was recommended that the Cabinet should continue with the current savings strategy, and the Cabinet should decide on different targets for the Council departments, the heads of department submitting possible savings to meet those targets and the scrutiny committees challenging the schemes on behalf of the people of Gwynedd, before holding a public consultation on options to be implemented every year.

Attention was drawn to Appendix 1 of the report submitted to the Cabinet, which detailed the unavoidable bids to respond to the pressures on services. He referred to the equality impact assessment, the well-being assessment in terms of the requirements of the Well-being of Future Generations (Wales) Act 2015 along with an assessment of the risk estimations.

Members were given an opportunity to ask questions and make observations. During the discussion, the following main points were highlighted:-

- Would central government change its stance as a result of the financial problems already witnessed in some local councils?
- Welsh Government provided too much funding to the Health Service when compared with local councils. The situation was not sustainable;
- The financial position was beyond the Council's control with an agenda to reorganise local government to force councils to comply;
- By how much would the Council Tax need to be increased to 'stand still' over the next two years?
- In terms of risks, accept that interest rates were likely to increase with inflation, however, when the Bank of England increases interest rates, this was often not reflected immediately by the banks, it was likely that there would be a gap. What was meant by budgeting additional costs for the Council as a result of an increase in inflation by using reserve funds as required?
- The impact of the United Kingdom leaving the European Union was not yet known and it would inevitably have an impact on the Council's financial position.

The questions and observations were responded to as follows:-

- It was hoped to persuade Welsh Government in relation to an increase in the grant settlement for the 2019/20 financial year. The flexibility within the Welsh Government budget meant that the Government could be more generous;

- Without making savings in the next two years the Council Tax would have to be increased by approximately 25% in the next two years to find £14m;
- Reference was made specifically to the reserve budget in terms of budgeting the additional cost to the Council as a result of the rise in inflation. Of the £4.7 million for pay inflation, approximately £4.4 million was to address the inflation, but a reserve of £350k had also been included for teachers, as their national pay agreement would be implemented from September. He noted that should the schools ask for additional funding to accommodate the pay inflation for half a year, they would only consider providing additional funding if individual school balances were less than 5%. It was agreed that this was an example of managing risk and using a sensible approach.

It was noted that the work of the officers of the Finance Department and the Cabinet Member for Finance was appreciated.

**RESOLVED to note and accept the report and the relevant risks, and to recommend that the Cabinet should:**

**(i) recommend that the Council (at its meeting on 1 March 2018):**

1. **Establish a budget of £242,862,930 for 2018/19, to be funded by £175,127,330 of Government Grant and £67,735,600 Council Tax income, with an increase of 4.8%.**
2. **Establish a capital programme of £8.389m in 2018/19 to be funded by sources noted in clause 9.4 of the report.**

**(ii) note the Medium Term Financial Plan in Section B, and adopt the strategy which is in part 32-34 of the Plan.**

**7. TREASURY MANAGEMENT - TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY FOR 2018/19**

Submitted – the report of the Head of Finance Department asking the committee to recommend to the Full Council on 1 March to adopt the Treasury Management Strategy Statement and the Annual Investment Strategy for 2018/19, the Prudential Indicators, the Minimum Revenue Provision Strategy and the merger arrangements with the Pension Fund in terms of investing daily cash flow.

The Head of Finance Department set out the context and elaborated on the content of the report.

Members expressed their appreciation for the briefing meeting held on 24 January, 2018 for Committee members with a specialist consultant from the Arlingclose company, namely the Council's treasury management consultants.

**RESOLVED to recommend to the Full Council on 1 March to adopt the Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 (Appendix A), the Prudential Indicators (Appendix B), the Minimum Revenue Provision Statement (Appendix C) and the merger arrangements with the Pension Fund for the investment of daily cash flow.**

**8. REPORT OF THE CONTROLS IMPROVEMENT WORKING GROUP**

Submitted – the report of the Chairman of the Committee on a meeting of the above-mentioned working group held on 22 January 2018 to consider the 'Health and Safety - Primary Schools' audits along with audits that had received a category C rating, namely -

- a) Disposal of Confidential Waste – the use of Red Sacks and Shredders
- b) Health and Safety - Ysgol Dyffryn Ardudwy

Officers had been invited to attend the meeting to discuss the matters that had arisen from the audits and the work undertaken since the audit reports had been published in order to reinforce the internal controls in question.

In response to an enquiry by a member about the role of Estyn and GwE in relation to school health and safety policies, the Audit Manager noted that schools tended to contact the Education Department to ask for copies of the policy after they received confirmation of an audit by Estyn. She doubted that the health and safety policies would be in place in the event of a random audit. She noted that GwE was more involved with the education aspect.

**RESOLVED to accept the report.**

## **9. INTERNAL AUDIT OUTPUT 18/11/17 - 26/1/18**

Submitted - the report of the Audit Manager outlining the Internal Audit section's work for the period. It was noted that nine reports on audits from the action plan and one grant audit had been completed.

Each individual report was considered and, during the discussion, reference was made to the following matters –

### **Arrangements for Safeguarding Children and Adults - Field Workers' Awareness of the Corporate Policy**

A member noted her concern that although 76% of staff from the sample of 63 were aware that the Council had Safeguarding Children and Vulnerable Adults Policy and Guidelines, some of the responses from staff had indicated that they were not aware of the contents or the background of the policy. She added that there was a need to ensure that staff received instructions in relation to safeguarding arrangements and that a training procedure should be in place.

In response to the member's observations, the Audit Manager noted that the highest awareness of the safeguarding policy was amongst the highway depots staff and that the Highways and Municipal Department had worked hard to raise awareness of the policy and its content.

A member noted that the Care Scrutiny Committee should be asked to consider the matter as it was a high risk. In response, the Senior Manager - Revenue and Risk noted that the matter did not apply to Social Services alone, it was a matter for all Council staff. He explained that the Audit and Governance Committee did not have ownership of any risk but the Committee needed to satisfy itself that arrangements were in place to mitigate the risk. It was noted that the Safeguarding Children and Vulnerable Adults Operational Panel could be asked to notify Council Department representatives of the gaps in awareness of the policy.

The Audit Manager reiterated the above observations and noted that the Safeguarding Children and Vulnerable Adults Operational Panel had given considerable attention to Council staff's awareness of the safeguarding policy. She explained that the Safeguarding Children and Adults Strategic Panel oversaw the Operational Panel.

A member noted that the matter should be referred for discussion by others or it should be discussed at a meeting of the Controls Improvement Working Group as the Committee had identified it as a risk.

A member noted that the audit mostly pointed to the lack of training and the matter could be discussed at the Cabinet Members' performance challenging meetings. In response, the Audit Manager noted that training statistics were discussed at every meeting of the Operational Panel.

The Audit Manager suggested that the Chair of the Operational Panel could be invited to attend a meeting of the Controls Improvement Working Group in the future to provide details on the work programme.

**RESOLVED:**

- (i) to accept the report on the work of Internal Audit for the period of 18 November 2017 to 26 March 2018 and to support the agreed actions that have already been submitted to the managers of the relevant services;**
- (ii) that the Chair of the Safeguarding Children and Vulnerable Adults Operational Panel should attend a meeting of the Controls Improvement Working Group in the future to provide details on the work programme.**

**10. INTERNAL AUDIT PLAN 2017/18**

Submitted - the report of the Audit Manager, providing an update on the current situation in terms of completing the 2017/18 internal audit plan.

It was reported that the Internal Audit Unit up to 26 January 2018 had completed 67.24% of the plan, and that 39 of the 58 audits in the 2017/18 plan had been released in a finalised version. Attention was drawn to amendments to the Plan as a result of the need to prioritise audits due to the lack of resources.

**RESOLVED to accept and note the contents of the report as an update of progress against the 2017/18 audit plan.**

**11. DRAFT INTERNAL AUDIT PLAN 2018/19**

Submitted – the report of the Audit Manager, in which details of the draft plan of the Internal Audit Service's work for the 2018/19 financial year were set out for comment and approval by the Committee. It was noted that the draft plan had been prepared after a series of meetings with Departmental Management Teams or Heads, and the Corporate Risk Register had been considered along with each department's own risk register.

Attention was drawn to the reduced provision for follow-up work in the draft plan as fewer hours were needed after a change to the Internal Audit Service's way of working and in accordance with the principles of Ffordd Gwynedd.

In response to an observation by a member regarding the 'North Wales Growth Board' audit in terms of the risks to the Council of losing the Wrexham and Flintshire counties to a partnership with Mersey Dee rather than being part of a north Wales arrangement, the Audit Manager noted that no decisions had been made yet in terms of the Lead Council, but there would be risks as with any major projects. The Head of Finance Department added that the project was in its initial stages and that officers were aware of the risk and were seeking to ensure that the funding would not all go to east Wales. He noted that the Internal Audit Service would keep an eye on the matter.

**RESOLVED to approve the draft Audit Plan for the period 1 April 2018 to 31 March 2019.**

The meeting commenced at 10:00am and concluded at 12:55pm.

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**CHAIRMAN**