
AUDIT COMMITTEE 9/2/17

Present: Councillor Angela Russell (Vice-chair)

Councillors: Anwen J. Davies, Tom Ellis, Aled Ll. Evans, Gweno Glyn, Gareth Wyn Griffith, E. Selwyn Griffiths, John B. Hughes, Aeron M. Jones, Charles Wyn Jones, Sion Wyn Jones, Dilwyn Morgan, Michael Sol Owen, John Pughe Roberts, Gethin Glyn Williams, John Wyn Williams and Peredur Jenkins (Cabinet Member for Resources).

Also in Attendance: Dafydd Edwards (Head of Finance), Dewi Morgan (Senior Revenue and Risk Manager), Luned Fôn Jones (Audit Manager), Dilwyn Williams (Chief Executive), Bethan Adams (Member Support Officer); Ffion Madog Evans (Senior Finance Manager) and Helen Lloyd Williams (Capital and Management Accountant) for items 5-7 on the agenda; Marina Parry Owen (Pensions and Investments Officer) for Item 8 on the agenda; Iwan Evans (Monitoring Officer), Arwel Ellis Jones (Senior Corporate Support Officer) and Councillor Dyfrig Siencyn (Deputy Leader) for Item 9 on the agenda; Llŷr B Jones (Senior Economy and Community Manager) and Councillor Mandy Williams-Davies (Cabinet Member for the Economy) for Item 14 on the agenda.

Apologies: Councillors Trevor Edwards and W. Tudor Owen and John Pollard (Lay Member).

1. ANNOUNCEMENTS

Councillor Trevor Edwards, Chairman of the Committee, had apologised because of illness and it was decided that the Committee would send him a card.

2. DECLARATION OF PERSONAL INTEREST

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

3. MINUTES

The Vice-chair signed the minutes of the meeting of this committee held on 1 December 2016 as a true record.

4. REVENUE BUDGET 2016/17 – THIRD QUARTER REVIEW

Submitted - the monitoring report of the Head of Finance Department and the Senior Finance Manager on the latest financial situation which would be presented to the Cabinet on 14 February.

The Cabinet Member for Resources set out the context and drew attention to the recommendation for the Cabinet:

- To accept the report on the third quarter review of the Revenue Budget (situation on 31 December 2016) and consider the latest situation 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.
- To transfer (£115k) from the Regulatory Department to the Council's general balances to assist with the forthcoming changes so that the Council's priorities can be delivered.
- To harvest (£250k) from the favourable Council Tax collections, (£180k) from the Benefits underspend, (£600k) from the reserve budget, together with (£250k) of the underspend included within 'Other' to the Council's general balances. £1,055k of the

sum (£756k 2017/18 and £299k 2018/19) was to be used to fund commitments in the field of Education which have already been approved by the Cabinet on 13 December 2016.

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

- The Adults, Health and Well-being Department and the Children and Supporting Families Department had huge budgets and that the level of overspend was now at 0.1% of the budget. Legislative changes had resulted in added pressure on the Adults, Health and Well-being Department, and pressures of supporting children outside the county had led to overspending in the Children and Supporting Families Department. Reference was made to the bids submitted to the Cabinet on 14 February to respond to the Departments' needs. The Children and Supporting Families Department was expected to take steps to manage the budget by 31 March and assess the future situation;
- Demand in the 'Post-16 Services' field within the Children and Supporting Families Department varied; and with regard to underspending, one expensive package could change the spending situation. An underspend did not mean that the service was not delivering. Emphasis is placed on preventative services in order for individuals to look after themselves;
- The target income for school dinners already reflected the price charged and that the change in the number of pupils had affected the income;
- Regarding efficiency savings in schools' budgets, the Schools Budget Forum were consulted and the decision was made to postpone the savings in the Secondary sector for a year as the value of the Secondary demographic would fall by £383k in 2017/18, thus changing the course for the following year. There was no rationale for making school staff redundancies (to be funded centrally by the Council), and then re-employing. Gwynedd was among the 2 or 3 councils with the highest expenditure in the primary sector, with neighbouring councils planning to implement more cuts to school budgets by 2017/18.
- Spending trends and budget amendments in the Adults, Health and Well-being Department: the Department was taking the opportunity to make transfers in response to the trends.

RESOLVED:

- (i) **To note the situation and the relevant risks in the context of the Council's budgets and its departments;**
- (ii) **Recommend that the Cabinet accept the report and approve the recommendations.**

5. CAPITAL PROGRAMME 2016/17 – 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 Resources set out the context and elaborated on the content of the report which would be presented to the Cabinet on 14 February. It was noted that definite plans were in place to invest around £31.592 million in 2016/17, with £8.024 million financed through gaining specific grants. It was confirmed that £6.040 million of proposed expenditure had been re-profiled from 2016/17 to 2017/18, but no loss of funding was caused to the Council where schemes had slipped.

In response to a question by a member, the Cabinet Member for Resources noted that he was not concerned about re-profiling and that no great slippage was predicted, no greater than what had been reported, but this couldn't be guaranteed.

RESOLVED

- (i) to take note of the situation and the relevant risks in the context of the Council's capital programme.**
- (ii) Recommend that the Cabinet accept the report and approve the recommendations.**

6. 2017/18 BUDGET AND 2017/18 - 2019/20 FINANCIAL STRATEGY

Submitted – the report of the Cabinet Member for Resources on the budget, providing an opportunity for the Audit Committee to scrutinise the financial propriety and associated risks of the information prior to the report being submitted to the Cabinet on 14 February.

The Cabinet Member for Resources set out the background and context of the report. He referred to the four budget seminars held during January/February to obtain members' input, and noted his disappointment at the number that didn't attend. He noted that it was difficult to predict the future but that the Council had made future projections and the financial arrangements implemented by the Council had been approved by the Wales Audit Office.

The Head of Finance Department elaborated on the content of the report and noted that the Council would receive an increase of 1.1% to its grant, which compared with a Wales average of 0.3%. It was noted that officers from Gwynedd had taken a leading role in providing the evidence to justify changing the distribution formula to reflect the true cost of care in rural areas. 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.

It was noted, in general, that there was support in the finance seminars for a 2.8% increase in Council Tax. It was explained that a comprehensive review of the Council's assets would be conducted under the guidance of the Chief Executive, and an Assets Strategy would be drawn up and enforced from 2018/19 for a period of 10 years.

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

- What would the people of Gwynedd gain from the apprenticeship levy?
- There was a substantial rise in the North Wales Fire and Rescue Service Levy. What was the Council's input to the process?
- In relation to further efficiency savings, there was concern that the Full Council did not partake in decisions which impacted the people of Gwynedd.
- Doubtful that it would be possible to find further efficiency savings.
- That the finance seminars held were beneficial. The recommendation was balanced and thorough.
- Should the Westminster Government and Welsh Government be persuaded to adopt the English form of business taxes in Wales in order to allow the Council to make use of business rates?
- The Council collected funds on behalf of the Fire Service and the Snowdonia National Park through the Council Tax arrangement. Would it be possible to present a more detailed breakdown on the Council Tax form?
- It would be better to include a more detailed breakdown on the Council Tax form rather than in Newyddion Gwynedd.
- The level of small business tax relief scheme was lower in Wales than in England. What was the impact?

A response was given to the questions and observations as follows:-

- The apprenticeship levy was almost the equivalent of a 1% increase to Council Tax. The levy was a plan by the Westminster Government to boost the number of apprentices, most of the funds generated in Wales would not be spent in Wales. It

was noted that the Cabinet Member for Resources had sent correspondence to the Cabinet Secretary in the Welsh Government about opportunities for the region and the possibility of using the funds for training schemes rather than on employment costs. This would not take place this year, but future opportunities would be sought.

- It was the Council that financed the Fire Service levy, but it was the Fire Service's independent decision to set the levy. The Council's representatives on the Fire Authority were entrusted.
- Further efficiency savings plans had been submitted to Cabinet for approval. Each savings plan was likely to affect someone somewhere, but an attempt was made to mitigate that impact by delivering services for the people of Gwynedd by alternative means. The other option was cuts which would mean abolishing some services entirely. Members were reminded of the Calling In Procedure where a decision made by the Cabinet could be called in for scrutiny.
- Further savings opportunities would be sought rather than imposing a further increase in Council Tax or further cuts which would have a direct impact on the people of Gwynedd. It was a difficult task to deliver on behalf of the people of Gwynedd given the financial situation, and sympathy was extended to members.
- Under the current business rates arrangements in England, the grant received from the Government was amended when regions received the business tax. If the arrangement were to be adopted in Wales, It would likely lead to a cut in grant money and a higher financial risk for the Council.
- The Council Tax bill was statutory with a separate leaflet listing expenditure. Newyddion Gwynedd would be distributed in the near future and it would be verified whether it would be possible to mention the situation therein.
- As a source of information, Newyddion Gwynedd had been ranked higher than a number of other sources by the people of Gwynedd in a survey held in 2009.
- Extending the tax relief plan for small businesses would help businesses, and the Gwynedd economy, and the Council would support the Welsh Government should it choose to extend it.

RESOLVED to note and accept the report and the associated risks, and recommend that the Cabinet:

(i) recommend that the Council (at its meeting on 2 March 2017):

- 1. set a budget of £231,299,720 for 2017/18 to be funded by £168,963,540 of Government Grants and £62,336,180 of Council Tax income, which will have been increased by 2.8% (or an amended combination of figures after the Cabinet has considered the options).**
- 2. Establish a capital programme of £12.015m in 2017/18 and £6.410m in 2018/19 to be funded from sources noted in clause 9.3 of the report.**

(ii) note the Medium Term Financial Plan in Appendix 4, and adopt the strategy in part 15-17 of the Plan.

7. TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION STRATEGY AND ANNUAL INVESTMENT STRATEGY FOR 2017/18

Submitted - the report of the Head of the Finance Department requesting that the Full Council on 2 March adopt the Treasury Management Strategy Statement and the Annual Investment Strategy for 2017/18, the Prudential Indicators, the Minimum Revenue Provision Strategy and the merger arrangements with the Pension Fund for the purpose of investing daily cash flow.

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

Appreciation was expressed for the briefing meeting held on 25 January, 2017 for Committee members with a specialist consultant from the Arlingclose company, the Council's treasury management consultants.

In response to a question from a member on the impact the UK's decision to leave the European Union would have on investments, the Head of Finance Department noted that the decision would become active from January 2020. In the meantime, therefore, the uncertainty would have to be endured but no direct impact was foreseen on the 2017/18 strategy.

RESOLVED to recommend that the Full Council on 2 March adopt the Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 (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. REVIEW OF THE SCRUTINY PROCEDURE

The Deputy Leader presented the report detailing two potential models deriving from the work of the Sub-group, which had been set up by the Committee, and in which the Council's scrutiny arrangements were examined following criticism by the Wales Audit Office. It was noted that Model A was an amendment of the existing arrangements and would consist of three scrutiny committees (Education and Economy, Care, Communities), whilst corporate matters would be scrutinised by the Audit Committee; and Model B, which would have one Principal Scrutiny Committee but would conduct a greater number of investigations (up to eight at any given time, compared with three under Model A).

Attention was drawn to the appendices, which contained a full description of the models, an assessment of their advantages and disadvantages, and their ability to address the weaknesses identified.

The Senior Corporate Support Officer highlighted the difference of opinion among members of the Sub-group about the favoured model. The need to weigh up the risks of both models was emphasised.

The Committee, as the individuals responsible for governance, were asked: to recommend one of the scrutiny models to the Full Council; to recommend amendments (a) to (f) in paragraphs 9.1 to 9.5 in the report (whichever formal model was selected); and request that the Monitoring Officer, in consultation with the Senior Corporate Support Officer, draft the necessary changes into the Constitution in order to implement the recommended arrangements and recommend them to the Full Council.

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

- Model B was favoured, since one committee would allow for greater overview.
- There was an element of disconnect between the Cabinet and Scrutiny with some matters being scrutinised that the Council had no influence upon. Need to be more specific in future.
- Inconsistency in the workload of the Scrutiny Committee currently, and on occasion some items were not followed up.
- Identifying the interests and skills of individual members was very important. The arrangement of distributing seats on scrutiny committees in accordance with the political balance only led to the filling of empty seats.
- The investigations were more effective.
- A member of the Sub-group and was of the opinion that change was necessary and that Model B with one Committee would be an improvement and would ensure the scrutiny work programme was kept in order and would hold the Cabinet to account. It would be necessary to tread carefully so that the same people (members) were not part of the investigations.
- Members needed to take advantage of the available training.

- A member of the Sub-group and favoured Model A, considering that most of the Council's spending was in the fields of Education and Care. Felt that specific committees attached to these fields of work could consider issues in more depth. Would this be possible with one committee?

In response to a member's question, the Senior Corporate Support Manager stated that committees were restricted whilst scrutiny investigations were informal meetings where matters that could not be discussed in public could be discussed.

The Chief Executive stated that there were two matters that should be considered:

1. The point of view of Heads of Department - Whilst Heads of Department accepted the need for scrutiny and the fact that it was possible to make a difference as part of live democracy, there were too many occasions where it was difficult to see the gains, with staff being taken away from providing a service for the people of Gwynedd in order to write reports and prepare for scrutiny.
2. Model A - the danger that the scrutiny work load would fall to Education and Adults, drawing more resources from those fields to feed "scrutiny" rather than providing services for residents.

RESOLVED:

- (i) to recommend Model B to the Full Council;
- (ii) to recommend suggestions (a) to (f) in paragraphs 9.1 to 9.5 in the report, whichever formal model is chosen;
- (iii) to ask that the Monitoring Officer, in consultation with the Senior Corporate Support Officer, draft the necessary changes to the Constitution in order to implement the recommended procedure and recommend them to the Full Council.

9. RISK MANAGEMENT ARRANGEMENTS

The Chief Executive reported that the Wales Audit Office (WAO) had conducted a light audit of the Council's risk management procedures and had noted opportunities for improvement that the Council could choose to consider when reviewing the risk management procedures. He noted that the culture at the Council differed significantly from other councils with Ffordd Gwynedd putting the people of Gwynedd at the centre of everything that we are doing. It was noted that too much emphasis was placed on keeping a risk register in some councils. Ffordd Gwynedd had led to changes in the way of working (including the Internal Audit Unit) so that the workforce could have ownership over risk. It is intended to embed Ffordd Gwynedd throughout the Council, keeping a live list of barriers would offset the need for a risk register.

Submitted - the report of the Senior Revenue and Risk Manager, which detailed the steps the Council would take to take advantage of the opportunities to make the improvements outlined in the WAO letter. Opportunities for improvement would give the Council the opportunity to find a suitable solution for the Council and would also tie in with the mindset that was being promoted across the Council, without creating a lengthy Risk Strategy document. It was emphasised that the risk register was intended to be a live document to be used to prioritise difficult decisions and, eventually, to strengthen the Council's governance.

RESOLVED to accept the report as a detailed explanation of the steps the Council would take to take advantage of the opportunities for improvement as outlined in the Wales Audit Office's letter.

10. OUTPUT OF THE INTERNAL AUDIT SECTION 21/11/16 - 27/1/17

Submitted - the report of the Audit Manager outlining the Internal Audit section's work for the period. It was noted that five reports on audits from the operational plan had been completed, one grant review, and two follow up audits.

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

Sales of Diesel

In response to a member's observation, the Audit Manager noted that the Maritime and Country Parks Service was going ahead with setting up a procedure which would enable customers to pay by card. She explained that instruction would be sent to the Harbour Masters when fuel prices changed following the purchase of new stock, but this had not been implemented at every harbour. The member noted that Harbour Masters should have to declare that they have received information on price changes.

In response to a question by a member, the Audit Manager explained that customers were required to declare the percentage of the diesel purchased used for commercial and domestic purposes in order to differentiate because an element of added tax was placed on commercial usage.

Bryn Blodau, Llan Ffestiniog

A member noted the need to observe the situation in order to ensure that steps had been taken to mitigate the highlighted risks.

In response to an observation by a member about the lack of training arrangements, the Audit Manager noted that a new Manager had been appointed to the post and that the Home had received a Notice of Non-compliance by the Care and Social Services Inspectorate Wales in May 2016 because of a lack of staff training. It was added that it was expected that the matters would have been addressed before the inspection but they weren't.

Support Workers

A member expressed concern that a care plan was a "*cut and paste*" version of another plan which resulted in a defective care plan. She added that she was glad that the Controls Improvement Working Group was reviewing the audit.

In response to a member's question, the Audit Manager noted that the Council was developing an integrated training system which workers could access from home to enable them to complete more modules on-line.

RESOLVED:

- (i) to accept the report on the work of the Internal Audit section for the period of 21 November 2016 to 27 January 2017 and to support the agreed actions that have already been submitted to the managers of the relevant services;**
- (ii) to consider the audits that had been given a category 'C' opinion by the Working Group appointed at the previous meeting;**
- (iii) that it was the responsibility of any member unable to attend the Working Group to arrange a substitute.**

11. INTERNAL AUDIT PLAN FOR 2016/17

Submitted - the report of the Audit Manager in which an update on the situation regarding completion of the 2016/17 internal audit plan was provided.

It was reported that the Internal Audit Unit up to 27 January 2017 had completed 68.06% of the plan and 49 of the 72 audits in the 2016/17 plan had been released in a finalised version.

Attention was drawn to amendments to the plan noting that two team members had left the Council's employment and the employment term of one other member would end in February. The plan had been amended and audits had been prioritised with some being taken out and some slipping into next year.

In response to a member's question about the procedure of appointing officers, the Audit Manager stated that one Team Leader had been appointed and that interviews would be held to appoint two Auditors.

RESOLVED to accept and note the content of the report as an update of progress against the audit plan and approve the amendments.

12. DRAFT INTERNAL AUDIT PLAN 2017/18

Submitted – the report of the Audit Manager, in which details of the draft plan of the Internal Audit Service's work for the 2016/17 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 was considered along with each department's risk register.

Attention was drawn to the increased provision for follow-up work in the draft plan in order to ensure that attention was given to every agreed action rather than to agreed actions in reports that had received opinion C only.

In response to a member's observation that audits cancelled in 2016/17 were not being transferred (Financial Management - Primary Schools and Information Security in Schools) to the 2017/18 plan, the Audit Manager noted that reports for individual schools had been provided to meet the need.

RESOLVED to approve the draft Audit Plan for the period 1 April 2017 to 31 March 2018.

13. HAFAN, PWLLHELI

Submitted - the report of the Senior Economy and Community Manager giving an update on the work which had been programmed in order that a thorough audit of Hafan could be conducted in 2017/18 following the Committee's decision on 1 December 2016 to request that the Economy and Community Department (with the support of the Finance Department) submit information to the Council about Hafan. It was noted that Hafan was an important economic asset to the area and the Council, because the income it generated exceeded the costs. In addition, the purpose of the review was to consider a range of different management and governance structures so that Hafan could remain successful in future.

It was noted that the Department had identified the work as a possible topic to be presented to the relevant Scrutiny Committee. And, if desired, the broader/full picture could be presented to this Committee following a detailed assessment.

The Cabinet Member for Economy and Community noted that the time was right to consider management and governance arrangements, given the change in use and market trends, paying attention to the impact on businesses and the local community.

Members expressed their support for the review and of the intention to consider the different partners since Hafan put Pwllheli on the international sailing map.

In response to the wishes of some members for this Committee to receive an update, the Chief Executive noted that this would risk duplicating work as a scrutiny investigation into the situation was likely. Thus, either the scrutiny arrangement or this Committee should consider the matter.

RESOLVED:

- (i) to note and accept the contents of the report.**
- (ii) to support the Economy and Community Department's intention to review the management and governance arrangements at Hafan, Pwllheli, and the proposed timetable for this work.**
- (iii) that the scrutiny arrangement should consider the matter.**

The meeting commenced at 10.00am and concluded at 12.40pm.

CHAIR