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## GOVERNANCE AND AUDIT COMMITTEE 8 FEBRUARY 2024

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### **Attendance:**

**Councillors:** Menna Baines, Jina Gwyrfai, Elwyn Jones, Edgar Wyn Owen, Arwyn Herald Roberts, Meryl Roberts, Huw Rowlands, Paul Rowlinson, Angela Russell, Rob Triggs and Elfed Wyn ap Elwyn

**Lay Members:** Sharon Warnes (Chair), Hywel Eifion Jones, Clare Hitchcock, Carys Edwards, and Rhys Parry

**Officers:** Dewi Morgan (Head of Finance Department), Ffion Madog Evans (Assistant Head of Finance Department – Accountancy and Pensions), Delyth Thomas Jones (Investment Manager), Caren Rees Jones (Group Accountant – Capital and Management), Heledd Gwilym (Senior Accountant – Resources and Corporate), Caleb Lewis ('Yfory' Scheme – Finance and Accountancy Professional Trainee), Nel Povey ('Yfory' Scheme – Finance and Accountancy Professional Trainee) and Lowri Haf Evans (Democracy Services Officer)

### **Others invited:**

Councillor Ioan Thomas (Cabinet Member – Finance) and Geraint Owen (Corporate Director)

Item 5: Alan Hughes (Audit Wales) and Dewi Jones (Council Business Support Service Manager)

Item 6: Gwern ap Rhisiart (Head of Education) and Alan Hughes (Audit Wales)

Items 7 and 8: Cllr Dyfrig Siencyn (Council Leader), Dafydd Gibbard (Chief Executive) and Iwan Evans (Monitoring Officer)

### **1. APOLOGIES**

Apologies were received from Councillor Richard Glyn Roberts, Yvonne Thomas (Audit Wales) and Tony Bates (Estyn).

### **2. DECLARATION OF PERSONAL INTEREST**

None to note.

### **3. URGENT ITEMS**

None to note.

### **4. IMPLEMENTING THE DECISIONS OF THE COMMITTEE**

A report was submitted providing an outline of how the Council's departments had responded to the decisions of the Governance and Audit Committee so that Members could be assured that their decisions were being addressed. It was noted that the report gave Members an opportunity to consider the decisions made with the intention of removing the item / decision when the action had been completed.

The members expressed their gratitude for the report.

The Cabinet Member for Finance was invited to provide feedback on the comments that the Committee had submitted to the Cabinet (23 January 2024) on the item Savings Overview: Progress Report on Realising Savings Schemes; an update was also provided on the work that was being covered in reviews regarding overspending in departments (the item Revenue Budget 2023/24).

**RESOLVED:**

- **To accept the report**
- **To welcome feedback to the responses received from the Cabinet (23/01/24) to observations presented by the Committee on the item Savings Overview: Progress Report on Realising Savings Schemes and Revenue Budget 2023/24.**

**5. RECOMMENDATIONS AND IMPROVEMENT PROPOSALS OF EXTERNAL AUDIT REPORTS**

The report was submitted by the Corporate Director. The Members were reminded that they had a responsibility to consider external audit reports (national, and those local to Gwynedd), the recommendations contained in them, the implications to governance, risk management or control, and to ensure that improvement proposals that arose from the audits were implemented.

The Council Business Support Service Manager highlighted that a response form was now completed by the managers as part of the response process, with the progress measured against improvement recommendations. He noted that the work of responding to most of the improvement proposals was continuous work and that the Governance Group chaired by the Corporate Director had been addressing the improvement proposals and the progress of the recommendations. He reiterated that those proposals where the conclusion stated 'completed – continuous work' and 'completed – recommendations have been realised' would not receive further attention from the Committee; an update against those with a conclusion of 'preparatory work' and 'ongoing' would be presented to the Committee in six months' time, and work would be done in future to revise the format of the report so that the content of the recommendations was consistent.

The members expressed their thanks for the report. Each audit was referred to in turn.

In response to a question regarding what kind of background auditing was completed, and also whether the Auditors were satisfied that adequate steps had been taken to address the recommendations, it was noted that Cyngor Gwynedd's expectation was for this information to be included on the response form and that a six-monthly update would be presented to the Committee until the recommendations had been addressed fully. It was added that progress was also expected to be discussed internally in performance challenge and support meetings.

The Audit Wales Official added that recommendations were not tracked, but that many of the matters that arose tended to arise in aspects of different work which then created a picture of the response.

In response to the observations, the Member noted that some level of objectivity and assurance was needed, which would add value when self-assessing. It was asked whether Internal Audit could undertake this work. In response to the question, the Head of Finance stated that in respect of Internal Audit work, it would depend on the type of recommendation made and whether it merited being addressed. He added that this did

not come under Internal Audit arrangements, but it could be included as part of the Internal Audit Plan. The Corporate Director added that the performance challenge and support meetings were challenging, and in line with the Auditors' comments, if there was something that had not been addressed adequately, this would become evident through a combination of these things.

In response to a question regarding how many people the Council had engaged with ('Time for Change – Poverty in Wales' – response to recommendation 5 which stated, 'over the past 18 months we have engaged with a large **number** of people who are in poverty...'), the Council Business Support Service Manager noted that he would find the information and provide a number for how many people the Council had engaged with.

**RESOLVED:**

- **To accept and note that arrangements and processes were in place to ensure that the improvement proposals were being implemented.**

Note:

- To respond to Recommendation 5 'Time for Change – Poverty in Wales' – Provide a number for how many people the Council has engaged with
- To revise the report's format in future so that the content of the recommendations was consistent

## **6. ESTYN INSPECTION OF CYNGOR GWYNEDD EDUCATION SERVICES**

Submitted – a report by the Head of Education Department which included the Estyn report of Cyngor Gwynedd education services (June 2023) for the Committee's attention. In accordance with the Committee's responsibilities to review and assess the Council's risk management arrangements, internal control, performance management and corporate governance arrangements, they were expected to consider reports by Estyn. He highlighted that Audit Wales had contributed to the conclusion of the inspection and that the report had already been presented to the Education and Economy Scrutiny Committee in November 2023.

The officer referred to the main points that Estyn had highlighted, together with the recommendations that would improve the service. He also referred to the action plan that had been prepared by the Education Department in response to those recommendations (the action plan had not been submitted to Estyn because these were recommendations relating to local matters, not statutory matters).

The members expressed their gratitude for the report.

Observations arising from the ensuing discussion:

- The report was very positive.
- Welcomed the fact that there had been a full discussion on the action plan in the Education and Economy Scrutiny Committee with a recommendation to call it back for a further update in nine months' time.
- The Youth Service had a definite role to play in providing opportunities to young people.
- Pupils' attendance – the pattern varied from school to school.
- Welcomed steps to ensure a stronger link between scrutiny and the improvement priorities in the Council Plan.

In response to a question regarding reporting on the progress of the action plan, it was noted that an update on the progress/lack of progress made on the recommendations

would be presented to the Education and Economy Scrutiny Committee in September 2024.

In response to a question querying why only some of Estyn's comments had led to a recommendation, it was noted that three matters stood out and had been adopted as part of the Department's priorities this year. He added that the three recommendations were significant while the others were part of everyday work, e.g. responding to schools that were under-performing. He accepted, as part of the inspection process, that they needed to secure more information behind the less significant comments.

In response to a question regarding a significant decrease in pupils' attendance since Covid-19 and why this decrease was steeper in Gwynedd than in other Authorities in Wales, it was noted that Gwynedd was no longer lower than Wales by now (Gwynedd was the first of the Authorities to be inspected on attendance post-Covid, therefore the timing of the inspection suggested that Gwynedd's performance was lower), but he accepted that attendance was a matter of concern and was a challenge nationally.

In response to a question regarding the 2021 data – funding for special schools, that Gwynedd was within the lowest quartile in Wales and the possible effect that this could have on special schools and education in Gwynedd, it was noted that work was being undertaken to address the matter. The officer added that it was difficult to make national comparisons since it was the nature of the children and the severity of the needs that led to setting a budget for special schools to address those needs. He added that it was difficult to analyse the effect, even though there had been a recent increase in the budget; he stated that the matter would be discussed at the next meeting of the Schools' Budget Forum.

In response to an observation with regard to extending information about Education Projects within the Council Plan and whether it was intended to present more of the work completed under Education projects to the Scrutiny Committee, it was stated that arrangements for submitting more education matters to the Scrutiny Committee had been operational since September 2023

**RESOLVED:**

- **To accept the contents of the Estyn report on education services in Cyngor Gwynedd**
- **To accept and note the arrangements to scrutinise the Education Department's arrangements for responding to the report's recommendations in a timely manner.**

## **7. 2024/25 SAVINGS**

Submitted – the report of Councillor Dyfrig Siencyn, Council Leader, asking the Committee to consider the propriety of the process of identifying the savings, and submit observations to the Cabinet to consider before they reach a decision at their meeting on 20-02-24. It was reported that it was not the Committee's role to express an opinion on what the size of the savings should be, or the merits of individual proposals being recommended as savings, but rather to ensure that the Cabinet was clear about the facts that were presented to them, so that the decision taken was based on robust information.

Presenting the background to the work, it was noted that the Council had now been achieving savings continually for 15 years, and the challenge of achieving those savings without harming services to the County's residents was getting more difficult. The Leader reported that the Council was now aware of its level of Revenue Support Grant (RSG) from the Welsh Government for 2024/25 (a 2% increase), and that it would be significantly

lower than the inflation level and well below what would be required to maintain the current level of services.

The Chief Executive added that the Council also faced a situation where departments were overspending, mainly due to a continued increase in the demand for their services; it was now impossible for some services such as homelessness, children care services, adults care services and school transport to be able to operate within their current budget. This would lead to overspend this year of around £8m, and since there had been no time to plan in advance for the deficit, they would have to use reserves to cope with the situation. The consequence of providing an increased budget for the departments that cannot cope with their current budget, and the low Revenue Support Grant amount from the Government, was a funding gap this year of £14.9m.

To identify savings, 135 proposals were presented by the Council's Departments. Every proposal had been assessed by the Chief Executive or by one of the Corporate Directors and had been placed in four categories to assist Members to prioritise savings schemes for 2024/25, with an awareness of what the level of risk would be from implementing any individual proposal. During the workshops that were held with the Members, the proposals were all categorised so as to prioritise them from the most 'acceptable' to the least 'acceptable' proposals. It was reported that the general consensus amongst all the members who had participated in the workshops (which included Cabinet Members, Scrutiny Chairs and Group Leaders) was that approximately £5.2m of the proposals could be implemented over the next two to three years.

The Leader referred to the two parts of the process – part A included schemes that could be progressed to implementation following the Cabinet's approval, whilst part B reflected schemes that were subject to statutory action or further decisions before they could be confirmed. He reiterated that a legal assessment, equality assessment, efficiency assessment and a high-level financial assessment had been completed on each individual scheme to ensure that they were deliverable, and in the interest of planning prudently, a reasonable risk assumption would be included in the Savings Plan. It was recommended that £0.52m (10%) of the total £5.2m that will need to be found, be designated as an amount "under risk".

The members expressed their gratitude for the report.

In response to a question, accepting that a risk assessment had been conducted on the entire savings plan, and therefore had a risk assessment been done for individual schemes, the Chief Executive noted that an equality assessment had been completed, but following the Cabinet's decision (20-02-24) a specific assessment for each scheme would be implemented. He reiterated the possibility that the savings might not be deliverable following a full assessment, therefore there would be a need to consider a contingency provision

Observations arising from the ensuing discussion:

- Accepted that the process had been challenging
- A detailed, thorough and proper process had been carried out
- The briefing sessions had been beneficial
- That the members, when prioritising proposals in future, should have information regarding the costs of each scheme against raising the Council tax
- Proposals for 'reducing community art activities' and 'reducing children's summer fun activities' – there were opportunities here to reduce costs by working with local Partners / sponsors.

In response to a comment regarding the need to ensure that there was a clear communication plan in place so that the County's residents and the Council staff were

aware of the changes and that everyone was 'going in the same direction', the Chief Executive noted that several discussions had been held with staff, and that managers' network meetings were held every quarter. He added that they had been cautious before publishing final schemes to prevent causing fear amongst residents and staff, but by now the schemes were public and the information was honest, transparent and fair. He also noted that communication had been undertaken through the press, social media and staff on-line, with an opportunity to share and obtain feedback. He added that the communication effort was continuous, and when moving to realise savings there would be difficult conversations down the line.

In response to a comment regarding the logic why the risk percentage was 10% whereas in the past they had seen a risk percentage of 20%, the Head of Finance stated that should the increase in the provision be higher the gap would be greater, therefore there was a need to ensure balance. He added that work was being done to challenge the schemes to ensure they were realistic, and that consequently the provision reduced; the ideal percentage would be 20%, but 10% was enough this year.

In response to a question on whether the increase in the demand on services had been justified / assessed and whether savings could be achieved from these assessments, the Chief Executive noted that every effort had been made to deliver services in an alternative manner, and if the situation persisted, then we had to accept the situation. He added that every scheme was challenged so that public money was used appropriately. He noted, for example, that there had been an unexpected increase in children's services where the demand must be met, and with services for the elderly and homeless, there was no element of choosing not to provide services for them. Although work was being done to assess situations, it was not an option to not provide care – they therefore had to look at other services to seek savings.

The Council Leader thanked the Committee for their comments and for the points to consider for 2025/26. He added that they must communicate clearly with the public, and with all Authorities across north Wales in similar positions, he noted that it was aimed to issue a joint statement explaining the situation. He noted that in future, Local Authorities' arrangements would change significantly with increased reliance on volunteers and the third sector.

**RESOLVED:**

- **That reasonable steps, under challenging circumstances, had been taken to draw up the Savings Plan**
- **That the savings proposed were reasonable and achievable**
- **That the risks and implications of the decision were clear**
- **That the report was adequate to enable the Cabinet to make a decision on the Savings Plan**
- **To submit observations from the discussion on the report to the Cabinet for their consideration when discussing the 2024/25 Savings Plan at its meeting on 20/2/24**

Note:

That there is a clear communication plan in place

## **8. 2024/25 BUDGET**

Submitted – a report by the Cabinet Member for Finance, noting that the Council had received a Government grant increase of 2.0% (the Wales average was 3.1%) for 2024/25, which equated to a £4.1m increase in external funding. He reported that several factors would create additional spending pressures on the Council's services in 2024/25, with the need to increase spending by £22.4m to meet the pressures on the services'

budgets. As well as addressing the demand on services and the high level of inflation, there would be a need to consider a combination of Council Tax increase and a new programme of savings and cuts. With a recommendation of a 9.54% increase in Council Tax, an extra £2m of savings would be required to set a balanced budget, with projections suggesting that there would be further pressures in aiming to set a balanced budget for 2025/26.

It was reported that the Committee's role was to scrutinise the information and ensure that the Cabinet and Council were clear on the facts presented to them so that the decision was based on robust information.

The Head of Finance Department was invited in his role as statutory finance officer to present the information, express his view and provide details on the robustness of the estimates that were the basis to the budget, along with the potential risks and mitigation steps.

He highlighted that the Cabinet (meeting on 20/02/24) would recommend to the Full Council (07/03/24) to establish a budget of £330,590,040 for 2024/25 to be funded through a Government Grant of £232,092,110 and £98,497,930 of Council Tax income (which was a 9.54% increase on the tax of individual dwellings) and establish a capital programme of £85,224,800 in 2024/25.

He explained that Additional Expenditure Requirements had been considered in the budget, and those areas were highlighted.

- Salary Inflation of £15.1m – the budget set aside an estimated increase of 5% in the 2024/25 pay agreement for the whole workforce from April 2024, and for teachers from September 2024.
- Employer's Contribution towards Teachers' Pensions – a cost of £2.36m – the budget had been set on the presumption that the cost would be fully funded by the Government.
- Other Inflation of £6.8m – a sum that included provision for a broad range of changes dependent on the rate of inflation in specific areas (Independent Residential Care Homes, Non-residential Care, Energy, Fuel, Other price increases).
- Levies to relevant bodies will increase by £342k.
- Electricity Inflation Provision of £3m.
- Demography – a net reduction in pupil numbers and an increase in looked after children.
- Pressures on Services – recommend approving bids totalling £5.1m for additional permanent resources submitted by Council departments to meet unavoidable pressures on their services. It was noted that the bids submitted had been thoroughly challenged by the Leadership Team, prior to recommending their approval by the Cabinet.

Reference was made to other considerations where the impact of an increase in interest receipts on returns in investing balances with the Council's cash flow was noted, along with releasing the (£1.4m) provision that was in place for expenditure arising from the Covid crisis, and a cost increase of £758k due to budgeting for a reduction in the Social Care Workforce grant received from the Government.

In the context of the savings schemes, it was noted that Cyngor Gwynedd had realised over £39.1m in savings schemes since 2015/16. The officer referred to existing planned savings schemes for 2024/25 per department that had already been approved (£3,113,400) to reduce the funding gap together with new savings schemes of £4.78m which would be submitted to the Cabinet on 20-02-24. It was suggested that a decision

on further savings/cuts worth £2m be delayed, and the deficit bridged by using other funds. Reference was made to the Permanent Revenue Bids (totalling £5,052,820) by some departments which addressed additional pressures on their services.

It was added that the remainder of the gap would need to be greeted through the Council Tax. It was acknowledged that the choice between maintaining services and offering a reasonable level of taxation was difficult. The Cabinet would recommend to the Full Council to increase the tax 9.54% in order to relieve the pressure on services in setting a balanced budget, at a similar level to most other authorities in north Wales.

Reference was made to the required work that was undertaken to report on the robustness of the estimates on which the budget had been based, and having highlighted the risks and the mitigation steps the Head of Finance was of the opinion that the budget for 2024/25 was robust, sufficient and achievable.

The members expressed their gratitude for the presentation.

Observations arising from the ensuing discussion:

- That treasury management was in good hands
- The objectives had been considered in a realistic manner
- Proper consideration had been given to the bids system
- Gwynedd compared very well with other councils
- Satisfied with the Council's arrangements in setting the budget.

In response to a question regarding a permanent revenue bid for improvements to the Council's telephone system (£239k) and whether this was a one-off bid, the Head of Finance confirmed that this was a one-off bid and was part of the Digital Plan, with the amount covering technical costs, staffing and licensing.

In response to a question regarding Energy inflation (Electricity and Gas - £1.6m) and whether this was because of a commitment in a contract, the Head of Finance noted that although the contract was ending, they were required to report on the progress.

In response to a comment regarding the risk with delivering the savings, it was noted that realistic schemes must be ensured, therefore the element of risk existed and although they were unaware of any element of surprise, financial sums must be allocated in order to set the budget. In response to a supplementary question regarding concern about delaying £2m of savings this year and whether this would be a pattern that would continue in future years, it was noted that there were areas of underspend amongst corporate headings that would be transferred to the Strategic Fund; with £7m being transferred this year, there would be money available to plug the shortfall.

It was suggested that some of the objectives were achievable, and although dependent on people's needs and nature, that the saving within the schemes was deliverable, although some of the objectives were statutory. Therefore, there was a need to ensure that there were detailed schemes for the proposals.

In response to a comment that some Authorities used money from the second homes premium to fund statutory services (and not housing services alone as Gwynedd had decided) and to keep the Council Tax down, and whether this had been considered when setting the budget for 2024/25, the Head of Finance stated that the premium affected the tax base and therefore he did not believe it appropriate to set the Premium level at the same time as setting the budget. In order to comply with legislative requirements, the officer was of the opinion that a Premium must be set for the following year before the end of December He added that Gwynedd were committed to a long-term plan of using the



second homes premium to fund the Housing Plan's operational fund and homelessness matters; any change would have an impact on these schemes.

**RESOLVED:**

- **To accept the report and note the content**
- **To accept the financial propriety of the proposals and the relevant risks**
- **To submit observations from the discussion to the Cabinet for its consideration when discussing and approving the 2024/25 Budget at its meeting on 20/2/24**

**9. CAPITAL STRATEGY 2024/25 (INCLUDING INVESTMENT AND BORROWING STRATEGIES)**

The Cabinet Member took the opportunity to thank the Members who had attended the meeting with Arlingclose on 07-02-24 and highlighted that Arlingclose had stated that 'Gwynedd were going in the right direction'.

Submitted – a report by the Investment Manager providing an overview of the Council's Capital and treasury management activity, and as noted above, the Members had received a presentation from the financial advisers, Arlingclose, explaining the detail behind the strategy in a comprehensive and easily understood manner.

The Manager referred to the capital activities and highlighted that the Council intended to make capital spending of £90.2 million in 24/25, with the main schemes listed in the report, along with the funding sources. It was noted that the external resources were mainly from the Welsh Government and our own resources were the funds. The remainder of the funding came from loans that would be repaid over a number of years, normally from revenue resources or from income from the sale of assets, which was consistent with the actions of previous years. This meant that the indicator – the Council's Capital Funding Requirement, would be £190.5 million by the end of the 24/25 financial year, namely the level below which the Council's long-term borrowing should remain.

In the context of the Borrowing Strategy, it had been highlighted recently that there had been no long-term borrowing requirement, only a low-cost, short-term requirement over the end of the financial year; this would continue with no long-term borrowing anticipated for Cyngor Gwynedd activities, and that the Council's debt would remain below the Capital Funding Requirement.

The Manager referred to the Liability Benchmark which was now reported to the Committee on a quarterly basis. The Council expected its borrowing to remain above its liability benchmark up until 2027 since the Council had a high level of reserves.

With regard to the Investment Strategy, it was noted that the Council's policy was to prioritise security and liquidity over yield in order to ensure that money was available to pay for the Council's services. She noted that sums were being held continually to ensure ongoing liquidity – it was considered that maintaining liquidity and security was a priority at present in a period of cuts and inflation.

Reference was made to the risk management and governance, together with details of the Council's long-term liabilities, e.g., to cover the deficit in the Pension Fund, and the impact of the funding costs on cash flow where the percentage appeared low and fairly consistent with previous years. It was also confirmed that officers had the relevant knowledge and skills, and that Arlingclose continued to provide a financial advisory service to the Council.

The members expressed their gratitude for the report

**RESOLVED:**

- **To accept the report and to note the information and relevant risks**
- **To support the Cabinet Member for Finance's intention to submit the Strategy to the Full Council for approval on 7 March 2024**

## **10. MID-YEAR UPDATE ON CYNGOR GWYNEDD GOVERNANCE RISKS**

Following a suggestion by the Committee at its meeting on 12 October 2023, a mid-year report was submitted by the Head of Finance Department, providing an update on the Annual Governance Statement action plan that had been approved in the same meeting.

He explained that the statement was a statutory document, and in accordance with the Accounts and Audit (Wales) Regulations and the CIPFA Code of Practice, all Local Authorities must ensure that they had a statement of internal control in place. The Members were reminded that the Governance Risk Register as part of the Council's Corporate Risk Register had been developed in line with the seven core principles for Good Governance. Risks had been identified in 24 different areas of governance, identifying the controls that the Council had in place to mitigate these risks.

It was reported in October that there were four types of risks and that each risk had departmental ownership; the Governance Arrangements Assessment Group had concluded that there were 0 areas of very high risk, 4 high risk areas, 11 areas of medium risk and 9 low risk areas. However, since approving the Governance Statement in October 2023, it was reported that the Finance Risk had changed, with the score having increased from 10 (Medium risk) to 20 (Very High risk). It was explained that although the Council had effective arrangements for financial planning and management, the result of the settlement, inflation, the need to find savings and the increasing demand on services was challenging, and the financial deficit was increasing every year. Although there were sound financial arrangements in place, a decision had been made to increase the risk rating to accurately reflect the situation - for the first time in 2023/24 it was projected that all the Council's departments would overspend.

The members expressed their gratitude for the report. It was noted that the financial situation posed the greatest risk to the Council, therefore it was sensible to increase the risk rating.

In response to a question as to whether the budget was suitable in the first place and was there a way for departments to forward-plan by using data / profiling, for example, a reduction in primary school numbers would impact on secondary schools – the future impact could be plotted, the officer noted that in situations of overspending within the resources that were available, departments that continued to overspend would be required to report to the Members with an explanation and actions they will take.

**RESOLVED:**

- **To accept the report, for information**
- **To support the increase in the FINANCE risk score from 10 (Medium Risk) to 20 (Very High Risk) to reflect the Council's actual financial position**

The meeting commenced at 10:30 and concluded at 13:20

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**CHAIR**