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Friday, 18 February 2022

Notice of Reports Received following Publication of Agenda.

Governance and Audit Committee

Monday, 28th February, 2022 at 2.00 pm,
County Hall, Usk - Remote Attendance

Attached are reports that the committee will consider as part of the original agenda but were submitted to democratic services following publication of the agenda.

Item No	Item	Pages
9.	Assessment of the robustness of the budget process and adequacy of reserves.	1 - 14
11.	Governance and Audit Committee Review	15 - 26

Paul Matthews
Chief Executive

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Appendix F - Responsible Financial Officers Opinion

1.1 The 2003 Local Government Act imposes a number of statutory duties on a Council's Responsible Financial Officer (RFO). Guidance on these duties is contained within LAAP Bulletin 55 and CIPFA's updated Statement on the Role of the Finance Director, compliance with which has been supported by the Council's Governance & Audit Committee. The primary duties are for me, as RFO, to provide a view on the robustness of the budget process, budgetary risk and the adequacy of reserves and balances.

Robustness of the budget process

1.2 In terms of robustness of the budget process, I have placed reliance on the work carried out by members of the Strategic Leadership Team in their Directorates involving budget managers and devolved accountants. The process has been undertaken properly and rigorously with notable elements of good practice. These include;

- The use of the Council's Medium Term Financial Planning tool as an integral part of budget planning.
- Cabinet ownership of budget principles and assumptions through the development of the Medium Term Financial Plan and budget proposals.
- Anticipating likely and known events through the application of appropriate indices for base costs.
- Applying rigour via Directorate Management Teams, Chief Officers, Strategic Leadership Team and Cabinet Member scrutiny.
- Comparing year on year budgets by using 2020/21 outturn and 2021/22 budget monitoring data.
- Looking at a unit cost analysis for services against other Welsh authorities where necessary.
- Providing Select Committees with opportunity to look at and scrutinize current budgets, gaining an understanding of the budgets within the remit of their Select committee.
- Providing Cabinet and Select Committees with the assumptions underlying the Medium Term Financial Plan.
- Consulting on budget proposals through virtual public meetings, the website and social media, via the MyMonmouthshire digital newsletter, as well as through a Countywide virtual budget livestream event, and virtual meetings with MyMates, Engage to change (young people) and Head Teachers.
- Communicating emerging Settlement considerations to Cabinet members.
- Being clear on risks and assumptions within budget proposals and identifying the links with the corporate priorities of the Council and as set out in the Corporate Plan and the accompanying set of strategic aims and as set out in [Looking Ahead, Delivering Now: Our Strategy to Summer 2022](#).
- Ensuring all members are involved in the budget setting process by establishing that budget and Council Tax settings is a function of full Council.

1.3 There are a number of explicit risks in the budget proposals now presented given the continued strain on services, the continued impact of the pandemic and the uncertainties next year and into the medium term. Risks have been identified as the budget proposals have been put together and are captured as part of the MTFP model. Outlined below are the key risks and how they are being managed:

- The extent of significant and ongoing additional costs and income losses that result as a consequence of the pandemic and the extent to which Welsh Government don't continue to fully fund such shortfalls as a result of its COVID Hardship Fund ending in March 2022. The Council has benefitted and is grateful to Welsh Government for the extent of the funding to meet such costs. However, a number of significant risks remain and that are carried into 2022/23 in relation to the fragility of the social care sector, pressures resulting from the lack of temporary homeless accommodation and footfall and memberships for our leisure centres not returning to pre-pandemic levels. In the event that full funding is not forthcoming further savings and recourse to one-off use of reserves may need to be considered as part of a budget recovery plan.
- Continued increase in demand and evidenced based pressures in relation to the financial impact of increasing demand and complexity in children's social services, demographic changes such as increasing elderly population, changes in pupil numbers, increase in special educational need provision has been included in the current budget process. The extent of these pressures in both the current year and next year are significant and increasing. Given the current year position against the budget in many of these areas, these potential pressures will require careful monitoring over the course of the financial year so that problems can be highlighted early and any appropriate corrective action taken.
- Directorates are being required to manage some pressures within their service areas as only significant pressures have been highlighted and included in the budget build. Whilst individually these pressures are relatively small in total there is a considerable pressure to be managed alongside the achievement of the budget saving proposals contained as part of this budget.
- A number of the savings and pressure mandates incorporated into the budget proposals involve the generation of income, changes to current structures, systems and processes, consideration of alternative delivery models or have implications for service design involving community, other partners and entities. These savings involve higher levels of risk than those which broadly maintain current arrangements. At the practical level these risks begin with the income targets not being achieved, possibility of slippage and disruption in the transition from old to new arrangements resulting in further pressures to be managed in the year in which savings are budgeted to be made. Clearly robust and timely monitoring of the delivery of the savings and budgetary control over expenditure will be critically important in order to manage the potential for these risks to materialise.
- The need to ensure that the Authority manages within its in-year revenue and capital budgets as the consequence of any resultant overspend removes the ability to replenish reduced levels of earmarked reserve and places an additional risk that Council Fund levels will be compromised below 4%-6% financial planning assumption traditionally volunteered to Members as prudent. Robust budget monitoring arrangements are in place and corrective action will be taken as needed by the Strategic Leadership Team in consultation with Cabinet Members as required.

- Some of the significant pressures evident during in-year monitoring have been addressed as specific pressures in the 2022-23 budget proposals, and furthermore adjustments needed to be made in respect of savings previously volunteered to members and supported by them but that are now not deemed deliverable.
- Late notification of grant funding streams being removed or reduced. There are still significant specific grant streams that the Council relies upon, that have either not yet been communicated by Welsh Government, have been received late in the budget process or where the impact of notifications is awaiting further clarification. This is particularly an issue where the expenditure backing this grant has an effect on the financing of permanent staff. These will need to be managed on a case by case basis, with the default position being that if the grant ceases the activity also ceases unless a business case can be built that justifies the maintenance of the activity, the expenditure and identifies a means of funding this expenditure following the loss of grant income.
- No allowance for non-pay inflation is afforded in the proposed budget, despite CPI predictions over the medium term, forecast to peak at 4% for 2022 before retreating to 2.6% in 2023 and then to 2.0% over the medium term. Unless recognised as specific pressures in the budget proposals services will not receive budget to cover the full extent of inflation factors next year if they turn out as expected. This puts further pressure on service budgets to find efficiencies savings to manage this shortfall. There is an expectation that this would need to be managed within overall directorate budgets.
- Irrespective of the significant one-off funding given to schools and the surplus balance now held, it is clear that the inherent structural budget deficits that led to a significant number of schools being in deficit over the past few years remain and these will require resolution regardless. It is expected that the additional funding made available to those schools will allow a period of transition and as to allow those underlying budgetary issues to be rectified without impacting on educational standards. Continued emphasis is placed by LEA finance colleagues to agree budgets with schools that are sustainable to the resources available rather than passporting additional deficits to their school reserve. Recovery plans are in place for those schools remaining in deficit and are being closely monitored by the LEA and relevant Cabinet members.
- Treasury estimates established in the budget are based on cashflows, timing of capital spend, forecast interest rate levels and capital receipts occurring as planned. Mitigation has already taken place through long term borrowing being undertaken in 2021/22 at preferential rates and in order to manage interest rate risk and fluctuations.
- Whilst the Council is not playing a reliance on commercial income generation its commercial activities do naturally present commercial risks. The governance arrangements in place through Investment Committee and the Governance & Audit Committee ensure that investments are made on the basis of sound recommendation resulting from robust business cases. Investment performance is monitored by Investment Committee, through budget monitoring reports but explicitly by Audit Committee on an annual basis.
- The risks on the capital side are largely caused by limited additional capital receipts being foreseen by colleagues during the next MTFP window, placing an additional emphasis on borrowing going forward, at a time when revenue headroom to afford

borrowing is compromised by the extent of annual savings necessary to achieve a balanced budget. The continued need to make use of flexible use of capital receipts to fund revenue costs associated with service reform results in a further depletion of available capital receipts. As such the Council will need to move towards a more sustainable budget strategy over the medium term and therefore a significant reduction and subsequent removal over the medium term is planned.

- There are a significant amount of unbudgeted capital pressures and investment plans which can bear on the Council's limited capital resources if policy commitments are made to add further to the capital programme or risks materialize and that require the Council to act to respond to failures in the operational nature of assets.

1.4 Whilst the above risks in the 2022/23 budget have been identified, the main budgetary risks going forward in for the MTFP will also need to be managed and outlined are as follows:

- The increasing challenges with sustaining and maintaining existing service delivery and in line with the priorities outlined in the Council's corporate plan, and that will be updated post May to align with the priorities of an incoming administration
- The implications and impact on public services and that result from the longer term impact of the pandemic on Monmouthshire's communities and wider economy
- The risk and uncertainty around funding settlements projected for the medium term. Whilst indicative Welsh Government core funding increases have been provided for 2023/24 and 2024/25 these remain subject to change
- The impact of inflationary pressures and interest rate rises, both on the Council and its communities
- The risk of pay awards being greater than modelled budget assumptions and not being fully funded by UK and Welsh Government
- The financial, service and strategic implications of service redesign and transformation needed to deliver savings over the medium term
- The national and local emphasis on carbon reduction
- The deteriorating condition of local roads, associated infrastructure and property
- The ageing population
- Continued uncertainty in financial markets
- Low economic activity leading to increased demand for some services and reduced income in others.

Adequacy of reserves

1.5 The MTFP has established the principles for general and earmarked reserve utilization. The level of the Council Fund reserve stood at £8.9m at the start of 2021-22, excluding delegated school balances. The latest month 9 financial monitoring information to be shared with Cabinet on 2nd March indicates a favourable non-COVID forecast under spend

of £2.2m, resulting for significant late Welsh Government grants and further in-year budget recovery action. Furthermore, the forecast is predicated on Welsh Government fully funding COVID related cost pressures and income shortfalls.

- 1.6 Any further adverse volatility in service costs and pressures, the delivery of the in-year budget recovery plan or shortfall in Welsh Government COVID funding could affect the extent to which a further contribution can be made to reserves at the end of 2021-22. However, late notification and receipt of specific grant funding from Welsh Government, together with reasonable assurance that Welsh Government will fund COVID costs and income losses, have greatly assisted in mitigating this risk going into year-end.
- 1.7 Based on a budgeted net expenditure (excluding Police and Community Council precepts) and before financing totalling £174.87m, an £8.90m balance equates to 5.09% cover, which sits in the middle of the range of 4-6% of net revenue budget and is considered to be at a prudent level.
- 1.8 Based on this current assessment the headroom above the de minimum 4% threshold in general reserves stands at £1.912m. This headroom was created tactically as part of the 2019/20 outturn strategy. The latest in-year forecast and the final budget proposals are not suggesting any need to call on general reserves.
- 1.9 The focus therefore turns to the uncertain outlook and future financial challenges and where the headroom in the Council Fund balance is reserved and if required to cover the following, and where mitigating budgetary recovery action is unable to manage such pressures on the Council's budget:
 - Any budget pressure in 2022/23 resulting from pay award announcements that exceed the 3.5% modelling assumption in the final budget proposals
 - Any other pressures that result in 2022/23 and that cannot be contained through budget recovery action, notably the aforementioned risks in 1.3 above
 - Any one-off contribution to support the 2023/24 budget proposals
 - To allow for future reserve cover across the MTFP and beyond
- 1.10 Pre pandemic, net school balances had remained at low levels and had reduced to a net deficit balance of £435k. Receipt of unprecedented levels of grant support from Welsh Government during 2020/21 and 2021/22 have looked to ensure support for schools and their pupils during a period of significant disruption to learning. This has resulted in schools balances currently being forecast to be in surplus at the end of 2021/22 of £4.105m and despite significant investment plans being implemented during the year by schools.
- 1.11 And previously noted and irrespective of the improvement in school balances it is clear that the inherent structural budget deficits that led to a significant number of schools being in deficit over the past few years remain and will require resolution regardless. It is expected that the additional funding made available to those schools will allow a period of transition and as to allow those underlying budgetary issues to be rectified without impacting on educational standards.
- 1.12 The 2022/23 budget anticipates some limited use of earmarked reserves to support the revenue and capital budget proposals. Earmarked reserves have been established over time for use for designated purpose over time, and whilst not currently earmarked for use provide a level of contingency for some of the risks associated with the budget recommendations highlighted in this report.

- 1.13 The total planned net earmarked reserve utilization in support of the 2022/23 revenue and capital budget is £0.41m. Total planned reserve utilization in support of current year revenue and capital budgets means that by the end of 2021/22 the balance of earmarked reserves is likely to be £10.1m. The further call in 2022/23 means that the earmarked reserves will fall to £9.7m, with the useable balance down to £6.57m. And forecast to fall further based on anticipated and known reserve utilization to £6.0m at the end 2025/26.
- 1.14 Useable capital receipts also provide a limited one-off resource to support financing of the capital programme. In recent years the Council has also made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off costs associated with service reform. The Council has made further use of this flexibility in 2022/23 and over the remaining three years of the MTFP. Useable capital receipts are forecast to reduce to £7.2m by the end of 2025/26 based on the capital MTFP. The continued use of capital receipts for this purpose is recognized as a necessary but unsustainable approach and has the added consequence of requiring the Council to fund any further and future capital investment through prudential borrowing where it cannot be met from other sources.
- 1.15 My judgement, taking into account the current budget forecast, the 2022/23 budget proposals, the medium term outlook and its associated risks and notably around funding certainty, is to certify that reserves are adequate presently. Both in terms of the quantum of earmarked reserves as well as the General Reserve. However, given that the financial outlook is not set to improve significantly into the medium term, and fundamentally remains uncertain it is vital that the reserve position continues to be closely monitored. This will require continued sound budget management in future years and close Cabinet scrutiny of any further proposals to make use of reserves.
- 1.16 Extra savings may need to be drawn up and communicated to members after the budget process, if the 2021-22 outturn position or in-year forecasts in 2022-23 indicate at any stage a Council Fund balance falling below 4%. Alongside this a review of the reserves policy will be undertaken subsequent to 2021/22 outturn and in readiness for the budget strategy and plan for 2023/24 and over the MTFP period. Which will be developed and be informed by an updated corporate plan produced by an incoming political administration.
- 1.17 The schedule of reserves estimated at the end of the financial year is included as an appendix to the budget report.

Peter Davies

Deputy Chief Executive and Chief Officer for Resources (S151 Officer)

Responsible Financial Officer

Outturn movement on reserves

	Opening Reserves 2021-22 (Surplus)/Deficit	In Year position at Month 9 (Surplus)/Deficit	Projected carry forward at year end 2021-22 (Surplus)/Deficit	Notes
Abergavenny cluster				
E003 King Henry VIII Comprehensive	(197,496)	(180,285)	(377,781)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E073 Cantref Primary School	(199,797)	(21,279)	(221,076)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, ALN, Winter of Wellbeing and RRRS
E072 Deri View Primary School	(148,109)	38,898	(109,211)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E035 Gilwern Primary School	(166,852)	28,977	(137,874)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E037 Goytre Fawr Primary School	(91,540)	(1,291)	(92,830)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E093 Llanfoist Fawr Primary School	(93,433)	(31,610)	(125,043)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E044 Llantillio Pertholey CiW Primary School (VC)	(67,215)	(8,442)	(75,657)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E045 Llanvihangel Crucorney Primary School	(104,670)	(11,169)	(115,839)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E090 Our Lady and St Michael's RC Primary School (VA)	(54,393)	4,620	(49,773)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E067 Ysgol Gymraeg Y Fenni	(34,367)	(15,567)	(49,933)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
Caldicot cluster				
E001 Caldicot School	(229,408)	(229,382)	(458,790)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing), Capital Funding and reduced joint leisure charge
E068 Archbishop Rowan Williams CiW Primary School (VA)	(206,397)	57,469	(148,928)	Outside Wellbeing Area, Chrome Books, Coding Products, Classroom furniture, Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, ALN, Winter of Wellbeing and RRRS
E094 Castle Park Primary School	(121,853)	13,804	(108,049)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, ALN, Winter of Wellbeing and RRRS
E075 Dewstow Primary School	(237,811)	(21,637)	(259,447)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E034 Durand Primary School	(77,884)	8,487	(69,397)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, ALN, Winter of Wellbeing and RRRS
E048 Magor CiW Primary School (VA)	(117,202)	45,428	(71,774)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E056 Rogiet Primary School	(78,095)	26,547	(51,548)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E063 Undy Primary School	(6,370)	(78,123)	(84,493)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E069 Ysgol Gymraeg Y Ffin	(15,638)	(19,724)	(35,362)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing)

Chepstow cluster

E002 Chepstow School	86,801	208,718	295,519	Welsh Government Revenue Maintenance 21-22, Exam Year Grant, Transition Funding, NSERE Schools, CFW LNS Health & Wellbeing, Curriculum Dev Programme
E091 Pembroke Primary School	(125,506)	(22,251)	(147,757)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E057 Shirenewton Primary School	(176,246)	(16,153)	(192,399)	ALN, Winter of Wellbeing and RRRS
E058 St Mary's Chepstow RC Primary School (VA)	(20,860)	(43,326)	(64,186)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E060 The Dell Primary School	(48,410)	(76,729)	(125,139)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing)
E061 Thornwell Primary School	(64,887)	(8,408)	(73,295)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing)

Monmouth cluster

E004 Monmouth Comprehensive	(214,191)	(326,271)	(540,462)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing), Covid Hardship Fund claims and reduced joint leisure charge
E032 Cross Ash Primary School	(82,470)	39,842	(42,628)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, and Additional Recruit Recover and Raise Standards Funding.
E092 Kymin View Primary School	(135,305)	22,554	(112,751)	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, Federation Salary Savings, ALN, Winter of Wellbeing and RRRS
E039 Llandogo Primary School	86,830	(61,628)	25,202	Welsh Government Revenue Maintenance 21-22, Foundation Phase Ratio, ALN, Winter of Wellbeing and RRRS
E074 Osbaston CiW Primary School (VC)	(40,609)	(23,068)	(63,677)	Welsh Government Grants
E051 Overmonnow Primary School	(41,104)	4,468	(36,636)	Additional Agency Staff costs linked to Additional Learning needs Support.
E055 Raglan CiW Primary School (VC)	(108,878)	(4,915)	(113,793)	Additional WG Grants
E062 Trellech Primary School	(115,691)	(16,132)	(131,823)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing)
E064 Usk CiW Primary School (VC)	(143,055)	46,691	(96,364)	Additional grant income (WG Revenue Maintenance 21-22, RRRS Funding, Wellbeing)

Special School

E095 PRU	(26,012)	(16,066)	(42,078)	Additional grant income
	(26,012)	(16,066)	(42,078)	
	(3,418,120)	(686,954)	(4,105,074)	

Reserve Usage 2022-23 – Final Budget Proposals

Reserve	31st March 2022	Budgeted Contributions To	Budgeted Contributions From	31st March 2023
Council Fund (Authority)	(8,906,782)			(8,906,782)
School Balances	(3,418,120)			(3,418,120)
Total Council Fund	(12,324,903)	0	0	(12,324,903)
<i>Earmarked Reserves:</i>				
Invest to Redesign	(1,342,645)	(125,000)	25,000	(1,442,645)
IT Transformation	(589,046)	0	103,000	(486,046)
Insurance and Risk Management	(935,332)	0	0	(935,332)
Capital Receipt Generation	(365,079)	0	51,000	(314,079)
Treasury Equalisation	(590,024)	0	0	(590,024)
Redundancy and Pensions	(768,721)	0	88,038	(680,683)
Capital Investment	(625,340)	0	0	(625,340)
Priority Investment	(1,700,000)	0	200,000	(1,500,000)
Sub Total Earmarked Reserves:	(6,916,187)	(125,000)	467,038	(6,574,149)
Museums Acquisitions Reserve	(52,884)			(52,884)
Elections Reserve	(273,183)	(35,000)	130,000	(178,183)
Grass Routes Buses Reserve	(166,084)	(5,000)		(171,084)
Youth Offending Team	(150,000)			(150,000)
Building Control trading reserve	9,950			9,950
Covid19 Hardship Fund Equalisation Reserve	(819,000)			(819,000)
Sustainability - PV Invertor Replacement	(15,000)			(15,000)
CYP maternity	(100,865)			(100,865)
Plant & Equipment reserve (Highways)	(183,541)			(183,541)
Homeless Prevention Reserve Fund	(58,267)			(58,267)
Solar Farm Maintenance & Community Fund	(110,000)	(23,000)		(133,000)
Newport Leisure Park Reserve	(188,056)		188,056	0
Castlegate Reserve	(312,361)		312,361	0
Local Resilience Forum Reserve (Gwent PCC Tfr)	(153,685)			(153,685)
Rural Development Plan Reserve	(621,041)			(621,041)
Sub-Total Service Specific Reserves	(3,194,018)	(63,000)	630,417	(2,626,601)
Total Earmarked Reserves	(10,110,205)	(188,000)	1,097,455	(9,200,750)
Total useable revenue reserves	(22,435,107)	(188,000)	1,097,455	(21,525,652)

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Budgeted useable reserve balances

Financial Year ending	2022	2023	2024	2025	2026
	£000	£000	£000	£000	£000
<u>Council Fund</u>					
Council Fund (Authority)	(8,907)	(8,907)	(8,907)	(8,907)	(8,907)
School Balances	(3,418)	(3,418)	(3,418)	(3,418)	(3,418)
Sub Total Council Fund	(12,325)	(12,325)	(12,325)	(12,325)	(12,325)
<u>Earmarked Reserves</u>					
Invest to Redesign Reserve	(1,343)	(1,443)	(1,443)	(1,443)	(1,443)
IT Transformation Reserve	(589)	(486)	(383)	(280)	(177)
Insurances & Risk Management Reserve	(935)	(935)	(935)	(935)	(935)
Capital Receipt Generation Reserve	(365)	(314)	(314)	(314)	(314)
Treasury Equalisation Reserve	(590)	(590)	(590)	(590)	(590)
Redundancy and Pensions Reserve	(769)	(681)	(593)	(505)	(417)
Capital Investment Reserve	(625)	(625)	(625)	(625)	(625)
Priority Investment Reserve	(1,700)	(1,500)	(1,500)	(1,500)	(1,500)
Service Specific Reserves	(3,194)	(2,627)	(2,690)	(2,753)	(2,816)
Sub Total Earmarked Reserves	(10,110)	(9,201)	(9,073)	(8,945)	(8,817)
Total Useable Revenue Reserves	(22,435)	(21,526)	(21,398)	(21,270)	(21,142)

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Appendix 4 – Backing data for analysis of all Wales usable reserves

Authority	Usable Reserves at 31st March 2021	Net Expenditure in 2020/21	Reserve Coverage
Vale of Glamorgan	105,637	243,499	43.4%
Caerphilly	147,488	355,926	41.4%
Bridgend	114,139	289,739	39.4%
Gwynedd	101,932	264,342	38.6%
Carmarthenshire	141,947	378,234	37.5%
Newport	108,271	300,688	36.0%
Rhondda Cynon Taf	175,299	506,687	34.6%
Ceredigion	50,916	152,375	33.4%
Swansea	150,721	470,237	32.1%
Pembrokeshire	74,507	240,087	31.0%
Neath Port Talbot	87,935	306,735	28.7%
Denbighshire	57,151	209,857	27.2%
Wrexham	63,393	252,984	25.1%
Blaenau Gwent	33,002	151,940	21.7%
Powys	58,962	273,592	21.6%
Isle of Anglesey	30,455	143,626	21.2%
Merthyr Tydfil	25,745	127,557	20.2%
Monmouthshire	32,576	164,686	19.8%
Cardiff	125,432	655,882	19.1%
Flintshire	53,989	289,036	18.7%
Torfaen	31,483	188,614	16.7%
Conwy	33,257	231,934	14.3%
Average			28.3%

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SUBJECT: GOVERNANCE AND AUDIT COMMITTEE REVIEW AND CHANGES

MEETING: Governance & Audit Committee

DATE: 28th February 2022

DIVISION/WARDS AFFECTED: All

1. PURPOSE:

- 1.1 To consider proposed and necessary changes to the Governance and Audit Committee as a consequence of the requirements of the Local Government and Elections (Wales) Act 2021 and the conclusions from a review of current arrangements by members of the committee and relevant officers.

2. RECOMMENDATIONS:

- 2.1 For members of the committee to acknowledge the changes brought about by the Local Government and Elections (Wales) Act 2021 in so far as they impact on the Governance and Audit Committee and as outlined in the report.
- 2.2 That the committee endorses the further considerations proposed that look to further strengthen the effectiveness of the committee going forward, and that have resulted from the latest self-assessment by members of the committee and the subsequent overarching review undertaken.
- 2.3 That the constitution be amended to reflect these changes, to take effect at the next Annual General Meeting in May.

3. KEY ISSUES:

Local Government and Elections (Wales) Act 2021

- 3.1 The Local Government and Elections (Wales) Act 2021 was passed by the Senedd on 18 November 2020 and received Royal Assent on 20 January 2021. Sections 115-118 of the Act have a direct bearing on the name and function of the committee (section 115), its membership and the meaning of lay person (sections 116-117) and its chairing (s118). Other sections of the Act, notably around new self-assessment and performance reporting required, also impact on the responsibilities of the committee.
- 3.2 The current arrangements continue to serve the council well. Effective scrutiny and challenge by the Governance and Audit Committee ensures that Council financial control, risk, performance, and corporate governance arrangements are operating effectively.
- 3.3 The changes brought about by the Act come into effect at different times. S115 came into force on 1st April 2021 whereas the other changes referred to in 3.1 above come into force on 6th May 2022.
- 3.4 The committee has already been renamed with effect from 1st April 2021 and is now called the Governance and Audit Committee. S115 also looked to update and refine the function

of the committee and by way of update to S81 the Local Government (Wales) Measure 2011. This confirms the role of the Governance & Audit Committee to:

- Review and scrutinise the authority's financial affairs
- Review and assess the risk management, internal control, **performance assessment** and corporate governance arrangements of the authority
- **Review and assess the authority's ability to handle complaints effectively**
- Make reports / recommendations in relation to the effectiveness of the above
- Oversee the authority's internal and external audit arrangements; and
- Review financial statements prepared by authority

3.5 The new elements introduced are shown in **bold** above and have already been factored into the committee's work programme.

3.6 A local authority may however confer on its governance and audit committee such other functions as the authority considers "suitable" to be exercised by such a committee. However, it should clearly have regard to the authority's scrutiny arrangements and its standards committee and such as to avoid duplication and ensure maximum impact and effectiveness in holding the Council and its Executive to account.

3.7 The further changes brought about by the act across S116-118 comprise:

- a) Requirement for an independent lay chairperson – cannot be a local authority employee; or spouse/civil partner of a local authority employee
- b) Deputy chair cannot be member of the executive (Cabinet) – only 1 member of the executive can sit on the committee (but not a requirement) – this cannot be the Leader of the Council
- c) At least 1/3 of the committee needs to be lay members

3.8 In terms of the composition of the committee in its current form it comprises 11 members and 1 independent chair (12 in total). With a requirement for at least 1/3 of the committee to be lay members this requires 4 lay members to be appointed, all of whom have voting rights.

3.9 The existing independent chair is to step down at end of his current term and which coincides with the end of this civic year and when the above changes come into effect.

3.10 The Council has worked collaboratively and run a recruitment process via WLGA but also via the Council in order to source the best possible candidates. The recruitment process has concluded and 3 of the 4 lay member positions have been recruited into already. A further local and targeted recruitment will now be undertaken to secure the last necessary lay person appointment to the committee. These appointments will be ratified and approved by Council in May following the election.

3.11 Officers of the Council have worked closely in recent months with members of the committee and its Chair such as to take the opportunity to review the effectiveness of the committee and to identify enhancements and changes that would ultimately strengthen yet further the robust arrangements in place.

3.12 Alongside this changes proposed to the authority's scrutiny arrangements, and that are being considered by Council at its meeting on 3rd March, present a timely opportunity to

exacting role and scope of the committee such as to both avoid duplication and ensure maximum impact and effectiveness.

- 3.13 The Local Government Measure 2011 states that it is not a statutory requirement to ensure that political balance is achieved when the committee members are appointed. Guidance recommends however that the balance of members of the committee is at least as favourable to non-executive groups as would be achieved by political balance rules. Whilst it would help the authority if the committee had the appearance of independence from the leadership it is still currently intended for the Governance and Audit Committee membership to still be determined via the Annual Political Balance report presented to Council in May.
- 3.14 Other sections of the Local Government and Elections (Wales) Act 2011 notably around new self-assessment and performance reporting requirements also impact on the responsibilities of the committee. These can be summarised as follows:
- The draft annual self-assessment performance report needs to be considered by the Governance & Audit Committee ahead of it being considered by Council. The committee may as a result of its considerations make recommendation to Council for changes to conclusions.
 - The report of the (independent) panel performance assessment is also to be made available to the Governance & Audit Committee. A panel performance assessment is to take place at least once during the period between two consecutive ordinary elections of councillors to the Council.
 - If not meeting its performance requirements, the Auditor General can carry out special investigations. Such special investigation reports, including the draft response by the Council, must go to the Governance & Audit Committee.

Self-evaluation and Review of the Governance & Audit Committee

- 3.15 Wider research has been undertaken on the qualities that are indicative of an effective audit committee. A group of Audit Committee Chairmen and Members, from FTSE 100 and FTSE250 businesses, identified these attributes as key during a roundtable event held by ICAEW:
- Intellectual curiosity and professional scepticism
 - Courageous in making tough decisions
 - Balanced, ethical approach to whistleblowing
 - Oversight of key risks (not just financial)
 - Excellent relationship builders
 - Ability to build and develop a strong team
 - Able to challenge the external auditors
 - Good listening skills
 - Own the agenda
- 3.16 Furthermore, private sector audit committees extend their interests into:
- Oversight of regulatory compliance, ethics, and whistleblowing – it is recognised that the Governance & Audit Committee already presides over whistleblowing and anti-fraud, bribery and corruption. And the Standards Committee already has separate regard for Members conduct.

- A growing focus on ESG reporting (Environmental, Social and Corporate Governance) – which again beyond corporate governance is already achieved via Select Committee scrutiny of policy commitments around environmental performance and social justice, corporate governance already being within the remit of the committee.

3.17 The committee already has a mechanism in place around self-assessment. The last assessment was undertaken in 2020. The self-assessment, completed by 7 of the 12 committee members at that time was generally positive. The self-assessment was based on a questionnaire that involved 46 questions based on CIPFA’s “*Audit Committees – Practical Guidance for local authorities and Police (2013)*”. The questionnaire covered 7 themes:

Roles and Responsibilities
 Monitoring and Oversight
 Internal Audit
 External Audit
 Membership
 Meetings
 Skills and Training of Members

3.18 The results of the self-assessment were collated and fed back into the committee and an action plan was agreed and that contained suggested areas for improvement (see appendix 1). The action plan centred principally around officers providing further information and training to enable the committee to be more effective. Progress was hindered as a consequence of the pandemic and it was subsequently concluded and agreed that the action plan would be incorporated into a wider and subsequent review of the committee and alongside the changes brought about by the Local Government and Elections (Wales) Act 2021 as mentioned above.

3.19 The wider and subsequent review of the committee involved workshop sessions with officers and members of the committee. The workshop sessions were productive and constructive and highlighted the following strengths:

- The Chairman runs meetings well – he is well prepared and thorough in his preparation – giving committee members the opportunity to contribute
- The Committee operates non-politically – which demonstrates good governance
- No major weaknesses identified via self-assessment – however, some have identified need for additional training but need to specify what training specifically

3.20 It also raised important issues that have been considered in forming these proposed considerations that look to improve the effectiveness of the committee going forward:

- It was recognised that it was important for members selected onto the committee to have an interest in being on the committee
- It was important for officers to be present to respond to questions raised by the committee
- Clarity was needed around which reports should go to the committee as distinct from select committees and to avoid duplication and to improve effectiveness
- The independent chair is often not aware of wider Council business
- Members sometimes lack the specialist knowledge and experience required of an audit committee member and to enable officers to be held to account – opportunity to address via lay member appointments and training

3.21 As a result of the feedback and further comments provided by both officers and members of the committee agreement was reached on the following proposals for improvement:

- Terms of reference and scope of the committee to be refined to make it clear on what gets considered by Governance & Audit Committee – the committee should focus on matters of governance, audit, performance and finance and risk arrangements in line with the Local Government Measure 2011 – particularly pertinent for reports from regulators
- The Governance & Audit Committee should adopt similar practices to select committees in so far as having a pre-meeting ahead of the meeting itself. Which is now more easily facilitated due to virtual meetings.
- The committee should receive and consider RFO's annual opinion on robustness of budget process and adequacy of reserves as part of budget process – considered separately on the agenda
- The member induction and training programme needs to be enhanced and targeted towards committee members needs
- Lay members with suitable expertise and experience to be recruited and where possible members with desire and relevant background or experience to be considered
- Consideration of strengthening compliance with CIPFA's Financial Management (FM) Code over which the committee needs to preside

3.22 On the whole the changes and beyond LG&E the changes are relatively minor and are more so a proposed strengthening of arrangements and in providing greater clarity to the role of Audit Committee, together with points carried forward from the previous self-assessment action plan (appendix 1). On the basis of these proposals being accepted by the committee an updated action plan will be produced and presented to the first meeting of the Governance and Audit following the election and when a new membership exists.

3.23 It is proposed going forward and beyond the suggested areas for improvement that the self-assessment should be undertaken periodically, and no longer than every 2 years, such as to ensure there is a continual evaluation and assessment of the effective of the committee.

4. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

4.1 There are no such implications directly arising from this report.

5. OPTIONS APPRAISAL

5.1 The Local Government and Elections (Wales) Act 2021 affected changes with regards to the role of the Governance and Audit Committee. These are outlined above in the main body of the report. A local authority may confer on its Governance and Audit Committee such other functions as the authority considers "suitable" to be exercised by the committee.

5.2 The review that has been undertaken does not propose any significant changes in either scope or approach. Rather the proposals involve the existing role of the committee being strengthened and the extent and scope of its interests being clarified.

6. EVALUATION CRITERIA

- 6.1 Preparations for the changes brought about by the Local Government and Elections (Wales) Act 2021 are already well advanced, planned for or in place already and as outlined in the report above.
- 6.2 Aside from the responsibilities falling to Governance and Audit Committee to scrutinise self-assessment performance arrangements it is equally important for the committee to embrace the evaluative approach that underpins this.
- 6.3 There will be a process of continual review and evaluation of the effectiveness of the committee and as there has been previously. The self-assessment process will be undertaken with members of the committee periodically and reported back into the committee. An action plan will continue to be monitored and maintained with progress and an evaluation of outcomes reported back to the committee as required.

7. REASONS:

- 7.1 New requirements have been placed on the Governance & Audit Committee as a result of the Local Government and Elections (Wales) Act 2021, both in terms of lay person membership and the scope and remit of the committee.
- 7.2 Furthermore, and in light of the timing of the proposed changes and the end of an administrative cycle the opportunity has been taken to purposefully engage with members of the committee and relevant officer to seek feedback on how the effectiveness of the committee could be strengthened yet further going forward and with a new administration.

8. RESOURCE IMPLICATIONS:

- 8.1 There are no direct resource and budgetary implications arising from the recommendations in this report whether brought about by the Local Government and Elections (Wales) Act 2021 or from the review of the Governance and Audit Committee itself.
- 8.2 The additional lay persons appointed onto the committee will be entitled to be paid in line with agreed daily rates, together with reimbursement for reasonable costs of travel and meeting preparation. These additional costs have already been factored into the final budget proposals for 2022/23.
- 8.3 Induction of new members to the committee, together with ongoing training, will be met through additional officer time and from within existing capacity and budget. As will be the case for officers having to comply with the new self-assessment and self-evaluation requirements of the Act.

9. CONSULTEES:

Strategic Leadership Team
Governance and Audit Committee
Scrutiny Manager

10. BACKGROUND PAPERS:

Appendix 1 – Self-assessment Action Plan
Appendix 2 – Governance & Audit Committee – Current Work Programme

11. AUTHOR:

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AUDIT COMMITTEE – SELF ASSESSMENT 2019/20 – ACTION PLAN

	Self Assessment Question	Agreed Action	Responsible Officer	Timescale
10	Has the Committee agreed set criteria when an officer may be invited to attend Committee?	To formally agree a protocol for inviting officers to attend Audit Committee	Chief Internal Auditor / Local Democracy Manager	December 2020
11	Does the Committee consider they have the mechanisms to ensure that officers are acting on and monitoring action taken to implement recommendations?	Details on the implementation of agreed recommendations by service managers to be reported into Audit Committee more regularly	Chief Internal Auditor	March 2021
22	Does the Committee receive regular information on client perceptions of the Internal Audit service and other performance management information?	Details of Internal Audit's returned evaluation questionnaires, following the issue of final reports, to be reported into Audit Committee	Chief Internal Auditor	March 2021
27	Is there the opportunity to hold private meetings with the External Auditor?	To determine a protocol for discussing audit committee related issues with the External Auditor outside ordinary Audit Committee meetings	External Audit / Local Democracy Manager	December 2020
41	Has the membership of the committee been assessed against a knowledge and skills framework and found to be satisfactory.	Training to be provided to Audit Committee Members around the skill set required to be an effective member of the Audit Committee	Chief Internal Auditor / Local Democracy Manager / Scrutiny Manager	March 2021

43 /44 /45	Is induction / further / specialised training provided to Members?	<p>Officers will endeavour to provide appropriate training to Members to enable them to function effectively within Audit Committee.</p> <p>Members to request further / additional training as they feel is appropriate</p>	<p>Chief Internal Auditor / Local Democracy Manager / Scrutiny Manager</p> <p>Audit Committee Members</p>	March 2021
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Governance & Audit Committee – Current Work Programme

- Audit Wales – Assessment of performance arrangements; Annual grants report; ISA260 (external audit sign-off); Review of proposals for improvement; Annual audit summary; Audit Plan
- Internal Audit – AGS; IA outturn; IA plan; IA progress (quarterly); CPR exemptions; Unfavourable audit opinions; Implementation of IA recommendations; G&AC self-evaluation; Chair’s annual review
- Finance – Draft/final accounts; Trust fund accounts; Treasury strategy, outturn and mid-year; Review of Investment Committee; Review of reserves
- Performance – Strategic risk register; Overview of performance management arrangements
- Other – Info breaches; Cyber resilience; Anti-bribery risk assessment; Whole authority complaints

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