

MONMOUTHSHIRE COUNTY COUNCIL

**Minutes of the meeting of Governance and Audit Committee held
at Council Chamber, County Hall, The Rhadyr USK on Thursday, 27th July, 2023 at 2.00
pm**

PRESENT: Andrew Blackmore (Chairman)
County Councillor Tony Easson (Vice Chairman)

Lay Members: Colin Prosser and Rhodri Guest

County Councillors: Ben Callard, Phil Murphy, Peter Strong and
Ann Webb

OFFICERS IN ATTENDANCE:

Peter Davies	Deputy Chief Executive and Chief Officer, Resources
Jan Furtek	Audit Manager
Wendy Barnard	Democratic Services Officer
Richard Jones	Performance and Data Insight Manager
Jonathan Davies	Head of Finance
Rachel Freitag	Audit Wales Officer

APOLOGIES:

County Councillors John Crook, David Jones and Malcolm Lane and Lay Member Martin Veale.

1. Declarations of Interest

No declarations of interest were made.

2. Public Open Forum

No members of the public were present.

3. To note the action list from the previous meeting

The Action List from the previous meeting was noted.

1. Key Collaborations and Partnerships: The Chief Internal Auditor (CIA) reported that the draft report was issued in June with an opinion of "Reasonable Assurance". The audit was a risk-based review of strategic partnerships and collaboration arrangements to ensure that all partnerships were identified, monitored and effectively governed. The draft report is with the Performance and Data Insight Manager and Head of Policy, Performance and Scrutiny to consider the recommendations and management actions. The report will be presented at the next meeting.

[ONGOING]

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2. Finance Team Capacity: An e mail from the Head of Finance had been circulated to Committee Members providing background information and outlining a plan for resolution. The staffing structure budgets for 35.41 FTE and there are currently 32.6 FTE in post (Vacancy rate 7.9%). The Assistant Head of Finance post was vacated in Spring 2022 and interim arrangements have been in place since but there is some impact on workloads. High-risk areas have been prioritised mainly to maintain the financial sustainability of the authority and to ensure that timely, accurate financial information is available.

It is planned to resolve the issue in 8 to 12 weeks. In doing so, key areas to strengthen include grant administration (as the volume and value of specific grants has increased), capital scheme support, project work and to reduce the draw on senior finance officer time to concentrate on strategic financial focus given the turbulence and challenge this year and forecast over the medium term.

The Team was congratulated on bringing forward the date of the draft statement of accounts.

A verbal update was requested at the next meeting on progress in filling these vacancies and further information on which items were being de-prioritised.

[ONGOING]

3. People Strategy and Asset Management Plan: To be reported to the November meeting.

[ONGOING]

4. Social Enterprise (slippage of nearly a decade Wales-wide): A written response to the question was circulated to the Committee yesterday. The Action to remain open to allow the opportunity for all Members to read the response.

[CLOSED]

5. Annual Complaints Report Weighting System: Consideration to be given to this matter before presentation of the next annual complaints report.

[ONGOING]

6. Strategic Risk Register: To be reported upon in November 2023.

[ONGOING]

7. Audit of the SRS (Torfaen CBC): Noting that the SRS is likely to be the authority's most significant collaboration, it was agreed that the Committee

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considers this action as part of its deliberations on the draft report on key collaborations and partnerships (at 1. above), when presented.

[ONGOING]

8. Freedom of Information, Data Protection and Data Subject Access Requests:

- i) Information on mandatory training completion rates to be sent to the Committee outside the meeting
- ii) Information on governance arrangements for the policies for these areas to be sent to the Committee outside the meeting
- iii) Consideration of corporate risk control policies (extending beyond IT and data protection) that the Committee should periodically review and recommend for approval across the authority: It is planned to report back in October once the Governance Working Group has met.

[ONGOING]

9. Internal Audit Annual Report - Old Station Tintern: The CIA provided a verbal report when this matter was considered later in today's meeting.

[CLOSED]

10. Draft Operational Plan:

The Deputy Chief Executive explained that there are 5.5 FTE in the Internal Audit Team structure. The recruitment in progress for the Senior Auditor post will increase staff to 5 FTE. In terms of the senior roles, the Audit Manager is acting up as the CIA, and 0.5 FTE is unfilled. This situation will be managed in the interim and will provide vacancy savings. There is flexibility, subject to available budget, to draw on Internal Audit Consortia or other services to cover any shortfall in the interim whilst the regional consortium option is explored. The Chair expressed concern about the potential for material shortfall at this time. The Deputy Chief Executive provided assurance that funds would be secured from the wider budget to return to a satisfactory position agreeing that stability in the Team is a priority. A further update was requested at the next meeting.

[ONGOING]

4. Treasury Outturn Report 2022/23

The Head of Finance presented the Treasury Outturn Report 2022/23. Committee Members were invited to ask questions:

- A Member asked if the report could be made more easily readable, if possible, in future.
- The Member asked about Broadway Partners Ltd. which had recently moved into administration and queried if there were any implications/risks arising from this. The Head of Finance explained that the Council entered a

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commercial loan special purpose vehicle in Spring 2020 with Broadway Partners. Two tranche payments totalling £1.15 million were drawn down. Repayments on the loan have been made monthly until it was announced that administrators had been appointed in April 2023 when loan repayments ceased and are now overdue. The Investment Committee resolved to defer the loan repayments to allow the special purpose vehicle to remain solvent in the administration process. The total outstanding loan at the current time is around £745,000 with accrued interest of £15,000. There is regular communication with the administrators. The Deputy Chief Executive commented that the administrators are in a process of seeking interest from prospective purchasers.

- Referring to the Capital Financing requirement, a Member asked how close the authority is to the borrowing ceiling. The Head of Finance confirmed that the borrowing levels are affordable and prudent noting that there is an indicator in the treasury strategy at the start of the year. That, and the impact on the revenue budget, is monitored regularly.
- Addressing a question around the unrealised capital loss of £401,000 and pooled funds, the Head of Finance confirmed the position noting that the regulations have been extended both by UK government and Welsh Government for at least two Financial years and that allows the unrealised loss to be carried forward on the balance sheet. If an opportunity arose, the authority may look to undo that position over the medium term. In the meantime, the returns are satisfactory, and a treasury reserve is held to cover the risk of the unrealised loss materializing and the position with volatility of the markets is kept under review. In response to a question, it was confirmed that the treasury risk reserve is approximately £590,000.
- In response to a question, the Head of Finance noted that returns on commercial and investment properties are in the report (s.10). There are variable returns from the solar farm and Newport Leisure Park. There was a net loss on Castlegate Business Park
- A question was asked about the advice from our advisors recommending a maximum duration limit for unsecured deposits within banking institutions of 35 days and queried if this was unduly risk adverse. The Head of Finance confirmed that there are regular updates from the treasury advisers. The authority keeps its investments liquid linked to the internal borrowing position and staying very close to the £10million minimum investments requirement. Referring to the 35 days, the authority is comfortable with the professional advice and would not wish to take action which could adversely impact levels of liquidity at this time.
- The Head of Finance was able to confirm that the authority has complied with the treasury policy during 2022/23 and the learning from this period has been applied to treasury strategy this year. Treasury management indicators and strategy were set at the start of the year and have been fully complied with.

As per the report recommendations, the Governance & Audit committee reviewed the results of treasury management activities and the performance achieved in 2022/23 as part of its delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of Council.

5. Quarter 1 Treasury Report 2023/24

The Head of Finance presented the Quarter 1 Treasury Report 2023/24. Following this, Committee Members were invited to comment and ask questions:

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- Answering a question, the Head of Finance confirmed that Cineworld is in administration in the UK (and US) and that the authority is in regular communication with the administrators. The tenancy at Newport Leisure Park has not been impacted to date and there is no evidence that the security of the rental payments is at risk; payments are on time. The company is aiming to restructure its operations to remain sustainable in the UK.
- In terms of the anchor tenant at Castlegate Business Park, it was confirmed that the rent-free period continues.
- A Member noted the material change and net investment position over a two-year period from £48million to forecast £15million.
- Referring to LOBO (Lender Option Borrower Option) loans, it was confirmed that there are loans with three banks. These types of loans were available in the 2000s. In the current rising interest rate environment, banks may wish to exercise their option on loans and the authority is in discussion with its treasury advisors should that situation materialise. The next option date is in August so options are being considered.
- Responding to a question, the Head of Finance informed the Committee that money market funds have traditionally provided better returns than deposits with the Bank of England however this has not been true during the recent volatile period. A priority is avoiding unnecessary risk. Investments could be subject to bailing (regulations for the security of the funds) if an institution fails, It has been noted that bailing exposure has increased slightly and deposits have been made with the Bank of England to reduce bailing exposure and to increase investment returns during this period of high interest rates.

As recommended the Governance & Audit Committee reviewed the treasury management activities and the performance achieved in the first quarter of 2023/24 as part of its delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of Council.

6. Draft Statement of Accounts 2022/23 - Charitable Trust Funds

The Head of Finance presented the Draft Statement of Accounts 2022/23 – Charitable Trust Funds. Following presentation of the report, questions were invited from Committee Members:

- In response to a question, it was confirmed that the Board of Trustees for the respective charitable trust funds have been sent the draft statement of accounts and will consider them at their next scheduled meetings. It was confirmed by a Board Member that the Monmouthshire Farm School Trust Board has considered, and is satisfied with, the accounts.
- A Member noted the capital loss on the Welsh Church Fund and the Monmouthshire Farm School Trust because of the volatility of UK markets and asked if that trend is likely to continue exposing the potential for greater or lesser losses. The Head of Finance explained that the purpose of making these investments is to provide regular income generation to support the annual grant process. The returns are significantly higher than prior to the pooled fund investments and provide a reliable income stream and support the objectives of the trust funds. As long-term investments, it is accepted that capital values rise and fall, and it was noted that some investments have recovered significantly recently.
- A question was asked about the responsibility of the Governance and Audit Committee, and if the Committee had seen the investment strategy for these bodies. It was commented that there is a separate investment strategy for these funds closely aligned to the overall investment strategy for the whole authority. The Deputy Chief Executive

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explained that Cabinet approved the trust fund investment strategies 2023/24 (1st March 2023) and in the future a report can be scrutinised by this Committee.

- It was noted that relatively few grants had been issued during the period and explained that limited numbers of applications were received so efforts are being made to provide information and encourage applications from students.

As per the report recommendations, the Governance & Audit Committee reviewed the 2022/23 draft Statement of Accounts for the above bodies and had the opportunity to provide comments or proposed amendments which will be considered alongside the external audit process and prior to publication of final accounts.

7. Draft Annual Governance Statement

The CIA presented the Draft Annual Governance Statement. Following presentation of the report, questions were invited from Committee Members:

- A Member asked when the new Head of Law would be taking up the post. The CIA explained there is a three-month notice period so a start date is under negotiation. The Governance Working Group and senior officers, including those in the Legal Team, will monitor and cover as necessary in the interim.
- A Member welcomed the areas for improvement and suggested that consideration in future years could be given to the effectiveness points that appeared to be actions as opposed to explaining how they were effective. It was suggested that, where a few have multiple points but less effectiveness examples, they could be reviewed. This was agreed.
- A Member asked how the Committee can be confident that the assessments are true and reasonable. The CIA explained that the assessments in the report have been challenged by the Governance Working Group and separately challenged by members of the Senior Leadership Team and the areas of effectiveness were changed considerably following this process. The Deputy Chief Executive said that considering multiple perspectives is an important aspect. There is also value in the interim CIA, as a new officer, looking at the document with “fresh eyes” to validate the accuracy of the information presented to the Governance and Audit Committee.
- Referring to the Action Plan, a Member noted that the date to produce a new socially responsible procurement strategy is June 2023 and asked if there was any progress. The Deputy Chief Executive reported that this item had recently been approved by Cabinet and the plans supporting that strategy now take effect.
- A Member asked about the ability of the Governance and Audit Committee to identify potential misconduct and questioned if there are sufficient measures and checks in place to do so. It was noted that there hasn't been any reported misconduct over the period of the current committee. It was queried if a test could be put in place to rehearse the process to provide assurance of the effectiveness of any response. The CIA reported that there were no special investigations last year so nothing to report to Governance and Audit Committee. The CIA to liaise with HR colleagues to check if there are instances to report. The Member recalled some concern about complaints that weren't received.
- Suggesting some minor amendments, a Member did not recall seeing a report on exemptions of contract procedures rules and suggested that nil reports should be presented. Also, there had not been an opportunity to review procurement processes. It was suggested that some observations about areas for further improvement from the

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Governance and Audit Committee's Annual Report could be considered for inclusion in the revised Annual Governance Statement.

- The Committee were satisfied with overall effectiveness. The Deputy Chief Executive commented that the ratings originally designated were downgraded to improve accuracy based on multiple perspectives and to promote future excellence.

As recommended, the Governance & Audit Committee contributed to the appropriateness and content of the draft Annual Governance Statement (2022/23) and considered the review of effectiveness and the assessment made against each of the governance principles. Subject to some minor amendments, the Committee endorsed the Annual Governance Statement for inclusion within the Draft Statement of Accounts 2022/23.

The Chair asked that the Action Plan is brought back to the Committee periodically so that Members can understand the actions taken ahead of consideration of next year's Annual Governance Statement.

8. Internal Audit Quarterly Progress Report

The CIA presented the Internal Audit Quarterly Progress Report. Members were invited to comment and ask questions:

- In response to a question, the CIA reported that it was hoped to have the tracker live by the end of Quarter 2.
- Responding to a question about Tintern Old Station, the CIA confirmed that the Team is following up the findings from the original audit report concerning the third-party concession and contract (previous to the catering service being returned to in-house provision). The Team is looking at current arrangements for catering to provide assurance that the controls in place are effective. A Member said he had received complaints that only card payments are available and the CIA agreed to investigate if cash payments are taken.

As per the report recommendations, the Committee 1) noted the audit opinions issued and 2) noted the progress made by the Section towards meeting the 2023/24 Operational Audit Plan and the Section's performance indicators at the 3-month stage of the financial year which are currently ahead of the profiled target.

9. Governance and Audit Committee Annual Report 2022/23

The Governance and Audit Committee's Annual Report 2022/23 was approved for presentation to Council.

The Chair asked that a date is sourced in the Autumn for the Committee to meet to undertake a self-evaluation exercise to review the Committee's own effectiveness.

10. Final Internal Audit Operational Plan 2023/24

The Final Internal Audit Operational Plan 2023/24 was presented by the CIA. Following presentation of the report, questions were invited from members:

- Agreeing the need for additional resource, a Member asked how cost effective and efficient it is to buy in resource instead of appointing FTE staff. It was queried if the authority uses freelance consultants or other public sector shared resource. The CIA confirmed that it is

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not cost effective to buy in resource; the daily rate is high due to lack of availability in the market. The recent appointment of a senior auditor will limit the need to procure external resource. It was explained that such external resource can be procured from regional collaboration or from internal audit companies in the area. In either case availability and available budget are key factors.

- A Member queried why Democratic Services and Electoral Registration had been identified as high-risk. The CIA explained that Electoral Registration was rated as high risk due to the number of legislative changes at this time. In terms of Democratic Services, this is related to governance and the review will feed into the Governance Working Group to inform the annual governance statement.
- A Member noted that there were a few high-risk areas that have never been reviewed in the plan. It was queried what triggers the inclusion of services areas if they hadn't been reviewed before. It was explained that it is possible they have been audited before under a different name.

As in the report recommendations, the Governance and Audit Committee reviewed and approved the Internal Audit Operational Plan for the 2023/24 financial year.

11. Annual Audit Plan 2022/23

The Audit Wales Officer introduced the report and following presentation, Members were invited to ask questions. No questions were asked.

12. Forward Work Plan

The Forward Work Programme was noted. The following additions were made:

September

- Key collaborations and partnerships report
- Verbal update on Finance Team Capacity

November

- People Strategy and Asset Strategy

13. To approve the minutes of the previous meeting

The minutes of the previous meeting were approved as an accurate record.

14. To confirm the date of the next meeting as 20th September 2023

The minutes of the previous meeting were approved.

Meeting ended at 4.08 pm