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MONMOUTHSHIRE COUNTY COUNCIL

Minutes of the meeting of Audit Committee held
at County Hall, The Rhadyr, Usk, NP15 1GA on Thursday, 6th July, 2017 at 2.00 pm

PRESENT: Mr. P. White (Chairman)
County Councillor J. Higginson (Vice Chairman)

County Councillors: P White, J. Higginson, A. Easson, P. Murphy,
B. Strong, J. Watkins, M. Feakins, M. Lane and V. Smith

OFFICERS IN ATTENDANCE:

Mark Howcroft	Assistant Head of Finance
Joy Robson	Head of Finance/Section 151 Officer
Non Jenkins	Wales Audit Office
Roger Hoggins	Head of Operations
Wendy Barnard	Democratic Services Officer
Matthew Gatehouse	Policy and Performance Manager
Richard Jones	Policy and Performance Officer
Terry Lewis	Wales Audit Office
Dave Walton	Audit Manager
Lesley Russell	Accountant

APOLOGIES:

County Councillors P. Clarke and S. Woodhouse

1. Declarations of Interest

Declarations of interest were made as follows:

- County Councillor A. Easson: In relation to Items 8 (Draft Statement of Accounts) and 9 (Internal Audit Outturn Report 2016/17) - a personal non-prejudicial interest under the Members' Code of Conduct as a Governor of Ysgol Y Ffin.

2. Public Open Forum

There were no members of the public present.

3. To confirm minutes of the previous meeting held on 25th May 2017.

The minutes of the meeting held on the 25th May 2017 were confirmed as a true record and signed by the Chair.

4. To note the Action List from 25th May 2017

Youth Service: It was clarified that the report detailing the Youth Service element of the whole directorate review will be presented to Committee when the business plan is finalised this financial year. It was added that the Head of Tourism Leisure Culture & Youth has offered to attend the September meeting to provide further information.

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The Zone: It was noted that a response regarding the £70,000 grant for The Zone building had been provided by the Youth and Community Officer. Whilst this was a good response, a Member questioned what happens to the grant awarded to The Zone Management Committee if provision is moved to the Leisure Centre and what happens to the asset. It was agreed to ask the Head of Tourism Leisure Culture & Youth to respond to these questions at the next meeting.

Risks (Events): It was noted a follow up review is currently in progress and will be reported in September.

Anti-Fraud/Bribery Policy: The Employee's Code of Conduct has been circulated to Committee Members.

Implementation of Internal Audit recommendations: Chief Officer, Children and Young People to be asked to provide a report with details of actions and plans to address the audit opinions.

Unsatisfactory Audit Opinions: The requested review of historic audit opinions will be included in the January 2018 report

Internal Audit recommendations: Arising from discussion at the last meeting, the Head of Operations attended the meeting regarding car parking income. An update was provided that the action plan and many of the recommendations relies upon new equipment and signage. Background information was provided that existing equipment is approximately 20 years old and largely obsolete. A Cabinet report has approved a complete review to improve equipment, disability access and signage, review charges and consider investment opportunities.

Considering the recommendations, it was noted that the contract for the new equipment will be awarded shortly, and work is scheduled to renew signage and disability access. A procedural manual is completed (subject to reference to new equipment). New payment methods will be facilitated. Demarcation between cash collector and reconciliation of cash collected will be achieved through utilisation of a new cash counting machine. Annual inflationary increases do not currently occur annually; implementation will require Member decision.

It was accepted that the outstanding actions are being addressed and will be subject to follow up review and regular reports, in common with all internal audit recommendations.

In response to a query, it was noted that progress regarding car parking income is expected in approximately 3 months.

Zero Hours Contracts: This matter was deferred. A gender breakdown was requested at Council and this information is being collated.

Social Services and Wellbeing Act: See agenda item 14

Annual Audit Committee Report: The Chair presented the report to Council on 29th June 2017.

Report back on Zero Hours Contracts: The Chair presented a report to Council on 29th June 2017.

5. Review of Reserves Outturn.

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The purpose of the report is to appraise Audit Committee Members of the prospective reserve usage in conjunction with continuing to highlight the revised reserves protocol endorsed by Cabinet.

In terms of resource implications, it was summarised that earmarked reserves in 2017/18 have reduced by £5m (approx. one third). Whilst there is some replenishment of budgets, due to the favourable outturn last year, the position is less than the starting point of the period.

With regard to general reserves, it was explained that Council Fund planning assumes 4-6% reserves and currently, the level is 4.8% which is within acceptable limits. It was explained that earmarked reserves are set up for a specific purpose and unlikely to facilitate wide scale re-engineering of services; this position is common to other public sector bodies currently.

A Member queried the amount attributed to “Handsets (Connected Worker) – Invest Redesign” and asked if this was a good case for more efficient working, why it has been deferred. It was clarified that the system was valued by a lot of teams and its inclusion is in recognition that the capital project is a more widespread development than originally thought with ring fenced funding for the latter stages rather than the start.

A Member queried the “Insurance Provisions” at £153,000 and it was explained that the amount refers to provision for known cases and expected excesses. A prudent approach is taken when claims are received, they are assessed on the likelihood of progressing.

The report was noted.

6. 2016 Treasury Outturn Report

The Treasury Outturn Report was presented by the Assistant Head of Finance.

The Council’s treasury management activity is underpinned by CIPFA’s Code of Practice on Treasury Management (“the Code”), which requires local authorities to annually produce Prudential Indicators and a Treasury Management Strategy Statement on their likely financing and investment activity.

Key aspects at outturn were as follows:

External borrowing

	£m	£m	
	April 16	Mar 17	Average Rate
Short Term	26.6	19.5	0.6%
Long Term	68.2	69.8	4.5%
Total Borrowing	94.8	89.3	

Investments

Short Term & Cash & Cash Equivalents	11.4	4.5	0.35% Avg investment period 3 days @ 31/3/17
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<u>Net Borrowing</u>	<u>83.4</u>	<u>84.8</u>
<u>Capital Financing Requirement</u>		£m
31 March 2017		134.6
1 April 2016		114.1
Movement		<u>20.5</u>

It was confirmed that treasury consultants, Arlingclose, will provide training on treasury policy for new members in October 2017. Members were invited to reflect on the CIPFA self-assessment return prior to the next meeting, to assess the skills level of the Committee and development needs to influence the training content.

Having received the report, Members made the following observations:

A Member questioned, if the authority is undertaking structural change, could costs be assigned as a capital expense and then borrow against the capital expense as opposed to cash flow. It was replied that capital definitions related to assets are subject to 3 stringent tests (whether it enhances its value, its life or its use) and restructuring doesn't normally fall into these categories. (There is a specific exemption in the Welsh Government's capital directive that excludes the capitalisation of redundancy costs where there is a proven case). Whilst this could be done, historically the capital programme is restricted and provides little headroom to use in this way. The biggest priority has been the provision of two secondary schools in the county.

A Member questioned the term "Bail ins" and the explanation was provided that it means government regulations to avoid banks being taken into government control when running into difficulty. Under regulations, private investors' funds are protected to a limit of £85,000 however institutional lenders such as LAs would be required to bear a proportion of the risks and costs of a failed bank. Therefore, it would not be prudent to place large amounts of funds with weak banks. Consequently, cash investments are restricted, hence the preference to use internal borrowing and utilisation of our cash to avoid borrowing from fragile banks. It was added that it is increasingly difficult to identify banks that meet with the ratings requirement set in the treasury strategy.

A Member commented that the Capital Financing Requirement (CFR) has increased by £20.5m and asked for additional information. It was answered that this is the element of capital expenditure funded by borrowing. Projects funded by capital receipts or specific grants don't increase the CFR. It is important to pay a Minimum revenue Provision (MRP) and a percentage of the CFR; a prudent measure to ensure the CFR isn't too high. The Council decides what to add into the capital programme and in 2016/17 it was agreed to increase Future Schools spending, to invest in solar farms and to replace vehicles at the end of their useful life raising the CFR by £20.5 M. Whilst not imprudent, the ability to sustain MRP payments is monitored and currently it is a sustainable prospect.

A Member observed that, on the latest information, the solar farm investment is a worthwhile investment as it is producing significant amounts of electricity.

Members agreed the recommendations to note the results of treasury management activities and the performance achieved in 2016/17.

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7. Draft Statement of Accounts (as a prelude to audit process) including Annual Governance Statement

The Committee received the draft statement of accounts for 2016/17 and were provided with a presentation. Following this, questions were invited:

A Member queried if any internal rates of return are applied when borrowing internally. It was responded that for projects, there may be an internal rate of interest charged but not for cash borrowing (to make a saving against the cost of external borrowing, noting that e.g. investment of the amount borrowed would net approximately 0.4% and the cost of borrowing would be approximately 1.5% - a saving in the region of 1% in the Revenue account).

Secondly, it was questioned if a significant capital expense would be amortised over time or written off in year 1. If the latter, it was queried how cash flow is worked out of the project. It was explained that costs are amortised over the life of assets. In the case of the Solar Farm, this would be for 20 years. The business case took a prudent approach and considered the borrowing rate from the Public Works Loan Board but, took out an interest free loan from the Welsh Government Salix scheme.

Considering the build of two new secondary schools, a Member questioned and it was confirmed that the new properties become an asset on the balance sheet and are assessed to determine appropriate useful life to calculate depreciation (in this case between 50-60 years). It was further explained that there are three types of schools, maintained, voluntary controlled and voluntary aided. The buildings in the category of voluntary controlled and voluntary aided would not be held on the asset register with the exception of the playing field.

It was also questioned if there were any tax implications in relation to depreciation of assets. It was confirmed that public sector has a different context for capital gains and losses than the private sector. There is a periodic revaluation of every asset every 4 years. An adjustment is made for any variation in value in the revaluation account.

A Member, referring to Monmouthshire Farm School Endowment Trust Fund, Llanelly Hill Social Welfare Centre Accounts and any other such funds, sought clarification regarding their management and whether or not this is an appropriate role for the Council. It was commented that it is difficult to break trustee status as there is no other body better placed to hold the role. Clarification was provided that historically, some small charity funds were transferred to the Community Fund but it was not felt appropriate to transfer the management of larger funds.

County Councillor B. Strong declared a personal non prejudicial interest as a member of the Welsh Church Fund Committee.

The Cabinet Member for Resources reported that the figures have been through full scrutiny.

The Chair noted that there are unusable reserves that are negative that correspond to the pension fund. It was explained that the pension reserve reflects the level of liability of the fund for its members against the contributions being made and consequently shows a negative position. Over the next three years employers will make increased contributions for its members. It was added that it is less problematic to have an open scheme that all new employees are entitled to join. A number of schemes have closed and new members' contributions are not then received into the fund. In an open scheme the current members pay for the liability of the costs as a member retires and the fund will be replenished in turn as they retire. Sensitivity of markets also has a key influence on pension funds. It was acknowledged that there is a paper loss in the unusable reserve and also commented that pension funds in the public sector aren't fully funded.

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In response to a question, it was confirmed that it is a Defined Benefits Scheme.

As recommended, the Committee reviewed the draft Monmouthshire County Council Statement of Accounts for 2016-17, as presented for audit, reviewed the draft statements of accounts listed of the following:

- Monmouthshire County Council Welsh Church Act Fund;

It was noted that the final figures in relation to following Trust Funds, are yet to be supplied:

- i. Monmouthshire Farm School Endowment Trust Fund
- ii. Llanelly Hill Social Welfare Centre Accounts.

8. Internal Audit Outturn Report 2016/17

The Internal Audit Outturn Report for 2016/17 was presented by the Audit Manager. The purpose of the report is to provide feedback on the findings of audit work undertaken in the course of the year and to provide commentary on the performance of the audit team.

The key points were:

- The report is the Chief Auditor's Annual Report as required in the Public Sector Internal Audit Standards.
- Based on the audit work completed, the internal control measures were assessed by the Chief Auditor as providing "Reasonable" assurance (adequately controlled although some risks identified that could compromise the overall risk environment with improvements required). This status was determined with reference to the 28 audit opinions given during course of year.
- Overall, there were 8 "Limited" assurance opinions for which regular reports on progress will be provided to the Audit Committee.
- This year there were 12 instances of special investigations and unplanned work (internal investigations, new risks and unforeseen work).
- Team members are encouraged to undertake appropriate professional training and networking.
- Performance indicators show that 75% of the plan was delivered within the year. The target was 80%. 98% of audit recommendations have been accepted and a client survey has an outcome of 100% satisfaction.

A Member queried what progress has been made on "Limited" opinions and it was responded that:

- **School meals:** Parent Pay is being implemented throughout primary schools and should be finished before the end of the academic year. A follow-up audit will be undertaken in the autumn to assess the effectiveness of implementation.
- **Ysgol Gymraeg Y Ffin:** A follow up audit has been arranged in December. County Councillor A. Easson declared a personal, non-prejudicial interest as a Governor of Ysgol Gymraeg Y Ffin.
- **Events:** A follow up review is in progress and will be reported upon in September.
- **Policy Review (People Services):** An action plan has been agreed and a number of new or updated policies have been presented to Cabinet. The issue is to ensure that policies are regularly reviewed and updated as required. This matter will be revisited in the current financial year.

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- **External Placements:** An action plan is agreed and will be followed up in the current financial year.
- **Compliance with the Bribery Act:** An action plan is agreed and will be followed up this financial year.
- **Volunteering:** It was established that there was generally a good framework developed centrally but implementation and compliance across the authority requires improvement. An action plan has been agreed.
- **Mobile phones:** An action plan has been agreed and there is a new contract in place. A follow up review will consider impact.

The Committee endorsed the outturn report from Internal Audit.

9. Internal Audit Plan 2017/18 - Update

The Internal Audit Plan 2017/18 was presented by the Audit Manager, and Committee Members were invited to ask questions:

The Chair queried if there are sufficient resources to deliver the plan and it was responded that, as part of the planning process, the number of days required is calculated. With the current full complement of staff, an achievable plan has been developed in accordance with audit standards. It was acknowledged that unforeseen work can impact on plans and an allocation is included accordingly. Quarterly progress reports will be provided to this committee and will highlight any slippage.

A Member asked if there were enough staff to complete the necessary work. It was responded that, if there were more staff members then the team could complete more work and provide greater assurance but the current staffing level is sufficient to discharge the duties required in legislation and the Public Sector Internal Audit Standards.

A Member referred to the figure of 75% performance and it was confirmed that any outstanding audits from the previous year will be rolled forward.

A Member asked if the Committee is required to define the scope of an audit and it was explained that usually, meetings will be held with operational managers and the team will develop the scope. The Committee would not normally be involved.

The Committee accepted and endorsed the plan.

10. Progress Report: Wales Audit Office Proposals for Improvement

The Progress Report was presented by the Policy and Performance Officer covering the period up to June 2017. Following the introduction to the report, the Committee were invited to ask questions.

A Member asked if there was any comments from Wales Audit Office (WAO) regarding overlapping work from previous reports and it was confirmed that the council's own tracker can be used for this purpose.

A question was asked if there were any areas that are particularly problematic and it was confirmed that, when judging progress, both progress against actions and the appropriateness of the action to address the issue are considered. The update is reviewed, and if sufficient improvements have been made, the recommendation will be removed.

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It was explained that Check in/Check out is the staff appraisal process undertaken on an annual basis.

The Committee considered the paper as requested.

11. Wales Audit Office Savings Planning report and the Council's Management response

The Wales Audit Officer presented the report explaining that it focused on work to identify, plan for and deliver savings. The work examined the extent to which the Council achieved its 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans.

It was explained that three savings proposals for 2016-17 were sampled and the underlying assumptions, whether there are adequate mechanisms to ensure they can be delivered in the planned timescale were considered.

The 2015-16 review concluded that the Council had generally effective financial governance but its financial planning and control arrangements were not fully embedded or delivering effectively, in the face of some significant financial challenges. In respect of financial planning specifically, it was concluded that the Council's financial planning arrangements continued to improve although the medium term financial plan was not fully balanced, some budget mandates did not define how savings would be achieved and some planned savings were unlikely to deliver.

The review concluded that the Council's longer term financial planning arrangements are hampered by a Medium Term Financial Plan (MTFP) that is underdeveloped and may not support future financial resilience.

It was reported that this is a slightly improved position from 2015-16. The Council has improved the quality of information supporting budget savings mandates but the lack of a detailed MTFP to provide a clear financial planning framework, and reducing reserves to provide an ongoing financial 'safety net', indicate that the Council continues to plan for the annual budget cycle instead of the longer term.

It was explained that the proposals for improvement have been made with a view to strengthening financial planning arrangements.

Following presentation of the report, Members made the following comments:

The Chair commented that the improvements to the Medium Term Financial Plan were accepted and will now form part of the budget setting process.

The Head of Finance referred to the response and was pleased that the WAO recognises MTFP is improved, whilst understanding there is still work to do and to align the plan with the requirements of Future Monmouthshire. This will provide a projection of the resources available over next four years enabling a realistic assessment of what is viable.

The Committee noted the report and the County Council's response.

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12. Wales Audit Office Good governance when determining significant service changes and the Council's Management response

The Wales Audit Officer presented the report and explained that the focus of the review is on the effectiveness of the Council's governance arrangements for determining significant service changes (defined as any significant change in delivering services and/or any significant change in how services are experienced by external service users). The review provides the Council with a baseline, from which further improvement can be planned. The assessment, undertaken during the period

September to November 2016, looked at aspects of decision-making arrangements in relation to a range of significant service change proposals including:

- Feasibility of developing a not-for profit service delivery model
- Promoting responsible business waste management at household waste recycling centres
- Income generation from planning services
- Funding of local services by town and community councils
- Revisions to car parking

The review concluded that the Council has a clear strategic approach for significant service changes, although, better information would help Members when deciding the future shape of the Council.

To provide context, it was explained that the review was conducted across all Wales as a national study to enable councils to learn from each other.

The importance of considering different options when making decisions was emphasised, ensuring a record is kept of how and why options have been discarded. A Member commented that elected members need to be given the full picture to be to be involved. In response, the view was explained that option appraisal is not well developed in the Council and budget mandate choices did not include sufficient detail.

Five proposals for improvement were reported and the Policy and Performance Manager reported on the management response acknowledging that the Council is encountering an unprecedented scale and pace of change that will require new ways of working. Decision making and governance arrangements will be a priority and this has been recognised, for example, through the creation of a new Cabinet post with responsibility for Governance. The Cabinet Member has discussed his expectations and the issues raised in the report which has led to a review of arrangements for decision making and report writing. The improvements will enable members and officers to see where and when key decisions were made, not only when the matter entered Select or Council processes but earlier decisions at e.g. Directorate Management Teams. Additionally, reports will make clear not just who was consulted but what key views were expressed and how the report was altered to reflect those views. Tracking of the decision making process can be addressed through ModGov system or Sharepoint and consideration is ongoing.

A Member said that the Alternative Delivery Model has not been addressed, and is unresolved. It was agreed that the Policy and Performance Manager will seek and circulate a response regarding this matter prior to the next meeting.

The Committee noted the report and the Council's management response.

13. Progress implementing the well-being of future generations act

The Policy and Performance Manager provided an update on progress implementing the Wellbeing of Future Generations Act. It was clarified that there are two acts; the Wellbeing of

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Future Generation Act 2015 and the Social Services and Wellbeing Act 2014. It was agreed to circulate two Welsh Government guides that provide the essential aspects of each act.

The Wellbeing of Future Generations Act focusses on the economic, cultural and social wellbeing of communities in Monmouthshire and Wales. It places responsibilities on all public bodies in Wales and Public Service Boards. The Council has to set wellbeing objectives each year. The previous Council completed this through the wellbeing assessment "Our Monmouthshire". The Public Service Board has responsibility for the wellbeing assessment, and scrutiny is through the Public Service Board Select Committee. The Act focuses on the principles of sustainable development. There are seven wellbeing goals and early intervention and prevention is the basis.

Progress to date includes:

- ensuring members were clear on the principles through training and seminars;
- all decision-making reports have a Future Generations assessment; and
- completion of a wellbeing assessment to identify the challenges and opportunities facing our communities was completed;

Next steps include:

- the objectives will be scrutinised by Select Committees;
- Audit Committee will receive regular updates on the effectiveness of improvement arrangements; and
- Council will make an annual decision on the improvement objectives.

Following presentation of the report, questions were invited.

A Member asked how outcomes will be measured and it was responded that outcomes will depend upon the challenges identified. There are forty six wellbeing indicators and the impact of different public bodies can be identified, but this might be more in terms of milestones and opportunities.

A question was asked about the annual report, and how often a response is required to the commissioner. It was explained that there is a very open and regular dialogue with the commissioner's office. There are also some statutory points in the process e.g. an annual report is a legal requirement.

It was queried how the views of stakeholders will be taken into consideration and confirmed that the wellbeing assessment contained views from stakeholders, e.g. affordable housing.

In receiving the update, the Committee developed its understanding of the Wellbeing of Future Generations Act.

14. Forward Work Programme

The Forward Work Programme was noted.

15. To note the date and time of the next meeting as TUESDAY 19th September 2017

The meeting ended at 4.36 pm