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## AUDIT AND GOVERNANCE COMMITTEE 15/10/20

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**Present:** Councillor John Brynmor Hughes (Chair)  
Councillor John Pughe Roberts (Vice-chair)

**Councillors:-** Aled Evans, Alwyn Gruffydd, Medwyn Hughes, Peredur Jenkins, Aled Wyn Jones, Berwyn P Jones, Huw W Jones, Dewi Roberts, Paul Rowlinson, Angela Russell and Gethin Glyn Williams.

Sharon Warnes (Lay Member)

**Officers:** Dafydd Edwards (Head of Finance Department), Ffion Madog Evans (Senior Finance Manager), Luned Fôn Jones (Audit Manager), Delyth Jones-Thomas (Investment Manager), Siân Pugh (Group Accountant – Corporate and Projects), Caren Rees Jones (Group Accountant – Capital and Management) and Eirian Roberts (Democratic Services Officer)

**Others invited:**

Councillor Ioan Thomas (Cabinet Member – Finance)  
Councillor Edgar Owen (Council Chairman)  
Ian Howse (Deloitte)

**1. ELECTION OF CHAIR**

**RESOLVED to elect Councillor John Brynmor Hughes as Chair of this committee for 2020/21.**

**2. ELECTION OF VICE-CHAIR**

**RESOLVED to elect Councillor John Pughe Roberts as Vice-chair of this committee for 2020/21.**

**3. APOLOGIES**

Apologies were received from Councillor Charles W. Jones.

**4. DECLARATION OF PERSONAL INTEREST**

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

**5. URGENT ITEMS**

None to note.

**6. MINUTES**

The Chair signed the minutes of the previous meeting of this committee held on 30 July, 2020 as a true record.

**7. FINAL ACCOUNTS – GWYNEDD COUNCIL**

Submitted – the report of the Head of Finance Department, requesting that the Committee consider and approve the Statement of Accounts 2019/20 (post-audit), Deloitte's 'ISA260' report and the Letter of Representation (Appendix 1 to the Deloitte report), before authorising the Chair to certify the letter.

The Head of Finance Department noted that the committee had received the pre-audit accounts on 23 July, but Deloitte had advised late in the day that a minor change was needed to two figures relating to the revaluation of the pension fund commitments - this meant changing the figures from estimated to actual, and a corresponding adjustment to the unusable reserves. With this, the committee was asked to approve the accounts, and delegate the right to the Chair and himself as Head of Finance Department, in consultation with the Vice-chair and the Cabinet Member for Finance, to certify the Statement of Accounts 2019/20 and the Letter of Representation, after making the minor necessary amendments to the accounts.

Ian Howse was then invited to present Deloitte's 'ISA260' report on behalf of the Auditor General for Wales. He noted that the auditors intended to issue an unqualified audit opinion on the accounts this year, once the Letter of Representation had been signed. He provided details on:-

- The effects of Covid-19 on this year's audit
- Proposed Audit Opinion
- Significant issues arising from the audit, including corrected and uncorrected misstatements and other significant matters
- Recommendations

During the discussion members raised the following matters:-

- They enquired whether the matters of pricing the value of investments in property funds and the effect on the Pension Fund was a unique issue to Gwynedd. In response, it was explained that the adjustment was common to the pricing of the value of investments in all Welsh authorities' property funds, with the effect on the value of assets in the accounts dependent on the materiality level of the investments in property funds.
- Referring to Part 3 of Appendix 3 to the accounts – Governance Arrangements and their Effectiveness – Stakeholders (page 112 of the agenda), it was suggested that the weak relationship with the institutional stakeholders should bear a much higher risk score than 9, especially given the impact of Covid-19. In response, it was explained that the committee had already approved and committed to this part of the governance statement, therefore the score could not be revised in this meeting. The member asked that this be reconsidered for next year.

#### **RESOLVED**

- (a) To approve the Statement of Accounts 2019/20 (post-audit), subject to further minor adjustments in accordance with what was reported verbally at the meeting, and to delegate powers to the Chair and Head of Finance Department, in consultation with the Vice-chair and the Cabinet Member for Finance, to certify the Statement of Accounts 2019/20 and the Letter of Representation (Appendix 1 to the Deloitte report) after making the minor adjustments to the Accounts.**
- (b) To note and accept the 'ISA260' report by Deloitte on the Gwynedd Council accounts 2019/20.**

#### **8. FINAL ACCOUNTS – GWYNEDD PENSION FUND**

Submitted – the report of the Head of Finance Department, requesting that the Committee consider and approve the Gwynedd Pension Fund Statement of Accounts 2019/20 (post-audit), note and accept Deloitte's 'ISA260' report and the Letter of Representation (Appendix 1 to the Deloitte report), before authorising the Chair and Head of Finance to certify the letter.

The Head of Finance Department noted that the committee had received the pre-audit accounts on 23 July, and although some minor changes had been made to the narrative following Deloitte's audit, there was no change to the figures. The Pensions Committee had also discussed the accounts at its meeting on 14 October, and had had a taste of the auditors' report.

Ian Howse was then invited to present Deloitte's 'ISA260' report on behalf of the Auditor General for Wales. He noted that the auditors intended to issue an unqualified audit opinion on the accounts this year, to include a paragraph on 'emphasis of matter' – material uncertainty related to the valuation of UK property funds on the financial statements. He provided details on:-

- The effects of Covid-19 on this year's audit
- Proposed Audit Opinion
- Significant issues arising from the audit, including uncorrected misstatements, corrected misstatements, significant risks and other areas being addressed by audit, and other significant issues
- Recommendations

It was noted that the members were delighted to have received such an excellent report by the auditors this year, and they noted that much of this thanks was owed to the work by the Investment Manager and her team.

In response to a question, it was confirmed that it was not currently a requirement to disclose environmental, social and governance factors in the statutory official accounts, but they did intend to refer to this in the annual report which would be submitted with the accounts to the Fund's Annual General Meeting on 19 November.

#### **RESOLVED**

- (a) To approve the Gwynedd Pension Fund Statement of Accounts 2019/20 (post-audit)**
- (b) To note and accept the 'ISA260' Report by Deloitte on the Gwynedd Council Pension Fund accounts 2019/20.**
- (c) To authorise the Chairman and the Head of Finance Department to certify the Letter of Representation (Appendix 1 to the Deloitte report).**

The Head of Finance Department thanked Ian Howse and Lauren Parsons for leading the work on behalf of Deloitte again this year. He added that this would be the last time that Ian Howse would submit the report on the accounts in his current role as external auditor for Gwynedd in this contract, as the work would be undertaken internally from next year onwards, and he thanked him for this work over the past five years.

## **9. SAVINGS OVERVIEW – PROGRESS REPORT ON REALISING SAVINGS SCHEMES**

Submitted – the report of the Cabinet Member for Finance requesting that the Committee notes the position and relevant risks in respect of the Savings Overview, considers the Cabinet's decisions of 13 October, 2020 and provides comments as required.

As a general point at the beginning, the Cabinet Member for Finance noted:-

- In implementing the savings and innovation strategy, that the Council had been very fortunate e.g. before the pandemic, 138 users were able to work from home, but by March this year, 1,292 were using equipment from home. He thanked everyone in the Information Technology Service for their work in ensuring that all the work required for the items under consideration at this meeting could be completed.
- He wished to thank all the staff for the incredible work that had been achieved in a very tight timescale.

The Cabinet Member for Finance then set out the context for the report in question and noted:-

- That there were clear signs of difficulties in achieving the savings, and that there was concern about the Children and Supporting Families Department and the End to End scheme specifically.
- Although realising that these were challenging times, it was essential that the process of achieving savings was resumed soon.

He noted that the Cabinet had considered the report at its meeting on 13 October, and had resolved as follows:-

- *To accept the information in the report and to note the progress towards realising the savings schemes for 2020/21, 2019/20 and previous years.*
- *To approve the alternative schemes outlined in Section 6 and Appendix 5 to replace the historical schemes that cannot be delivered.*
- *To note that the impact of Covid-19 has contributed to a slippage in the savings programme, as the Council has given complete precedence to safeguarding the health and lives of the people of Gwynedd in response to the crisis, which has meant that we were unable to continue with the performance challenging and savings arrangements during the crisis period.*
- *To support the intention of the Chief Executive and Head of Finance Department to arrange to meet each Cabinet Member with their Head of Department, to discuss how the procedure of delivering the proposed savings can be resumed, so that the Council can proceed with a proportion of the savings programme, despite the crisis.*

During the discussion, members raised the following matters:-

- It was noted that it was very difficult to realise the savings required of the Children and Supporting Families Department and the Flying Start Scheme. The member enquired whether a timetable had been drawn up for the review that was taking place. In response it was explained that although the Children's Budget Taskforce had begun looking at the savings, they had had to postpone the work as the officers had been drawn into other priorities during the crisis. However, they now intended to move forward and try to come to a conclusion on this. It was noted further that the numbers and the pressure on the Children and Supporting Families Department had increased, and perhaps the assumptions made at the time when setting the savings target for the service had now changed, but the taskforce review would confirm the situation regardless.
- It was noted that the entire care budget was very difficult, and there was concern that there was a genuine risk to children and also adults if we considered further cuts in these fields, particularly during the crisis. In response, the officer referred to the Cabinet's decision to support the intention of the Chief Executive and Head of Finance Department to meet with the responsible Cabinet Member and Head of Department in the five departments where there are risks to the delivery of the historical savings. The pandemic was not the only obstruction, the Council had

been battling to find savings for almost 15 years, and the situation grew continually more difficult as time went by. The nature of the demand had shifted in terms of the intensity of the requirements of children and families in need, and had intensified further during the crisis. When discussing with the Cabinet Members and the heads of department, we would have to balance the need to find savings against the needs of the service and the people of Gwynedd, and to do so sympathetically. Also, because of the pressures on the services to cope during the crisis, the Cabinet had not supported the aim to list savings and cuts yet during this period, preferring to wait and see what the draft settlement would be in December.

- A member expressed concern that the second wave of Covid-19 would be very hard on families, with many people losing their jobs.
- In response to a question regarding a Highways and Municipal scheme to transfer playgrounds to others (page 191 of the agenda), it was explained that although some of the schemes were progressing, the pandemic had stalled this process.
- Reference was made to the scheme for changing the operating arrangements of recycling centres and charge fees (page 193 of the agenda), and it was emphasised how important the recycling centres were for the residents. In response, it was explained that the scheme to change the recycling centres' operations replaced two historical schemes to charge traders and to charge a fee for the disposal of DIY waste.
- The members welcomed the Chief Executive and Head of Finance Department's intention to look at the savings with the Cabinet Members and heads of department, and they hoped that the situation would be examined carefully before considering ending any resource or service. It was also noted that should the Council find in due course that it needed to re-establish a resource, the cost of doing so would be high.
- It was noted that any proposal to charge for using recycling centres would lead to decreased use of the resource, and increased fly-tipping. In response, it was noted that the finance officers could not respond in full on every scheme, and that the Cabinet Members and heads of department were meeting with the Chief Executive, or Corporate Director, and the relevant scrutiny members. The savings were being scrutinised in different ways, and the members were asked to trust the officers to have the right balance in moving forward with this. The Cabinet Member for Finance added that there was no reference here to a cut to the Highways and Municipal Department, and that savings should not affect the service for the citizen. It was a challenging time for everyone, but he assured the members that he would look at the departments' situation sympathetically.

**RESOLVED to accept the information, to note the risks arising from slippages with some of the savings schemes, and support the Cabinet's relevant decisions.**

## **10. REVENUE BUDGET 2019/20 – END OF AUGUST REVIEW**

Submitted – the report of the Cabinet Member for Finance requesting that the Committee notes the position and relevant risks in respect of the Council's budgets and those of its departments, considers the Cabinet's decisions of 13 October, 2020 and provides comments as required.

The Cabinet Member for Finance set out the context for the report, noting the following:-

- This report again demonstrated the impact of the pandemic and the pressure on the departments.
- Appendix 1 to the report was important, as it showed the receipts received from the Welsh Government per department, and illustrated the situation clearly to the members.

He noted that the Cabinet had considered the report at its meeting on 13 October, and had resolved as follows:-

- *To accept the report on the end of August 2020 review of the Revenue Budget, and consider the latest financial position regarding the budgets of each department/service.*
- *To note the financial impact of Covid-19, which is a combination of additional costs, income losses and slippage in the savings programme, as the Council has given complete precedence to safeguarding the health and lives of the people of Gwynedd in response to the crisis, which has meant that it was not possible to continue with the performance challenging and savings arrangements during the crisis period.*
- *To support the intention of the Chief Executive and Head of Finance Department to arrange to meet each Cabinet Member with their Head of Department, to discuss how the procedure of delivering the proposed savings can be resumed, so that the Council can proceed with a proportion of the savings programme, despite the crisis.*
- *To note that there is significant overspend by the Adults, Health and Well-being Department this year, as complex details need to be clarified in Adult care; the Chief Executive has already commissioned work to obtain a better understanding of the matters and a clear response programme.*
- *To note that a Children's Budget Taskforce has been commissioned by the Chief Executive to address the complex financial issues of the Children and Families Department in order to get to the root of the overspend, with the aim of presenting a report to the Cabinet which will detail the response plan.*
- *To approve the following recommendations and financial virements (as outlined in Appendix 2).*
  - *On Corporate budgets, that:*
    - *(£250k) relating to capital costs is transferred to the capital programme fund.*
    - *a net underspend of (£1,127k) on Corporate budgets will go to the Council's general balances to assist in facing the financial challenge ahead of the Council, particularly so in light of the Covid-19 crisis.*
- *That grant receipts from the Government to compensate for added expenditure and income losses related to the Covid-19 crisis are allocated to the relevant departments in accordance with what is noted in Appendix 1.*

During the discussion, members raised the following matters:-

- Referring to the table on page 221 of the Agenda, there was a £1m difference between the total grant applied for from the Welsh Government's hardship fund and the total grant received, and the member enquired whether there were further grant monies to be received, or was the Council expected to bear this difference? In response, it was explained that the Welsh Government rejected some applications, and deferred before paying some others. For example, claims for Free School Meal payments had been deferred since August, and were worth £200,000, with the Council awaiting receipt of the money. It was added that the Senior Finance Manager and her team were to be commended, since Gwynedd was amongst the top 6 authorities in terms of the amount they had managed to draw down from the Government's Covid Hardship Grant, and was the best in Wales in respect of the amount rejected i.e. the lowest amount rejected. This Council's method of putting forward the information had been praised by the Government as an intelligible approach, and consequently Gwynedd was managing to access the funding more quickly than other councils. It was also noted that over £400,000 had been spent on laptops to enable staff to work from home since March, and that they had managed

to recover half of this cost from the fund. This was a considerable success, bearing in mind that these laptops would be an asset for the Council in future.

- Again, referring to the table on page 221 of the agenda, it was noticed that no grant had been received for August, and a member enquired whether they were right in assuming that the Council was expecting to receive a grant of £800,000 (i.e. that the deficit between the sum applied for and the amount to be received would only be around £200,000), or whether there was a problem with the August application? In response, it was explained that this was a timing issue, and that the Council awaited information back from the Welsh Government regarding this application. The Welsh Government was assessing applications from all the Welsh Councils, therefore there was a delay between submitting the application, and being notified that the application had been approved and the money being paid over. In response to a further question, it was confirmed that they expected to receive the amount applied for in this case.
- The Chief Executive's intention to get to grips again with the Children's Budget Taskforce was welcomed. A member enquired whether the findings of this work could be used to press on and discuss with the Government, and with other councils, to see if there was room to re-examine the budget coming from the Government for this field in particular. In response it was explained that the Society of Welsh Treasurers had compiled a survey to try to gather information about the pressure and demands in the children's field across the 22 local authorities in Wales in order to put this on the Government's radar. However, without knowing the result of the UK Government's one year spending review, and what would be the settlement for Wales, the Welsh Government was not in a position to commit to anything at present.

**RESOLVED to accept the information, note the risks arising from the projected expenditure against the budget, and support the Cabinet's decisions in respect of the budgets of the Council and its departments.**

## 11. CAPITAL PROGRAMME 2019/20 – END OF AUGUST REVIEW

Submitted – the report of the Cabinet Member for Finance requesting that the Committee notes the position and any risks in respect of the Council's capital programme, scrutinises the Cabinet's decisions of 13 October, 2020 and provides comments as required.

The Cabinet Member for Finance set out the context for the report, noting the following:-

- The main point in this report again was the impact of Covid-19 on schemes, but he emphasised that although there was some re-profiling, there was no loss of funding.
- The table in part 3 on page 224 of the capital programme showed an investment of over £100m in the county's communities over the next three years.

He noted that the Cabinet had considered the report at its meeting on 13 October, and had resolved as follows:-

- *To accept the report on the end of August review (31 August 2020 position) of the capital programme.*
- *To approve funding the revisions as shown in part 4 of the report, namely:*
  - *use of various sources, worth a total of £3,646,000, to fund actual slippages from 2019/20,*
  - *a reduction of £558,000 in the use of borrowing,*
  - *an increase of £7,105,000 in the use of grants and contributions,*
  - *no change in the use of capital receipts,*

- *an increase of £53,000 in the use of revenue contributions,*
- *no change in the use of the capital reserve, and*
- *an increase of £283,000 in the use of renewal funds and others.*

During the discussion, members raised the following matters:-

- The departments were congratulated on attracting substantial grants to Gwynedd.
- In response to a question, it was explained that a large proportion of the £11m housing and property capital programme would go towards the Housing Action Plan. It had originally been intended for the plan to be operational by now, but the pandemic had delayed the process. The plan would be submitted to the Cabinet in November. Evidently, the total amount would not be spent this year, as the pandemic had resulted in having to defer some of the schemes.
- It was noted that the Housing Action Plan was an encouraging and ambitious report, and members greatly hoped that it would come into fruition.

**RESOLVED to accept the information, note the risks in respect of the Council's capital programme, and support the Cabinet's relevant decisions.**

## 12. BUDGET STRATEGY 2021/22

Submitted – the report of the Cabinet Member for Finance requesting that the Committee notes the uncertainty in relation to the Council's budget for 2021/22, and provides comments on the strategy.

The Cabinet Member for Finance set out the context for the report. He emphasised the importance of the virtual seminars on the budget for members in January, and he pressed on everyone to attend the sessions.

He noted that the Cabinet had considered the report at its meeting on 13 October, and had resolved as follows:-

**To approve the procedure and timetable for producing the 2021/22 Budget, while also noting that financial planning is extremely challenging, and therefore if there was a funding gap to balance the 2021/22 budget, the Council will use contingencies and reserves to mitigate resource losses in the short term, rather than giving intensive and unnecessary consideration to lists of potential savings and service cuts during a probable second wave of the Covid-19 pandemic.**

The Head of the Finance Department noted that, further to what was contained in the report, he had pleaded with the Welsh Government in the past few days to stick to this year's draft budget, otherwise it would be impossible to plan for 2021/22.

During the discussion, members raised the following matters:-

- In response to a question on the Council's policy with regard to balances, it was explained that keeping reserves was part of a bigger picture. It depended on how much risk was incorporated into budgets in terms of things like provision for inflation and unknown issues. Many of the reserves had been committed to specific purposes, but the Council did have general balances of £8m, which basically reflected the risk of a possible cut in the Council's grant. Over the past two years, the Council had stuck to this amount, in case it found itself in a situation of having to buy time to deal with the need to find savings and cuts.
- A member enquired whether consideration had been given to borrowing money to fill the gap in the short term, since interest rates were so low at present. In response,



it was explained that the regulations did not permit borrowing for revenue purposes, unless the Welsh Government permitted a Capitalisation Direction. Some other councils had been calling for this in Wales, but no statement had been made on this to date. Also, in keeping with the spirit of the Future Generations Act, the Council did not wish to pass on problems to the next generation, and preferred to try to address the problem from the reserves available.

- It was noted that should the reserves be used, the Council should ensure that the funds were replenished in the following years, and it was emphasised that the current crisis had underlined the importance of the reserves.
- It was noted that the UK Government had caused difficulties in setting a budget by cancelling the Autumn Budget, although we understood the reasons for doing so in the circumstances. However, this had led to the problem being transferred to the Welsh Government who, in turn, had transferred the problem to the councils. It was agreed that it was not appropriate to allocate staff time to search for savings when they were under pressure dealing with the crisis. It was believed that these factors meant that the two governments had a moral duty to ensure that there were no cuts in the grant and that the final settlement was sufficient, and it was important that the Council stated this clearly. The pandemic had highlighted just how damaging the cuts to the public sector had been over the past ten years, especially in health, but also in other fields, and the public infrastructure throughout Wales and Britain was not adequate to deal with the challenges faced.
- A member enquired whether there was a risk of the Government allocating a smaller grant to a council that had reserves. In response, it was explained that the factors which drove the various element of the formula were things like population changes, the number of school pupils, elderly etc.

**RESOLVED to accept the information, to note the uncertainty in respect of the Council's budget for 2021/22, and support the strategy to balance the budget by using contingencies and reserves to mitigate resource losses in the short term, rather than give thorough and unnecessary consideration to lists of potential savings and service cuts during the likely second wave of the Covid-19 pandemic.**

### **13. AUDIT AND GOVERNANCE COMMITTEE FORWARD PROGRAMME**

Submitted – the report of the Assistant Head (Revenue and Risk), outlining the work programme of the committee for the year ahead, up to July 2021.

During the discussion, members raised the following matters:-

- It was noted that Savings Overview was down twice on the forward-programme (February and May meetings)
- A member enquired whether it was intended for the committee to receive a report in due course on the Children and Adults Taskforce schemes specifically, depending on the timetable for the work. In response, it was noted that we would have to check where exactly this fell between this committee and scrutiny of the relevant department, but the member was assured that this would be addressed. Even if it was not a stand-alone item, it would be duly addressed in the Savings Overview report.
- It was noticed that the February meeting was very heavy. In response, it was noted that the agenda was heavy because of the annual procedure, but consideration could be given to rescheduling the self-assessments.
- A member enquired whether the committee could receive evidence before discussing the self-assessments. In response, it was agreed to give consideration to this, and the member who raised the issue was asked to pass on any suggestions to the officers.

- It was suggested that the committee did not discuss policies generally e.g. the borrowing policy. In response, it was explained that borrowing came under Treasury Management, and that borrowing would form part of the annual presentation with the Treasury Management Advisors in January.

**RESOLVED to accept the forward programme, and ask the officers to consider the observations made during the meeting that the 11 February 2021 programme was too bulky, that evidence must be secured prior to discussing self-assessments, and that the possibility of borrowing should be considered in the annual presentation of the Treasury Management Advisors on 27 January, 2021.**

The meeting commenced at 10.00 am and concluded at 12.20 pm

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**CHAIR**