
AUDIT AND GOVERNANCE COMMITTEE 11/02/21

Attendance:

Councillors: John Brynmor Hughes (Chair), Aled Evans, Selwyn Griffiths, Medwyn Hughes, Peredur Jenkins, Aled Wyn Jones, Berwyn P Jones, Huw W Jones, Sion Jones, Dewi Roberts, John Pughe Roberts, Paul Rowlinson and Angela Russell

Sharon Warnes (Lay Member)

Officers:

Dafydd Edwards (Head of Finance Department), Ffion Madog Evans (Senior Finance Manager), Dewi Morgan (Assistant Head - Revenue and Risk), Luned Fôn Jones (Audit Manager), Delyth Jones-Thomas (Investment Manager), Caren Rees Jones (Group Accountant - Capital and Management), Aron John (Finance Professional Trainee) and Lowri Haf Evans (Democratic Services Officer)

Others invited:

Dilwyn Williams (Chief Executive)
Councillor Ioan Thomas (Cabinet Member – Finance)
Councillor Edgar Owen (Council Chairman)
Alan Hughes and Matthew Edwards (Wales Audit)
Dewi Jones (The Council's Business Support Service Manager)

1. APOLOGIES

Apologies were received from Councillor Alwyn Gruffydd and Councillor Gethin Glyn Williams.

2. DECLARATION OF PERSONAL INTEREST

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

3. URGENT ITEMS

None to note.

4. MINUTES

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

5. WELSH AUDIT ANNUAL REPORT

A report was submitted by the Wales Audit Office summarising the audit work

carried out at the Council by Audit Wales since the publication of the last report in August 2019. It was highlighted that there was a new format to the report - summarising familiar matters more clearly and factually. A request was made to Members for feedback.

During the ensuing discussion, Members noted the following matters:-

- The new format was to be welcomed
- That the report was concise and easy to read

DECISION:

To accept the report

6. REVENUE BUDGET 2020/21 - END OF NOVEMBER 2020 REVIEW

A report was submitted by the Senior Finance Manager, detailing the latest review of the Council's revenue budget for 2020/21, and the projections towards the end of the financial year.

It was noted that the financial impact of Covid-19 was substantial for the Council - a combination of additional costs, loss of income and slippage in the savings programme as there were other priorities during the crisis period. It was reiterated that Welsh Government had established a hardship fund to compensate for Local Authority costs and income losses. It was highlighted in Gwynedd that monthly applications to the value of over £7.1 million had been submitted by the Accountants to Welsh Government, to compensate the Council for the additional expenditure for the period up to the end of November, with funding of almost £6 million already received.

It was reported, in terms of income losses, that the applications for the first half of the financial year was over £5.1 million, with £4.8 million already received by Welsh Government. Work on quarter 3 had been completed by the Accountants and had been submitted to Welsh Government mid-January.

It was highlighted that there was obvious pressure on the departments this year, and as forewarned in every review since the end of August 2019, problems with generating savings were increasing and was a factor that contributed to overspending in fields such as Children, Adults and Highways and Municipal.

Attention was drawn to an epitome of the final position of all departments with the projections stated including and excluding the Government's Covid-19 grant aid, so that it was possible to see the impact on the various departments. The following main matters were highlighted:

- Adults, Health and Well-being Department - the impact of Covid-19 had been substantial on the Adults, Health and Well-being Department this year, which is worth over £3 million by the end of November. Without considering the impact of Covid-19, an overspend of £3.3 million is anticipated this year, along with a failure to realise savings to the value of £1.8 million contributing to this situation.
- Children and Families Department - an overspend of £2.5 million is anticipated for the Department. A failure to realise savings of £688k contributes to the situation. The latest statistics confirm that there has been a further increase in demand for services, especially in with placements and Post-16. The increased

spending in the children's field was concerning.

- Highways and Municipal Department - overspend problems in the field of waste collection and disposal continue. Difficulties in realising savings in a number of fields to the value of £811k. The department has also faced additional costs relating to Covid-19 in order to comply with regulations, with Welsh Government already providing compensation for the initial months and the expectation that they will continue to compensate for the rest of the year.
- Corporate - prudent projections when setting the 2020/21 budget responsible for additional tax outputs on Council Tax and also contributing to the underspend on Council Tax Reductions. Net underspend on budgets including capital costs and bid returns.

Reference was made to the decision of the Cabinet (26 January 2020) to accept the recommendations and Welsh Government was thanked for the support

Members expressed their thanks for the report.

In response to a comment regarding overspend in the Children and Families Department with projections for further overspend, the Head of Finance noted that the number of child placements was higher, with more children being looked after and the number intensifying in an emergency. He highlighted that the nature of the care was different and more expensive and therefore it was difficult to achieve a saving. He reiterated that the hope, following the crisis, was to see fewer restrictions, the courts reopening and the number of cases reducing. Consequently, this will lead to an improvement and a reduction in expenditure. He noted that discussions were also being held with similar Authorities to seek solutions to the situation in the future.

During the ensuing discussion, Members noted the following matters:

- That the overspend of some departments was historic.
- That the crisis was a challenging and difficult time for children and families - unlikely that problems would disappear overnight
- Reiterated gratitude to Welsh Government for the additional funding
- Reiterated gratitude to all staff in the departments for completing applications for additional financial aid.

In response to a question regarding the Cabinet's decision to 'gain better understanding' of the matters associated with a substantial overspend in the Adults and Well-being Department and Children and Families Department, and if a timetable had been set for this, it was noted that work had commenced but had failed to continue due to priorities raised as a result of the crisis. It was reiterated that new systems were in place that gathered information better and so they were aware of the need to collaborate with the departments to consider and analyse the statistics.

RESOLVED

- **To accept the information**
- **To accept the Council's decision (26/01/21) regarding budget management by the Council and its departments**

7. CAPITAL PROGRAMME 2020/21 – END OF NOVEMBER 2020 REVIEW

A report was submitted by the Senior Finance Manager on the amended capital programme (situation as at the end of November 2020). Attention was drawn to the impact of the Covid-19 crisis and the lockdown period on the capital programme, highlighting that only 31% of the budget had been spent up to the end of November this year, compared with 51% over the same period last year. It was reiterated that the analysis per Department of the £103.6 million capital programme for the 3 years 2020/21 - 2022/23 was included in the report.

Reference was made to the sources to fund the net increase, which is approximately £3.3 million since the last review and it was reiterated that the main conclusions were that the Council had specific plans in place to invest approximately £42.3 million this year, with £18.9 million of it, namely 45%, funded by attracting specific grants. It was anticipated that an additional £4.8 million would slip from this year to the following year, although there would be no funding losses. Attention was drawn to the main plans, as well as the additional grants list that the Council had managed to attract since the last review (total £3.060K)

It was reiterated, at the meeting of the Cabinet (26 January 2021), that it was resolved to accept the report and approve the adapted funding to the value of £3.32 million.

Members expressed their thanks for the report.

The success of the Housing and Property Department in attracting grants was highlighted (which was a substantial amount, which will reflect the Housing Strategy that the Council has recently adopted) - the Head of Finance noted that the amount also included the income from the tax on second homes.

RESOLVED:

- **To accept the information**
- **To accept the Council's decision (26/01/21) regarding budget management by the Council and its departments**

8. THE SAVINGS POSITION

The report was submitted by the Cabinet Member for Finance, noting that over £30 million in savings had been realised since 2015/16 but, concerns had been highlighted in October 2020 regarding risks to plans to the value of £3.4 million this year, as a result of Covid-19. It was reported that the Chief Executive and the Head of Finance had discussed the departmental savings with the Heads and Cabinet Members.

It was emphasised that Covid-19 restrictions had impaired the opportunity for departments to address a number of the savings schemes. Despite the situation, the Chief Executive noted that it would not be unreasonable for savings schemes to the value of £1,735,960 to be delivered by, or during, 2021/22. In addition, plans to the value of £1m (that will require more time to realise), will be re-profiled, along with the removal of £850k worth of schemes from the budget (where the situation has changed so much, the savings cannot be realised).

It was noted, when preparing the 2020/21 budget in February 2020, £1.6m was acknowledged in response to the likelihood of being unable to achieve some

savings. It was highlighted that re-profiling and eliminating some savings would have an impact of £1.86m on the budget, but by using the £1.6m provision an extra £260k would be required. In doing so, it was noted that it would bring the budget closer to the reality of the Council's position.

Attention was drawn to Appendix 2 of the report, which noted the savings that had been planned for 2021/22. It was expressed that from the £1.9m already planned for delivery, schemes valued at £511k would take longer to deliver and there was a real doubt whether or not the savings valued at £595k would be realised. As a result, it was recommended to the Cabinet to re-profile £511k and eliminate £595k of savings, whilst accepting that just over £700k in net savings would be available to support the 2021/22 budget.

The Chief Executive explained the logic behind the recommendations submitted to the Cabinet, emphasising that some schemes would take longer to realise as a result of the Covid-19 crisis, whilst others needed to be eliminated completely.

RESOLVED

- **To accept the information**
- **To accept the Cabinet's decision (26/01/21) regarding the savings position**

9. 2021/22 BUDGET

A report was submitted by the Cabinet Member for Finance, noting that the Council this year had received a grant increase that met the rate of inflation and that was a fairer settlement than those seen in recent years. Attention was drawn to the decision sought by the Cabinet at its meeting (16/02/21), for the need for the Committee to scrutinise the information before the Cabinet recommended it to the Full Council in March 2021. It was reiterated that the decisions sought would be ones that would allow the funding of unavoidable increases in the costs of some core services, as well as increasing the Tax by 3.7%. It was emphasised that increasing the tax was necessary in order to protect essential services for the people of Gwynedd, as it would be impractical to implement additional savings schemes this year. It was reported that the majority of the Council's members had attended a series of consultation workshops.

It was noted that by 2021/22, expenditure would need to increase by £10.6m in order to stand still, including £3.6m to meet pressures on the services' budgets. In order to address the financial deficit, it was explained that £725k could be harvested in 2021/22 from the savings schemes already planned, but Council Tax would have to be increased by 3.7%.

It was added that the Welsh Government's official figures showed that the Council would receive a grant increase of £6.4m by next year, which was an increase of 3.4%, and that Welsh Government would announce the final grant settlement on 2 March 2021, along with Welsh Government's final budget. The revenue expenditure was highlighted, drawing attention that staff salary inflation was £3.5m, along with the provision of a pay increase for staff on salaries of £24,000 or lower, and a pay increase of 3.1% for Gwynedd school teachers for the period April - August 2021.

It was noted that other inflation was £2.6m, which included provision for the effect

of the 'living wage', along with an increase in inflation on fuel and energy budgets and an increase in re-tendering prices. It was highlighted that bids had been received from Council departments to the value of £3.6m for additional permanent resources, in order to meet with the inevitable pressures on services.

Attention was drawn to the savings scheme, explaining that a net total of £725k of savings would be used to reduce the budget's funding deficit for 2020/21. This means that there was a residual deficit of £77m, and it was recommended that this deficit was addressed through Council Tax. Council Tax would need to be increased by 3.7% in order to generate a sufficient income, and set a net budget of £271,751,360. It was reported that the tax levied by the Police Authority (increase of 5.14% in 2021/22) and the community councils (various %) will of course be in addition to this. It was expressed that should Council members wish to see a smaller reduction than 3.7% in the Tax level, then less would have to be spent on services. Members were reminded of the option that had been discussed at the member workshops, where it was expressed not to fund some of the permanent 'Category 2' revenue bids (as listed in the report). It was accepted that the choice between maintaining services and taxation was always a difficult one, but in comparison, for 2021/22, the average tax increase of the other local authorities across Wales is likely to be around 4.1%, and this proposal to increase the tax by 3.7% is a similar level to the majority of authorities in north Wales.

The Head of the Finance Department reiterated his gratitude to the Members who attended the workshops. Attention was drawn to appendix 10 of the report which detailed the robustness of the estimates that were the basis of the budget, along with the potential risks and mitigation steps. The Head of Finance was of the opinion that the budget was robust, sufficient and achievable.

In response to a question in the context of the risk of low interest and a statement by Arlingclose that there will not be a need to implement 'negative interest', despite a recent suggestion by banks that this will be in place by July, the Head of Finance Department noted that further discussions were to be held with Arlingclose and in accordance with the Council's Investment Strategy, the budget did not depend on too high returns, although that every effort was being made to seek better returns on equity and property funds, which operated better.

In response to a comment regarding category 2 (namely bids subject to a 3.7% increase in income tax), it was confirmed that this was new spending and not a cut to the service. It was reiterated that appendix 2a outlined the bids required by the departments to deliver the service level, but that category 2 bids were unavoidable, despite the need for them to continue with the current service level. It was accepted that the situation was a difficult one but it was suggested by not offering more to the service, it would lead to an element of cuts in the future.

RESOLVED

- **To accept the information and approve the budget which the Cabinet intends to recommend (16/02/21) to the Full Council**

10. CAPITAL STRATEGY 2021/22 (INCLUDES INVESTMENT AND BORROWING STRATEGIES)

The Investment Manager submitted a report, providing an overview of the Council's Capital activities and treasury management. Members were reminded

that they had received a presentation by Arlingclose, the financial consultants, who had explained the detail behind the strategy. Reference was made to the capital activities and attention was drawn to the fact that the Council intended to make capital spending of £47.1 million in 21/22, with the main schemes listed in the report, along with the funding sources. It was noted that the external resources were mainly from Welsh Government and the funds were our own resources. The remainder of the funding came from loans that would be repaid over a number of years, normally from revenue resources or from income from the sale of assets, which is consistent with the actions of previous years. This means that the indicator - Council's Capital Funding Requirement, would be £176.6 million by the end of the 21/22 financial year, namely the level that the Council's long-term borrowing should remain below.

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

Reference was made to one change to the commitment benchmark, namely the introduction of the impact of the North Wales Economic Ambition Board's borrowing, where an annual grant of £16m would be received for 15 years, but that extensive expenditure would occur from the second year onwards. Consequently, the borrowing requirement would not occur in 21/22, but from 22/23 onwards, with the affordable borrowing boundary amended to reflect this. Officers would prepare for the 22/23 strategy and assess the potential sources for this loan.

It was reported in the context of the investment strategy that the Council's policy was to prioritise security and liquidity over outputs to ensure that money was available to pay for Council services. It was noted that £10m was being kept to ensure continuous liquidity and considering the uncertain period and current low returns, it was considered that retaining liquidity and security was a priority.

Reference was made to the risk management and governance, and the details of the Council's long-term commitments. It was also confirmed that Arlingclose would provide a financial advisory service for the Council for the next five years at least, due to their recent success in the tendering process.

During the ensuing discussion, Members noted the following matters:

- That the Arlingclose presentation had been comprehensible - a suggestion that all Council members should be invited / receive the information.
- That the Arlingclose report was encouraging, considering the situation

The staff were thanked for their hard work.

RESOLVED

- **To accept the information**
- **To support the Cabinet Member for Finance's intention to submit the strategy to the Full Council for approval**

11. OUTPUT OF THE INTERNAL AUDIT SECTION

Submitted- for information, the report of the Audit Manager updating the

Committee on the internal audit work for the period from 1 November 2020 up to 31 January 2021. It was highlighted that three of the plan's audits had been completed, despite the challenging period, considering that the Department had been broken up to support work in other department during the crisis. It was reiterated that it was difficult to complete the programmed work in the work plan.

Attention was drawn to the Free School Meals Payments Audit included within the Children and Families Department, noting that the Finance Service had played a key role in the audit, as the Revenue Service was coordinating the applications.

Members expressed their thanks for the report.

RESOLVED

To accept this report on the work of the Internal Audit Section for the period up to 31 January 2021, and support the actions agreed with the relevant service managers.

12. INTERNAL AUDIT PLAN 2020-2021

Submitted, for information, the report of the Audit Manager, providing an update on the current situation in terms of completing the 2020/21 Internal Audit Plan. It was noted in the report that the actual attainment of Internal Audit up to 21 January 2021 was 39.29% - out of the 28 individual audits, 11 had been released as a final version. It was reiterated that it was inevitable that some audits could not be carried out as resources from the department had been redeployed to assist with priority areas as a result of the Covid crisis. Consequently, it was resolved to amend or cancel audits, and transfer the days to undertake work for the Test, Trace, Protect Programme.

It was reported that it was customary to draw up the 2021/22 Plan to reflect the risks and challenges of the current year; however, as restricted resources were available to do so this year, it would be inevitable to forward plan by considering the changes anticipated over the coming 12 months. It was suggested that consideration would be given to quarterly plans that would provide flexibility for the service. In addition, discussions would be held with Departments to seek a way forward.

The Head of the Finance Department expressed his gratitude to the Audit Manager for the Unit's flexibility to support priority services and that money would be earmarked to fund an additional resource for the Unit to implement audits when the crisis restrictions were relaxed.

RESOLVED

- **To accept the report**
- **To receive an update on progress against the 2020 - 2021 audit plan, and the proposed arrangement for the 2021 /2022 work programme**

The meeting commenced at 10.00 am and concluded at 12.00 pm

CHAIRMAN

