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## AUDIT AND GOVERNANCE COMMITTEE 18/11/21

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**Present:**

**Councillors:** Vice-chair: Councillor Medwyn Hughes

Aled Ll Evans, Selwyn Griffiths, Alwyn Gruffydd, John Brynmor Hughes, Peredur Jenkins, Berwyn P Jones, Dewi Roberts, Paul Rowlinson, Angela Russell and Gethin Glyn Williams

Sharon Warnes (Lay Member)

**Officers:**

Dafydd Edwards (Head of Finance Department), Dewi Morgan (Assistant Head - Revenue and Risk), Ffion Madog Evans (Senior Finance Manager), Delyth Jones-Thomas (Investment Manager), Luned Fôn Jones (Audit Manager), Caleb Wyn Elis (Professional Trainee - Finance and Accounting), Iwan Evans (Head of Legal Services), Vera Jones (Democracy and Language Service Manager) and Lowri Haf Evans (Democracy Services Officer)

**Others invited:**

Councillor Ioan Thomas (Cabinet Member for Finance)  
Alan Hughes (Audit Wales)  
Yvonne Thomas (Audit Wales)  
Bethan Adams (Scrutiny Adviser)

**1. APOLOGIES**

Apologies were received from Councillors John Pughe Roberts, Aled Wyn Jones, Huw W Jones and Sion W Jones

**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 14 October 2021 as a true record

**5. 2022/23 BUDGET STRATEGY**

A report was submitted at the request of the Cabinet Member for Finance,

noting the timetable, projections and relevant risks in relation to the Council's budget strategy to the Committee. The context of the report was set out, highlighting that the Cabinet should consider the report from 28 September 2021. The Cabinet decided to approve the procedure and timetable for producing the Budget for 2022/23, noting that if there was a funding gap in balancing the 2022/23 budget, the Council would use contingency budgets and reserves to mitigate resource losses in the short-term, and assess the situation before identifying any additional savings required during the summer of 2022. Also, the Cabinet decided to accept the contents of the report as the Council's Medium Term Financial Plan, while noting that financial planning was extremely challenging.

It was noted that there were a number of bids for additional resources this year as a result of additional pressures on the Council's services. It was noted that the Council's main financial source was the Welsh Government Grant and that the Government had noted its intention to publish a 2022/23 draft settlement for local authorities on 21 December, and the final settlement on 2 March 2022. It was explained that the timetable was very challenging and that there was financial uncertainty as a result of the pandemic.

The Cabinet Member for Finance emphasised the importance of the virtual seminars on the budget for members in January, and he encouraged everyone to attend the sessions.

The Head of the Finance Department noted that there was a request to minimise any change between the draft settlement and the final grant settlement, as it was difficult, under the current circumstances, to plan for 2022/23. He added that Covid figures remained high in Gwynedd and that there was currently no clear indication when the country and the world would recover. He referred to the support of the Hardship Fund that was currently funding additional significant costs in the fields of homelessness, care and free school meals, but stated his concern that arose from the Minister for Finance and Local Government's statement that there would be no Hardship Fund from April 2022 onwards. Consequently, the Council's ability to continue to fund the above services on a higher level was dependent on an additional funding allocation in the settlement.

Reference were made to assumptions that set three scenarios - best, medium and worst, within reason. Although they were broad assumptions, it was noted that the Council's financial position was robust, and healthy reserves meant that these funds could be used to mitigate the short term situation. Attention was drawn to the challenges that would face the Council, which included Covid recovery, an inflationary increase in salaries, national insurance, the cost of fuel etc.

It was expressed that there was no reason to adapt the strategy, as there was currently insufficient evidence to do so.

Thanks were expressed for the report

During the discussion, members raised the following matters:-

- The recommendation to use reserves to mitigate the situation was a very positive step in the short-term.
- Agreement with the use of reserves in order to avoid cuts.
- Has consideration been given to the implications of new ways of working?
- There was a robust and successful procedure of monitoring savings - it

would be easy to use reserves - a message should be shared with departments noting, although there were no new planned savings, that the Council would need to work effectively, and it was suggested that efficiency arrangements should be put in place.

In response to a question about the future impact of Covid on the Council's budgets, the Head of Finance Department noted that Covid had meant a significantly higher expenditure over the past 18 months. However, Gwynedd had been able to claim an extremely respectable sum from the Hardship Fund. The Council decided early during the pandemic to prioritise the County's residents' health and safety, and as the Government later stepped in with contributions, Gwynedd's budgets were in a favourable position by the end of 2020/21, with the reserves available to deal with the potential of a financial blow in 2022/23.

In response to a comment regarding the savings relating to office running costs and travel expenses, it was noted that travel costs of elected members and staff were not significant in the context of the Council's entire budget, and that there had been no huge reduction in these costs as care staff and other external staff had continued to travel in order to fulfil their duties.

In relation to establishing efficiency arrangements, it was suggested that there was always room for improvement, even in a crisis. It was considered that the approach should not be hurried, that historical savings should continue to be monitored, with an emphasis on departments taking ownership.

## **RESOLVED**

- **To accept the report**
- **To note the timetable, the forecasts and relevant risks in the context of the Council's budget**
- **To accept the Cabinet's decisions (28 September 2021)**

## **6. TREASURY MANAGEMENT 2021 - 2022 MID YEAR REVIEW**

Submitted, for information, a report highlighting the Council's actual Treasury Management activity during the current financial year. It was highlighted that during the six months between 1 April and 30 September 2021, the Council's borrowing activity had remained within the limits originally set. There were no defaults by banks in which the Council had deposited money. It was reiterated that it was estimated that the Council's investment income exceeded the expected income in the 2021/22 budget.

Reference was made to the external context that referred to the economic background, the financial markets and credit review. In the context of borrowing, it was noted that local authorities could borrow from the Public Works Loan Board (PWLB) on condition that they were able to confirm that they did not intend to buy 'investment assets primarily for yield' in the current or next two financial years, with a confirmation of the purpose of capital expenditure by the Section 151 Officer. The Authority did not intend to buy any investment assets primarily for yield within the next three years, and therefore could fully access the PWLB - borrowing from the PWLB was considered the best option.

It was explained that £10m of the Council's investments were held in externally

managed strategic pooled property and equity funds where short-term security and liquidity were lesser considerations. Although the pooled capital value of £9.243m was less than the initial investment of £10m, the investments were made in the knowledge that the capital values were unstable at months, quarters and even years; but with the confidence that the total returns over a three to five year period would be higher than the interest rates on cash. Consequently, the objectives would be realised through the stability of mid-term prices.

Reference was made to the use of the Debt Management Office as an investment vehicle that had modestly higher returns than others and that was flexible, easy and secure to use. Although the rates were low and the outlook was weak and unstable, it was reported that the Council was investing as much as possible in a challenging period;

It was confirmed that all the treasury management activities that were held during the period fully complied with the CIPFA code of practice as well as the Council's Treasury Management Strategy Statement, and in the context of investment training, officers had attended investment training with Arlingclose and CIPFA during the period that was relevant to their posts. Attention was drawn to amendments to the CIPFA codes, which included

- Incorporating ESG issues as a consideration within TMP 1 Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making.

It was highlighted that Arlingclose expected the Bank Rate to increase in Q2 2022, due as much to the Bank of England's aspiration to move out of emergency levels as to the fear of inflationary pressures. Investors had factored in a number of increases in the Bank rate to 1% by 2024 in their valuations. Although Arlingclose believed that the Bank rate would rise, it would not be as high as market expectations.

The Head of Finance noted that performance was acceptable despite the dreadfully low interest rates.

The members expressed their thanks for the report.

During the ensuing discussion, the following observation by a member was noted:

- The use of PWLB was to be welcomed - it should be ensured that the funding was not available for trading.

In response to a question regarding the Local Authority's ability to invest in property or local house construction / purchasing, the Head of Finance noted that the Authority was doing this via the Housing Strategy (although Welsh Government restricted what was possible). It was added that no houses had yet been bought, as the 'model' was searching for a specific / suitable property.

In response to a question about how frequently the restrictions were monitored, it was noted that this was undertaken annually. In response to a question regarding not investing further in banks and building societies, it was noted that there were Bank restrictions on these elements, and that it was imperative to keep within the restrictions and make the most of what was available despite the lack of flexibility.

**RESOLVED**

**to accept the report and note its contents.**

**7. FINANCIAL SUSTAINABILITY ASSESSMENT**

The Head of Finance Department submitted a report outlining the Gwynedd Council's responses from Audit Wales in relation to the Council's financial sustainability. Attention was drawn to four recommendations that were contained in the report. Alan Hughes, Lead Auditor from Wales Audit Office, was welcomed to present the findings.

It was noted that the Council had a good understanding of its financial position, although a number of financial challenges remained, including continuing to carry over savings that were yet to be realised, that caused unresolved financial pressures on services, and that identifying and delivering savings would be more challenging in future.

The Head of Finance referred to the responses, and asked the Committee to support the actions.

Thanks were expressed for the report

During the ensuing discussion, the following observations were made by members:

- In recommendations 2 and 3 there was a need to consider the fact that these were not financial data requirements
- It was important for the Council to use background information
- All financial decisions were based on data
- Why was a 3 year forecast needed? The Government did not have a 3-year plan, and therefore why was the Council required to have one in place? It was accepted that forecasting was possible, but projections would not have a firm foundation
- Note regarding 'evidence to demonstrate the utilisation of reserves to improve and transform services, which may in turn support the financial sustainability of the Council' - Audit Wales was asked to provide an example of a situation - need broader information
- Were these general observations, or weaknesses within departments?

There was agreement with the observation that data was used to make investment decisions, but current data could also be used to divest where there might be a reduced demand or a need to do things differently. It was considered that £71m in reserves was a substantial sum that could contribute towards transformation programmes that would lead to sustainable services.

In response, the Head of Finance Department noted that the reserves contributed to new projects e.g. schools information technology strategy, climate management project post, Galw Gwynedd improvements, and departments were encouraged to submit plans and bids for funding.

In response to a question regarding departments submitting plans, and the need to ensure that the money went to the right places when in considering those plans, it was noted that many bids had been submitted and the Cabinet would

discuss the bids in January.

In response to an observation about the three-year projections, the Auditor noted that there was value in forecasting, despite no funding sources having been agreed. It was suggested that although financial data was part of the current conversation, background information such as an increase in demand, complex cases or market prices could be examples that would enrich the conversation. It was noted that the performance management process was being modernised with the setting of measures and indicators, although unfortunately not all departments did this. He added that the Council's direction was promising, and that he was confident in the Council's ability to identify changes by using the context of situations - the Council would therefore be well placed.

In response to the observations, the Cabinet Member noted that all types of data should be considered and used in order to offer a better service to residents.

### **RESOLVED**

- **To accept the report**
- **To approve Gwynedd Council's response to the recommendations of Audit Wales**

## **8. AUDIT WALES PROGRAMME AND TIMETABLE**

Submitted: Audit Wales quarterly update (up to 30 September 2021) on its work programme and timetable. A discussion was held on the financial audit and local performance audit work, noting that the Review of Performance Management would be submitted in the new year. Reference was made to national reports and other outputs that had been published by Audit Wales since April 2021.

During the ensuing discussion, the following observations were made by a member:

- The timetable for the performance management was extremely tight if it was to be completed in February
- Despite the significant increase in inward migration, there was no reference to this field in the work programme. This matter had a huge impact on the Health Board and Local Authorities - and especially in the poorest counties

In response to an observation that Welsh Government were now planning three years ahead, and the implications of this on the commitments and funding of the Well-being of Future Generations Act that planned ahead for 50 years, it was noted that the five sustainable principles that public bodies had to consider as part of their work would assist them to collaborate better, to avoid repeating past mistakes and address some of the long-term challenges. The Auditor added that he also accepted the observation about inward migration and that the matter would receive attention when the risks were examined.

### **DECISION:**

- **To accept Audit Wales' Quarter 2 work programme**

## 9. LOCAL GOVERNMENT AND ELECTIONS (WALES) ACT 2021

Submitted – the report of the Monitoring Officer updating the Committee on progress with the draft work programme in response to Legislation that introduced a number of changes and powers in relation to the governance of Local Government in Wales. Members were reminded that the Committee had adopted a work programme (May 2021) that responded to the provision and requirements of the Act, and addressed the steps in a timely and appropriate manner.

Attention was drawn to specific statutory changes to the functions and constitution of the Audit and Governance Committee within the Act, referring to the appendix that outlined the main amendments to the Constitution. It was reported, as one third of the membership were lay members, that an advertisement for members had been published, and that arrangements and an appointment panel was in place to make a recommendation to the Full Council that would approve the appointments in accordance with the arrangements established in May 2017.

Thanks were expressed for the report.

During the ensuing discussion, the following questions and responses were received:

- Would it be possible for a retiring Councillor to submit their name as a Lay Member?  
*There would have to be a gap of 12 months between retirement and submitting an application*
- Would the Chair receive remuneration for the post of Chair?  
*The Chair would receive a co-opted member's allowance that has been set by the Independent Remuneration Panel for Wales*
- Had there been any response to the advertisement?  
*The closing date was 25 November - information had been shared with the Members in order to encourage suitable applicants*
- Who would appoint the Lay Members?  
*In accordance with the arrangements established in May 2017, the panel would include the Chair of the Council, the Chair of the Audit and Governance Committee and the Cabinet Member for Finance, advised by the Statutory Finance Officer and the Monitoring Officer. Applications would be considered and a recommendation would be submitted to the Full Council.*
- Would neighbouring Councils also be seeking the same Members, and could one person serve as a member on two committees?  
*It would be acceptable for Members to be Committee members in more than one County*
- If it is not possible to make an appointment, will a 'vacant seat' be noted?  
*Although appointing may be challenging, if not all seats are filled, a vacant seat must be noted*
- Do Lay Members have to be Gwynedd residents?  
*Members do not have to be from Gwynedd, but they must have a link to the County*
- Who will monitor quality? Will political balance be considered?  
*Lay members have an independent opinion - any interest would have to be recorded, to include registration details with a political party.*

- Would it be possible to consider holding an informal meeting for everybody to get to know each other before commencing the new procedures?  
*This had not been discussed officially. It was noted that in addition to lay members, there would potentially be new members on the Committee, and therefore it was decided to accept the suggestion to hold a preliminary conversation noting the aspirations of the role, possibly prior to appointing a Chair.*
- Given that a Lay Member would be appointed as the Committee Chair, it was suggested that the panel should ask the applicants if they considered themselves to be suitable to be the Committee chair.  
*It would be possible to ask whether the applicant was 'interested' in being the Chair. It was reiterated that the advertisement also noted this*
- If four lay members were appointed, would it be acceptable to have two vacant seats if it was decided to continue with 18 members?  
*If it was decided to continue with 18 members, this would be the composition of the membership of the Committee - efforts should continue to fill the vacant seats.*
- It was accepted that there were significant changes to this Committee - a number of experienced members would be lost

#### **RESOLVED**

- **To accept the report**
- **To approve the progress of the Work Programme and seek an update for the February meeting**
- **To recommend to the Full Council a composite membership of 18 members for the Audit and Governance Committee - 12 Co-opted Members and 6 Lay Members. To be operational from 5 May 2022**
- **To accept the proposed changes to the Constitution – statutory changes to be achieved by the Monitoring Officer in accordance with its rights under the Constitution.**

In concluding the meeting, the Chair noted that this was Mr Dafydd Edwards' (Head of Finance Department) last meeting - he was thanked for his work, his support to the Committee and his professional attitude towards ensuring that the Council was in good hands. He was wished a happy flexible retirement.

The meeting commenced at 10.00 am and concluded at 12.25 pm

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**CHAIRMAN**