

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COMMITTEE ROOM A - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON FRIDAY, 3 NOVEMBER 2017**

**PRESENT**

County Councillors JG Morris (Chair), M Barnes, B Baynham, Mr J Brautigam, J Charlton, H Hulme K Laurie-Parry, M J Jones, WD Powell, R G Thomas, T J Van-Rees, A Williams, S L Williams and Mr J Brautigam

In attendance: County Councillors J M Williams, Vice Chair of Employment and Appeals Committee

Cabinet Portfolio Holders In Attendance: County Councillor A W Davies, Portfolio Holder for Finance

Officers: Jane Thomas, Head of Financial Services, Greg Thomas, Business Continuity and Risk Management Officer and Lorna Simpson, Acting Professional Lead – Human Resources Management and Development

Other Officers In Attendance: Messrs Phil Pugh and Anthony Veale, WAO and Mr Ian Halstead, Assistant Director, SWAP

<b>1. APOLOGIES</b>
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Apologies for absence were received from County Councillors L George and GD Price.

The Chair extended the Committee's sympathies to the community of Llangammarch Wells following a devastating fire in which several members of one family lost their lives. The local County Councillor, County Councillor Van Rees paid tribute to the emergency services and staff of the County Council for their support during the emergency and its aftermath.

<b>2. DECLARATIONS OF INTEREST</b>
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There were no declarations of interest.

<b>3. DECLARATIONS OF PARTY WHIPS</b>
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There were no declarations of party whips

<b>4. MINUTES</b>
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The Chair was authorised to sign the minutes of the last meeting, held on 22 September 2017, as a correct record.

Arising thereon:

It was noted that an error had been identified shortly after the meeting which required the Statement of Accounts to be changed. A valuation was found to be wrong and had been overstated by £1.8M. A review was undertaken and the Chair informed. The amount was not considered to be material and an adjustment was made. The WAO believed it to be a one off issue and sufficient checks were in place. The Letter of Representation will have to be revised to include a reference to an unadjusted misstatement.

The Committee had been advised that there had been a question raised by a local elector and that the WAO were in communication with that elector, but no response had been received at the time of the last meeting. Correspondence did continue and is ongoing. An opinion has been given but it has not been possible to certify the Accounts at 28 September as had been envisaged. The WAO are now seeking to conclude the matter and to certify the Accounts. However the Committee will need to reapprove the Statement of Accounts. The Committee were invited to consider whether they wished to reconvene or delegate authority to the Chair and Section 151 Officer to re-sign the accounts provided there were no further adjustments.

**RESOLVED that the Chair and Section 151 Officer be given delegated authority to re-sign the Statement of Accounts provided there were no further adjustments.**

<b>5. BUDGET RECOVERY PLAN</b>
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**Documents:**

- Deficit Recovery Plan – Report of the Head of Financial Services

**Discussion:**

- Monthly monitoring reports are submitted to Cabinet which indicate projections at year end
- Savings are not accounted for until they have been achieved
- As the year progresses there is an expectation that the projected deficit will reduce as savings are achieved
- Increased overspends on Adult Social Care and, more recently, Children's Services have led to an increased projected overspend amounting to £6.3M at year end
- Unachieved savings account for 52% of this figure
- It is unlikely that all savings will be achieved. Some risk is inherent in savings and early monitoring is essential.

**Funding the Gap**

- A Management of Change Budget is in place to support transformational change. Within this budget, £600K is currently uncommitted. Whilst this balance could be frozen, it is necessary to assess whether this funding may be needed to ensure future savings delivery.
- Technical adjustments could be made. This may include using the capitalization directive to capitalize some transformational costs but this can only be achieved if there are sufficient capital receipts available within the year. During the current year, this amounts to

£329K but may rise to £700K by year end. Further investigations are ongoing.

- Management must prioritize delivery of savings
- Consideration must also be given to delaying spend (for example use Skype rather than travel, delay filling vacancies etc)
- The Minimum Reserves Policy (MRP) could provide one off savings but it would need to be demonstrated that this was prudent and sustainable going forward and in line with the requirements of the Future Generations and Wellbeing Act
- The Housing Revenue Account (HRA) balance is being reviewed – there must be no cross subsidisation with the General Fund, but it must also be affordable. The Portfolio Holder for Finance informed the Committee that this work would have been undertaken as a matter of course and it was essential that future savings are not put in jeopardy.
- Reserves – the use and projected use of reserves is to be reviewed
- Cabinet will be advised of ongoing work through the monthly budget monitoring report
- The Committee noted that the report indicated that Adult Social Care (ASC) was expected to deliver savings but were concerned that, given the track record of achieving savings in that service, that this was not realistic. The Head of Financial Services acknowledged that savings within Reablement amounting to £600K were at risk but others should be achieved. Unachieved savings currently amount to £900K.
- It was further noted that the service was running a projected £1.2M overspend and the Committee asked if this was continuing. The figure was based on commitments on the system and were liable to change particularly with winter approaching.
- If all savings identified with green or amber status within the sensitivity analysis were achieved, only £600K would be achieved. The majority of savings were identified as red and the Committee were concerned that these would not be achieved.
- The Committee considered that the Authority must take a firmer stance on savings targets
- Impact Assessments were currently being finalised as part of the budget process – the Portfolio Holder for Finance indicated that there would be more emphasis on deliverability and would welcome scrutiny by the Finance Scrutiny Panel. The system has continued to improve and it was disappointing that it was realised early in the financial year that some savings were not achievable.
- Members commented that the Improvement Plan for Children's Services had not been costed – the report was written at a time when costs had not been identified. The Head of Financial Services informed the Committee that a position on costs had now been established and would be presented to Cabinet when the Improvement Plan was due to be signed off on 14 November 2017. The Committee questioned whether the costs could be absorbed – costs in the current year are included in the Budget Recovery Plan but the position regarding the current deficit was not clear. The impact next year is likely to require an additional budget.
- The Portfolio Holder for Finance was asked how the reported £4M additional budget had been determined – he responded that this was an initial estimate but funding would be profiled over a number of

years. It was expected that costs would rise in the short term but be brought into control in the longer term. Looked After Children (LACs) showed the highest costs in Wales. It was his opinion that the main issue had been a lack of management and a focus on outcomes for children. Additional recruitment was needed but this was unlikely to occur before the final quarter.

- Concern was expressed that reserves could fall as low as £1.65M which was considerably less than a prudent level
- Reserves are not ring-fenced but projects have been identified. Political decisions will be required going forward
- The Committee were of the opinion that services must take ownership of their budgets and sought assurance that action would be taken. There was very little difference between the July and September reports to Cabinet and it was thought action was not being taken quickly enough.
- It was noted that full year packages for children were now included in the projections which had impacted upon the final figure. To date, only packages for six months had been included.
- The Committee had been concerned by the overspend during the previous financial year and noted that a Recovery Plan had been produced. Members asked what effect that Plan had had and whether it had been implemented. It was likely that ASC would be subject to an inspection early in the New Year. Work is currently ongoing to see what additional resources are required to enable the service to prepare for the inspection.
- A joint report had been produced by Audit Committee and the Adult Social Care Working Group earlier in the year which identified that one of the main drivers for the overspend had been on learning disabilities which was considerably higher than the Welsh average. A further investigation was to be carried out in the spring but the Committee were unaware of any findings. No savings were allocated to that area but there was the potential to save up to £9M if the Authority limited its expenditure in this area to the Welsh average. It was noted that it was difficult to unwind packages that were already in place.
- There was further concern that the projected overspend did not include recovery for Children's Services
- A report on absenteeism was to be considered later on the agenda but Members were concerned at the rising costs of absenteeism. A further concern was the cost of backfilling of posts in the absence of the Chief Executive.
- Scrutiny Chairs now attend the Strategic Overview Board and it is essential that Portfolio Holders are aware of the challenges and how to challenge their service areas. The Finance Scrutiny Panel has attempted to interview a number of Portfolio Holders, but to date, has not been wholly successful. However, the Portfolio Holder for Finance has attended regularly and robust discussions have taken place.
- Members were frustrated that whilst the document was well intended, action was needed. Greater clarity around monitoring was also requested.
- A Member asked whether monitoring of the situation should fall to SWAP but was advised that it was a management responsibility. The role of Internal Audit was to support and challenge the Council by

setting out a work plan which has been agreed by the Audit Committee. Work is about to start on auditing the ASC Recovery Plan.

- Members also raised the issue of capital projects being overspent but the Head of Financial Services explained that the capital budget was separate to the revenue budget. Costs for the running of the Brecon Cultural Hub, for example, were included in the revenue budget, but the overspend on the project was not.
- Members remained concerned regarding accountability and responsibility and agreed that a statement highlighting their concerns be sent to the Cabinet

(The Committee adjourned whilst a form of words for the statement be prepared for consideration by the Committee)

- There was to be a seminar at the end of November regarding budget plans
- Savings were becoming more difficult to achieve
- The Committee continue to press for a true understanding of the costs of running each service and that budgets should be reset accordingly

**Outcome:**

- **The following statement was agreed and would be sent to Cabinet for consideration alongside the Budget Recovery Plan on Tuesday 7 November 2017:**

**The Audit Committee views with acute concern the Budget Recovery Plan to go before Cabinet on Tuesday 7 November. We call upon all Portfolio Holders to accept full responsibility for their department and exercise full control of departmental spending and identify all necessary savings in time to be considered by Members of the Council at the budget seminar at the end of November. All Portfolio Holders must agree to take full control of their departmental expenditure and immediately identify savings. The Audit Committee cannot accept that the level of general reserves should fall to the figure suggested in the paper under comment. We remain concerned that the Cabinet are not fully committed to achieving all possible savings.**

**The Audit Committee are of the view that an improving picture will not emerge in future papers and that it is essential that individual Portfolio Holders and the Leader accept the importance of implementing immediate measures and monitoring to reverse the critical situation that the Council is now in.**

<b>6.</b>	<b>ABSENTEEISM</b>
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**Documents:**

- Report of the Acting Professional Lead – Human Resources Management and Development

**Discussion:**

- The Authority was in the top performing quartile in Wales for absenteeism
- Different organisations use different data in compiling their statistics and caution was urged when comparing data
- The Committee were concerned to note that the People Directorate had already reached 96% of the 2016/17 absenteeism rate, Resources directorate, 107% and there were significant increases in absenteeism in Schools
- Interventions were outlined in the report
- More detail is required and specific strategies developed. This would include an analysis of long and short term absences
- The Committee questioned whether policies in place were the correct ones and what was being done about significant increases in absences across the Council. It was noted that absenteeism had quadrupled in two years in Adult Social Care. Initially an in depth analysis will need to take place followed by a plan of action. HR was not resourced sufficiently to intensively monitor line managers' actions. Information would be shared with service areas in order to get the message across and emphasise that sickness absence must be managed. Costs will also need to be identified. Further training for managers would be needed.
- The Committee was informed that the Joint Director Workforce and Organisational Development would be returning to work with the Health Board and management of the HR service would fall to the Acting Strategic Director, Resources.
- The Chair and Vice Chair of the Employment Committee had been invited to attend Audit Committee for discussion of this item. The Chair informed Audit Committee that he had met with resistance from the department to engage with the Employment Committee and he requested that the department use the Employment Committee to help deal with this issue.
- Solutions need to be found and positive thinking encouraged to improve staff morale. The brunt of cutbacks had been felt at lower levels and it was recognised that staff need to feel valued.
- It was suggested that good practice could be shared with other organisations such as Dyfed Powys Police, who were also tackling an absenteeism issue, as well as with other authorities which have lower absenteeism rates.
- A considerable amount of work had been undertaken with regard to organisational culture but there remained more work that could be done. Children's Services would be one of the first areas to be tackled to improve leadership and management. The service were willing to work and liaise with any group or organisation, but constitutional issues would need to be considered
- The Chair reminded Members that the Audit Committee's main concern was the cost of absenteeism and he agreed to write to the Portfolio Holder and Acting Strategic Director to express concern at the dramatic increase in absenteeism. Employment Committee could perhaps establish a working group to consider the issue – the Constitution could be revised if this was necessary. It was further suggested that the Chair of Employment Committee should attend the Joint Chairs and Vice Chairs Steering Group.

**County Councillor T Van Rees left the meeting at 12.35.**

**Outcomes:**

- **The Chair to write to the Portfolio Holder for HR and Acting Strategic Director, Resources regarding the increase in absenteeism**
- **The Chair to pursue the matter of attendance by the Chair of Employment Committee at Joint Chairs and Vice Chairs Steering Group**

<b>7. INTERNAL AUDIT</b>
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**Documents:**

- Internal Audit Activity 2017/18 – Q2

**Discussion:**

- The work programme had been based around core priorities which may need to be amended in light of the Cabinet's 2025 Vision
- 60% of work is either in draft or completed
- 40% contact has been initiated
- The Assistant Director reported that the client did not appear to be fully aware of the new relationship with SWAP
- A number of pieces of work have been stopped as positions have changed by the client. This will result in more work being compressed into the later part of the year.
- The Head of Financial Services informed the Committee that managers did not fully understand the role of SWAP
- Members asked whether the school inspection cycle influenced SWAP's work programme – this has been co-ordinated in the past but advance notice is required

**Outcomes:**

- **The report was noted**

<b>8. CLOSURE OF ACCOUNTS</b>
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**Documents:**

- Report of the Head of Financial Services

**Discussion:**

- Preparation is underway for the closure of this year's accounts, bearing in mind the outcomes of the closure of last year's accounts
- The same approach will be taken
- Seminars regarding early closing are being held
- The WAO confirmed that they will continue to liaise with the Finance Team and workshops will be arranged between the two teams

**Outcomes:**

- **The report was noted**

<b>9. TREASURY MANAGEMENT</b>
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**Documents:**

- Report of the Portfolio Holder for Finance

**Discussion:**

- A strategy is in place and the report, for information, detailed the current position

**Outcome:**

- **The report was noted**

<b>10. RISK MANAGEMENT</b>
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**Documents:**

- Report of the Business Continuity and Risk Management Officer
- Heat Map
- Summary
- Risk Register
- Risk Assessment Matrix

**Discussion:**

- There were no major changes to the Risk Register
- Children's Services would be added following the inspection
- It was noted that the handover of landfill sites had now been reduced to a medium category following mitigation
- The Brecon Cultural Hub had been escalated following concerns over the budget
- Further training would be provided to Finance Scrutiny Panel Members on Impact Assessments
- Investigations into different software were taking place – this would allow Members to look at risks in real time
- Members were concerned that risks in Children's Services had not been picked up prior to the Inspection. This would be highlighted with all Heads of Service and Portfolio Holders
- The risks of the impact of Brexit were lower following controls being put in place for monitoring by Cabinet and Management Team
- The roll out of Universal Credit had been reduced to medium, but Members questioned whether this was correct given that roll out would not be complete until 2018 – the risk had been reduced due to recruitment of additional staff and more training
- The Chair noted that Children's Services had previously been reported as green and sought assurance that risks were being reported in other areas. How could evidence behind the risk rating be assessed?
- The Portfolio Holder was of the opinion that officers must be open embrace challenges and be aware of the risks

**Outcomes:**

- **The report was noted**

<b>11. FINANCE SCRUTINY PANEL</b>
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**Documents:**

- Scrutiny Summary Report

**Discussion:**

- The Chair reported a delay in the budget being available for scrutiny
- The Portfolio Holder indicated that a Finance Resource Model (FRM) for each service was currently being prepared.
- The budget would be available by the end of the month for consideration

**Outcome:**

- **The summary was noted**

<b>12. WORKING GROUPS</b>
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The Committee adjourned from 13.10 to 13.30

<b>13. INTERNAL AUDIT WORKING GROUP</b>
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**Documents;**

- Scrutiny summary report

**Discussion:**

- Direct Payments had been considered by the Group on a number of occasions but assurances had been given that improvements were in place
- Business cases had not always been in place to support voluntary severances but new policies had been introduced
- There had been a lack of substance in determining some savings included within the MTFs – new protocols were in operation
- The Assistant Director was asked how items were included for consideration by the Group – any internal audit which was given a low or partial assurance would be considered by the Group

**Outcome:**

- **The summary report was noted**

26.1. Joint Working Group - Financial Viability of Schools

**Documents:**

- Interim report on the financial viability of schools

**Discussion:**

- The joint working group between Audit Committee and Education Scrutiny Group had finalised the report and sought Audit Committee's comments and approval to submit the report to Cabinet

- The Group had commenced work following receipt of the WAO review and had discussed issues with a wide range of parties
- The report was an interim one until such time as the direction of travel was clarified
- It was unlikely that total funding would be increased and the Group were of the opinion that structural change was the only option
- The Group criticized the unwillingness to intervene in schools with consistent, large deficits
- Despite there being more challenge to schools, some were not improving
- A new Director was in post and was seen to be dealing more actively with schools and more control was likely
- There would be no alternative but to replace governors in some instances
- Some schools were finding difficulty in forward planning
- The Funding Formula is key – a fundamental review had been promised but it was disappointing that this had been delayed
- Some schools had made difficult decisions and are critical of those which have not
- It was noted that a policy was going to Cabinet on 7 November but Members were of the opinion that a more radical approach was required – the paper submitted did not meet the issues raised by the WAO review
- The Authority has submitted a bid for Bursar Support

**Outcomes:**

- **The report be submitted to Cabinet**

<b>14. JOINT CHAIRS AND VICE CHAIRS STEERING GROUP</b>
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**Documents**

- Notes of a meeting of the Joint Chairs and Vice Chair's Steering Group held on 19 September 2017

**Discussion:**

- A revised work programme had been discussed
- It was noted that an issue had been raised which was to be reported to the Public Service Board. However, Members had been denied access to those documents and it was unclear whether the issue had been raised. The Leader had also been contacted and no response received.
- The Committee believed scrutiny was inadequate
- There was a lack of communication between Portfolio Holders and Councillors

**Outcomes:**

- **The notes be received**

<b>15. WORK PROGRAMME</b>
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<b>16.</b>	<b>CORRESPONDENCE</b>
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A copy of a letter from the Minister for Education regarding schools' reserves was circulated to the Committee.

**County Councillor JG Morris (Chair)**