

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COMMITTEE ROOM A - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON FRIDAY, 16 NOVEMBER 2018**

**PRESENT**

County Councillors J G Morris (Chair), M Barnes, B Baynham, J Charlton, E Durrant, M J Jones, K Laurie-Parry, K Lewis, D A Thomas, E Vaughan and Mr J Brautigam

Cabinet Portfolio Holders In Attendance: A W Davies

Officers: Jane Thomas, Head of Financial Services, Stephen Caple, Deputy Head of Financial Services, Caroline Evans, Risk Management Officer and Wyn Richards, Head of Scrutiny Services

Other Officers In Attendance: Messrs P Pugh and A Veale, WAO

<b>1.</b>	<b>APOLOGIES</b>
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Apologies for absence were received from County Councillors County Councillors L V Corfield, M J Dorrance, D R Jones, P E Lewis, WD Powell, R G Thomas, T J Van-Rees, A Williams and J M Williams

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

<b>3.</b>	<b>DISCLOSURE OF PARTY WHIPS</b>
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There were no disclosures of party whips.

<b>4.</b>	<b>MINUTES</b>
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The Chair was authorised to sign the minutes of the previous meeting, held on 12 September 2018, together with the joint meetings of Audit Committee and Pensions and Investment Committee on 6 September and Audit Committee and the Finance Scrutiny Panel on 24 October 2018, as correct records.

<b>5.</b>	<b>WAO - ANNUAL IMPROVEMENT REPORT</b>
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**Documents:**

- WAO Annual Improvement Report 2017-18
- Report of the Leader and Deputy Leader
- Draft Annual Performance Report 2017-18

**Discussion:**

- The report provided a summary of work completed in the Audit year 2017/18

- There was an acknowledgement that the Council had been through a difficult period and this was reflected in the report
- The Statutory Recommendation that had been issued was reiterated
- The key messages were that the Council had to move forward and do so quickly and with pace and energy
- An Audit Programme for the year has been agreed and reports will come forward in due course
- The WAO were questioned as to why there were no recommendations aligned to the comments regarding bullying and harassment. The Fairness and Dignity at Work Policy had been withdrawn. However, there had been a previous report on Whistleblowing and the Council had improved from the time of that recommendation. An existing recommendation is in place and this provides the mechanism for review at any time. The WAO suggested that the Committee may wish to consider inviting an officer to attend Committee to report on progress made. Clarity was required as to whether the Policy included Members.
- The Committee asked the Portfolio Holder what progress had been made in dealing with the Statutory Recommendation – the Portfolio Holder confirmed that a considerable amount of work had already taken place and budget planning had begun immediately the current year's budget had been approved. A Panel comprising himself, the Leader, Chief Executive and Head of Financial Services was reviewing all savings proposals. Challenge had been provided and some proposals were being reviewed by the service. Eventually, these proposals would be considered by the Finance Scrutiny Panel.
- The WAO commented that considerable effort had been put into the Medium Term Financial Strategy (MTFS) but there was a need to see a longer term view. A short term outlook did not encourage longer term planning. The Council must address the transformation programme to address the medium and longer term.
- It was noted that the report was historic and it was questioned how this report could help the Audit Committee. The Portfolio Holder advised that the Authority responds to individual reports as they are released and the WAO will form a view on those responses.
- Two amendments to policies were benefitting the Authority. Firstly, adjustments to the Minimum Revenue Policy and secondly the use of Capital Receipts. These are being used to support the revenue budget in the next two to three years but it was essential that planning take place to address the period beyond that. It was suggested that the use of these funds should be directed towards transformation projects. The Head of Financial Services responded that robust plans had been in place which had been affected by the requirement for significant investment in social care late in the previous year. It was critical that a four to five-year plan be developed which was robust in the longer term and work would commence as soon as the 2019/20 budget had been agreed. Members suggested that this had been proposed for some time and were concerned that work was only now starting on the longer term plan. Assurance was needed that this was in hand and that Members would be aware of what was happening in the future.
- The Portfolio Holder for Finance advised that the MTFS was in draft form but that budgeting for the current year needed to be incorporated within it.

However, there was a plan which identified challenges and provided a direction for the future.

- The WAO reiterated the need to develop a transformation and change programme. The budget has been balanced through the use of technical adjustments and windfalls. Different ways of working were needed and it was acknowledged that difficult decisions regarding what will be provided in the future will need to be made. Transformation is key and will take time to implement.
- The Portfolio Holder reminded Members that there would be a Members Budget Seminar on 20 November 2018
- A member seminar was also to be arranged on the proposed scrutiny structure. A number of Members had had concerns that the existing process had not permitted adequate oversight of the budget setting process.
- Members were aware that there had been a wish to develop three and five year plans but that there had been consistent failures to deliver savings. If this fails in the first year there is a significant impact on years two and three.
- It was considered that the statement in the Annual Audit Letter and the Statutory Recommendation amounted to the same issue – was this not addressed adequately at the first stage? The Head of Financial Services advised that the recommendation had been received too late in that financial year and the budget plan was already in place. Only 70% savings were being achieved. The budget for 2019/20 could see the removal of £3.9M of unachieved savings if approved. The new process was thought to be more robust. Business cases and Impact Assessments have been provided for all savings proposals. Some of the remaining savings have been replaced and those that are left will be achieved in future years. There are proposals for a more detailed savings report to be delivered to Cabinet on a quarterly basis.

County Councillor B Baynham arrived at 10.40

- It was noted that difficult decisions would need to be made and that some may be politically difficult to deliver. The Authority will look very different going forward, as will other local authorities. The status quo is not an option but it was important to manage change. There needed to be an understanding and an acceptance that some services may no longer be deliverable. Members reminded the Committee that often there was pressure on politicians and that proposals must be discussed as early as possible. It was suggested that officers should use politicians to deliver the proposals and work with communities. Transformation must be communicated to communities and a goal must be in sight. The Portfolio Holder emphasised that expectations in communities should not be raised and that a realistic approach should be taken.

**Outcome:**

- **The report was noted**

<b>6. WAO - REVIEW OF SCRUTINY</b>
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**Documents:**

- WAO Overview and Scrutiny – Fit for the Future?
- Management Response

**Discussion:**

- The review of scrutiny had been considered by the Joint Chairs and Vice Chairs Steering Group and both scrutiny committees
- The findings of the report were recognised and the Authority must now move forward
- A revised scrutiny structure was currently being considered. The Scrutiny Development Board and Democratic Services Committee had devised and amended a structure which would be considered at a Member seminar in the new year and by County Council in January 2019.
- The dates contained within the Management Response will be amended by one month to accommodate the need for wider consultation of the new structure before consideration by County Council
- Members asked whether more use could be made of Skype for meetings. The Scrutiny Manager advised that the Welsh Government was addressing the issue of remote attendance and legislation (Local Government and Elections (Wales) Bill) was expected in February 2019. However remote attendance was restrictive under current arrangements. Skype and the congress system were not compatible which added to the challenges. Working Groups can be carried out via Skype and further development will be taking place.
- It was suggested that information needed to be collected from local, ward meetings to inform the process and ensure public engagement. There was a need to be more innovative although resourcing issues were acknowledged.
- Good forward work programming and an appropriate balance between pre and post decision scrutiny was also required

**Outcomes:**

- **The Management response to the WAO report was agreed subject to amendment of the dates to allow for wider consultation on new arrangements**

<b>7. CLOSURE OF ACCOUNTS</b>
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**Documents:**

- Report of the Head of Financial Services

**Discussion:**

- The Statement of Accounts had been published ahead of the deadline
- Next year, the draft Accounts will need to be available by 15 June and the final Statement of Accounts published by 15 September. The following year, the dates will be brought forward again with draft Accounts required by the end of May and final Accounts by the end of July.

- A new finance system is to be implemented by year end which will add to the challenges of early closing

**Outcomes:**

- **The report was noted**

<b>8. FINANCIAL OVERVIEW AND FORECAST AS 30 SEPTEMBER 2018</b>
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**Documents:**

- Report of the Portfolio Holder for Finance

**Discussion:**

- A larger overspend at year end was being forecast at the end of September than had previously been reported
- The Committee sought assurance around savings proposals
- There has been a relaxation in the use of capital receipts and officers were asked if it was possible to use these retrospectively for the period of the Directive? £2.6M had been used and this was made up of both in year and retrospective receipts. A further question was raised that if an asset had been disposed of since April 2016, would this have been capitalised or accounted for in a different way. A report would be submitted to Cabinet shortly. The WAO commented that it would be difficult to go back to previous years to alter the way in which the receipt was accounted for and that the guidance should be checked.
- The Committee had been advised that a Capital Receipts Policy would be available for the next meeting of the Finance Scrutiny Panel – Members asked whether this would detail potential capital receipts and actions for asset disposal including the County Farms Estate. It was confirmed that the Farms Policy had sufficient flexibility for assets to be considered for disposal. There was also a general policy and it must ensure that guidance is adhered to. The Portfolio Holder stated that policies should be flexible. However, using capital receipts now would lead to higher borrowing in the long term. There would be an impact on the revenue budget and Members should be aware of the consequences. It was noted that the revised Minimum Revenue Policy would have a similar effect.
- Members were concerned at the projected reduction in the level of reserves. The level was still within the limits agreed by Cabinet.
- The report details budget levels by directorate but transformation costs are attributed to central activities – will this always be the case? The Head of Finance informed Members that the Management of Change budget was held within central activities and would be reported there for the time being until such time as transformation occurs within services
- The Committee remain concerned that balancing the budget has been due to windfalls and that this cannot be relied upon. There has been a reduction in the projected overspend but this is due to an injection of funds. The projected overspend within Children's Services has increased by a further £500K. Schools delegated budgets are also causing concern and concern was expressed that parents are being relied upon to fund activities within schools.

- The Portfolio Holder for Finance reminded the Committee that the Funding Formula is being reviewed – there may be some schools who will win, others may lose. Transitional arrangements are to be put in place.
- The WAO noted the discussion regarding the budget by the Finance Scrutiny Panel but reminded the Committee that the long term position was key. Reserves can only be spent once. The need for pace and change was reiterated. The Authority cannot continue postponing strategic decisions otherwise reserves will be further eroded. It is unlikely that the financial position will improve in the next few years. The easy decisions have already been made.

**Outcomes:**

- **The report was noted**

<b>9. CAPITAL REPORT</b>
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**Documents:**

- Report of the Portfolio Holder for Finance

**Discussion:**

- At the end of September, expenditure was 50% (including commitments)
- In previous years, expenditure has lagged behind target but this year expenditure is on target and will continue to be monitored
- The Committee noted that expenditure on WHQS was only 25% and this raised concerns of poor performance

**Outcomes:**

- **The report was noted**

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

- Report of the Risk Management Officer
- Corporate Risk Register
- Heat Map
- Risk Assessment Matrix

**Discussion:**

- The report covered the first quarter of 2018/19
- It was acknowledged that there were too many corporate risks. There were currently 28 which was unmanageable
- Some of these risks would be more appropriately dealt with at a service level
- The Risk Register has been reviewed and a report will be submitted to Cabinet for approval
- It is proposed to rebrand the Register as the Strategic Risk Register

- An automated system is being rolled out with training being provided. There will be training for Members who will have access to live data at any given time
- The Committee had previously discussed Risk ASC19 which was deemed to be catastrophic. The increase in older persons may not be reflective of placements required. Whilst the difficulties in recruiting are known, this will not be in the current year. Therefore, the Committee considered that the risk was not catastrophic.
- The issue of recruitment was one for the whole organisation. Other organisations were not experiencing the difficulties in recruitment and further evidence was required.
- A number of risks had not moved and the Committee may wish to question the mitigating measures that have been put in place
- Members also commented on Brexit. The WAO reported that the Auditor General would be undertaking some work on the preparedness of Local Authorities for Brexit.

**Outcomes:**

- **That the report be noted**

<b>11. NEW FINANCE SYSTEM PROJECT IMPLEMENTATION</b>
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The Deputy Head of Financial Services briefed Members on progress achieved in implementing the new finance system:

- Purging of data on the current system is nearly complete
- A test system is up and running
- The current year's budget has been loaded
- Workshops with officers will commence shortly
- The functionality of the system will be tested commencing in December
- The new system will be set up after Christmas
- A strategy for communication to end users has been devised together with general communication to all staff

<b>12. TREASURY MANAGEMENT</b>
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**Documents:**

- Report of the Portfolio Holder for Finance

**Discussion:**

- There was little change to report
- The report was in line with reporting requirements and outlines the strategy followed
- The Authority is well within borrowing limits
- In response to a question regarding KPIs, the Head of Financial Services reported that the Right First Time Project was ongoing in an attempt to drive out inefficiencies. Although there have been improvements, this was not yet to a satisfactory level. The financial penalties of inaccuracies will

be imposed on those service areas. It was estimated that currently £100K of staff time was used each year to correct errors in service areas.

**Outcomes:**

- **The report was noted**

<b>13.</b>	<b>WORK PROGRAMME</b>
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**Documents:**

- Work Programme as at 6 November 2018

**Outcomes:**

- **The work programme was noted**

<b>14.</b>	<b>CORRESPONDENCE</b>
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There were no items of correspondence.

**County Councillor JG Morris (Chair)**