

Minutes



Audit Committee

Date: 24 January 2019

Time: 5:00pm

Venue: Committee Room 1

Present: Mr J Baker (Chair) Councillors D Davies, J Guy, J Jordan, L Lacey, H Thomas, K Thomas, H Townsend, R White and D Williams

In attendance: Meirion Rushworth (Head of Finance), Andrew Watham (Chief Internal Auditor), Dona Palmer (Audit Manager) Roberet Squance (Audit Manager), Gareth Lucey (WAO Audit Manager), Owen James (Assistant Head of Finance)

Apologies: D Davies, L Lacey

1. Declarations of Interest

There were none

2. Minutes of the Meeting held on 22 November 2019

The minutes of the meeting held on 22 November 2019 were submitted.

Members were requested to view Page 6 in relation to the Corporate Risk Register, it was discussed how the Risk Register reflects Brexit. It was stated that the Senior Performance Management Officer would be taking the issue to Cabinet and Senior Management. It was asked that as we are two months along has anything emerged that the Committee should be concerned about? The Head of Finance confirmed that the Senior Officer is working on this issue at present and has not reported back to Corporate Management yet on the matter. The Senior Officer is due to come back to the Committee on this issue.

On page 13 paragraph 8 there were discussions regarding funding and the bullet points in relation to staffing levels. If the post was not filled, then this could create problems.

Agreed:

To confirm the minutes of the meeting held on the 22 November 2019.

3. Treasury Management Strategy 2019/20

Members considered the Report which sets out the Treasury Management Strategy for 2019/2020. It was considered that the Council needs to improve on the first draft of its Capital strategy. The Capital strategy and Corporate strategy are linked.

In relation to the Treasury Management Strategy papers finalised at Februarys cabinet, the Treasury Management papers have gone out and there was only a small difference in both strategies but the message in both strategies remain the same.

Discussions regarding the Borrowing Strategy

It was discussed how the Council is internally borrowing wherever possible but was slightly tweaked to say that while the Council was still internally borrowing the capacity to further borrow has come to an end. It was stated that the Council would need to borrow early to mitigate interest rates and to gain advice from Treasury Management Advisors.

The Assistant Head of Finance stated how the strategy shows that the Council would need to re-finance any maturing debt over a long period. It was likely to be on a long term basis over 30-40 years. The strategy showed how the Council needs to refinance maturing debt eg £40 million on a long term fixed basis. This was based on the maturity profile. The fixed term interest rates were currently low and the Council would need to take advantage of the low interest rates if there are plans to borrow in the future. The Council would need to undertake additional borrowing to fund the capital programme.

It was questioned whether this was a general rule only that the Council gets? The Assistant Head of Finance confirmed that it was not a special rule and Councils can borrow from the Public Works Loan Board (PWLB) to utilise the borrowing facility which is cheap borrowing. The Council can borrow only to fund capital expenditure.

A Member stated that we know that Officers were employed to advise us but if these decisions were made on a lock down on how much the Council could borrow, it puts us in a position where little decision making is made on how to deal with future cuts.

It was also questioned as to what were the rules for borrowing and does it cost the Council more? The Assistant Head of Finance confirmed that one of the recommendations is that the Council could have the revenue budget set and our interest rates and that we take a risk short term. It is known that the Council would have to borrow £40 million. The revenue budget was set at a certain level and it was noted that the Council wished to secure interest rates at the level currently set.

It was discussed that we could benefit from having an analysis of the current Brexit situation and as to whether the Council should set a fixed rate now while interest rates are historically low and to secure that over a long period or risk a drop by half a percent.

The Head of Finance confirmed that Treasury decisions were made long term. In hindsight one could look at a decision made eg the Council paying 8% interest on the Bond but when this was taken out 40 years ago it was a reasonable idea at that time. In the long term it was confirmed that the Council would not be debt free for a long time, not even in 40 year's time.

The Head of Finance advised that if interest rates were low, then it may be best to use that opportunity to replace the £40 million loan and refinance it at a lower rate e.g. 3%. If that money was to be borrowed in the short term at half a percent a further £40 million would need to be found after 6 months so the Council would need to keep finding new options for loans.

- The Chair questioned as to how much debt the Council wants?

The Assistant Head of Finance confirmed that what was previously discussed was borrowing in terms of medium term and Members considered Table 1 on page 19 which highlighted what the Council needed to borrow medium term- over 4 years. Our Capital programme suggests the Council must undertake borrowing of £69 million. The Council may go early on borrowing if the Council can secure interest rates at a level within the Councils revenue budget.

In terms of strategy it was discussed how the Capital Strategy touches more on this, but it was confirmed how borrowing was inherently linked to Capital Expenditure. The more Capital Expenditure the more borrowing is needed.

- It was questioned as to how the revenue limit will give the Council some headroom for the next 4 years. The revenue budget is almost limiting the amount that the Council can borrow. Affordability needs to be looked at from a revenue point over the medium term.

The Chair suggested that if the Council looked at the borrowing rate of 3% and that at the end of the 10 years the debt level has gone up and the interest rates are 10% how does this fit in with future generations?

The Assistant Head of Finance confirmed that the medium term is 4 years and following that the Capital strategy looks a lot further at 10 years. It was confirmed that looking at the future we have Capital finance and interest budgets and MRP is rising. The Council would be putting forward a strategy as it was known that there are Capital demands and asset demands. As a Council it was confirmed that Senior Management and the Cabinet need to prioritise spending and keep it to a minimal amount. The Council could not make assumptions on potential grants and funding from Welsh Government. It was also imperative to keep a lid on Capital expenditure funded by borrowing. It was discussed how it was difficult to make decisions now and that it was important to keep CFR level steady or reduce it which would be ideal. It would be putting the Council in a position where the Council would be locked into keeping this low.

- It was questioned as to whether the Revenue charge would be capped? It was confirmed that the MRP budgets go up so it cannot be capped. It was not immediately evident what funding is going to do. For example, more council tax could fund a better MRP Capital.

The Chair remarked that the Council cannot be borrowing further now, as future generations will be laden with debt.

- It was questioned that as there were 3- 4 years of interest rates that were low could the Council build more houses in Newport and in relation to long term projects etc do the Council get advice on this?

The Assistant Head of Finance confirmed that this was on a case by case process based on budget. There is not a restriction put on MRP budgets and the Council cannot be restricted to a long-term restriction on revenue.

In the case of funding going forward, if the Council fund by borrowing then the CFR goes up etc but this was worth doing if there was a saving. The framework in Capital strategy states the Council can fund through borrowing.

It was commented that the Council have Officers employed to advise on these matters and that there is a lock in on how much we can borrow, councillors cannot make decisions on future cuts which restricts options on these matters.

The Head of Finance confirmed that Capital financing budgets were long term lock ins. When the Council commits to fund a capital programme, for example when a decision is made to pay £45million to build a new school, the Council would be paying the mortgage on this for a long time. If there was no grant and no Capital receipts and that school/project needed to be built, then the Council needs to borrow money. Therefore, the project needs to be affordable and Cabinet can make decisions that we could borrow another £100 million but this must be paid for, as the Council may have flexibility, but affordability is key. This locks the Council into funding over a certain period.

It was discussed how loans maturing in 15 year's time, the Council would not know what the interest rates would be. Advisors can let us know what the prediction is. The Council has internally borrowed £90 million and this was spent on previous capital projects, but the Council has reached the end of that now.

The Head of Finance confirmed that if the Council wanted to now borrow £90 million then the interest rates are low, but the Council do not need £90 million now.

- It was questioned by a Member that the Council could have a Building programme?

The Head of Finance confirmed that if the Council did have a property services company that would sell houses etc now would be a good time to borrow the money, only borrow money if you need it over a short time scale.

It was commented that if the opportunity was there for the money to be borrowed it was fine but there needs to be a reason to borrow. The Chair commented for the Committee to consider a lot of what other Local Authorities do, they borrow money to buy out shopping centres and they can go up to borrowing limits to invest in an area. When affordability is looked at, and if the debt level came down it gives the Council a gap in the borrowing limits. The Chair stated that the strategy should be clearer, and it should be clarified so points can be made on borrowing requirements, for example Friars Walk, it was not clear on the strategy.

Agreed:

It was requested that those comments be added in and for Cabinet to be updated.

Discussions included the following:

- A Member requested that the term 'Commercialisation' be avoided and that they preferred the term 'active income generation for the Council.'
- The Chair stated that it could be argued both ways and that neither term should be used. It was better to look at strategy; what was the preferred debt level and that the document is not clear enough here.
- The Head of Finance stated that in terms of preferred debt level the Council do provide that over the Medium term. For example, for the CFR to stay affordable in terms of current levels, if the Cabinet were to undertake more borrowing this would increase the budget.
- The Chair stated that the strategy should be self-sustainable so the Council do not incur debt down the line. The document is not clear enough and hasn't been over the last 4-5 years.
- The Assistant Head of Finance stated that the next stage would be look at the strategic plan- Highways, Asset Management plan, Schools etc. The Council need to know the total cost of demand on the Capital Programme. The Council are limited by affordability and this is from a revenue point of view. The Council were in a position where we are under financial constraints from Welsh Government and other Authorities. The Council have not set a borrowing limit and it was restricted by CFR.
- The Chair noted that maybe the Council would always be a 'borrower' and it was questioned as to whether we stay at current borrowing levels or reduce them? It was commented that it was felt that it was good to have a debate on the matter of debt levels and it showed that the document is not clear enough.
- A Member remarked that if anything was required it was that we needed to think about things in a different way and regeneration of income was very important.
- The Assistant Head of Finance confirmed that Capital strategy touched on Commercial strategy and appropriate Government arrangements need to be arranged going forward.

4. Internal Audit Plan

Members considered a report on the Internal Audit's progress against the 2018/19 audit plan for the first 9 months of the year by providing information on audit opinions given to date and progress against key performance targets.

Chief Internal Auditor confirmed that the overarching summary was that the team were making good progress. The majority of Internal Audit opinions were reasonable.

Members were requested to view Paragraph 11 of the report where it was stated that 53% of the audit plan has been achieved so far.

It was noted that the promptness of report finalisation averages 3 days which is below the target time of 5 days.

Members were requested to view Appendix A on page 70 of the report, in particular to the shaded area that showed quarter 4 which showed that the teams were on track to achieve target and are ahead.

Members were requested to view Appendix B in particular to the Unsound Opinion on page 72, this was treated as a special investigation, Education were aware of the concerns and would not be reporting back to Audit.

Discussions included the following issues:

- It was noted that Streetscene opinion still showed as unsatisfactory so this was still quite concerning.
- It was noted that the list of jobs completed was less, certain jobs were not covered due to there being less staff and resources. If vacancy not filled, then not enough coverage across sources and it was questioned as to whether there was an adequate safety net provided for council.
- The Chair enquired at what point would the number of staff be a problem?
- It was confirmed by the Chief Internal Auditor that there were agency staff in post at present on Quarter 4 to achieve target of 82% by the 31 March 2019. There were also discussions with HR about how the Council can re-advertise and fill that post.
- It was stated that this raises concerns and it was noted that the Annual Government Statement will have these items recorded there.
- It was noted that more resources were needed and the safety of it needed to be considered. It was commented that staff is at a minimum at the moment so if there were more staff then this could answer the question.

Agreed:

For the Annual Government Statement to be updated.

5. Internal Audit Unsatisfactory Audit Opinions (6 monthly report)

The attached report identified the current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

Members were requested to view paragraph 6 page 79 of the report, where it stated that Norse was in the plan but this was planned for Quarter 4 following the outcome of the independent CIPFA review.

-In relation to CCTV there was a delay in management but now new cameras were installed so there would now be a report back in due course.

- There were still a number of actions outstanding which require work by the Shared Resource Service (SRS) but this was currently low priority.
- In relation to Charles Williams Church in Wales School opinion had improved to a reasonable level.
- On page 81 Members were requested to view the 40 Audit Opinions on Llanwern High School which were followed up and opinion had improved and others are due to be followed up.
- In relation to SGO/Kinships this would be completed in 2020 and there was a meeting scheduled to discuss this. It was noted that it was important to get the right processes in place and to look at the wide perspective on how to support people who have an SGO for a child. Financial hardship needs to be looked at. There was identified concerns with the process and comments were taken on board. Social Services Department confirmed that a new team would be implemented which is now up and running. The second review was to be completed.
- It was noted that there was still issues in Street cleansing, City Services which was mentioned last time and the issue was referred to the Chief Executive to get some assurances. If Members agreed a comment would be requested from the Chief Executive in relation to the ongoing situation.
- In relation to the Bridge Achievement centre it was noted that a comment could not be made as this was a special investigation.

Agreed:

For a comment to be requested from the Chief Executive in relation to the ongoing issues in Street Cleansing.

6. Work Programme

Members attention was drawn to the Work Programme

-Internal audit plan for 2019/20 to be discussed in March meeting.

Corporate Risk Register and how it affects Brexit to be discussed in March meeting

Date of Next Meeting – 28 March 2019