# Draft Minutes

## Governance and Audit Committee

Date: 27 January 2022

Time: 5:00pm

Venue: Microsoft Teams Live Event

Present: Mr. J. Baker (Chair), Councillors G. Giles, P. Hourahine, J. Jordan, H. Thomas.

In attendance: Andrew Wathan (Chief Internal Auditor), Dona Palmer (Audit Manager), Gareth Lucey (Audit Wales), Jan Furtek (Acting Audit Manager), Paul Flint (Performance & Risk Business Partner), Ramim Khan (Audit Wales), Robert Green (Assistant Head of Finance), Rhys Cornwall (Strategic Director – Transformation & Corporate Centre), Mark Howcroft (Assistant Head of Finance), Meirion Rushworth (Head of Finance).

Samantha Schanzer (Governance Support Officer), Pamela Tasker (Governance Support Officer)

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### 1. Apologies for Absence

Councillor R. Mogford, Councillor M. Whitcutt and Councillor R. White

### 2. Declarations of Interest

None

### 3. Minutes of the Last Meeting

**Agreed:**

The minutes from the last meeting of 11 November 2021 were confirmed as a true record.

### 4. Corporate Risk Register (Quarter 2)

The Council's Corporate Risk Register monitors those risks that may prevent the Council from achieving its Corporate Plan or delivering services to its communities and service users in Newport.

The Chair reiterated to the Committee that it was not their role to query the scoring of the risks but the process around the risks.

The report was presented to the Committee by the Strategic Director – Transformation & Corporate Centre.

**Main Points:**

The Strategic Director stated that looking back to July to September 2021 there were a few significant potential risks the organisation were dealing with at that time. One of these was the post EU transition period and Brexit and implications associated with that, as well as the Delta variant risk due to the start of the new school term.

- Within the service plans there were 46 specific risks across its eight service areas with some changes, with a closed risk associated with the strategic development plan as a result of corporate committee arrangements. There was a new risk associated with the replacement Local Development Plan.
- For the Corporate Risk Register there were 18 risks, with Covid escalating and deescalating in relation to infection rates etc.
- Pressure on community services also depended on the risks associated with Covid and how that was managed.
- Increased risk with Brexit and the HGV drivers shortage which carried on into Quarter 3.
- Reduction in safeguarding was a risk due to the organisations self-assessment that was undertaken.

**Questions:**

Councillor Hourahine enquired about the risk against Brexit and whether it was a blunt tool to define where the risks actually were as there was a difficulty in recruiting for care workers for care homes and it was noted that recruitment was sought in the community.

The Strategic Corporate Director explained that outside of this period, but due to the Omicron variant and the pressures on social care, there was a range of interventions to manage this ongoing risk. This was not to do with Brexit but within each service plan there were risks and workforce planning where there had been a lot of work in the organisation on this. This looked at the current workforce and future workforce retention, training, and activities, and in each service plan there was a section as to how those problems were tackled.

Councillor Giles stated that ALN and SEN issues along with school budgets were ongoing but were not as serious as once thought which was impressive. Councillor Giles gave thanks to the Authority and all the schools for their hard work. Councillor Giles requested an update on schools and ALN and SEN issues and commented on the post covid picture and what this would look like as some financial issues of schools were somewhat alleviated.

The Strategic Corporate Director stated that the schools finance cost pressures were an ongoing issue, and this was a huge piece of work led by Finance colleagues and Education who were working with schools to alleviate budget pressures which was very successful so far. This was a huge effort from officers and schools. In relation to the SEN and ALN challenges this was around the new legislation with new requirements and operational challenges.

The overall budget position for schools was interesting due to increasing pressures in schools and Welsh Government had provided a hardship fund in place to support this. The biggest impact has been through collaboration between Finance colleagues and Education.

Councillor Giles asked as to whether there were concerns regarding the loss of the additional payment this year and what would happen as a result of this.

The Head of Finance stated that the ending of the hardship fund on the 31 March 2022 was a concern but was mitigated by the settlements being good for local governments. Work was ongoing with Cabinet and the Leader to put together a risk mitigation plan to manage the inevitable cost that was in the system as well as loss of income as normality won't return on 1st April. It would need to be sufficient and robust and maybe next year there may be some permanent changes, but it was too early to say at present.

The Chair noted that on page 32 of the pack in relation to Ash Die Back Disease, this showed 20 as an inherent risk score. The Chair stated that they did not want to query the score but with so many trees cut down should there be a change of direction in the score.

The Performance & Risk Business Partner confirmed that the score would be coming down over the next couple of quarters and this would be monitored.

The Chair commented on page 42 and the inherent risk score showed score of 25 but the matrix showed a score of 20 and whether the dot was in the right place.

The Performance & Risk Business Partner confirmed that the score confirmed the direction of travel was coming down.

**Agreed:**

The Governance and Audit Committee noted the report.

**5. Capital & Treasury Management Strategy**

The purpose of this report was to gather the Committee's views and responses to the Council's draft Capital and Treasury Management Strategies. These views and responses would then be reported to both Cabinet and Council, to inform their respective considerations of these documents.

The report was presented to the committee by the Assistant Head of Finance, and it was explained that this was the last year of the Capital Strategy Programme and there would be a more fundamental review next year as the new programme was developed.

**Main Points:**

- There were 2 additional years added to cover schemes that extended beyond 2023 such as the 21st century schools Band B programme which was a multi-year programme that extended beyond the next financial year.
- The report was brought to the Governance and Audit Committee for consideration and comment and then Cabinet and full Council for sign off which was the process followed.
- This was a long-term document covering a 10-year period and beyond in some cases and it was required of the team to underpin all considerations with the 3 main objectives of affordability, prudence, and sustainability, and they were critical within the decisions that were taken in conjunction with this report.
- In the Head of Finance comments, it was noted that one of the main aims was to limit the growth and debt funded Capital Expenditure e.g., expenditure funded by borrowing. Internal borrowing capacity would reduce over time and the way that the MRP policy worked, the charges would increase over time.
- On page 3 there were two sections that gave an overview of the two strategies, what their main purpose was and how they were set out within the prudential code.
- In terms of the main highlights, the 7 years in total was £288 million which included £2.4 million of currently uncommitted borrowing headroom and in 2022-2023 we were looking at a spend in excess of £100 million which was a significant challenge for the Council to achieve.
- £77.5 million was anticipated to be funded through borrowing with £43.1 million was still to be incurred.
- Within the report, the prudential indicators- the two critical ones were the external borrowing limits and the authorised limit in the operational boundary. They were derived from the Capital Programme and at £271 million and £192 million respectively, excluding PFI’s and leases. This reflected an increase on the limits that were currently in place in this financial year and that just underlies our position as a net borrower going forward.
- Table 3 contained the capital financing costs that we have budgeted for within the Council's revenue budget which were still relatively high and were reduced in proportion of the Councils overall revenue budget going forward. This was mainly due to the positive settlement that's being received this year, and the indicative settlements that we've had from the next two years, but it ultimately showed the ultimate impact debt funded Capital Expenditure had on an authority’s finances.
- The Council needed to develop a new Capital programme where the CFR did not grow overall.
- There were two scenarios as part of this work, one with an annual borrow debt fund expenditure of **£5.5 million** a year and one scenario of **£7.5 million** a year and these both showed that they either reduce or stabilised the CFR.
- However even with these two scenarios the capital financing cost would continue to rise for reasons already noted.
- Part of developing the new programme would be to review the governance structure around how schemes get added to the programmes, making it more robust and limit the amount of slippage being reported.

- In terms of the Capital Strategy there have been changes to the prudential code and the Treasury Management code, both of which were being finalized and published at the moment. There was one specific requirement in relation to the Prudential Code, which is that local authorities would now be precluded from undertaking borrowing where the sole aim of that borrowing is to yield from that. There was no real impact on Newport and there were no plans of that nature at the moment but if there were plans, they would not be able to be taken forward.
- There were sections in the report on the borrowing strategy and investment strategy where net borrowing requirement over the medium-term was the preferred strategy to maximize internal borrowing, deferring the need to undertake actual borrowing for as long as possible, but where relevant, borrowing in advance of need would be considered, with the aim to secure low interest rates and balance that against the risk of borrowing too early and incurring unnecessary interest costs. We also needed to consider the current interest rates on short term borrowing, which were low at the moment, to ensure a balanced portfolio.
- In terms of investments, it was needed to maintain an investment balance of £10 million to retain our professional client status, with the overall aim to strike a balance between risk and reward with consideration given to a diversification of investments to try and ensure that balance was achieved.

The Head of Finance mentioned that next year a local indicator was being introduced which was debt funded capital expenditure which was set at £2.4 million to take us to the end of the Capital Programme. This would mean a limit next year on new borrowing commitments. In terms of the new programme the intention was to set commitments next year where two scenarios were modelled which stabilised borrowing revenues. However, they did not stabilise revenue costs which would continue to increase. Limits would be set to stabilise the CFR. As previously indicated, there were two scenarios of £5.5 million a year and £7.5 million a year and the Head of Finance stated that it was their intention to recommend that a limit was set for the programme period somewhere in that area.

**Questions:**

Councillor Hourahine asked about the extension of 2 years on the Capital Expenditure Programme and was this brought about because this was planned or had it happened due to underperformance within the Council of these programmes.

The Head of Finance explained that the 21st Century schools programme ran in a slightly different period than the Council's own Capital Programme but there had been slippage as well.

Councillor Hourahine felt that this needed to be addressed by tighter programme management.

The Chair referred to the budgeted spend of £100 million and that there was a risk that this would not be spent and that over the last 5-7 years we always underspend our Capital Programme by about 20-30% every year. The Chair noted that following on from the last statement, if we were struggling to hit our expected spend again this year what was happening with programme management around capital cost as it was a continuous problem and it was affecting what the strategy would be for this document.

The Chair asked what the Council was doing to get better project management in this area.

The Assistant Head of Finance (RG) stated that there was a recognition that there needed to be a review of the governance arrangements and that in some cases there were capacity challenges, staff numbers etc and this was a challenge that was given consideration and was discussed recently. With the senior management restructure that's being undertaken and the Executive Board now being in place there were stronger structures around the management and the oversight of the Capital Programme. It was therefore anticipated that the risk would be reduced going forward with a more robust process in place to try to avoid a placeholder approach to putting schemes into the programme, so the schemes were ready and deliverable, and the profile was accurate and realistic.

The Head of Finance added that the governance arrangements were being reviewed over the whole piece and across the Authority as management structures were being filled. The Capital Programme and delivery were part of this review and would need to be strengthened.

The Chair suggested that if there was slippage, the capacity issue would need to be referred to in the accounts at that stage as the slippage was being recorded again and from the readers point of view it gave more context.

The Chair commented that the paper was a reactive rather than a proactive document where it was a strategy and method of funding. The Chair stated that they felt that a strategy should be how much debt do we want to carry. For example, the authorised limit was around the £300 million mark which was our maximum borrowing. The Chair stated that it seemed to imply that we wanted to be below £220 million but on the other hand our Capital Programme was £100 million so the strategy should be saying we could go up to £220 million but as a Council we don’t want to exceed whatever the appropriate level was. Therefore, the Chair stated that we should be driving what the capital plan should be set at and not the other way around.

The Chair commented that in the report itself that on page 73-paragraph 12 they questioned the first sentence and what it meant; “It should be noted that the two limits described above only place a theoretical limit on borrowing that can be undertaken to fund new capital expenditure, if there is evidence of slippage occurring across the programme.”

The Assistant Head of Finance stated that they were trying to say that the way that we currently calculate both the authorised limit, and the operational boundary was based on the Capital Programme that they were looking to deliver but slippage was a common occurrence, and it can be significant at times. Due to slippage the authorised limit was not achieved, and it was felt that was a lot of latitude for additional borrowing that exceeded the programme. Another measure of control was required in terms of borrowing and that the borrowing headroom was itself an indicator so if the amount of debt funded expenditure was increased then this itself needed to be approved.

The Chair recommended that this paragraph needed to be reworded.

Councillor Giles noted that it was an interesting discussion and that their experience with Plan B Capital Expenditure was match funded which caused great difficulties as it was funded to what we could afford. Councillor Giles noted that there were developers who added unexpected large costs which were not always planned for. Councillor Giles added their thanks to the team for the report.

**Actions:**

For the Assistant Head of Finance to amend page 73-paragraph 12 as advised by the Chair.

**Agreed:**

The Governance and Audit Committee noted the report.

**6 Lessons Learned 2020/21**

This report is to provide the Governance & Audit Committee with an update from the exit meeting with Audit Wales which reflected upon the 2020-21 Statement of Accounts audit process, and whether practices could be amended to benefit the 2021-22 Statement of Accounts process.

The report was presented by the Assistant Head of Finance who confirmed that the Statement of Accounts 2020/2021 were signed off in November 2021, but refinements were acknowledged and corrected.

The changes made were reflected in the working papers which automatically go through into the 2021-22 process.

- The focus on the Audit meeting looked at what went well and what could be improved, information sharing aspects and how the team could better meet the statutory audit timescales. Covid flexibilities made the accounts more difficult, but it was recognised that those flexibilities may soon not exist.
- Auditors have time commitments for other audits and as a result of the Audit meeting there was a consideration by the local authority as to whether there was a look to prepare the accounts with auditor availability or to push to close with early time scales.
- It was noted about the delay to reserves approval which was covid related. The Covid grant itself which was a lot of money involved around £30 million funding to be allocated to particular services.
- It was noted this was a good audit process and it was good to be challenged to meet the May deadline and that it was sensible to work to statutory guidelines.
- It was a small team but very resilient under pressures which was a risk the Council needed to appreciate.

**<u>Questions:</u>**

Councillor Hourahine stated that as it was a small team what availability was there in the whole finance system to allocate staff where they were most needed.

The Head of Finance noted that this was a very technical piece of work, and the Assistant Head of Finance stated a certain expertise was needed for certain things such as the presentation of a 160-page document following the international financial reporting standards.

The Assistant Head of Finance explained that certain closing jobs were shared out in the team but with a team of 4 that inherent challenge and capacity was present.

The Head of Finance confirmed that the entire accountancy team were all involved and there was a central team which brought it all together with the Assistant Head of Finance, alongside one capital accountant and a finance business partner. The work was very technical, and this level of knowledge was not available to everyone in accountancy. Everyone was involved in the end process. Resilience was a problem, and this was concerning but with resources that were there the team did the best they could.

The Chair agreed that this problem was everywhere and noted that it was good to have a Lessons Learned document which was great to have. The Chair agreed that it was necessary to go to the end of May deadline and it was correct to stick to this as there was less risk doing it that way.

**Agreed:**

The Governance and Audit Committee noted the report

### 7. SO24 / Waiving of Contract SO's: Quarterly report reviewing Cabinet / CM urgent decisions or waiving Contract SO's (Quarter 3, October to December 2021)

This report provided details of decisions on the use of Standing Order 24 (decisions taken urgently) or the Waiving of Contract Standing Orders for the above period.
In consideration of this report, Members were reminded that they are not questioning the merits of the decisions taken but were focussing on why decisions were taken as urgent or why contract standing orders needed to be waived.

The report was presented by the Chief Internal Auditor who explained that this was a regular report to Committee and SO24 allowed Cabinet Members or Cabinet to make urgent decisions without going through the normal consultation process.

During the last quarter there was one report that was submitted which was in relation to a Standard Order 24 and the Committee needed to assure themselves that the reason for pushing through the SO24 was justifiable which would lead to good governance.

The Chief Internal Auditor explained that their role was to review the decision schedule and the report which was included in the papers and to identify the reason for the urgent decision.

The Chief Internal Auditor stated that in his opinion the justification for the urgency of the decision was not explicit or recorded in the report and there was no timeline included around budget or options.

The Chief Internal Auditor informed the Committee that he was not recommending for the Cabinet Member to be called in to the Committee, but they would suggest that the Committee consider requesting the Cabinet Member to provide a written response as to why it was appropriate to use SO24 on this occasion.

The Chair agreed with the recommendation and stated that further information was needed.

**Agreed:**

For the Chief Internal Auditor to request the Cabinet Member to provide a written response to the Governance and Audit Committee to explain the use of SO24.

**8. Internal Audit Unsatisfactory Audit Opinions (6 monthly report)**

This report was presented to Committee by the Chief Internal Auditor.

This report was about the opinions that the team issued, and it gave the Committee an update on the progress on the Unfavourable opinions that were issued.

**Main Points:**

- During 2018/19, 48 audit opinions had been issued; 10 were Unsatisfactory, 1 was Unsound.
- During 2019/20, 32 audit opinions had been issued; 6 were Unsatisfactory, none were Unsound.
- During 2020/21, 29 audit opinions had been issued; 1 was Unsatisfactory, none were Unsound.
- During 2021/22 (to 30-9-21), 9 audit opinions had been issued; none were Unsatisfactory or Unsound.

This was a promising way forward as the number of unfavourable opinions were reducing. Members can see improvements have been made and there was a commitment made to follow up on any Unfavourable opinions and report back to the Committee the secondary opinion which could be positive or negative.

- In some case there have been 2 consecutive Unfavourable opinions then Committee have called in the relevant Head of Service to challenge the individual as to why little action was taken and to make those improvements.

- In 2015-16 Paragraph 6 of the report, 34 audit opinions were issued; 8 of which were deemed to be *Unsatisfactory*; one was noted in the summary as table as the 7 previous reports have been followed up and more favourable opinions were issued and have been duly reported to the Committee.

- Table 6 showed the Joint Venture- Newport Norse which was Unsatisfactory some years ago. There have been some delays in getting this report in terms of follow up. Follow up was started in 2021, continued into 2022 and a new opinion was issued which was reported to be more favourable and this would be reported back to the Committee in due course.
- In 2016/17, 35 audit opinions were issued; 5 were deemed to be Unsatisfactory, 1 was Unsound. One report has not yet been followed up. This was an SRS issue and the previous 4 Unsatisfactory reports and one Unsound have been followed up by a more favourable opinion. SRS and the Digital Team have engaged with a consultant to identify a gap analysis and an update would be provided to the Committee in due course.
- Paragraph 8 stated that in 2017/18, 40 audit opinions were issued; 6 were deemed to be Unsatisfactory, none were Unsound. 4 out of the 6 have been followed up; 3 of which have resulted in a more favourable audit opinion. Two reports have not yet been followed up. In relation to the Preferred Catering Contractor this was not yet picked up as the school were yet to engage with a new contract.
- In 2018/19, 48 audit opinions had been issued; 10 were deemed to be Unsatisfactory, 1 was deemed to be Unsound. 6 audits have been followed up which resulted in more favourable opinions. The outstanding opinions were shown in the table. Adoption Allowances were being followed up in this current financial year. Commercial & Industrial Property Portfolio was originally Unsatisfactory, and the final report was issued in March 2021 which was an improved opinion of Reasonable. Highways has seen an improved opinion of Reasonable. Vehicle Tracking System & Usage was previously Unsatisfactory, this has not yet been followed up as they were implementing a new tracking system. Trips and Visits have had a follow up undertaken and the Committee have previously called in the Head of Service who gave assurances that things would improve. There was a delay in this follow up due to Covid/Pandemic school closures. Caerleon Comprehensive was Unsatisfactory and due to Covid this was not followed up as of the 30th September 2021. However, this was subsequently followed up and the report would be submitted to the Committee at a future meeting.
- In 2019/20, 32 audit opinions had been issued; 6 were deemed to be Unsatisfactory, none were deemed to be Unsound. 3 audits have been followed up which has resulted in more favourable opinions. Taxi Contracts were to be followed up in this Quarter 4 of 2021/22. Corporate Governance was to be followed up in 2022/23 next financial year. Kinships have received 2 consecutive Unsatisfactory opinions and the Head of Children and Young People was called in to give assurances that things would improve. A follow up was completed which improved the opinion to Reasonable. Children & Families Imprest Account was originally Unsatisfactory with the final report issued in August 2021 which was a better Reasonable opinion. Gwent Music Support had an Unsatisfactory report and discussions have been ongoing with their service manager, a follow up was not carried out but advice was issued and post Covid a follow up Audit would be completed.
- In 2020/21, 29 audit opinions had been issued; 1 was deemed to be Unsatisfactory, none were deemed to be Unsound.

- In 2021/22, to September 2021, 9 audit opinions have been issued; no audit reports have been issued with an Unsatisfactory or Unsound audit opinion.
- Managers have a commitment to make the changes that were suggested, and the managers put their own management actions to address their issues and it was up to the operational managers to move this forward.

**Questions:**

Councillor Giles stated that it appeared that everything was quite detailed and was very efficient. They stated that some opinions were familiar, and some were unexpected. Councillor Giles also noted that there were a lot of covid aspects and asked whether there were any examples to explain how services were affected.

The Chief Internal Auditor confirmed that the main audit areas affected were our schools and not being able to carry out site visits due to Covid restrictions and school closures. The Audit Team would work with schools and Head Teachers, and they would have a controlled risk self-assessment to be sent out to them to make sure adequate controls were in place. With other service areas the focus was on frontline provision during the pandemic rather than audit which was acknowledged.

Councillor Hourahine remarked on the summary sheet which mentioned audit opinions as this was touched on this before. Councillor Hourahine requested for there to be an indication in the summary tables of when the team were next able to visit as this would be helpful e.g., 2018/2019 opinions.

The Chief Internal Auditor stated that they would take this on board and stated that the information was captured in the tables, and it depends on when the job appeared on the Audit cycle as other risks come on board which may take priority. In relation to the follow up to an Unfavourable report a follow up would be completed within 12 months but sometimes this could be accommodated.

**Agreed:**

The Governance and Audit Committee noted the report

**9. Work Programme**

The Chief Internal Auditor requested the Internal Audit Charter to go on the agenda for the 31st March 2022 Committee.

Audit Wales requested for Audit Wales Annual Audit Plan 2022 to go on the agenda for the 31st March 2022 Committee.

Audit Wales stated that Audit Wales Annual Report on Grants Works 2021-22 Draft may be on March's Committee but this would need to be confirmed.

**10 Date of Next Meeting**

31 March 2022 @ 5pm