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Audit Committee – 6 July 2017

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT COMMITTEE ROOM A - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON THURSDAY, 6 JULY 2017

PRESENT

County Councillor JG Morris (Chairman), M Barnes, B Baynham, Mr J Brautigam, J Charlton, L George, H Hulme, K Laurie-Parry, M J Jones, WD Powell, A Williams and S L Williams and Mr J Brautigam (Independent Member)

Cabinet Portfolio Holders In Attendance: County Councillors M Alexander, Portfolio Holder for Education, P Davies, Portfolio Holder for Property and Waste and R Powell, Portfolio Holder for Children, Youth, Leisure and Culture MC Alexander, P Davies and R Powell

Officers: David Powell, Strategic Director, Resources, Anne Phillips, Interim Professional Lead, Finance, Caroline Evans, Business Continuity and Risk Management Officer, Tom Yeo, Programme Officer, Ann Owen, Treasury Manager, Paul Griffiths, Strategic Director, Place, Sue Bolter, Head of Regeneration and Regulatory Services, Stuart Mackintosh, Head of Leisure and Recreation, Jim Swabey

Other Officers in Attendance: Phil Pugh, WAO, Ian Baker and Ian Halstead, SWAP, Jim Swabey and Matthew Robinson, Heart of Wales Property Services Ian Halstead, Ann Owen, David Powell, Caroline Evans and Tom Yeo

1.	APOLOGIES
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Apologies for absence were received from County Councillors R G Thomas and T J Van-Rees

2.	DECLARATIONS OF INTEREST
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County Councillor M Barnes declared a personal and prejudicial interest in the item relating to the Education Finance Review as a member of his family is employed in a school.

County Councillors B Baynham, M J Jones, J G Morris, W Powell, A Williams and S Williams declared personal interests as LEA appointed Governors

3.	DISCLOSURE OF PARTY WHIPS
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There were no declarations of party whips.

4.	MINUTES
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The Chair was authorised to sign the minutes of the previous meetings, held on 6 April and 18 May 2017, as correct records.

5.	EDUCATION FINANCE REVIEW
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Documents:

- Report of the Head of Financial Services
- WAO – Review of Education Finance (Powys County Council)

Discussion:

- The Chair informed the Committee that a joint working group had been set up between Audit Committee and the Education Scrutiny Working Group to consider the financial viability of schools. The Chair, Vice Chair and Councillor H Hulme were the representatives of the Audit Committee.
- The review concluded that improvements had been made but that there were further improvements that could be made
- Officers had been fully involved throughout the review
- A detailed action plan would be provided for the next meeting of the Audit Committee which would detail milestones. It was essential that this actively address driving the service forward.
- The Portfolio Holder confirmed that the report reflected the current position
- It was crucial that advice was provided early
- There needed to be a 'reality check' in some areas
- Challenge was needed across many support services
- The curriculum that could be provided at a school of 600 pupils was radically different to that which could be provided at a school of 400 pupils
- Deficits had accrued due to a number of factors including school and staffing structures together with a curriculum that must be suitable and deliverable and not aspirational
- The number of special responsibility payments could affect the budget significantly – these too, must be sustainable
- The Portfolio Holder was aware of some teaching staff undertaking pastoral roles for which they may not be trained
- The wide variation between schools' financial positions was also an area for further investigation
- It was noted that the Welsh Government was to make additional funding available for Business Managers in schools and the Portfolio Holder urged the Authority to take advantage of this
- Schools need to have an understanding of both finance and the curriculum and the Portfolio Holder believed that this was an area for improvement
- The Chair noted that the WAO had reported in 2012, Price Waterhouse Coopers in 2015 and the Auditor General had also raised concerns but it did not appear that these had been acted upon. Schools had also been encouraged to balance their budgets but that this was insufficient in some cases.
- The Portfolio Holder was aware of the issues and stated her intention to remove delegation from those schools which did not co-operate. However the need for curriculum enabled officers to be in place prior to removing delegation was noted. It was essential to demonstrate fiscal prudence and there was a duty to enforce rules and regulations.
- The Committee remained concerned that the longer issues took to resolve, the greater the financial risk

- The Portfolio Holder acknowledged that support had been given to schools but the main concern was with those schools which have had assistance but have still not taken action to address budget issues
- School modernisation has been used as an excuse for not actively dealing with budgets but it was acknowledged that modernisation was a lengthy process and the current structure must be made to be viable.
- The Section 151 Officer advised that a two pronged approach was needed – financial and curriculum. Challenge Advisers need to ensure that the curriculum is affordable, right for the learner and deliverable. He reiterated the resourcing implications of withdrawing delegation but believed this should be tackled if appropriate to ensure the Authority maintains credibility.
- Members asked if Finance Officers could be sent into schools to try to redress budget deficits – the Portfolio Holder confirmed that this did happen but that governance issues must also be correct. A Governing Body should not allow a deficit budget to be set.
- The right support needs to be provided to schools, but the Governing Body must also take responsibility. LEA governors in particular should make strenuous efforts to bring deficit budgets back on course.
- Secondary schools employ Bursars or Business Managers but the roles and capabilities vary across the county. Long term planning is required.
- Finance Officers are on site a minimum of twice a year. Surgery sessions are also held. Training for governors is provided. Officers are available for advice at any time.
- The Chair asked if there was a structure for responsibility of deficit budgets and was advised that this was the responsibility of the Governing Body
- The Committee asked whether a Bursar/Business Manager's role had been specified or if it had developed over time, what their remit was in relation to feeder primary schools, whether specific training was provided for LEA governors and if there was any scope for support from the private sector. It was noted that the service provided by Bursars/Business Managers varied and the role has changed over time. LEA governors should represent the LEA but tend to empathise with schools and not discharge their responsibilities fully.
- The Portfolio Holder was of the opinion that there was potential to develop clusters or co-operative working in rural schools
- The right people with the right skills need to be in the right places
- The culture in schools will also need to be addressed
- The Portfolio Holder would welcome being alerted to emerging issues by LEA governors
- The driver for school funding was pupil numbers
- The curriculum must be foremost as this drives results. Skills are not in place in some schools but it is a fundamental requirement. Despite budget pressures, curricula have not been adjusted.
- Efficiencies would suggest teaching to larger class sizes but this could be difficult to achieve in some areas such as Welsh medium where numbers tend to be lower
- Some software is available for curriculum management which, whilst not ideal, could be helpful in drafting timetables

- The incoming Director of Education had commented that Powys was a data rich county
- Governing Bodies should assess how staff are being utilized and must focus on outcomes – there is a coefficient of work rate and effectiveness
- New ways of working need to be identified across schools to ensure effective delivery
- Dual stream would be ideal but schools need to work together with peripatetic teachers and distance learning also being considered
- The WAO report highlighted that like other predominantly rural authorities, the Council's budgeted education expenditure per pupil is well above the Wales average. However, the delegation rate is among the lowest in Wales with the result that delegated budgets per pupil in primary and secondary schools are below average, and well below those in similar authorities.
- ALN will be reviewed
- The effectiveness of the non-delegated budget will be assessed
- Members asked if the business community could be involved to offer a commercial perspective to schools – the Portfolio Holder thought that additional skills in Governing Bodies would enhance that role
- The Portfolio Holder noted that morale in schools could be improved – teachers away due to stress is of concern and the incoming Director of Education has been asked to undertake an investigation into the causes of stress in the workplace
- Some senior leadership teams in schools are reluctant to change
- The WAO stated that their report emphasised accountability for those within schools but also for the Local Authority
- The Portfolio Holder would consider withdrawing delegation after consideration of a school's history – some may have failed to balance their budget but have taken mitigating action. Others have failed to introduce mitigation despite assistance.
- Whilst much has happened the pace of change has not been adequate
- The Portfolio Holder outlined her vision of changing the school structure consensually through closer working with communities.
- It was noted that the gross budget was ranked 6th in Wales but the retained budget ranked 18th across Wales. Transport costs per pupil were £513 and ALN £243. £1.8M was paid to Freedom Leisure for swimming facilities per annum. The Portfolio Holder noted the high cost of ALN provision and outlined her proposals for improved services whilst reducing costs.
- The Chair highlighted the need for a clear, written vision, going forward for all Portfolio areas for the next 5 years. The Portfolio Holder agreed but had been reluctant to commit to discussions prior to a meeting with the Minister. Clear proposals will be developed over the summer, and the Chair requested that costs be included.

Outcome:

- **A clear direction of travel, including costs, to be developed in the near future**

6.	INTERNAL AUDIT
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6.1. Internal Audit Plan

Documents:

- Report of the Head of Financial Services
- Internal Audit Plan 2017/18

Discussion:

- The Audit Committee is required to ensure proper processes are in place which are sufficiently robust to meet requirements
- The Plan provides an indication of work throughout the year, but there were opportunities for flexibility
- The Plan is designed to enable SWAP to give an opinion regarding control within the Authority
- There were two key aspects – the Council's corporate priorities and Principles of a Health Organisation
- Key risks to the Council guide the programme
- An overview of corporate themes will be undertaken
- A fundamental approach will be taken during the current year and more in depth analysis on some aspects will determine future year's programmes
- This approach by SWAP has seen good feedback from other Councils, winner of the CIPFA Innovation Award and a finalist at the MJ awards
- There was disappointment expressed that the Plan did not focus on developing the economy. It was suggested that the Plan was defensive rather than being pro-active on investment opportunities etc. SWAP would welcome input from members on future areas for development but reminded Members there was a finite resource available
- It was noted that 1010 days had been allocated to internal audit work – SWAP were asked if this represented full capacity. This was the contracted number of days, but SWAP had additional capacity if required.

Outcome:

- **The 2017/18 Internal Audit Plan be approved**

6.2. Appointment to Internal Audit Working Group

Outcome:

- **In addition to the Chair and Vice Chair of the Audit Committee, County Councillors Mark Barnes, Karen Laurie-Parry and Ange Williams be appointed to the Internal Audit Working Group**

7.	RISK MANAGEMENT
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Documents:

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

- Risk Assessment Matrix

Discussion:

- Risk management is continually being assessed, improved and updated.
- Impact Assessments have been developed and incorporate Risk Management, which allows consideration of all major changes and the impact this will have
- The last two years' budget savings were all subject to an Impact Assessment – this process has been improved in the last year and has been highly commended by the All Wales Continuous Improvement Community.
- Presentation on the Impact Assessments provided at ALARM (Association of Local Authority Risk Managers) National Conference. Other organisations have approached Powys to request further information on the process.

Outcome:

- **Work on the risk register be noted**

8.	STATEMENT OF ACCOUNTS
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Documents:

- Report of the Head of Financial Services

Discussion:

- The draft Statement of Accounts had been completed well in advance of the deadline – this is positive as deadlines become more stringent going forward
- An advertisement will be placed to inform the public that the draft Statement Of Accounts is available for inspection
- A workshop will be provided for Committee Members to consider the final accounts prior to their sign off by Committee on 22 September 2017
- Officers were asked if local bodies, such as Community Interest Companies , would have to adhere to more stringent timescales – such bodies are separate entities and the Powys Statement of Accounts will merely reflect what has been paid to them

Outcomes:

- **The report was noted**

9.	TREASURY MANAGEMENT
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Documents:

- Report of the Portfolio Holder for Finance

Discussion:

- High cash balances were held at year end to meet anticipated end of year expenditure – this did not materialise and therefore there was a large cash balance for a short period. However the cost was minimal.

- A new EU Directive ‘Markets in Financial Instruments’ is to be implemented and there was initially concern this would impact the Authority. This is not the case following work by officers.
- It is suggested that the Authority no longer receive payment by cheque but by BACs. Approximately 96,000 transactions are made per year – in implementing the policy a small saving of £2,300 would be achieved.
- A question was raised regarding the level of LOBOs – of £45m in market loans, £40M are LOBOs and £5M are private. LOBOs were currently at competitive interest rates.

Outcomes:

- **Audit Committee support the recommendation to Cabinet to cease paying suppliers by cheque from 1 September 2017**

10. REGULATORY TRACKER

Documents:

- Report of the Portfolio Holder for Finance
- Regulatory Tracker

Discussion:

- Regulators had recommended that a Regulatory Tracker be maintained and reported against
- Officers meet quarterly with the responsible officer to maintain the tracker
- The Tracker is considered by Management Team, Strategic Overview Board and Audit Committee
- The Regulatory Tracker is linked to the Risk Register
- Members noted the recommendation for a review of the commissioning of domiciliary care and concern was expressed that this would be a repeat of an earlier exercise. It was thought not and the right providers had to be found for the right area. One Member of Audit Committee was a member of the Adult Social Care Working Group which has had an initial look at proposals for market development of domiciliary care.
- It was noted that KPIs were needed to monitor the Medium Term Financial Strategy – these need to be agreed by Cabinet

Outcomes:

- **Those items which have been completed and have ‘Blue’ status should be removed from the Tracker**

11. ACCESS TO INFORMATION

RESOLVED to exclude the public for the following item of business on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).

12.	BRECON CULTURAL HUB
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Documents:

- Report of the Portfolio Holders for Property and Waste and Children, Youth, Libraries and Leisure Services

Discussion:

- A report had been considered by Scrutiny Committee A regarding governance surrounding the project. This report had also been circulated to Members of the Audit Committee prior to the meeting for information.
- Lessons learned had been contained within the Scrutiny report and Audit Committee were invited to add any further detail as appropriate
- Of concern was the length of time the project had been in development. The project had first been suggested in 2002 and the length of time in the intervening period had made continuity more difficult.
- A key date was May 2016 when agreement was given to proceed. Costs had increased (including the cost of steel) and highways and café fitting out had contributed to the overall increase in costs.
- The Portfolio Holder for Property and Waste had also been concerned when he took over the portfolio and he has raised many questions in the short period he has held the portfolio.
- The Chair asked if the final cost of the project was known – meetings were ongoing to define the final costs. The Committee challenged this but were advised that this was within normal parameters for this type of contract.
- The length of time the project had taken had contributed to this together with the lack of project management within the Council at the time of the project's inception
- It was expected that more accurate, final costs would be available in two months
- The Committee were not satisfied and asked when estimates that were available would become payable. Projected claims were in the process of being challenged but there may be additional claims to consider.
- The project had suffered delays which were mainly due to information flows. The gaps in original estimates were also a legacy of poor information.
- Relationships with one of the contractors has improved. The Project Board had debated whether to proceed with the project but had agreed that the Authority was too committed to withdraw.
- The Committee were concerned that the project was going forward irrespective of costs. These were still to be determined but it had been considered that the risks of not proceeding were greater than those of proceeding.
- Ultimately the Cabinet will make the final decision when final costings are available. If the project were to be terminated there would be ongoing costs relating to the building, contractual costs, repayment of grants and compensation payments.
- Members of the Committee expressed concern at the ongoing, increasing costs whilst other services were being asked to make savings
- The Committee were aware of the serious reputational damage to the Council in addition to increased costs. Details of when decisions were made and by whom were requested. Members were advised that this was

- currently being prepared and would be available to Members shortly. Members asked if there had been any political or executive continuity.
- The Portfolio Holder was concerned that a project of this magnitude had insufficient available information.
 - It was suggested that both Scrutiny and Audit had considered the project over the years – Audit Committee had not had any consideration of the project and Scrutiny had had limited involvement
 - Members suggested that the Authority's commissioning was not sufficiently robust in this case
 - The Committee asked whether Internal Audit had been involved at any stage – they had not as the project had not been identified as a risk. Early intervention is key.
 - The Section 151 Officer did not believe that terminating the project was an option at this late stage. The project had been complex and lessons learned should be transferrable to other large projects such as 21st Century Schools. A number of senior officers are now involved and robust discussions are ongoing. Recent months have seen significant improvements and greater clarity. Funding will need to be sourced from either borrowing (which will impact on the revenue account) or capital receipts.
 - The Chair challenged whether a similar situation could occur with other Council projects – it was thought that there was sufficient evidence to show that this could not happen again. Many schemes have been successfully completed by the Authority.
 - The WAO were asked if they should have an involvement in such a project. In response it was stated it was only necessary for the WAO to be assured whether the accounts were true and fair and that monies had been properly accounted for. There is a further requirement to review and respond to items of correspondence from the public relating to Council business. During the current year the WAO will assess whether there are any provisions or contingent liabilities for 2016/17. There has been no correspondence from the public. The Local Authority should consider how it manages and monitors budgets for significant projects and ensure that it is appropriately managing those projects where significant variances arise.
 - Members expressed concern that lessons were not being learnt, with a requirement for proper accountability and responsibility
 - An independent report of the project should be commissioned
 - The Portfolio Holder stated that he had had concerns about the project when he took over the portfolio but, following discussions and enquiries, was more positive about the current position
 - It was noted that the facility in the future will be a Powys Cultural Hub – not just a facility for Brecon
 - The Committee expressed concern regarding ongoing and future commissioning projects

Outcomes:

- **The Audit Committee will undertake pre decision scrutiny of the report once final costs have been assessed**

13.	CORRESPONDENCE
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There were no items of correspondence.

County Councillor JG Morris (Chairman)