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Governance and Audit Committee – 29-07-2022

MINUTES OF A MEETING OF THE GOVERNANCE AND AUDIT COMMITTEE HELD AT BY ZOOM ON FRIDAY, 29 JULY 2022

PRESENT: L Hamilton (Chair)

County Councillors: G Breeze, P Lewington, WD Powell, G W Ratcliffe, C Walsh and A Williams

Independent / Lay Members: G Hall, J Brautigam.

Cabinet Portfolio Holders In Attendance: County Councillor D A Thomas (Portfolio Holder for Finance and Corporate Transformation)

Powys County Council Officers: Caroline Turner (Chief Executive), Jane Thomas (Head of Finance), Wyn Richards (Scrutiny Manager and Head of Democratic Services), and James Chappelle (Capital and Financial Planning Accountant)

Other Officers In Attendance: Phil Pugh (Audit Wales), Non Jenkins (Audit Wales), Ian Halstead (SWAP)

1. APOLOGIES

The Committee did not receive any apologies for absence.

2. DISCLOSURES OF INTEREST

There were no Declarations of Interest from Members relating to items to be considered on the agenda.

3. MINUTES

The Chair was authorised to sign the minutes of the previous meeting, held on 13-06-2022, as a correct record.

- Questions:

Question	Response
There was a question at the previous meeting regarding insurance cover for Members and officers representing the Council in other organisations. Concern was raised as to whether cover was appropriate. Therefore, this needs to be addressed so that Members and officers have adequate cover when appointed to outside bodies.	The Head of Finance indicated that some insurances are in place by means of the 3 rd party organisation that people are serving on. However, this needs to be reviewed so that the Council is not relying on third party policies and ensure it has its own cover in place. A report will be presented to the Committee when this work is finalised.

Outcomes:

- Head of Finance to present a report to the Committee once the work on reviewing insurances for Members and officers has been finalised.**

4. TREASURY MANAGEMENT QUARTER 1 REPORT

Documents Considered:

- Report of the Cabinet Member for Finance and Corporate Transformation – Treasury Management Quarter 1 Report.

Issues Discussed:

- Report for the first quarter of the 2022-23 financial year.
- Update on the capital position - the initial programme approved in March 2022 was £133m, currently reduced to £115m. There has been various reprofiling and grants received during the year.
- £45m was expected to go out for GCRE but this is not going to happen this year so it has been removed from the capital programme.
- Inflation is having a serious impact on the capital programme. Services are trying to manage the costs but it may be that they will need to trim down their programme or reduce works to be undertaken to fit within existing budgets.
- There has been no borrowing taken out in the first quarter but some debt is maturing in the next quarter and dependent on the cash position it may be possible to repay those debts or secure additional borrowing.
- The repayment of Nant Helen S106 deposit is continuing which is reducing under-borrowed position of the Council. It is expected that the majority of this will be repaid in this financial year.
- Sundry debt has been included in the report for the first time – sets out the sundry debt at 11th July 2022. A further £1m owing from PTHB is not included in table. Total debt is around 21% of the annual generated income.
- Questions:

Question	Response
Sundry Debt - at first sight the level of age debt seems to be horrific. Is there any further comment in relation to this.	<p>The Head of Finance indicated that she looked forward to bringing the Committee more information about outstanding debt across the Council. There are some extensive debts that are quite old. There is a great deal of charging between the Council and PTHB with the Section 33 agreements. There is also historic debt which the Council is trying to resolve with the PTHB which will feature in the over 90 days debt.</p> <p>There are regular meetings with PTHB officers to move things on and resolve disputes. Will bring more information to the Committee in future. There is a debt policy in place which can be shared with the Committee.</p>
There is also about £3m debt spread across other directorates. Is this reviewed on a regular basis.	The Head of Finance indicated that we do work with services and there are monthly reports as well as regular

	meetings with officers. This may need to be stepped up and with greater focus due to cost of living pressures which are affecting the Council.
What is the reason that debt is not being serviced. How is this being benchmarked and why are we not being paid within 90 days. Are we servicing our debts correctly by as an example sending invoices out on time.	The Head of Finance indicated that part of the finance transformation programme is looking at various processes and the debts process is being reviewed as part of that work. The starting point is raising invoices as soon as possible and the review should be able to monitor how quickly this is happening and make the whole process more efficient.
Millions of pounds have been paid to the Council by Welsh Government for the GCRE project. Is there a question about the legality of the Council accepting this funding in advance of an identified need. Is this sum also ring fenced, as some of the funding has been reclaimed.	<p>The Capital and Financial Planning Accountant indicated that there are two different elements to the site. The first is a S106 agreement (£19.5m) for the reinstatement of the site which is held for Celtic Energy and as they backfill we are repaying that money. The second element is for the GCRE testing facility and that loan funding was provided in March 2020 by Welsh Government. This was audited as part of the Council's accounts. We did expect to have paid some of this back by the end of last year but we are still holding this funding.</p> <p>The Head of Finance indicated that there were some confidential reports shared with the previous committee which could be circulated to the Committee. A further report will be presented to the Committee and the Finance Panel to update Members. All of this is under a specific agreement and we are complying with the terms and conditions of that agreement. This will be reviewed by Audit Wales as part of their audit work.</p>
In respect of the debt position with PTHB. What is the conflict resolution process as large sums of money are involved.	The Committee received assurance from the Head of Finance that in terms of PTHB this is being dealt with at a very senior level by the Leader and senior officers in the Council with senior officers at PTHB.
What debts do we owe as well so that we can have a balanced picture.	The Head of Finance indicated that creditors information can be provided and included in the report.
Short term debtors has jumped from £50m to £75m in the last year, most of	Noted.

<p>which was grants promised from Welsh Government but not paid by year end. The Committee needs to have a closer look at the composition of this debt on a more regular basis.</p>	
<p>The report is alarming at first look. What was the trigger to look at this now as it was not considered previously. Due to Covid has this debt increased or not been addressed by other organisations due to Covid implications. Has debt always been this high or has it grown over that period of time, as if it was growing it is of concern that we should have been looking at it previously.</p>	<p>The Head of Finance indicated that why it has been included, this is part of the ongoing improvements from the finance perspective, with a drive to give all committees more comparative and benchmarking data. This has also come out of discussions with the Chair around good practice. There is always a consistent level of debt in the organisation and trends will become evident as the Committee sees the reports.</p> <p>The level of historic debt with PTHB has increased due to disputes which are trying to be resolved.</p> <p>The Chief Executive indicated that the level of debt with PTHB goes back to a change of policy in the 1990s. Discussions are ongoing with PTHB and there has been a commitment by both organisations to seek to resolve all outstanding issues by the end of this calendar year.</p>
<p>Appendix B – purchase cards. These are still operating at unacceptable levels of error. What is the latest position.</p>	<p>The Head of Finance indicated that there is a clear policy in place. We do have the ability to withdraw cards from individuals who consistently make errors.</p> <p>The Capital and Financial Planning Accountant advised that about £1m per month is going through the cards. Cards are blocked until users resolve the issues and errors and we will continue to do so.</p>

Outcomes:

- **Report Noted.**
- **Sundry Debt – in future reports can visual indicators be included so that the Committee can track trends.**
- **Debt policy to be shared with the Committee.**
- **GCRE – previous confidential reports to be shared with the Committee.**
- **Confidential briefing with the CEO of GCRE to be arranged for the Committee.**

- **Include creditor information (debt owed by the Council) in the sundry debt report as well as information about short term debtors.**

5.	SWAP REPORTS
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5.1. Internal Audit Progress Report - Quarter 1

Documents Considered:

- Report of the Assistant Director (Powys) SWAP – Internal Audit Progress Report – Quarter 1.

Issues Discussed:

- Presentation provided in relation to the Highways Service – 6 areas of work undertaken.
 - The Chair asked the Assistant Director to elaborate as to why in view of the gravity of some of the findings in the Highways audits the overall rating of “Reasonable” had been applied which she felt was generous and it would have been expected that the overall rating would more likely be “Limited”.
 - The Chair suggested that the Committee meet to discuss a single item agenda on the Highways issues and following that the Working Group could take this work forward.
 - A range of Audit reports were commissioned by the Head of Service. Resource is in place to assist the Head of Service and an action plan is being formulated which can be presented to the Committee. The internal Improvement Board for Highways, Transport and Recycling is focussing on issues highlighted in relation to Highways but actions are limited as yet due to waiting for the results of the SWAP review and not wishing to impinge on the ongoing police investigation.
- The overall opinion in the report is reasonable assurance.
- Questions:

Question	Response
Can the report include more information about the definitions of assurance levels	More information can be provided in reports in relation to definitions.

Outcomes:

- **Report Noted.**
- **Highways Presentation to be circulated to the Committee.**
- **Highways issues – to be discussed at a single item meeting of the Committee to which the Head of Service and Project Manager can be invited. Following that the Working Group can take this work forward.**

5.2. Annual Audit Opinion

Documents Considered:

- Report of the Assistant Director (Powys) SWAP.

Issues Discussed:

- The report is the Audit opinion on the levels of control within the Council for the year 2021-22.
- 51 pieces of work were undertaken. Of those 7 were limited assurance audits, and 71% of the work provided a substantial or reasonable assurance. All the issues were considered at previous Governance and Audit Committees.
- Project and programme management collectively was an issue and some of the governance and operational aspects of those. There is evidence of significant improvement in those areas.
- The fraud risk is satisfactorily managed and actions in general have been implemented.
- In general over the past two years SWAP have covered the Council's corporate risks and this will continue.
- On the balance of the work undertaken a Reasonable Opinion was provided for the year.

Outcomes:

- **Noted.**

6.	AUDIT WALES REPORTS
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6.1. Audit Wales - Audit Plans

Documents Considered:

- 2022 Audit Plan for Powys County Council
- 2022 Audit Plan for the Powys Pension Fund

Issues Discussed:

- Powys County Council Accounts – Areas of risk highlighted for the audit work:
 - Management Override – this is an issue for all organisations both public and private.
 - Asset valuations – this risk does not relate to Powys alone but an aspect being considered across all bodies including sponsored bodies and the NHS.
 - Related parties information – some weaknesses have been identified in the previous process of recording related party information.
 - GCRE – the position as currently understood is being reported.
 - Many risks are similar across local authorities.
- One specific piece of work for Powys is revisiting the improvement in scrutiny.
- Work across Wales – ongoing risk and assurance work.
- Thematic reviews to be undertaken – unscheduled care, digital.
- Page 80 – one potential conflict of interest for a member of the Audit Wales Team, and the safeguards in place was brought to the attention of the Committee.
- Powys Pension Fund – the Audit Wales work on the fund will not commence until October / November but bearing in mind the statutory deadline of 30th November.

- Questions:

Question	Response
Does Audit Wales have sufficient resource to meet the timescales.	<p>Yes we are content with the level of resources available to undertake the work. Audit Wales propose to complete its work on the financial statements and provide an opinion by the end of October this year.</p> <p>As a result of Covid, Welsh Government has provided extended deadlines for the final audits of accounts. The extended deadline is for audits to be completed by end of November 2022. Audit Wales is working to an internal deadline with a view to having all statutory accounts signed off by end of October. In relation to Powys, work has already commenced on the financial statements. If possible would like statement of accounts being presented to the Committee by the end of September or if not by mid October.</p>
In relation to the Well-Being objectives of the Council and the background of the Well-Being and Future Generations Act. Powys has a Public Service Board and the well-being objectives are about joint working. How can the auditors reconcile the Council's accounts where there are part of joint working exercises.	<p>Audit Wales is trying to work with and alongside Councils in Wales and across all public services to have sight of what decisions taken today will affect services in the future. This will be looked at across all public services in Wales not just Councils. There will be a specific piece of work about how the Council is setting its well-being objectives and also how this happens across public services as well including common themes.</p> <p>In terms of partnership working the Chief Executive advised that Audit Wales has started to meet jointly with the Council and Ceredigion about joint working arrangements within the Corporate Joint Committee (CJC) framework. This provides the possibility of looking at the Mid Wales Growth Deal, strategic transport and planning in future. Audit Wales has been asked to focus on the development of CJsCs initially across Wales. Another potential area of joint audit work is the North Powys Well-Being Programme.</p>
Who pays the fee for the pension fund, is it the Council or the pension fund	That comes from the pension fund.
Are there any non directly employed	There are admitted bodies to the

<p>individuals in the fund and what are the risks associated with that.</p>	<p>pension fund.</p> <p>There are a number of other bodies participating in the pension fund and there are various arrangements with those bodies around the level of risk. Some have risk sharing agreements with the Council other have bonds in place to offset that risk. The position of admitted bodies is regularly monitored.</p>
<p>To what extent is the current debate around the nature of investments, ethical investments, divestments, from a purely financial position how much is this a risk to the financial management of the fund.</p>	<p>It is for the Pension Fund to determine where they invest their money. The fund has an investment strategy and a responsible investment policy which will determine the type and nature of investments. Investment decisions consider both and it is the Committee advised by fund managers who make these decisions.</p> <p>The Pension Board provide an independent opinion on the Governance arrangements for the fund, including risk management.</p> <p>Pension funds views' across the UK as well as Government is that bodies should not be investing in bodies supporting Russia. There is some exposure from the pooled investment fund but the percentage overall is minimal.</p>
<p>Over the last few years the pension investment consortium has used hedge funds and other financial instruments to defray risk. To what extent does Audit Wales look at the level of risk with this type of activity.</p>	<p>This is not considered to any extent in terms of the audit of the Powys pension fund as the audit of pooled fund is undertaken by other auditors and Audit Wales would liaise with those auditors in terms of assurance. Audit Wales do not look at the decisions taken but look at the results and would raise any concerns about the nature of transactions.</p> <p>In terms of an opinion on the pension fund Audit Wales would not necessarily give a positive opinion of the fund but give a view of the financial statements themselves.</p> <p>In terms of risk the pension fund has a risk register and our advisers advise the</p>

	Committee about the ongoing level of risk and any changes to those risks. The independent Pensions Board also monitors the level of risk, advise in terms of reviewing arrangements and how that risk is being managed.
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Outcomes:

- **Noted.**

6.2. Audit Wales - Powys Annual Audit Summary

Documents Considered:

- Audit Wales – Powys Annual Audit Summary

Issues Discussed:

- Report issued to the Council in February 2022 which is a summary of the work undertaken by Audit Wales, CCIW and Estyn up to February 2022.

Outcomes:

- **Noted.**

7.	MONITORING AND REVIEW OF RISING ENERGY COSTS, OTHER COST IMPLICATIONS AND SUPPLY CHAIN ISSUES
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Documents Considered:

- Report of the Head of Finance – Price Inflation Variation and Volatility Pressures.

Issues Discussed:

- This reports looks at the processes that have been employed within the Council to monitor the current position. The Committee can determine if it has sufficient assurance as to whether those processes are adequate to mitigate the risks.
- Section 3 of the report considers some of the more specific indices and cost rises above the rate of general inflation.
- The report sets out the understanding of the impact on the Council. Officers from across the Council have been drawn together to work collectively to monitor, share information, consider and address the issues as they arise.
- Where providers are approaching the Council there is a sound process in place to assess the impact on an open book basis. Any request needs to be substantiated and evidenced in terms of impact on the company's financial position.
- The biggest impact is likely to be next year and the impact on next year's budget plans is being assessed.
- A robust virement process is in place and the financial position is updated on a quarterly basis. Specific reserves were established at the end of last year and some of those reserves are being drawn down. The overall position for the Council is projecting a deficit in addition to the use of specific reserves of around £1m based on the position in the first quarter.

- Some of the pay awards are starting to be approved which will have a substantial impact on the budget both in the current year and for the future.
- Officers and the Cabinet are reviewing the MTFS (Medium Term Financial Strategy) and that will be presented to the Council in September based on the revised assumptions.

The Cabinet Member for Finance and Corporate Transformation suggested that the paper could be shared with the wider membership of the Council. He also asked if the Council has a team established to monitor energy use in buildings and limit energy use in buildings.

The Head of Finance indicated that energy use corporately is monitored so that work could help inform the overall position. Information has also been received from the national procurement framework on the impact of energy costs for these buildings.

- Questions:

Question	Response
In Section 5 regarding current contracted positions. Is there any more information where contracts could be split into categories which could be subject to different rates of increase so that we could judge the potential financial impact.	There is a contract register in the Procurement Team. It is not known if the contracts are split into the different categories listed in the report. The Head of Finance agreed to find out what information was available in terms of categorisation of contracts and could be shared with the Committee.
Audit Wales had identified a significant medium term budget gap. The Head of Finance is producing a revised MTFS. We only have budgets in any organisation to achieve priority outcomes and outputs. It would be useful to see on a single page the cascading of the aspiration and vision how that translates into a corporate plan and the budgets associated with this, to connect risks with outcomes and priorities.	<p>The corporate plan is being developed by the new Cabinet to reflect their objectives and priorities. It would be difficult to capture all of the information suggested on a single page.</p> <p>Individual service integrated business plans are in place which captures everything which impacts on that service and links into the financial plans for the service. Those plans then come together in the corporate plan, and the corporate budget development process and the risk register to make sure all of those plans are considered collectively and that the finances are in place to deliver on those objectives and plans.</p>

Outcomes:

- **Report Noted.**
- **Contracts - The Head of Finance agreed to find out what information was available in terms of categorisation of contracts and could be shared with the Committee.**

- **Budget Seminars – that all of the Lay Members be invited to the budget seminars for Members.**

8.	COMMITTEE SELF ASSESSMENT AND ACTION PLAN
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Documents Considered:

- None – verbal update

Issues Discussed:

- Key themes have been identified.
- An action plan is being developed which will identify what actions has already been taken and future work to be undertaken. It is hoped the action plan can be considered by the Committee in September.

Outcomes:

- **Noted.**

9.	WORKING GROUPS
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The Committee was requested to establish the following Working Groups:

Capital Working Group:

The following Members indicated an interest in the Working Group:

County Councillors P Lewington, A Williams and Independent Member J Brautigam

Highways Transport and Recycling Working Group:

The following Members indicated an interest in the Working Group:

County Councillors G Breeze, G Ratcliffe, W Powell, P Lewington, A Williams
Independent Members G Hall, J Brautigam and L Hamilton

Internal Audit Working Group:

The following Members indicated an interest in the Working Group:

County Councillors P Lewington, C Walsh and A Williams
Independent Members J Brautigam and L Hamilton

HOWPS Working Group:

The following Members indicated an interest in the Working Group:

County Councillors G Ratcliffe, W Powell, A Williams
Independent Members J Brautigam and G Hall

10.	WORK PROGRAMME
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The Committee received the draft work programme.

The Committee suggested the inclusion of the following items on the Forward Work Programme:

- Programme of deep dives informed by risk and audit – invite Heads of Service to the meeting the Committee on a rolling basis.
- GCRE – presentation from the CEO.

L. Hamilton
Chair