

Governance and Audit Committee

Date: Thursday, 29 July 2021

To: Mr J Baker (Chair) M Whitcutt, G Giles, P Hourahine, R White, J Jordan

Present: Meirion Rushworth (Head of Finance), Rob Green (Assistant Head of Finance), Laura Mahoney (Senior Finance Business Partner), Dona Palmer (Audit Manager), Gareth Lucey (Audit Wales), Chris Jones (Finance Business Partner), , Ellie Howard (Graduate Trainee), Pamela Tasker (Governance Officer)

1 Apologies for Absence

Andrew Wathan, Chief Internal Auditor

Cllr Hourahine- apologies will need to leave early

Cllr Whitcutt- apologies arriving late due to driving back from professional appointment

2 Declarations of Interest

None

3 Minutes of the Last Meeting (Pages 3 - 14)

Regarding actions, The Head of Finance commented that he has raised the issues with the housing benefits subsidy claim with the Chief Executive and the Cabinet Member, and a working group between finance and housing are getting together to address these issues and they will report back. This issue is now in hand.

The minutes were accepted as a true and accurate record. Cllr Gail Giles commented that she was not present previously so could not comment.

4 Statement of Accounts 2020/2021 (Pages 15 - 160)

The Head of Finance introduced Rob Green as part of his team. Rob came from Cardiff Council where he held a senior finance role.

The Head of Finance introduced Laura Mahoney, the Senior Finance Business Partner, who will present the main aspects of the accounts. This has clearly been a difficult year, there have been some delays in presenting the accounts. It has been a difficult 12 months in terms of dealing with the Covid-19 issues which has had a major impact on the accounts. This presentation will focus on reserves, provisions, conditions and liabilities. These are the key financial backbone risks.

The Senior Finance Business Partner presented this item. The draft accounts include both single entity and group accounts. The accounts were not authorised for publication until 2nd July 2021 (should have been 31st May). This was delayed, due to receiving money from the hardship fund from Welsh Government which required a large amount of work to deal with. There were also some staff absences within the team which impacted authorisation of the accounts. The team are now working towards presenting the final accounts.

One of the key messages is that the revenue budget had an underspend of £14 million, due to the Council being in receipt of one-off Welsh Government funding. Not just restricted to expenditure but also claiming loss of income due to Covid-19. Also underspends in all service areas due to a reduction in administration, and a change to normal working plans

that couldn't be carried out due to Covid-19. Underspend was also due to the council tax reduction scheme and council tax income.

Capital Programme out-turned £26.2 million, carrying forward £7.1 million due to slippage into 2021/22. Main reasons for slippage are due to £763,000 worth of loans due to external companies and delays at the start of the financial year reduced the ability to have these progressed. There was £4 million of active travel grants- there has been approval to carry over a number of grants from 2021/22. The team do experience delay in getting reward letters through which can delay the start of projects. There was also £1 million of slippage in Education, again due to delayed projects.

Reserves increased by net £21.2 million, which is mainly made up of a schools underspend of £8.5 million which has been transferred to schools' reserves, and £14 million general underspend which has been transferred to general reserves.

The impact of Covid-19 on the statement is that it delayed the preparation of accounts. It has also had a significant impact on the assumptions made about the future. As was the same last year, the valuation of operational property has been reported on the basis of material valuation uncertainty. The Council also received a number of grants as a result of Covid-19. The 2020/21 financial support received across all areas totalled £27.3 million. In addition to direct financial support, the Council also acted as an agent for Welsh Government, for example with administering business support grants and start-up grants. These schemes we have classified as having an agency relationship with, and they have been excluded from the statement of accounts.

There are 5 key statements which summarise the statement of accounts. These are the Comprehensive Income and Expenditure Statement (CIES), The Expenditure and Funding Analysis (EFA), The Movement in Reserves Statement, The Balance Sheet and The Cash Flow Statement.

Summary of finances shows usable reserves. Usable reserves of £87 million brought forward from 2019/20. This has increased to £108 million in 2020/21, as a result of budgetary transfers to usable reserves, which includes schools and the capital reserves plus the underspend of £14 million. The makeup of these reserves includes the Council Fund Balance, balances held by schools, risk reserve (include insurance and redundancy), capital expenditure, smoothing reserve (include PFI), and Other (includes Covid recovery fund).

The provisions were then summarised. A provision is an amount which is put aside for a known liability but where there is some uncertainty regarding timing or amount. The individual provisions and the movement within each one were presented. There was a decrease in the short-term provisions from £8.87 million to £7.47 million at the end of March 2021. The main movements were 1.5 million reduction in accumulative absence. A new provision for chartist tower, insurance provision and energy provision were also included within the short-term provisions. Long term provisions increased slightly from £11.04 million to £11.08 million.

The Contingent Liabilities are defined as a possible obligation depending on whether some uncertain future event occurs, payment is not probable, or the amount cannot be measured reliably. Within the statement of accounts, those events/risks which require no financial provision to be set aside are highlighted.

A few other key observations were then explained from the accounts this year. The Council has several joint committees with other local authorities, however as these balances are not material they are not included within the accounts, apart from the Cardiff Capital Region City

Deal. The liabilities of the Torfaen Greater Gwent pension fund are included within the balance sheet, a net liability of £471 million. The statement of accounts includes consolidated accounts for Newport Transport.

The draft accounts are currently available for review and comment. Any comments would need to be received by the end of August 2021 to be considered and signed off.

Discussion:

- Cllr Hourahine asked if underspend on Welsh Government grants will be subject to claw back?
 - The Senior Finance Business Partner explained that they are not subject to claw back.
- Cllr Jordan asked what is meant by slippage?
 - The Senior Finance Business Partner explained that slippage accounts for an underspend in the capital programme, it is called slippage because it slips back into the next financial year
- Cllr White remarked that page 57 of the report is blank, why is this?
 - The Senior Finance Business Partner explained that this is because the report won't be issued until the final set of accounts are published, once the external audit is closed
- Cllr Giles asked if the capital spend in schools in Band B- is that running on time?
 - The Senior Finance Business Partner explained that with Band B, there wasn't much slippage in 2020/21, so at the moment the programme is running on time. Over the summer there will have to be a lot of work to ensure that runs on time. We will need to communicate closely with Welsh Government to ensure the success of this.
 - Cllr Giles replied that the Band B funding is vital to support our children, so it is good news that the programme is running on time.
- The Chair remarked that the overall capital underspend this year was 21%. Year on year we always underspend on the capital budget by 20-30%. Why is there continual underspend if the money is there? Is there a problem with project management?
 - The Head of Finance explained that a lot of slippage is related to grants-related works and they are not confirmed until well into the financial year, which gives less time to plan and deliver on those projects. Additionally, the Capital Programme is perhaps too ambitious, £25 million seems to be our spending capacity. However, expecting this to increase with the Band B programme as this is a high spending programme. £100 million budget this year which is unrealistic, a re-profile of the programme is needed. A new capital programme is starting in 18 months' time. We need to do more work to be realistic about the capacity of the organisation to deliver these projects-particularly as a lot of these projects are very complicated and delivered by third parties. It is largely a capacity issue rather than a poor management issue. Annual grants which are not given in good time is the main issue behind this, as with other councils. When the grants do come, they come with timescales, which is often done at the expense of other programmes.
- Cllr Hourahine asked if some of the longer-term schemes could be managed by Turnkey (e.g. outsourcing a contract for it)?
 - The Head of Finance explained that if we don't have experience or capacity internally, we need to have that project management bought in as part of the overall contract. This issue is therefore a live conversation.

- The Chair made reference to the McCloud judgement on pensions, and asked what is the main point being made in the document? What is the impact expected to be? Could it be worded differently to make it easier for the reader to understand and get a sense for what the impact is likely to be?
 - The Senior Finance Business Partner explained that the impact is recorded in past service cost in the actuarial report received which is included in the balance sheet. Final impact of the pension scheme won't be known until a later date, but we could look at expanding that section.
 - The Chair commented that the numbers being included there confuses the reader.
 - The Head of Finance remarked that the focus of this note needs to be related to uncertainty, and this section could be slightly reduced.
- Gareth Lucey (Audit Wales) explained that his team have been following up on that and his audit team, will have a final review of that issue and discuss with the Senior Finance Business Partner as appropriate
- The Chair commented that regarding the risk statement, there is still a material uncertainty. Why is this the case, is this specific to this sector?
 - The Senior Finance Business Partner replied that if we leave material uncertainty in the report, we will leave in the emphasis of matter paragraph in the Audit Certificate (as last year)
 - The External Audit Team are following up with Norse as to why this material uncertainty remains this year
- The Chair queried regarding the Friar's Walk issue- what is the difference in the £5 million in the accounts and the £7.5 million referred to elsewhere? In addition to this, how much have we had to write off due to Friar's Walk?
 - The Head of Finance explained that when we left Friar's Walk (a number of years ago), there were two amounts, one being the shared income that we would share with owners of scheme (£7.5 million). As part of purchase, there was also an income subsidy that the Council signed up to- if income levels fell under a certain amount, the Council would top up. The maximum liability amount of that is around £7.5 million.
 - We had financial provision for the income subsidy, and after that sale the Council had full financial coverage (either through provision or reserve) to cover that off. In due course we will release these provisions or reserves.
 - Retail has gone through a challenging time over the past few years which may have some impact.
 - In summary, the accounts have got full coverage either in liability or reserves in terms of income subsidy and the long-term debtor. Loathe to write off long term debtor currently as it is still operating to date. The scheme is still operating and therefore that long term debtor is still there- but it is covered if we did have to write it off.
 - The Head of Finance assured the Chair that this is something the Council keep a close eye on.
- The Chair made a query on page 53 of the accounts. The first line reads 'any recommendations made by the Council's external auditors (Audit Wales) are acted upon.' Adjust that it should read 'any *agreed* recommendations' are acted upon rather than any recommendations.
 - **Action:** The Head of Finance agreed that this should be changed to reflect the process accurately.

- The Chair queried regarding the remuneration section. When there was an interim CEO, there is a gap in the dates, is this due to there not being a CEO at that time?
 - The Head of Finance explained that the current CEO was appointed by full Council in July 2021, there was not a formal appointment before this point. Beverly Owen was an acting/interim CEO during this time, but this was an informal appointment.
 - The Senior Finance Business Partner explained that if she was in an interim position, she didn't receive any remuneration for that, which is why it is not reflected in the accounts.
 - The Chair asked if we could have a footnote to explain this gap as it was a complicated situation.
 - **Action:** The Senior Finance Business Partner agreed to go back and check the details of this and would update the record if needed.
- The Chair raised some grammar/spelling inconsistencies. Can the Chair send pack with his edits and ask that the Senior Finance Business Partner make these amendments?
 - **Action:** The Senior Finance Business Partner agreed to do this
- Cllr Hourahine asked if each building is assessed separately with regards to building life?
 - The Senior Finance Business Partner explained that the system for this has been the same for the past 5 years. Each building would be assessed separately by the valuers every 5 years. The revaluation process means this is a viable way of doing this.

The Head of Finance thanked the Senior Finance Business Partner for her huge effort to get the accounts done. There has been a real issue of sickness in the team this year and the burden fell on key members of the team to finish this, which they worked tirelessly to do. Gareth Lucey echoed this thanks to the team, it has been a monumental effort. They are now targeting the September Governance & Audit Committee for presenting the final set of accounts.

Actions:

- Head of Finance/Senior Finance Business Partner: Page 53 of the accounts. The first line reads 'any recommendations made by the Council's external auditor are acted upon.' Adjust that it should read 'any *agreed* recommendations' are acted upon.
- The Senior Finance Business Partner agreed to go back and check the details of the position of the CEO during the interim period and would update the record to clarify what happened during this period.
- The Chair raised some grammar/spelling inconsistencies. The Chair will send the pack with his edits and the Senior Finance Business Partner will edit and make these amendments.

Agreed:

The Committee agreed to duly note the accounts.

5 Work Programme (Pages 161 – 164)

- The Chair commented that there is the issue of duplication of some items in the work programme
 - Democratic Services team agree to amend this

6 Date of Next Meeting

30 September 2021 at 5pm