

No.

## GOVERNANCE AND AUDIT COMMITTEE

Minutes of a remote Meeting held on 1<sup>st</sup> March, 2022.

The Committee agenda is available [here](#).

The Meeting recording is available here.

Present: Councillor G.D.D. Carroll (Chair), Councillors Dr. I.J. Johnson, K.F. McCaffer and M.R. Wilson.

Also present: Councillor L. Burnett (Deputy Leader and Cabinet Member for Education and Regeneration), R. Freitag and I. Phillips (Audit Wales).

### 869 ANNOUNCEMENT –

Prior to the commencement of the business of the Committee, the Chair read the following statement: “May I remind everyone present that the meeting will be live streamed as well as recorded via the internet and this recording archived for future viewing”.

The Chair also thanked Mr. Paul Lewis who was standing down as the Lay Member of the Committee after 10 years. Mr. Lewis was thanked for his input and valuable contributions, and he was wished all the best for the future. The Chair also issued thanks and appreciation to the Council’s Interim Section 151 Officer who was retiring.

Finally, the Chair advised that in line with the Local Government and Elections (Wales) Act 2021, the Council had appointed 3 new Lay Members – Gareth Chapman, Nigel Ireland and Matthew Evans. The Chair wished them good luck for their future work on the Committee.

### 870 APOLOGIES FOR ABSENCE –

These were received from Councillors P. Drake and J.M. Norman, and P. Lewis (Lay Member).

### 871 MINUTES –

RESOLVED – T H A T the minutes of the meeting held on 13<sup>th</sup> December, 2021 be approved as a correct record.

### 872 DECLARATIONS OF INTEREST –

No declarations were received.

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873 AUDIT OF THE VALE OF GLAMORGAN COUNCIL'S ASSESSMENT OF 2020-21 PERFORMANCE AND PROGRESS AGAINST EXTERNAL REGULATORY RECOMMENDATIONS AND PROPOSALS FOR IMPROVEMENT (REF) –

The Head of Policy and Business Transformation presented the reference from Cabinet on 10<sup>th</sup> January, 2022.

The report presented the certificate of compliance for the audit of the Council's assessment of 2020-21 performance (Appendix A) and a progress update (as at December 2021) against existing regulatory proposals (Appendix B).

In issuing the appended compliance certificate, the Auditor General Wales had determined that the Council had discharged its duties in accordance with the statutory requirements set out in section 15 of the Local Government (Wales) Measure 2009 and statutory guidance.

This was the final compliance certificate to be issued under the Local Government (Wales) Measure 2009, now superseded by the Local Government and Elections Wales Act 2021.

It was reported that despite the significant challenges of the past year, positive progress had been made in responding to regulatory improvement areas, with 11 of the 46 actions on the tracker completed as at December 2021. 30 actions on the tracker related to local regulatory proposals of which 6 had been completed and work was progressing on the remaining 24 actions. Of the 16 actions relating to national regulatory recommendations and improvement proposals, 5 had been completed with work progressing on the remaining actions. Work would progress over a longer period to fully address some regulatory proposals due to the resources required, nature and complexity of the service areas involved.

Councillor Dr. Johnson stated that the report represented the situation at the end of December 2021, and he asked whether there had been any changes to actions with a red or amber rating. In reply, the Head of Policy and Business Transformation advised that progress was due to be reported to the Council's Insight Board, so this update would also be shared with the Members of the Committee.

Subsequently, it was

RESOLVED – T H A T the contents of the report be endorsed.

Reason for decision

Having regard to the contents of the report and discussions at the meeting.

874 VALE OF GLAMORGAN COUNCIL ANNUAL AUDIT SUMMARY 2021 (REF) –

The reference from Cabinet on 14<sup>th</sup> February, 2022 was presented.

No.

It was noted that the contents of the Annual Audit Summary 2021 (appended at Appendix A to the report) were generally positive and highlighted that the Council met its remaining Local Government (Wales) Measure 2009 duties for the financial year 2020-21. The Auditor General Wales had also given an unqualified true and fair opinion on the Council's financial statements on 12th October, 2021.

Whilst no formal recommendations were made, 5 Proposals for Improvement (PFI) were made in relation to specific local reviews on the Council's Financial Sustainability (1PFI) and Third Sector Partnership Working (4 PFI). As well as specific local reviews, each year, Audit Wales also carried out studies across the local government sector to make recommendations for improving value for money. Two such reports were published in relation to: Discretionary services (April 2021) and Regenerating town centres in Wales (September 2021).

In line with the Council's corporate performance management arrangements, consideration was given by relevant Council services to the findings contained within both local and national reports, and actions incorporated within the Council's Insight Tracker throughout the year as appropriate. This was monitored via the Insight Board, Scrutiny Committees, Cabinet and the Governance and Audit Committee as work to address them progressed. Progress against the Council's regulatory actions was also monitored by Audit Wales colleagues throughout the year as part of the Annual Regulatory Plan.

Having considered the report, it was

RESOLVED – T H A T the contents of the Vale of Glamorgan Council Annual Audit Summary 2021 be noted.

#### Reason for decision

Having regard to the contents of the report and discussions at the meeting.

#### 875 PROPOSED INTRODUCTION OF A NON TREASURY SERVICE INVESTMENT STRATEGY, THE INVESTMENT AND GROWTH FUND (REF) –

The Operational Manager – Accountancy presented the reference from Cabinet of 28<sup>th</sup> February, 2022.

It was outlined that Appendix 1 to the report set out the proposals for the Non Treasury Service Investment Strategy, which was intended to address opportunities identified in the Council's Recovery Strategy to support innovative business and economic regeneration, increase Capital Programme investment and focus on green jobs and green infrastructure.

The Economic Regeneration and Growth Fund was to be funded using £2.2m of the Economic Regeneration and Growth Fund Reserve and with provision for up to £10m Prudential Borrowing. The fund for Investment would total £12m with £200k earmarked for feasibility and due diligence costs and the initial costs associated with specialist Non Treasury Investment Advice.

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The Economic Regeneration and Growth Fund would be supported by a Strategic Project Board with Investment Decisions approved by Cabinet and regular reporting to Cabinet, Council and Governance and Audit Committee as set out in Appendix 1 to the report.

The first call on any investment return should be repayment of debt and building up an earmarked reserve to mitigate the risks, which was outlined in the risk management section in Appendix 1 to the report.

Councillor Dr. Johnson commented that it was good to see the Council looking at investments with positive social benefits, and he was in agreement with the governance model. However, it was unclear as to why the Council had chosen to change its policy now, when possibilities such as this were available over the past couple of years. In reply, the Operational Manager advised that this proposal had come out as some of the points that were raised as part of the Council's Recovery Strategy, but it had taken some time to be brought forward and had been delayed by officer capacity.

Councillor Wilson stated that he welcomed this strategy, but he had some concerns as this needed to be timely and could be a very bureaucratic process. Therefore, this needed to be very carefully managed by the Council, especially as the 5-case model approach was being adopted. The Council also needed to be very specific with what it wanted to achieve and how this would be measured. It was also critical for more work to be carried out in relation to the methodology to be used and in relation to the time aspect.

The Chair, Councillor Carroll, queried whether any analysis had been carried out on the potential impacts that rising interest rates could have on the strategy, which was a concern given the likely inflation situation. In response, the Operational Manager clarified that some very low-level sensitivity analysis around indicative rates had been undertaken. It would also be important for sensitivity analysis on interest rates to be built into any business cases that had been put forward. The Operational Manager advised that there was some detail in the report around the performance management regime, but it may be that a traffic light system could be employed to alert Members if there were any issues. It was important to recognise that the Council's usual approach was to borrow on a fixed rate basis, which helped guard against fluctuations in interest rates. In addition, the Council's interest rate projections would be within the guidance that had been received from the treasury management advisors. The Operational Manager also advised that specialist property and investment management expertise would need to be utilised as part of this strategy and the management of these investments.

There being no further comments, it was

RESOLVED –

(1) T H A T the contents of The Non Treasury Service Investment Strategy be noted.

No.

(2) T H A T Council be advised of the comments and observations of the Governance and Audit Committee, these being:

- Concern that this may lead to something overly bureaucratic so requires specific clarity around the timing aspect, what the Council's investments aim to achieve and how success will be measured;
- For more work to be carried out around the methodology of how investments will be made;
- Concern with the potential impact on investments and assets of future rises to Interest Rates.

#### Reasons for decisions

(1) Having regard to the contents of the report and discussions at the meeting.

(2) To advise Council of the views and observations of the Governance and Audit Committee.

876 FINANCIAL MANAGEMENT CODE 2021/22 (REF) –

The reference from Cabinet on 28<sup>th</sup> February, 2022 was presented by the Operational Manager – Accountancy.

It was advised that the Financial Management Code (FM Code) was a new code that had been introduced by the Chartered Institute of Public Finance & Accountancy (CIPFA) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code were being satisfied. Demonstrating this compliance with the FM Code was a collective responsibility of Elected Members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team.

The first full year of compliance with the FM Code was 2021/22 and the Council was required to evidence its assessment of compliance with the code and identify any areas for further improvement.

There were six broadband principles, organisational leadership, accountability, transparency of financial management, adherence to professional standards, effective use of assurance and the long-term sustainability being at the heart of an financial management. Appendix 1 set out the financial standards.

Councillor Dr. Johnson queried the opinion of partly compliance for the first principle of organizational leadership. The Operational Manager advised that it was felt that there was more that the Council could do and was intending to do to improve its compliance in this area, particularly in relation to the setting up of high quality services which were aligned to the needs and priorities of the local community. So there was a need to outline the further work that was intended to be carried.

No.

Subsequently, it was

RESOLVED – T H A T the content of the report and Statement on Compliance with the Financial Management Code (Appendix 1 to the report) be noted.

Reason for decision

Having regard to the contents of the report and discussions at the meeting.

877 AUDIT WALES: THIRD SECTOR PARTNERSHIP WORKING – VALE OF GLAMORGAN COUNCIL (REF) –

The reference from the Voluntary Sector Joint Liaison Committee on 7<sup>th</sup> February, 2022 was presented.

The Head of Policy and Business Transformation advised that the Audit Wales review had focused on examining whether the Council's arrangements with the third sector were effectively supporting the Council to achieve its strategic recovery priorities.

Overall, the report findings concluded that the Council's arrangements supported its current way of working with the third sector but could be strengthened to maximise opportunities to enhance the relationship to support the delivery of the Council's strategic recovery priorities.

The report identified four Proposals for Improvement:

- P1 - The Council should reconsider the checklist set out in Appendix 1 of the Audit Wales report, in particular the following sections:
  - Vision
  - Corporate strategy
  - Compact
  - Understanding engagement with the third sector
  - Designing services
  - Training
  - Performance review
- P2 - As part of the review of the compact, the Council should reflect how it wanted to work with the third sector to help deliver its strategic recovery priorities, how it could build on the positive work during the pandemic, and consider how it could strengthen its application of the sustainable development principle.
- P3 - The Council should consider the level of resources and investment required to achieve a more collaborative way of working with the third sector and to reflect this in its Medium-Term Financial Plan.
- P4 - The Council should consider what actions it could take to help the third sector adjust to a more collaborative way of working.

No.

The Head of Policy and Business Transformation added that some early discussions with the Well-being of Future Generations Commissioner's office had taken place and they had provided some guidance in terms of external expertise and facilitation which would be taken forward. The report also suggested the establishment of a task and finish group consisting of Council officers and some representatives from Glamorgan Voluntary Service and other third sector organisations to understand the issues.

Progress in relation to the improvement actions would be reported to the Insight Board and to this Committee.

The Chair commented on the difficulties and challenges when it came to the creation of a third sector or voluntary organisation, so it was important that people were not put off from getting involved or setting up community groups.

It was subsequently

RESOLVED:

(1) T H A T the key findings arising from Audit Wales' review of the Council's partnership working with the Third Sector (Appendix A to the report) and the Council's response to the review and Audit Wales' proposals for improvement as set out in the report be noted.

(2) T H A T the report be referred to Cabinet for endorsement of the proposed actions to address the proposals for improvement together with relevant comments from the Governance and Audit Committee and the Corporate Performance and Resources Scrutiny Committee.

Reasons for decisions

(1) Having regard to the contents of the report and discussions at the meeting.

(2) To allow Cabinet to endorse the proposed actions as contained in the report.

878 TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2022/23 AND UPDATE FOR 2021/22 (IHOF) –

The Operational Manager – Accountancy presented the interim report which provided an update on the Council's Treasury Management operations for the period 1<sup>st</sup> April to 31<sup>st</sup> December, 2021. All activities were in accordance with the Council's approved strategy on Treasury Management. Details of monies borrowed and repaid and those invested were outlined in the report.

The report presented the proposed 2022/23 Treasury Management and Investment Strategy at Appendix 1.

The Council needed to ensure that the Prudential Code was complied with, which had been developed by CIPFA as a professional code of practice. To demonstrate the Council had fulfilled these objectives, the Code set out prudential indicators that

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should be used and the factors that had to be taken into account. These were shown in Appendix 1 to the report as part of the strategy.

The Council also had a legal requirement to comply with the Welsh Government Guidance on Investments and had taken this into consideration when developing the strategy.

Capital expenditure when financed by long term debt incurred two elements of cost, interest on and repayment of the principal sum borrowed. The resources the Council had to put aside in each year to repay the principal sum borrowed was known as Minimum Revenue Provision (MRP) and the Council's policy for calculation was detailed in the report.

The Treasury Management Policy Statement for 2022/23 was attached at Appendix 2 to the report.

The Council would formally adopt the new CIPFA 2021 edition of The Prudential code published in December 2021 together with the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes.

Councillor Dr. Johnson referred to a substantial increase in the Council's capital financing requirements, with most of that money going into the Housing Revenue Account. This meant that there was an increase in borrowing for the building of houses, for which, the Council would receive a flow of revenue. Councillor Dr. Johnson assumed that there was a smaller amount of borrowing for the Council's school building programme, as well as further borrowing for the Cardiff Capital Region City Deal. Given the events unfolding across the world over recent years, Councillor Dr. Johnson queried how would the Council manage its investment strategy in the case of higher interest rates. In reply, the Operational Manager advised that there was regular dialogue with the Council's investment advisor, who would provide weekly and sometimes daily advice on borrowing rates. That dialogue would be maintained when going forward. If there were significant changes to the Council's strategy, then these would be reported to the Committee, and it was also planned to include a Treasury Management section to the Revenue and Capital Budget monitoring reports provided to the Corporate and Performance and Resources Scrutiny Committee.

In terms of borrowing in relation to the Housing Revenue Account, the Operational Manager stated that historically, the Council had adopted an approach where borrowing would be pushed to the next financial year or further along into the business plan. That approach may require assessment to mitigate the risks of increasing interest rates.

Further to the issues around increasing interest rates, Councillor Wilson stated that it was important to ensure that borrowing was carried out on a fixed rate basis. He also stated that he welcomed the additional Treasury Management monitoring regime. In being asked to respond, the Operational Manager agreed with Councillor Wilson's points, and added that the potential direction of interest rates was being monitored. The Council was also looking to borrow on a long-term fixed rate basis.

There being no further comments or queries, the Committee



RESOLVED –

(1) T H A T the Treasury Management interim report for the period 1<sup>st</sup> April to 31<sup>st</sup> December, 2021 be endorsed.

(2) T H A T the policy for making Minimum Revenue Provision in 2022/23 be endorsed.

(3) T H A T the proposed 2022/23 Treasury Management and Investment Strategy be endorsed including the following specific resolutions (detailed in Appendix 1 to the report):

- The Authorised Limit for External Debt be set at £223.352m for 2021/22, £241.693m for 2022/23, £274.792m for 2023/24 and £288.151m for 2024/25.
- The Operational Boundary for External Debt be set at £212.948m for 2021/22, £230.785m for 2022/23, £264.384m for 2023/24 and £277.743m for 2024/25.
- The Section 151 Officer be given delegated authority within the total Authorised Limit and Operational Boundary as estimated for individual years to effect movement between the separately agreed limits for borrowing and other long term liabilities.
- An upper limit is set on its fixed interest rate exposures of £148.716m for 2021/22, for 2022/23 of £172.311m, for 2023/24 of £208.615m and for 2024/25 of £230.455m of its net outstanding principal sum on its borrowings / investments.
- An upper limit is set on its variable interest rate exposures of £0 for 2021/22, 2022/23, 2023/24 and 2024/25 of its net outstanding principal sum on its investments.
- An upper limit of £10m for 2021/22, £10m for 2022/23, £10m in 2023/24 and £10m in 2024/25 is set for total principal sums invested for over 364 days.
- The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2022/23 be set as Upper Limit Lower Limit Under 12 months 20% 0% 12 months and within 24 months 20% 0% 24 months and within 5 years 30% 0% 5 years and within 10 years 40% 0% 10 years and above 100% 0%
- The Prudential Indicators set out in Appendix 1 to the report be approved.
- The Treasury Management Policy set out in Appendix 2 to the report be approved.

(4) T H A T the formal adoption of the new CIPFA 2021 edition of The Prudential Code together with the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes be endorsed.

Reason for decisions

No.

(1-4) Having regard to the contents of the report and discussions at the meeting.

#### 879 CORPORATE RISK REGISTER QUARTER 3 UPDATE (CX) –

The Head of Policy and Business Transformation presented the report which provided an overview of the Corporate Risk Register for Quarter 3 (April 2021-December 2021). A risk analysis was incorporated within the Corporate Risk Summary Report (Annex A). This enabled officers and Members to identify and assess trends and the cross-cutting nature of risks with the ability to drill down to the detail of risks as and when required.

The report recommended that Governance and Audit Committee:

- Note the Quarter 3 position of corporate risks for the period April 2021-December 2021 and the emerging issues contained within the report; and
- refer any other comments to Cabinet for their consideration and endorsement at the meeting when Cabinet will consider a report on the Corporate Risk Register for Quarter 3.

The Head of Policy and Business Transformation advised that consideration was being given to the format of the Risk Register for future updates. This would assist with illustrating the inter-relationship that existed between some of the risks.

Councillor Dr. Johnson commented on the way that risks were flagged up, and the way that the scoring of risks were apportioned, referring to Deprivation of Liberty Safeguards, while all though being a significant risk, did not represent the worst thing that could happen to the Council. The Head of Policy and Business Transformation advised that issues around the comparability of the cross-cutting risks and service specific risks prompted the review of how the Risk Register was reported. He also added that moderation of the risks was undertaken at a service level, by the Performance Team and also by the Strategic Leadership Team.

Councillor Wilson also welcomed a review of the format of the Risk Register and suggested that closer working with the Public Service Board and other agencies should take place.

Subsequently it was

#### RESOLVED –

(1) T H A T the Quarter 3 position of corporate risks for the period April 2021-December 2021 as outlined in Annex A to the report be noted.

(2) T H A T any comments be referred to Cabinet for their consideration and endorsement at the meeting when Cabinet will consider a report on the Corporate Risk Register for Quarter 3.

#### Reasons for decisions

No.

- (1) Having regard to the Quarter 3 Risk Register update report and discussions at the meeting.
- (2) In order for the comments of the Governance and Audit Committee to be considered when the Risk Register Quarter 3 position is presented to Cabinet.

#### 880 PROGRESS AGAINST THE ANNUAL INTERNAL AUDIT PLAN (HRIAS) –

The progress made against the approved internal audit risk-based plan 2021-22 was detailed in Appendix A to the report. It showed that 29 reviews had been finalised, 24 with an audit opinion whilst 4 reports had been issued in draft and 16 were ongoing.

Based on the assessment of the strengths and weaknesses of the areas examined through testing of the effectiveness of the internal control environment of the 24 completed audits to date, an audit opinion of substantial assurance had been given to 2 audits, an opinion of reasonable assurance to 16 completed audits whilst 6 audits had resulted in an audit opinion of limited assurance.

Despite the fact that some audit areas may not be covered by the year end, it was felt that there would be enough coverage for the Head of Internal Audit to provide an audit opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control for 2021-22.

Councillor Dr. Johnson stated that he gained the impression that there were not many high-level recommendations or substantial assurances provided, and he asked whether that was an indication of something. In reply, the Deputy Head of Regional Internal Audit Service advised that it was positive that there were not many limited assurances or high priority recommendations, but it was important to recognise that a lot was dependent on the nature of the audits being carried out. For example, a large portion of the audit work was carried out remotely and based on a smaller sample of tests. In some cases, the scope of the audit work had been refined in order to target the more difficult areas. Further to this, the Head of the Regional Internal Audit Service commented that the areas with a limited assurance were varied which was not flagging up anything of particular concern.

Councillor Wilson queried whether any guidance was provided to schools in relation to stock control. In response, the Deputy Head of Regional Internal Audit Service advised that regular annual self-assessment questionnaires were sent to schools which contained an inventory section. This provided guidance of the type controls expected and ways to maintain an inventory.

The Committee

RESOLVED – T H A T the content of the report and the progress made against the 2021-22 Internal Audit Annual Risk Based Plan be noted.

#### Reason for decision

Having regard to the contents of the report and discussions at the meeting.

881 DRAFT COUNTER FRAUD POLICIES (HRIAS) –

The Head of Regional Internal Audit Service presented the report, which outlined that one of the core functions of an effective Governance and Audit Committee was to consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption policies.

The Council's updated Counter Fraud Strategy and Framework 2021 to 2024 was considered by the Committee on 13<sup>th</sup> December, 2021.

Key policies such as the Anti-Fraud, Bribery and Corruption Policy, Anti-Money Laundering Policy and an Anti-Tax Evasion Policy had been updated to sit alongside the strategy. These would be used to assist in driving the commitment to developing a culture of honesty, integrity and opposition to fraud, corruption and bribery.

The three policies attached for consideration and comment were:

- Appendix A - Anti-Fraud, Bribery and Corruption Policy,
- Appendix B - Anti-Money Laundering Policy and
- Appendix C - Anti-Tax Evasion Policy

Following a query regarding consultation with Trade Unions, the Head of Regional Internal Audit Service clarified that there had been input from the Trade Unions around the development of the Whistleblowing policy which was important when it came to the Council's counter fraud strategy. One thing that had been flagged, was the importance of raising the profile of new policies with staff, so consideration was being given around promotion. It was also recognised that staff needed to feel protected when raising concerns in a confidential manner.

Subsequently, it was

RESOLVED –

- (1) T H A T the draft Counter Fraud Policies be noted.
- (2) T H A T Cabinet be advised of any comments from the Committee and the draft Counter Fraud Policies be submitted to Cabinet for approval.

Reasons for decisions

- (1) Having regard to the contents of the report and discussions at the meeting.
- (2) In order that Cabinet can be advised of the Committee's views on the draft Counter Fraud Policies prior to approval.