

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN COMMITTEE ROOMS 2/3,  
CIVIC OFFICES ANGEL STREET BRIDGEND CF31 4WB ON THURSDAY, 15 JANUARY  
2015 AT 2.00 PM

Present:

Councillor E Dodd - Chairperson

Councillor

G Davies  
G W Davies MBE  
C A Green

Councillor

R C Jones  
J E McCarthy  
M Reeves

Councillor

C Westwood  
H M Williams  
R E Young

Officers:

1. APOLOGIES FOR ABSENCE

Apologies were received from the following Members/Officers:

Councillor D K Edwards	-	Other Council Business
J Williams	-	Work Commitments
Corporate Director – Resources	-	Other Council Business
Head of Finance and ICT	-	Personal

2. DECLARATIONS OF INTEREST

The following Members declared a personal interest under Item 8 – Internal Audit's Annual Report on Schools as they are School Governors:

Councillor G W Davies MBE  
Councillor E Dodd  
Councillor M Reeves  
Councillor R E Young

3. APPROVAL OF MINUTES

RESOLVED: That the minutes of a meeting of the Audit Committee held on the 20<sup>th</sup> November 2014 were approved as a true and accurate record.

The Chief Accountant provided Members with an update on the dispute between the Authority and the contractor over the final costs of the Bridgend Resource Centre's capital contract. She was pleased to inform the Committee that this had now been resolved with the contractor, as confirmation had been received that they would not be challenging the Authority. Therefore the financial settlement is £271k, and a earmark reserve had been put aside to cover this amount.

4. TREASURY MANAGEMENT HALF YEAR REPORT 2014-15 AND TREASURY MANAGEMENT STRATEGY 2015-16

The Chief Accountant presented a report to update the Committee on the half year position for Treasury Management activities for 2014-15, attached at Appendix A and to highlight compliance with the Council's treasury management policies and practices. Also to present the proposed Treasury Management Strategy 2015-16 before it goes to Council in February for approval.

The reported that the main points for treasury management for the half year review 2014-15 were as follows:

- The Council has complied with its legislative and regulatory requirements by presenting the Half Year report to Council in November 2014, and the first quarter monitoring report had gone to Cabinet;
- No long or short term borrowing or debt rescheduling was undertaken during the first half of the year 14-15;
- The Council had investments of £24.40m at the 30<sup>th</sup> September with an average interest rate of 0.48%. The current rate received from Central Government was only 0.25%, therefore the Council's investments are out-performing the DMO rate;
- The Investment Strategy was reviewed to enable increased flexibility in the changing financial market to increase potential investment opportunities available, whilst maintaining security;
- The Council operated within its treasury limits and complied with its Treasury Management Practices.

The Chief Accountant informed members that the Council's new banking contract with Barclays Bank commenced on the 5<sup>th</sup> January 2015. She then referred to Appendix B and reported the following main points for the proposed Treasury Management Strategy going forward 2015-16:

- The Strategy would be presented to Council on the 25<sup>th</sup> February 2015 for approval, within the Medium Term Financial Strategy;
- It has been reviewed by Arlingclose, Treasury Management Advisors to the Council;
- It sets the Economic Context and Interest Rates Forecast which assumes an average bank rate for 2015-16 of around 0.75%
- The main change within the Strategy was within the Invest Strategy due to the imminent UK legislation which had resulted from two European Union directives. The combined effect of those changes would leave public authorities and financial organisations as the only senior creditors likely to incur losses in a failing bank after July 2015;
- Investments were historically placed in short term bank and building society unsecured deposits, and local and Central Government. However, due to the aforementioned changes, the relative risk of these deposits would increase;
- Arlingclose are to be invited to provide training before the end of the financial year, to both Members of the Audit Committee as well as the staff in the Finance Department, on the changes and also alternative investment options.

A Member asked whether the imminent changes would place a bigger reliance on the Council's relationship with Arlingclose.

The Chief Accountant confirmed that it would as there was not the required expertise in-house and the Head of Finance & IT and the Finance Manager had already received training through Arlingclose within the last two months. She reported that the Council had an active relationship and daily contact with staff at Arlingclose, who constantly updated staff on the credit ratings of banks and building societies.

One Member asked whether there was likely to be greater exposure to risk.

The Chief Accountant advised that there would, as the banks would no longer be able to offer the same protection on investments.

RESOLVED: That the Committee:

1. Noted the Annual Treasury Management Half-Year Report which was approved by Council in November 2014.
2. Gave due consideration to the Treasury Management Strategy 2015-16 before it is presented to Council for approval in February 2015 as part of the Medium Term Financial Strategy.

5. THE CORPORATE RISK ASSESSMENT 2015-16

The Insurance and Risk Management Officer presented a report to the Committee that explained the outcome of the Authority's Annual Risk Assessment, attached at Appendix 1, which identified the main risks facing the Council, the likely impact of those risks on Council services and the wider County Borough, and also outlined what was being done to manage the risks and allocated responsibility to individuals for the Council's response.

He advised that a Risk Assessment had been developed in consultation with Corporate Directors, Business Managers and Senior Management Teams, and had gone to the Corporate Management Board (CMB) in December 2014. A summary of the residual risk scores was contained in Appendix 2 and the Corporate Risk Management Policy was attached at Appendix 3. He advised that the Risk Assessment was reviewed quarterly alongside reports to CMB, covering the changes throughout the year.

The Insurance and Risk Management Officer took Members through the list of risks and reported that Welfare Reform was affecting Wales more than England, with social housing tenants having had their benefits reduced by 20.4%, as opposed to 19% in England and 15.3% in Scotland. The report highlighted increased poverty amongst social housing tenants as a result of the rising cost of food, fuel and utilities. He reported that 50% of those people surveyed were in greater debt and the level had risen by a quarter since the introduction of the bedroom tax with those who were in rent arrears up by 23% and referrals to food banks had increased by 48%.

A Member asked how the earmarked reserve would be used.

The Chief Accountant advised that it would be used for any pressures facing the Council as a result of Welfare Reform and there was a further sum to help the more vulnerable in society.

The Insurance and Risk Management Officer then referred to the second risk which was "using resource effectively" and reported that during the coming year the Council is required to make savings of £11.25m which included an increase in Council Tax of 4.8%. The total amount of savings required over the following three years is £37.6m, making a total of

£48.8m over the next four years and built into that amount is an assumed increase in Council Tax of 4.9% per annum. Directorates are expected to make savings of 8.6% for 2015-16, which include retendering for Learner Transport, Waste Management, Health and Social Care, Cultural Services, Regulatory Services, Youth Offending, as well as staff restructures as the staffing spend currently accounted for 69% of the budget.

One Member questioned the £200k pump priming to establish core staff capability to deliver the programme, and asked whether this would mean paying twice if staff were seconded from another department within the Authority.

The Chief Accountant advised that pump priming had been used to fund a core team of Project Managers and a specific Project Accountant to assist in delivering projects such as collaboration and outsourcing of certain areas. The Project Managers have been appointed on fixed two year contracts, funded from earmarked reserves, and would ultimately help to attain the required budget savings. She added that a saving would be made elsewhere if those staff were recruited internally.

The Insurance and Risk Management Officer informed Members that Local Government Reorganisation was a new risk area for the Council. He advised that the Council had expressed interest in merging to the east of the borough and the advantages identified to justify this were that the two Councils had a similar tertiary education system, as well as the Council becoming part of the Cardiff City region. He explained that there were a number of negatives to this merger: the Council would straddle two separate health board areas; harmonisation of Council Tax; the long term impact on the European funding was not known; the unknown cost of a merger as the Welsh Government were not in a position to meet those costs, which would inevitably add to the Medium Term Financial Strategy on top of the £48.8m required savings. Furthermore, senior managers would be distracted from prime tasks of delivering services by the need to discuss the detail with colleagues in other Councils on how those services might be brought together.

He then described some of the main risks to the Council. The first was “supporting vulnerable people” and the need to remodel those services as more people were living longer; the number of people over 65 was likely to increase by 24% between now and 2020 and would place increased demand on complex services. Secondly, whilst budgets are decreasing, people’s expectations are not. It was noted that staff numbers would decrease due to annual wastage and the reduction of hours. However more emphasis was now being placed on prevention and the Early Response Team in order to avoid admissions to hospital.

During the last 12 months there had been a change of emphasis in “supporting vulnerable children and young people and their families” regarding the recruitment and retention of Social Workers and the increased number of Looked After Children (LAC) with complex needs which had placed greater strain on resources. In the period 2007-8 to 2012-13 the LAC population had increased by 40% from 291 to 412 and during last year had increased by a further 6.5%. He advised that there was now however enhanced data sharing with health workers and other partners and the Community Care Information Solution (CCIS), a single integrated solution available to all health and social care organisations across Wales, which it was hope would address one issue.

The Insurance and Risk Management Officer then reported on the “schools modernisation programme”, which was part of the Council’s capital programme. He explained that the Welsh Government were committed to fund 50% of Band A projects, dependent upon the Council funding the other 50% and the production of a robust business case. The main part of the match funding, £13.4m, would come from the sale of some of the Council’s properties, £4m from Section 106 Agreements and £5m core funding.

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The Insurance and Risk Management Officer reported that for the first time since the start of the financial crisis wages were growing faster than inflation at a rate of 1.8% between August and October 2014. There was also a rise in the number of people in work, although there had been a slight fall in Bridgend.

He then reported on “educational Attainment” and advised that the Estyn Inspection was completed in 2012 and reported in 2013 with five recommendations. At the last meeting there had been good progress and the risk had come down. Estyn returned in December and the Council came out of monitoring, which reflected the good progress which had been made.

RESOLVED: That the Committee considered the Annual Risk Assessment and updated Risk Management timeline contained within Appendix 2 of the Risk Management Policy.

### 6. INFORMATION AND ACTION REQUESTS BY COMMITTEE

The Corporate Director - Resources submitted a report, that summarised for Committee the actions and information requests made by the Audit Committee at its last scheduled meeting.

This was detailed in paragraph 4.1 of the report, and the Chief Internal Auditor explained that a report on the topic so highlighted would appear later in the meeting as an agenda item.

RESOLVED: That the Committee noted the report and awaits further progress reports as confirmed above, at its next meeting.

### 7. COMPLETED AUDITS

The Chief Internal Auditor presented a report to summarise for Members the findings of the audits recently completed by the Internal Audit Shared Service. Details of the audits were included in the report, attached at Appendix A and she highlighted for Members some of the areas of concern.

She advised that Management were currently in discussions with the Trade Unions to implement a corporate expenses policy. This was the result of incidents where it was found that duplicate claims had been made. Action had now been taken to provide staff with more training and the ITC department were putting a system in place to flag up any repeat claims.

She reported that the Loan Worker system was working effectively, but as there were only a limited number of staff using it a programme had been set up to raise the system's profile. The system would also be included in the Council's Community Plan.

The Chief Internal Auditor reported that the audit review on Benefits – Free School Meals had identified that there was no policy in place to govern the process. However it had now been confirmed that discussions were being held with the Legal Department to formulate a protocol.

RESOLVED: That the Committee gave due consideration to the completed audits referred to in Appendix A to the report.

8. INTERNAL AUDIT'S ANNUAL REPORT ON SCHOOLS

The Chief Internal Auditor presented a report which summarised the findings made by Internal Audit in relation to school based audits conducted in 2013/14 attached at Appendix A. She informed Members that a total of 24 audit visits were carried out including four secondary schools, 16 primary schools and two infant schools. Also included were a junior school which was closing and a comprehensive school, previously audited in 2012/13 but due to amalgamation and split site, two audit areas were outstanding.

She explained that it was not just about visiting schools, but looking at certain areas from a corporate perspective as well and ensuring that schools are complying with the Welsh Government Regulations; that clear action plans are in place to address any deficits and to ascertain whether they are spending any surplus monies in accordance with the action plan they have produced.. In September 2010 the School Funding (Wales) Regulations came into force which gave local authorities the power to direct spend and claw back monies held by schools where surplus budgets exceed £50k. She referred Members to paragraph 4.3 of the report which provided a complete list of areas which could be covered during an audit visit at both primary and secondary schools.

The Chief Internal Auditor reported a change in Government systems in relation to how safeguarding checks are processed and notified. A new system, Disclosure and Barring Service (DBS) has been introduced to replace the CRB checks, which has better control and will address any weaknesses identified in schools.

The Chief Internal Auditor concluded by reporting that 77% of schools audited achieved substantial assurance and 23% had achieved reasonable assurance.

RESOLVED: That the Committee gave due consideration to the Internal Audit annual report on schools to ensure that all aspects of their core functions are being adequately reported.

9. INTERNAL AUDIT - OUTTURN REPORT - APRIL TO DECEMBER 2014

The Chief Internal Auditor presented a report to update the Committee on the actual Internal Audit performance against the last nine months (April 2014 to December 2014) compared with the annual Audit Plan which had provided for a total of 1,310 productive days to cover the period April 2014 to March 2015. A summary of audits commenced and completed during the period April to December 2014 were attached at Appendices A and B.

She reported that up until recently the Section had sustained a high level of coverage of the Plan for the nine months. However, 99% of BCBC's plan was actually completed, with a total of 976 productive days being achieved. She explained that performance had dropped due to long term sickness absence and maternity leave, as well as another member of staff having left the Authority, as well as three vacant posts all of which was now impacting on the service. A member of staff who had been on long term sickness absence had returned to work but only on a phased return. The Section was struggling and although it had managed over the last months, not having the resources in place had started to show and would continue up to the end of the financial year. The three vacant posts were currently being advertised for the third time. She advised that the Authority would only be charged for the number of days delivered which meant there would be a small budget saving as they had not completed the prescribed number of days.

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The Chief Internal Auditor informed Members that the two trainees were doing well and one had just passed her second examination. The other trainee was also doing well studying to become a computer auditor and was working through an extremely complex training programme.

She stressed that despite staffing problems, it had not affected her being in a position to provide the Annual Opinion report, possibly in May, and the report would be based on the work of the Section.

She concluded by informing Members that she would call a special meeting of the Committee should it transpire that the next round of recruitment proved to be unsuccessful, so that Members would be made aware of the impact this would have.

RESOLVED: That Members gave due consideration to the Internal Audit Outturn Report and appendices covering the period April 2014 to December 2014 to ensure that all aspects of their core functions were being adequately reported.

### 10. FORWARD WORK PROGRAMME - 2014-15

The Chief Internal Auditor presented a report for the approval of the proposed Forward Work Programme for 2014-2015, attached at Appendix A.

RESOLVED: The Committee considered and approved the Forward Work Programme for 2014-15.

### 11. EXCLUSION OF THE PUBLIC

RESOLVED: That under Section 100A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business because of the likelihood that, if members of the public were present during this item there would be disclosure to them of exempt information of the description specified in paragraph 18 of Part 4 of Schedule 12A and paragraph 21 of part 5 of Schedule 12A of the said Act:

Minute No:      Summary of Item:

155                  Confidential minutes of the previous meeting of the Audit Committee dated the 20<sup>th</sup> November 2014.

156                  Material and Energy Recovery Centre (MREC) and South West Wales Regional Anaerobic Digestion Procurement.

### 12. URGENT ITEMS

### 13. APPROVAL OF CONFIDENTIAL MINUTES

RESOLVED: That the confidential minutes of the meeting of the Audit Committee held on the 20<sup>th</sup> November 2014 were approved as a true and accurate record.

14. MATERIAL AND ENERGY RECOVERY CENTRE (MREC) AND SOUTH WEST WALES REGIONAL ANAEROBIC DIGESTION PROCUREMENT

The Head of Neighbourhood Services presented a report to update the Committee on the current and emerging developments within the Council's Waste Services area. He advised on the current position regarding the proposed sale of the Materials and Energy Recovery Centre (MREC) by Neath Port Talbot Council (NPT) and Bridgend, under a Memorandum of Understanding which was approved by Cabinet on the 10<sup>th</sup> December 2013.

He reported that MREC was currently run by a subsidiary company which had not proved to be cost effective, and strong negotiations had taken place with NPT to find an alternative contractor with tender documents being sent out to bidders this month. The timeline for the new contract, which will dovetail with end of the current contract in September 2015, was set out under paragraph 3.2 of the report.

The Head of Neighbourhood Services then reported on the formation by five local authorities of the South West Wales Regional Anaerobic Digester Partnership, known as the SWWAD Hub and the partnership was made up of Bridgend, NPT, Swansea, Pembrokeshire and Carmarthenshire Councils.

He explained that the food waste was currently contracted to Kier; however the original contract did allow the Council to leave that contract in order to go to hub solution arrangements. The Welsh Government encouraged local authorities to work together to secure contracts which have economies of scale and in order to foster and encourage that, had offered support by providing a 25% gate fee subsidy once a long term commitment to Anaerobic Digestion is secured. He reported that good progress was being made on both counts. The subsidy would exist for a set period and the length of the contract would tie in with that subsidy.

RESOLVED: The Committee noted the current position in the Waste Service Area, as identified in the report for the MREC and South East Wales Regional Hub for the procurement of Anaerobic Digestion of Food Waste.

The meeting closed at 4.20 pm