

# **Penmaenmawr Town Council Finance Committee Report to Full Council**

**Prepared on 19<sup>th</sup> December 2018**

This interim report has been written to supplement the minutes from the Finance Committee meeting held on 17<sup>th</sup> December 2018 and to act as the basis of the Committee's formal recommendations to Full Council. This report constitutes recommendations agreed at the respective Finance Committee meeting referred to within this document and does not form any binding obligation upon Full Council. This interim report is in no way comprehensive but aims to inform Councillors of the broader issues that PTC currently face.

## **Status of PTC's financial reserves and evaluation of system that have prompted the Council's current financial standing**

Over the past four years, PTC's income has remained relatively static, at approximately £135,000. During the same period, expenditure has increased by almost £100,000, which is roughly a 125% increase during that same period. To fund the extra expenditure, monies have been withdrawn from the reserve account and transferred into the current account.

All councillors, if not already, will be made aware that PTC's current financial reserve account stands at just over £3,700. Since 30<sup>th</sup> October 2015, where the reserve account stood at £108,000, (which included ring-fenced money and statutory funds) various amounts have been transferred from the reserve account into the current account. There is no evidence to suggest that any form of malpractice has occurred.

There has been some conjecture as to which bank account the precept is paid into. Several councillors have, for a number of years, always been under the impression that the precept was paid into the reserve account and transferred to the current account as and when needed. It can be confirmed to Full Council that the precept is paid on a triannual basis (three times a year) directly into the current account. It would appear as this has been the case for at least 4 years, if not longer.

Penmaenmawr Town Council has, for a significant period of time, been spending the full precept and then supplementing it with monies from the reserve account.

The current process for transferring monies between the Council's bank accounts is thus. The Town Clerk notifies two account signatories that the current account is running low and funds need to be transferred from the reserve account to the current account. For the transfer to take place, two signatories physically go to the bank and make the transfer. A minimum of two signatories are needed for this process. These procedures have complied with current Council procedures and regulations, otherwise the transfers could not have been completed.

There has been much speculation as to how this situation was allowed to pass unchecked. The ultimate responsibility has to end with Full Council but it has to be noted that the RFO at the time had a duty to inform Full Council upon noticing the reducing level of reserves, which does not appear to have happened. However, to reiterate, all Councillors are responsible for not robustly scrutinising either the budget or the accounts sufficiently. The lack of scrutiny can also be attributed to other factors, including placing too much trust in a system that had insufficient checks and balances within its procedures, a limited or no understanding of accounting procedures (including how to compile budgets and read accounts), which resulted in Councillors being presented with accounting systems and procedures beyond their level of comprehension. It must be stressed that this is not a criticism of any Councillor but it must be recognised that such procedures are integral to the function of PTC.

Specific mention needs to be made regarding Cwmni Penllan. It can be confirmed that upon the company's dissolution, PTC received £27,781, which was deposited into the Council's reserve account on 18<sup>th</sup> September 2014. A similar sum (£27,770) was transferred from the reserve account to the current account on 30<sup>th</sup> April 2015.

We are now in a position where this information may well enter the public sphere and Penmaenmawr Town Council may be asked to explain its actions. It is not the Finance Committee's position to draft responses to Penmaenmawr's residents, the wider public, statutory agencies nor the press; it may be prudent for Full Council to give urgent consideration to how it wishes to respond to any potential requests for comment and/or information on this matter.

Whilst this report is not intended to apportion blame for the current financial situation PTC finds itself in, it must be recognised that Councillors, both individually and collectively, have not been sufficiently confident nor competent in scrutinising the Council's accounts and its financial procedures.

***Action: When PTC finances allow, all Councillors to receive basic financial training to ensure that they can understand and interrogate a standard set of accounts.***

The current RFO is in the process of restructuring the Council's accounts in preparation of the forthcoming 2019/2020 budget. This will serve to clearly define all the various cost centres that need to be assigned, making it easier to track individual costs and budget pots.

***Action: RFO, with any necessary assistance from the Finance Committee, to produce and present budgets and accounts in formats that are clearer and easier to digest.***

Since its re-establishment, the Finance Committee now has the mandate to consider, scrutinise, monitor, review and evaluate all aspects of PTC's financial procedures and actions. This should now add an extra level of security to PTC's financial procedures.

***Action: For the Finance Committee to meet on a regular basis to carry out its functions and report directly to Full Council.***

PTC currently operate two bank accounts which contain the sum total of all the Council's monies. The precept is currently paid into the Council's current account, and not into the reserve account as it has been generally accepted by several councillors.

***Action 1: The Finance Committee recommend that the precept continue to be paid into the current account until such time as the Council is confident its systems are robust enough to cope with any variance in its arrangements.***

***Action 2: The Finance Committee recommends that any transfers between the Council's bank accounts continue to be signed by two councillors but that the transfers are also to be monitored by the Finance Committee and Full Council.***

Currently, when bank reconciliation reports are prepared for signing off by any two councillors, they are cross referenced against VT reports generated by the RFO to ensure accuracy. In future, the Finance Committee recommend that it

becomes the responsibility of the Committee to scrutinise the bank reconciliations before they are signed by two councillors.

***Action: To allow the Finance Committee to perform this function (which is currently within its remit) and to formalise the procedure within the Committee's terms of reference.***

We currently have conflicting advice from two separate (but nevertheless informed) sources regarding our level of general reserves. It is currently unclear if PTC is expected to keep between 25% and 100% of its precept level as general reserves, or whether it is expected to keep a level of 25% to 100% of its yearly expenditure. As our expenditure has been higher than the precept, PTC may find itself in a position where it has to reserve more monies than originally thought.

***Action: To get a definitive answer and to act accordingly.***

The Council's RFO is currently preparing an emergency budget to cover the remainder of this financial year. The latest precept payment was received by PTC on Monday 17<sup>th</sup> December 2018 for the sum of £48,333. The next payment is due on 26<sup>th</sup> April 2019. From this figure, PTC will need to budget for fixed costs and to cover any other contractual obligations. Beyond that, the Finance Committee recommends that PTC restricts all spending, apart from to honour the above conditions.

***Action: This needs to be resolved in Full Council.***

PTC's 2017/2018 internal audit report is a very comprehensive document that scrutinises the Council's finances and its financial procedures. It is not known how many Councillors have read the document but JDH Business Services Ltd (PTC's appointed internal auditors) concluded that "On the basis of the internal audit work carried out, in our view the council's system of internal control is NOT in place, adequate for the purpose intended and effective, and the issues reported in the action plan overleaf need to be implemented promptly." This document is dated 25<sup>th</sup> June 2018. As this is an interim report, it is not useful to single out any particular issue nor is it practical to offer a synopsis of the combined issues highlighted in the internal audit report. Going forward, it could be argued that PTC has two options regarding the distribution of both internal and external audit reports, which are as follows:

Option 1: for all audit reports to be disseminated amongst all Councillors, with the Finance Committee to act upon any pertinent recommendations/resolutions made by either Full Council and/or appointed auditors prior to any outcomes being ratified.

Option 2: for all audit reports to be scrutinised by the Finance Committee and relevant reports generated prior to them being presented to Full Council for its consideration.

**Action: Full Council to decide which option is most suitable but all Councillors need to be aware that ultimate responsibility lies with Full Council, not the Finance Committee.**

At the most recent Finance Committee meeting, and in light of the current financial situation, the Committee unanimously agreed to recommend to Full Council that applications for PTC's grants schemes be divided into two separate application windows. This would allow PTC to better budget its grants funds and make the process more transparent and fairer. To illustrate the point, here is an example:

Over a six month period, the Projects Grants fund is allocated a budget of £10,000. During that same six month period, three applications are received for £5,000 each. All applications will have to wait until the relevant six month window of opportunity closes before applications are assessed. The Finance Committee assesses the quantitative elements of each application before passing on the decision to Full Council as to how it wishes to divide the £10,000 fund between three applicants. As one grants application window closes, another will open up immediately.

The RFO has indicated that such a method would allow for far more controlled budgeting whilst maintaining fairness in how PTC designate its grants spending.

**Action: Until further notice, the Finance Committee advise Full Council to suspend the current open-ended grants submission method and implement a bi-yearly system of inviting applications with specified closing, processing and assessment dates for said applications.**

At present, PTC has a loosely defined core grants scheme. The term "core grant" is, amongst Councillors, generally accepted to reference a selection of community organisations that receive a regular yearly grant from PTC. The lack of definition

stems from the fact that there is no procedure in place to adjudicate which organisations qualify for “core grant” funding.

PTC currently issues this core funding to multiple organisations, including Penmaenmawr Community Centre, Penmaenan Community Centre, Capelulo Village Hall, Penmaenmawr Museum, Penmaenmawr Library Support Group and Quarry Villages Community Transport. However, this is not an exhaustive list; expenditure that is currently classified within PTC’s budget as “core funding” does not necessarily tally with any recognised definition. As a Council, it has no way of knowing if it is funding an organisation that is financially insecure. Similarly, PTC has no formal record of how an organisation is constituted and whether it has an open, democratic governance framework (as per the conditions applied to any other organisation wishing to secure funding from PTC’s Projects Grant fund). To illustrate the point, PTC have no way of knowing if it is giving public funds to organisations that, for whatever reason, potentially may not qualify, and the Council’s actions may contravene legislation, along with its own financial procedures. The Finance Committee unanimously wishes to propose that PTC suspends its current practice of issuing grant funding without any form of organisational scrutiny, as this is contrary to its own financial regulations, and also sector legislation, otherwise known as its “core grants” scheme. In its place, PTC is to work closely with all current recipients of “core grants” and invite them to apply (at the earliest opportunity) for the same level of funding they currently receive, complete with all supporting documentation that is needed to support their application.

**Action: The Finance Committee propose that the current practice of “core grant” funding be suspended until further notice and that all current recipients submit an application for grant funding. If this proposal is successful, PTC are fully committed to immediately informing core grant recipients of the revised procedure and work with said organisations to submit their applications in due time to assist in their own financial security.**

Recent developments have had an impact on PTC’s recently adopted financial policies and regulations. The Finance Committee, as a matter of urgency, recommend to Full Council that the current Financial Regulations Policy be amended to include the following:

- To comply with current legislation, that PTC maintain general reserves of between 25% and 100% of its current financial year's spend (or precept, whichever is found to be the case) in PTC's reserve account,
- To fully acknowledge that PTC's precept is paid into its current account,
- To maintain and protect all ring-fenced funds within the reserve account and not to release them until such time as they are needed to pay for specified works that directly relate to the purpose for which they are being reserved (which can only be approved in Full Council),
- That movement of monies between any separate bank accounts that PTC may operate from time to time be authorised in Full Council,
- To call on any Councillor proposing an action that results, or is likely to result in any form of capital expenditure to prepare a proportionately detailed breakdown of expenditure, along with any other information they wish to present to Full Council.

**Action: Full Council to resolve to adopt the following recommendations and for the Finance Committee to make such amendments before presenting the amended document to Full Council for its ratification.**

That concludes this interim report.