



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 1, East Pallant House on Thursday, 22 January 2015 at 9.30 am

Members Present: Mrs P M Tull (Chairman), Mrs C M M Apel, Mr M J Bell, Mr J L Cherry, Mr A P Dignum, Mrs P A Hardwick, Mr G H Hicks and Mr R M J Marshall

Members not present: Mr A F French and Mr B Finch

In attendance by invitation:

Officers present all items: Mr J Ward (Head of Finance and Governance Services) and Mrs B Jones (Principal Scrutiny Officer)

218 **Chairman's Announcements**

Apologies had been received from Mr Finch and Mr French. Mr French had been taken into hospital and the committee wished him well.

219 **Approval of Minutes**

The minutes of the previous meeting were considered and agreed. Matters arising were reported as follows:

Minute 211 - Mr Ward confirmed that he would bring back a further report on fraud detection to the June 2015 meeting.

Minute 213 – Treasury Management Strategy - The council is achieving a return on property investments and consideration would need to be given to how this should be reflected in the strategy in the future. The committee has a monitoring role and it was agreed that the Council's property investment return be provided to members as part of the monthly treasury management monitoring report.

Minute 216 – Mrs Hardwick asked whether advice had been taken from the Council's Monitoring Officer on dealing with business continuity management under Part 2 of the agenda. Mr Ward undertook to seek advice before a report on business continuity comes back to this committee.

RESOLVED

That the minutes of the meeting held on 27 November 2014 be signed as a correct record.

220 **Urgent items**

There were no urgent items for consideration at this meeting.

221 Declarations of Interest

There were no declarations of interest.

222 Public Question Time

No public questions had been submitted.

223 Local Government Audit Committee briefing

Mr King presented this briefing (copy attached to the official minutes).

Mrs Apel queried whether the national £5.8b shortfall in funding to local authorities was affecting local communities in Chichester. Mr King was unable to comment on any future trajectory, saying that the financial outlook for councils was likely to continue to be challenging and funding would continue to come under pressure regardless of the outcome of the elections in May. The auditors consider financial resilience under the Value for Money heading and there are no concerns about the financial position at this Council; it is strong and continues to be resilient.

Mr Ward advised that the two major sources of funding for councils were the Revenue Support Grant (RSG) and Business Rates. The second source of income is growing whilst RSG appears to be in a downward trend. There is a risk that the New Homes Bonus (NHB) could be altered by recycling it as part of the RSG or removed altogether. The Council has a balanced budget and over the next five years is in a surplus position. Mr Dignum added that the NHB was not assumed to be part of the budget from next year. Mr Marshall was concerned that if the NHB remained unchanged and there needed to be lot of house building, the question was how to spend the NHB as there was a limit to viable projects.

Mr Ward drew members' attention to the 78% of councils whose housing benefit subsidy claims had been qualified, saying that this was a bigger issue nationally.

Mr Marshall suggested that the Council's whistle blowing policy be reviewed at a future meeting; Mr Ward confirmed that a review could be carried out.

Mr King undertook to circulate the Audit Committee National Fraud Initiative check list and, as mentioned in minute 219 above, a report on fraud data would be scheduled for a future meeting.

RESOLVED

That the briefing be noted.

224 Certification of claims and returns annual report 2013/14 : Ernst & Young LLP

Mr Mathers presented the agenda report (copy attached to the official minutes).

He advised that only one claim had been certified. There were two areas to draw to members' attention however actions were in place to resolve these.

Mr Marshall was disappointed at the 25% error rate relating to a £110,000 overpayment and requested further testing be carried out to give confidence. Mrs Christie advised that the Department for Works & Pensions (DWP) had not yet written to the Council to claim this money. Mr Ward advised that the Council would work with the DWP to minimise the payment due. Mr King advised that the DWP would consider this and require a further response from the Council and possibly further work. Where a large extrapolation was not sound, then it would be possible for the Council to put the case to the DWP and agree a further sample. If there were no errors identified then the extrapolation could be rerun. However, this would cost time and resources and result in further EY checks.

Mr King advised that we compare favourably with our peers. Members noted that in the context of total benefit payments in the region of £36m, an error of a third of 1% was in fact a very creditable performance.

Mrs Christie advised that the benefits team was currently fully staffed, however there had been unsettling times over the last years and it was difficult to retain good benefits assessors. The Benefits Scheme was a complicated scheme to administer, with the team needing to take account of new DWP guidance and new regulations.

Universal Credit had created uncertainty and the rollout had been delayed. Mr Dignum advised that only certain types of new cases (those relating to working age claimants – 51% of the benefit caseload) were being handled by the DWP. In future, therefore, local authorities may be administering housing benefit to those of non-working age.

RESOLVED

That the 2013/14 annual report on the certification of the Council's claims and returns be noted.

225 Audit Progress Report : Ernst & Young LLP

The committee considered the agenda report (copy attached to the official minutes). Mr King gave a brief report.

Mr Dignum was concerned at the large scale fee reduction of 25% and wondered why such a large reduction could be made without the quality of the audit suffering. Mr King assured the committee that this would not result in a reduction of audit quality. It was due to efficiencies as the Audit Commission was to be closed in March 2015; entire functions would be carried out elsewhere and the tendering process had realised gains with a competitive tender process.

RESOLVED

That the Audit Progress Report be noted.

226 Treasury Management Strategy

The committee considered the agenda report and the two appendices which had been circulated to members by email and a hard copy tabled (copy attached to the official minutes).

The following points were made, answered by Mrs Belenger and Mr Ward.

- Table 4 Corporates should read the same timescales as reflected in the other columns in the table, with the maximum investment period of 5 years.
- Monetary Policy Committee voting had been unanimous with rates not being increased. This point should be reflected in the commentary in the Strategy.
- Add sector limits in a new row in Table 4.
- Banks in foreign countries – a full discussion ensued regarding the definition and the requirements to lend to a foreign bank. Mrs Belenger undertook to circulate a full clarification of the arrangements when dealing with foreign banks to members by email following the meeting.
- At para 38E add ‘and no later than 2019/20’ following 2017/18.

Mr Marshall suggested that the definition of the ‘major change in strategy’ be explained at para 13. The committee agreed to delegate authority to Mr Dignum, Mrs Hardwick, Mr Marshall and Mrs Tull to consider and agree the revised wording following the meeting.

(Post meeting note:

Foreign banks confirmed as ‘having a UK based branch (generally in London) so transactions are under UK regulations; the countries must be AAA rated and then the rating of the bank needs to be considered to determine how much can be invested and for how long.

Revised wording on the strategy agreed – ‘The new investment options that may be undertaken by this strategy would now include covered bonds, Government Agency Bonds, Supranational Bonds and Corporate Bonds. This diversification will therefore represent a material change in strategy over the coming year, in order to manage the bail-in risk and spread the investment of surplus funds in a wider range of investment types.’)

Mr Dignum congratulated Mrs Belenger on doing an excellent job on the strategy following the review by a strong group of members on the task and finish group.

RECOMMENDED TO CABINET

That Cabinet considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the Investment Strategy for 2015/16 and recommends this to Council for approval.

227 Strategic and Operational Risk Management

The committee considered the agenda report (copy attached to the official minutes).

The EU recycling target in the newly added strategic risk CRR88 was discussed. Mr Ward advised that any fines would be served by the EU on the UK Government, which may then choose to pass these fines on to local authorities. Mr Connor, portfolio holder for the Environment, was invited to speak. He advised that recycle was reducing; food waste was recycled as part of the County operator at Horsham; manufacturers were producing less packaging as a result of revised EU targets. The EU was being lobbied by larger authorities/organisations to amend their target.

RESOLVED

- 1) That the Strategic Risk Register and the internal controls in place, plus any associated action plans in place to manage those risks, be noted.
- 2) That the current high scoring organisational risks and the mitigation actions in place be noted.

228 Internal Audit - Audit Plan Progress

The committee considered the agenda report (copy attached to the official minutes). Mr James gave the following oral updates:

Income reconciliation

- Estates – A full reconciliation had been achieved.
- The Novium – Changes to staffing levels had impeded progress; Civica and MS Excel training was needed. Internal Audit would carry out a further review.
- Car Parks – The Council was looking to procure a county-wide system to include on and off street parking. The cash collection had recently changed from Coinco to G4S. Monitoring would continue.
- Leisure Centres – Full reconciliations were being carried out however there were some IT issues with the coding of on-line payments and the overnight transfer from Gladstone to General Ledger. Internal Audit would be going back to review this in February.
- Waste (green/trade/domestic) – The Bartec system was being enhanced to help with the reconciliation of income. A working group had been set up to implement this. No date had been given as to when this would be completed.

Mr Dignum requested that the committee receive a further oral report at the next meeting in March. Mrs Hardwick was concerned by the report the committee had received from Internal Audit on income reconciliation in September 2014 and the concerns raised and asked whether there were implications for External Audit. Mr Ward advised that this had all been disclosed to the auditors. The Council was in a much stronger position now following the building control reconciliation issue four years ago. There had been no suggestion of fraud or malpractice and there had also been no qualification of our accounts. The outstanding actions relating to those areas above would be monitored and a verbal report provided to the next meeting in March.

1 The Ridgeway

All recommendations had been implemented.

Mr James advised that the shortage of resources within the team was being handled by concentrating on high risk audits in the audit plan, but continuing the work for External Audit and combining other audits in the Audit Plan.

RESOLVED

That progress against the Audit Plan be noted.

229 **Budget Task and Finish Group**

Mrs Tull, a member of the task and finish group, provided the committee with an update on the group's consideration of the projected variances on the 2014/15 Budget and the budgeted variance on the 2015/16 Budget.

Mr Ward advised that the five year financial model and assumptions showed a surplus position for the next two to three years. The 2014/15 budget had a projected underspend of £857,000 - a mix of underspend and efficiencies - some of which had been put back into the 2015/16 budget. The Budget report would be considered by Cabinet in February with a recommendation to use the projected surplus for future investment opportunities.

Following a question from Mr Hicks, he was advised that the Car Parks underspend element of this was £221,000.

RESOLVED

That the verbal report be noted.

The meeting ended at 11.50 am

CHAIRMAN

Date: