



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2, East Pallant House on Thursday 23 November 2017 at 9.30 am

**Members Present:** Mrs P Tull (Chairman), Mr G Barrett (Vice-Chairman), Mr J Brown, Mrs N Graves, Mrs P Hardwick, Mr G Hicks, Mr F Hobbs, Mr S Morley and Mr P Wilding

**Members not present:** Mr T Dempster

**In attendance by invitation:** Mr P King (Ernst & Young LLP)

**Officers present:** Mrs H Belenger (Accountancy Services Manager), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S James (Principal Auditor) and Mrs B Jones (Principal Scrutiny Officer)

## 154 **Chairman's Announcements**

The Chairman welcomed all to the meeting. There were no apologies. Mr Hobbs had been delayed and would be arriving shortly.

## 155 **Approval of Minutes**

The minutes of the last meeting held on 28 September 2017 were considered.

The number of days in the audit plan referred to at minute 153 (before the resolution on page 9) would be covered at agenda item 12, but should read 'The audit plan approved by the committee for 2017-18 is 420 days...'

## **RESOLVED**

That the minutes of the meeting held on 28 September 2017 be agreed as a correct record.

## 156 **Urgent items**

There were no urgent items.

## 157 **Declarations of Interest**

There were no declarations of interest.

## 158 **Public Question Time**

No public questions had been received.

**159 Annual Audit Letter 2016-17 - Ernst & Young LLP**

Mr P King, Ernst & Young LLP, introduced the annual audit letter for the period ending 31 March 2017. The messages were similar to those contained in the audit results report considered at the last meeting and he had nothing particular to point out to the committee except the earlier statutory deadline for production and audit of the 2017-18 financial statements.

Mrs Belenger advised that planning was underway to enable this to be carried out between the beginning of June and the end July 2018. Mrs Belenger assured the committee that the trial carried out this year had been reasonably successful. Lessons had been learned and changes put in place in order that the deadlines would be achieved in 2018.

Mr King informed the committee that there would a change to the EY audit team from January 2018. He would be moving off the audit and would be replaced by Mr Kevin Suter, who would lead the audit from now on. Mr Young had reduced his hours and would be replaced by Mr Jason Jones, who was also the audit manager for Arun District Council. EY considered it sensible to have the same audit manager across both authorities.

He thanked the committee and particularly the Chairman for the support he had received over the last five years.

**RESOLVED**

That the annual audit letter ending 31 March 2017 be noted.

**160 Audit Progress Report 2017-18**

Mr King provided an oral report on the current progress of the 2017-18 audit.

Planning for the audit had been started, the bulk of which would in the New Year and then again after the accounts had been prepared at the end of the financial year. The auditors were required to certify the housing benefit subsidy return to the Department for Works & Pensions (DWP) by 30 November. Additional testing had been required however work on that claim was nearing completion.

The certification report would be presented to the next meeting.

**161 Financial Strategy and Plan 2018-19**

Mrs Belenger introduced the report which set out the financial strategy and the principles which underpinned the council's approach to managing its financial matters and medium term financial plan. Part of that process was trying to understand the risks and how we could control and mitigate some of those risks. The council was currently in year three of a four year government settlement. 2019-20 was the final year of the settlement and thereafter officers had made assumptions based on best information. Part of that was underpinning the key

financial principles and how we approach those future years with an unknown quantity.

One of the key financial principles set out in Appendix 1 relating to investment income had been amended. Last year the investment income from the property fund was used to support the deficit reduction plan. It was intended that the extra £8m we were placing in mixed asset bonds would also be used to close that gap.

Mrs Belenger recommended that we maintain the £5m reserve and continued to maintain the provision of £1.3m of revenue support which would allow the council to smooth things in relation to business rates retention as localisation had some risks. The council has not used this reserve which was first earmarked in 2010 and she assured the committee that the reserves figure was there to help mitigate risks with the council's spending plans.

The committee made the following comments and received answers to questions as follows:

- Queried which elements of current fees and charges were susceptible to the economy. Certain areas such as green waste and car parks were subject to fluctuation. The council had a fees and charges policy setting out that the user pays for the service where it was not a statutory service. The increase in charges in 2017-18 had been 3%. An income of £16.4m had been achieved through our income streams. Officers did their best to forecast this figure based on a number of predictions. The council was working in a more commercial environment; officers were expected to look for new opportunities and services were expected to continually assess their charges.
- Queried the point of entering the business rates pilot for 2018-19 if there was no impact on the model. There was no impact on individual authorities but as part of a wider pool the growth money that would have gone to the government would be available to the pool to invest across the county. The bid required to be submitted from an economic area and all authorities in West Sussex were part of that bid.
- Queried whether certain areas would not get their full business rate return. Even with localisation there would still be a mechanism to redistribute business rate income to areas where need was greater. The mechanics had not yet been divulged.
- Queried the current council tax premium payable on empty properties following the Chancellor's announcement of the power to charge a 100% premium. The council currently has a zero council tax discount policy on empty homes.
- Queried the principles behind the five year financial model. The model reflected a mixture of the most likely and most prudent scenarios. Sensitivity was not modelled in it. Income was continually monitored. Complex projects were monitored to ensure that income streams came into being at the same level as predicted. This model was updated regularly behind the scenes in order that officers could get a position statement for members' decision. This strategy was officers' best estimates taking a prudent approach.
- Queried measures taken to ensure that parish councils consulted with their communities when developing bids for New Homes Bonus (NHB) grants. A certain amount of NHB funding was available to parishes each year. At present this funding was not in base budget but sat in the council's reserves. Parish

Councils were required to consult with their communities in order to bid for grants that would benefit their local areas.

- Queried the extent to which the council was prepared for an increase in the bank base rate and the increase in mortgage rates payable by staff. In relation to pay settlements the council was going through a pay review and £300,000 has been built into the model to allow for fluctuations. The pay scheme would be revised with every post being reviewed against Hay criteria. The minimum wage had changed and would affect our pay structure, particularly the first pay band. Some services were struggling to appoint professional staff and there were potentially vacant posts. Use of agency staff would be considered taking account of budget provision available. Market supplements, 'golden hellos', relocation costs etc. were considered as part of recruitment benefits to encourage suitable applicants.
- Queried whether the council invested in property in order to get a financial return instead of a social return. The council was investing in commercial and retail properties and not directly in housing. Property investments were carried out within the Chichester district in line with the criteria in the Investment Protocol and therefore the local economy was supported as a result.
- Queried the number of temporary staff in the authority at any one time – **Mrs Belenger undertook to respond on this point.** [Post meeting note: There were 74 temporary staff in September 2016; 71 in December 2016; 65 in March 2017 and 87 in September 2017]

## **RECOMMENDED TO CABINET**

- 1) That in the short to medium term the Council maintains a minimum level of reserves of £5m for general purposes.
- 2) That the current provision of £1.3m of revenue support be maintained due to a number of uncertainties and risks within the financial strategy model.
- 3) That the Council should continue to aim to set balanced budgets without the use of reserves, although some use of reserves in the short term may be necessary.
- 4) That in order to achieve a balanced budget over the medium term, officers should monitor delivery of the agreed deficit reduction plan.

## **162 Treasury Management 2017-18 Mid-Year Update**

Mr Catlow presented this mid-year review of treasury management activity and performance, informing the committee of the relevant regulatory changes that would impact on the council's treasury management activities next year.

The committee made the following comments and received answers to questions as follows:

- Queried whether we were still struggling to find counterparties. A number of banks, due to regulatory change, were splitting their banking and retail arms, and until it was known where we would end up we were reluctant to invest with them therefore at present we had a more limited number of counterparties and a reduced maximum duration of investment with many.

- Queried whether external funds had an equity component. These were funds invested with and managed by a fund manager, equivalent to investment in a multi-asset fund. They were not cash investments in the council's name. M&G could have a small equity component. By investing in multi asset funds risk considerations were reduced.
- Queried corporate bonds. These were bonds with individual companies, generally of high quality and the council preferred those with a supporting asset base.
- Queried the definition of balance and how that squared with the definition of value and whether the two should tie up. The committee was tasked to decide whether these had been good investments however there was insufficient information to provide comfort to the committee. Returns were calculated based on the original investment therefore the reference on page 59 should probably be amended. This would be considered as part of responding to new prudential codes. The change in capital value had not been an issue for local authorities as there had been no impact however it was likely that could be amended as part of the regulatory changes going forward. Mr Catlow agreed to revisit the presentation of this information in future reports to the committee.
- Queried external funds (showing as green) and the lack of clarity in the figures as there had been some disappointing quarters. At this time (and until updates in regulation) changes in capital value did not have a revenue impact on the council's budgets until the investment was disposed of.
- Queried our reliance on treasury management advisors Arlingclose for advice. The council had a four year contract with Arlingclose for professional treasury management advice. The advisor supported the accountancy team in undertaking additional treasury management research. Officers had access to a number of other websites and professional sites for information. There were not many similar advisory companies in the market. Mr Catlow, Mrs Belenger and Mr Ward had to declare to Arlingclose how we met their criteria as a client before they took us on. The contract, due for renewal in 2018, included training on site for members and access to training courses for officers.
- Queried whether modelling had taken place to allow members to understand the parameters should there be a volatile period with a dramatic change in interest rates. The council was risk averse in building income into base budgets or financial models as a result. New regulations and accountancy changes could have a significant effect on our revenue account. Arlingclose had been requested to explain the new regulations at the training session for members on 8 December.
- Queried whether incentives had been included in the Arlingclose contract. Arlingclose offered advice and opportunities but the ultimate decision on investments was made by officers. The principles that underpin investments included security first and then yield.
- Queried why the council did not have a three year forecast of expected borrowing through the Public Works Loan Board. The council does not need to borrow funds based on its spending plans.
- Queried the cost to the council if we were overdrawn. The only time we were overdrawn was generally when an investment repayment was made late and in this instance we could recover interest from the party. It did not affect our credit rating as the council had not applied to have a formal credit rating.
- Queried whether the council should be concerned with ethical investments e.g. arms and tobacco that could make us susceptible to reputational claims. We did

not invest directly in non-ethical instruments however we had external investments in pooled funds and it was their fund managers' decisions as to what funds were invested in.

- Queried whether the capital loss in external funds over the last three quarters had been as a result of bonds. The most significant capital losses that we had incurred related to the entry price to the pool fund therefore this was the difference between the bid and the offer at about 7% so we were carrying that on our balance sheet.
- Queried whether the non-met district average was last year or last quarter. It related to the last quarter.

The committee thanked Mr Catlow and his team for preparing this report. Mr Catlow took on board all the suggestions to restructure the report in order that it was more focussed to the committee's requirements in future iterations.

## **RESOLVED**

That the 2017-18 treasury management mid-year progress report be noted.

### **163 Strategic and Operational Risks 2017-18**

Mrs Belenger presented the report reminding the committee of the exempt element of the report at Appendix 1(b) on pages 78 to 79.

The committee was reminded that the Corporate Management Team considered the council's strategic risks quarterly and this committee considered them bi-annually following review by the Strategic Risk Group. The Risk Management Strategy and Policy would be reviewed following the management restructure in early 2018.

The committee made the following comments and received answers to questions as follows:

- Queried the high workload in the planning team and plans to alleviate it. Additional resources were being recruited to the team to mitigate against that risk.
- Queried the reduction in the recycling score and whether there was evidence that renewed activities had worked. There had been a major drive in the revised recycling strategy and action plan. The EU would fine the UK and not the individual council for not reaching the target of 50% and obviously the country's exit from the EU would change the likelihood of any fine. We are working as a county to review initiatives; waste going into landfill was a key priority for WSCC. This was a corporate priority and key performance indicators were constantly being reviewed.
- Queried whether councillors were the weak link in terms of data protection issues. An officer working group had been considering the new General Data Protection Regulations (GDPR) which would take effect from May 2018. An assessment of the information members held would be carried out and training provided to members as part of that process.

It was proposed and seconded and supported that the following resolution should be passed to exclude the press and the public from the meeting during the consideration of Appendix 1(b) - Cyber Attack across ICT estate.

## **RESOLVED**

That the public and press be excluded from the consideration of the reports and their appendices for Appendix 1(b) – Cyber Attack across the ICT Estate on the grounds that it is likely that there would be in respect of that item a disclosure to the public of ‘exempt information’ of the description specified in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A to the *Local Government Act 1972* and because in all the circumstances of the case the public interest in maintaining the exemption of that information outweighs the public interest in disclosing that information.

Following discussion of this item, the committee voted to return to normal public business and took the following resolutions.

## **RESOLVED**

- 1) That the current strategic risk register and the internal controls in place, together with the associated action plans to manage those risks, be noted.
- 2) That the current high scoring programme board and organisational risks, together with the associated mitigation actions in place, be noted.

### 164 **S106 Exceptions Report**

Mrs Dower presented the report. Mrs Peyman attended to answer questions on the S106 payments relating to leisure initiatives.

The reports outlined those contributions which required additional monitoring as they were due to reach their target date within the next two years or were now overdue.

Mrs Peyman gave an update on leisure contributions where progress had been made since publication of this agenda and these had been reported back to the portfolio holder and the ward members.

The committee made the following comments and received answers to questions as follows:

- Mr Oakley asked whether the actual figures incorporated interest earned on those monies or whether they were the original contribution figures. These funds were invested whilst they were waiting to be spent and the interest earned was put back into the pot so the communities benefited from the interest earned. **Mrs Dower undertook to update the committee on this.** [Post meeting note: The interest is allocated to the S106 specific purpose i.e. affordable housing, leisure etc. but not to the individual schemes. The interest earned will be allocated to the individual schemes to ensure that the responsible officer is aware of these funds available for their schemes.]

- Land at Windmill Park, Halnaker – This funding allocated to the Boxgrove Sports Pavilion project was past the notional expiry date and had been delayed as the community was looking to attract additional funding to progress the project. The return of these funds would be dependent upon the developer making a request however the position was strong as the funds had been allocated.
- Queried the difference between S106 funding and CIL. S106 funding was to do with mitigating the impacts of individual planning applications and would reduce over time. Community Infrastructure Levy (CIL) funding related to the effects of cumulative development. The annual S106/CIL report to the committee in June each year reported on both sets of funding.
- Queried the spend of funds on King Edward VII. It was understood that the South Downs National Park Authority (SDNPA) had a sum of money which they would release to us when the council had put forward appropriate projects on which the money could be spent. **An update would be provided to the committee.** [Post meeting note: There are two S106 agreements in respect of King Edward VII – one is in connection with a primary school therefore the money would go to WSCC as education authority; the other is in relation to affordable housing in the sum of £800,000 however the trigger for us to start receiving it is 2020.]

## RESOLVED

That the contents of this report concerning section 106 agreements nearing their expenditure date be noted.

### 165 Internal Audit - 2017-18 Audit Plan Progress

Mr James presented the report, advising that there were no audit reports to present to the committee. Various audits were currently in draft form and would be reported to the committee in due course. Audit time had been spent on the key financial controls as there was a deadline of February 2018 in order that EY could place reliance on it as part of the final accounts audit.

At the last meeting members had expressed concern about the delay in the museum audit and the reduction in the number of audit days. Mr James confirmed that the museum audit had been delayed due to the need to await the outcome of the review of management delivery options and then subsequently the appointment of a new Museum Manager. With regard to the number of audit days, benchmarking had taken place with our “nearest neighbours’ family” and the current 2017-18 year had been set at 420 audit days as a median compared to other authorities. The 2018-19 audit plan was being developed and the number of audit days would be set dependent upon the audits required and having assessed the level of risk.

Assurance was requested that the milestones required during the year did not lead to staff feeling pressured to meet the target. Mr James confirmed that the number of working days within the team had been taken into account when setting the 2017-18 audit plan and that there was an element of contingency within the plan in-case non-programmed work needed to be undertaken. The staffing issue discussed at the last meeting had been resolved.



Mrs Hardwick referred members to page 9 of the minutes, second bullet point, where the committee had requested a more comprehensive explanation of delayed audits be provided in the audit plan progress report to allow the committee to fully understand the reasons and to be able to debate the issues and raise concerns. The explanation needed to confirm that authority had been given by Mr Ward that he had deemed the audit not able to be audited at that time. If the scope of the audit was not relevant to the current situation then it should be stated. Mrs Belenger undertook to liaise with Mr James as to how to present that information in order to allay the concerns of the committee.

**RESOLVED**

That progress against the Audit Plan be noted.

166 **Budget Review 2017**

Mrs Belenger presented the Terms of Reference and the scoping of this proposed review.

**RESOLVED**

- 1) That the terms of reference for the Budget Task and Finish Group be approved.
- 2) That Mr Barrett, Mr Hicks and Mrs Tull be approved as the committee's representatives on this group.

The meeting ended at 12.17 pm

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CHAIRMAN

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Date: