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Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2, East Pallant House on Thursday 26 January 2017 at 9.30 am

Members Present: Mrs P Tull (Chairman), Mr G Barrett (Vice-Chairman), Mr G Hicks, Mrs N Graves, Mrs P Hardwick and Mr S Morley

Members not present: Mr I Curbishley, Mr F Hobbs and Mr P Jarvis

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

Officers present: Mr J Ward (Head of Finance and Governance Services), Mrs H Belenger (Accountancy Services Manager), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S Hansford (Head of Community Services), Mr S James (Principal Auditor), Mrs B Jones (Principal Scrutiny Officer) and Mrs V McKay (Valuation and Estates Manager)

105 **Chairman's Announcements**

The Chairman welcomed all to the meeting.

Apologies had been received from Mr Curbishley, Mr Hobbs and Mr Jarvis.

106 **Approval of Minutes**

The committee considered the minutes of the last meeting which had been circulated with the agenda (copy attached to the official minutes).

RESOLVED

The minutes of the meeting held on 24 November 2016 were agreed as a correct record.

107 **Urgent items**

There were no urgent items for consideration at this meeting.

108 **Declarations of Interest**

No interests were declared at this meeting.

109 **Public Question Time**

No public questions had been received.

110 **Certification of claims and returns annual report 2015-16 - Ernst & Young LLP**

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

Mr P King, Executive Director of Ernst & Young LLP, presented the report.

The housing benefit audit was complicated and normally resulted in the issue of a qualification letter in an overwhelming number of authorities, as there is no materiality limit and the assessment is based on the claim being either right or wrong. This audit had resulted in a receipt to the Council of additional subsidy of £160,356.

The indicative fee of £9,913 for 2016-17 had been based on the fee two years earlier in 2014-15 and unless the quantum of work was different in 2016-17 then the indicative fee would be the final fee. Similarly, the fee for 2015-16 had been based on 2013-14 and if less audit work was required then there may be a fee reduction.

Mr King drew members' attention to the summary of recommendations and confirmed that he had been happy with the responses.

RESOLVED

That the certification of claims and returns annual report 2015-16 be noted.

111 **Audit Progress Report - Ernst & Young LLP**

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

Mr King advised members of the new format and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES). Mrs Belenger reassured the committee that the council was aware of the changes and that two members of staff would be attending the close down workshops to understand what was required of the council in preparing future year end accounts. Plans were already in place for an earlier closedown of accounts by one month this year, as this is now the final dry run year in order to meet the early closure requirements for 2017-18 accounts. Following the end of the financial audit in 2017, a review would take place to allow the team to understand where the holdups might be in preparation for 2018.

RESOLVED

That the audit progress report against the council's 2015-16 audit and plans for the 2016-17 audit be noted.

112 **Budget 2017-18 Review**

Mrs Tull provided a short oral report on the outcomes of this review. Members had been satisfied with the explanations on the projected variances on the 2017-18 budget.

Mr Ward advised that this was an opportunity for members of both this committee and the Overview and Scrutiny Committee to scrutinise the budget before it went to Cabinet and Council for approval. The car parks expenditure budget included enforcement and staffing costs, however this is not apportioned to individual car parks, however the Parking Services Manager could provide members with estimates of on-street and off-street enforcement costs. Mr Barrett stated that it would be interesting to consider the income for car parks, especially rural car parks, to consider whether income had increased or decreased as a result of the change in charges. The chairman suggested that should members have detailed questions relating to the operation of the car parks service, they should address them to the service manager Mrs Murphy.

RESOLVED

That this oral report be noted.

113 **Treasury Management Strategy Statement for 2017-18**

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

Mr Catlow presented the report.

The committee made the following comments:

- Queried the availability of any guidance from CIPFA in respect of building returns from investments into base budgets. Mr Catlow advised that there was no guidance but that CIPFA would say be prudent.
- Query by Philippa Hardwick as why only the Property Fund interest was included in the revenue budget as it could be a volatile income source and shouldn't the entirety of our pooled funds be put into revenue instead as this income seemed more certain. Mrs Belenger stated that the Property Fund rate of return was considered to be stable as it was based on rental payments received, whereas the other investments were less certain. However, should the investment income be lower than forecast, then an option is to transfer a lesser amount into the investment opportunity reserve.
- The footnotes next to headings on page 41 are picked up on the following page – this should be amended to refer to Table 5.
- Queried the meaning of 'currently rated above BBB' - The council's bank is BBB+ rated. We try to minimise what is held within the council's bank account and to stay within secured investments. If at any time there was a downgrade to the council's bank we would be able to get our money out and put it in AAA rated money market funds.

- Reputational and practical risk to changing bank accounts in future – there are clauses within the current bank contract to allow the Council to terminate the contract, if necessary. We found it relatively easy to move bank accounts. If there was a risk then we would move account. We also have arrangements at an alternative bank, Svenska Handelsbanken and in business continuity terms we could use them.
- Queried the ratings of other banks – Handelsbanken is based in Sweden so probably A- to A rated. They have a particular operating model which means they are seen as very low risk. The majority of UK clearing banks are BBB+ rated or above. Lloyds and Barclays are A- rated. We went through a tendering exercise and Nat West were the best bid in terms of service and price. We monitor them continuously based on credit ratings alerts. Arlingclose also looks at ratings and Credit Default Swaps which would alert us if there was an issue.
- The council does not hold offshores accounts.
- Automatic sweeping arrangements are set up so that funds are moved within the council's bank operational current accounts to the deposit account, and vice-versa when there is an overdraft to be covered. This saves time and resources as officers used to have to do transfer requests and authorise these transfers in the past.
- Pages 39 para 5.2 Borrowing Sources has no explanation. Table 4 on page 40 dealing with authorised limits lists the borrowing sources. Mr Catlow agreed to move this information to para 5.2.
- Query regarding benchmarking and the family of authorities chosen. The council uses the family of district councils which use Arlingclose as their treasury adviser. In the past we had used CIPFA's benchmarking group however due to the cost of that facility and as the numbers had dwindled it was no longer feasible for the council to use this grouping.
- Clarify in Table 8 where information is coming from – amend to 'district council average'.
- Clarify in Table 9 – change to 'mean of all district councils'
- Appendix 2 – add definition of 'internal investments' and 'external funds'.
- Add definition of the benchmarking group.
- Rate of Return on page 55 – LAPS fund no longer the only one.
- Mr Oakley requested information about the treatment of the community infrastructure levy (Table 2 page 37) – Mr Catlow advised that this was not part of the Treasury Management Strategy and undertook to provide a written response.

RECOMMEND TO CABINET

That subject to the amendments suggested above, Cabinet and Council be recommended to approve the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Prudential Indicators and Minimum Revenue Provision statement for 2017-18.

114 Internal Audit - Audit Plan Progress

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

Mr James presented the two audit reports – Chichester Careline and Industrial Estates and Investment Properties – and the audit plan progress report.

The committee made the following comments:

- Queried the criteria for the traffic light system and whether it was purely at auditors' discretion – confirmed that it was auditors' discretionary judgement over a period of time. This was then discussed and agreed with the service concerned.
- The Estate Rent Arrears audit would be presented to the committee at its next meeting.

RESOLVED

That progress against the audit reports on Chichester Careline and Industrial Estates & Investment Properties and the audit plan be noted.

The meeting ended at 11.10 am

CHAIRMAN

Date: