

Minutes of a meeting of the **Corporate Governance and Audit Committee** held in Committee Room One, East Pallant House, Chichester, on Thursday, 17 January 2013 at 10.00 a.m.

Members (10)

Mrs P M Tull (Chairman)
Mr A J French (Vice-Chairman)

Mr M Bell	Mr G H Hicks
Mr J Cherry	Mr G V McAra
Mrs P A Hardwick	

Present (7)

Apologies for absence:

Mrs C M M Apel
Mr T Dignum
Mr R Marshall

Officers Present

Mrs D Shepherd, Chief Executive
Mrs H Belenger, Accountancy Services Manager
Mrs B Jones, Principal Scrutiny Officer

Officers Present for Specific Items Only

Mr P King, Director, Ernst & Young
Mr S James, Principal Auditor

Chichester District Council Members present as observers or contributors

Mr S Oakley

98. Minutes

RESOLVED

That the Minutes of the meeting held on 29 November 2012 be signed as a correct record subject to the following amendment on page 1, item 86, line 4 to read:

“... and had set scale fees for the ~~2013/14~~ 2012/13 audit which were about 40% lower than for ~~2012/13~~ 2011/12”.

99. Urgent Items

There were no urgent items for consideration at this meeting.

100. Declarations of Interest

There were no declarations of interest.

101. Public Question Time

No public questions had been submitted.

102. Audit Commission : Report on Grant Claim Certification 2011/12

Mrs Belenger presented the letter dated 25 September 2012 that had been prepared by the Audit Commission and circulated with the agenda (copy attached to the official Minutes).

Mr Cherry wished to congratulate Accountancy Services for their hard work in finalising the accounts on time and within budget at the same time as the new International Financial Reporting Standards (IFRS) was brought in.

RESOLVED

That the Audit Commission's letter be received and noted.

103. Ernst & Young : Annual Audit Fees 2012/13

Mr Paul King, Audit Director of Ernst & Young, presented his letter dated 17 December 2012 circulated with the agenda (copy attached to the official Minutes).

The letter sets out the basis for the audit scale fee which is 40% lower for 2012/13 and will remain at that level for the five years of the period of the contract. It also sets out the approach to Ernst & Young's work which would be to the same professional auditing standards and framework as the former Audit Commission auditors, although the approaches would be slightly different. The audit opinion on the accounts and Value for Money conclusions will be the same.

In explanation of the significantly reduced fees in 2012/13, Mr King stated that his understanding was that, firstly it was the competitive nature of the outsourcing procurement, secondly the Audit Commission as a residual body was much smaller which resulted in smaller overheads and thirdly the work now mainly focused on the financial audit.

In response to a question about the need for additional work which may be separately negotiated and charged, Mr King replied that this extra work may be identified, for example, as a result of issues being raised by local people exercising their rights as electors. However the council's record is good and no additional work is anticipated at present.

The informal pre-meeting arranged prior to this meeting to discuss the draft Audit Plan at 09.30am had been cancelled. Mr King advised that the purpose of this pre-meeting was two-fold: firstly, to involve members in raising any particular issues and risks that would inform the 2012/13 Audit Plan and secondly to discuss with members their understanding of the Council's arrangements for internal control and the risk of fraud. He suggested it would be beneficial to arrange a separate meeting

in advance of the March meeting of this committee to allow any issues to be identified and reflected in the draft audit plan to be discussed and agreed before presentation of a final plan to the committee at its March meeting.

RESOLVED

That the Audit Director's letter be received and the 2012/13 audit fees noted.

104. Budget 2013/14

The three members of the Budget Task and Finish Group were Mr Cherry, Mr Marshall and Mrs Tull. Mr Cherry advised that it had been most useful to join expertise together with the three Overview & Scrutiny Committee members to scrutinise in detail the revised estimated outturn for the 2012/13 budget, showing projected variances, and the draft 2013/14 budget. Members had been able to interrogate the information provided and to request clarification on specific areas. He considered that a useful quality of assessment had taken place.

Mrs Tull said that the group were comfortable with the variances and were pleased with the clarity and ease of use of the report and explanation provided and the task and finish group had noted the budget information.

105. Treasury Management Strategy 2013-14

The Committee considered the report and appendices circulated with the agenda (copy attached to the official Minutes). Mrs Belenger introduced the report, saying that the strategy had been reviewed and revised to adjust it to align with the current economic situation and the council's budget spending plans.

The strategy reflects that the current base rate of 0.5% is expected to continue for the foreseeable future, impacting not only on the estimated investment interest in the current year but ongoing. Therefore the estimated rate of return has now been reduced from 1.5% to 1.2% in the strategy. The quarterly performance to December 2012 will be reported to the February Cabinet when it considers this new strategy.

The main changes to the strategy have been to simplify the credit rating criteria table for approving counterparties, plus expanding the table to include UK building societies whose long term rating is BBB+ or BBB and those without a credit rating but with assets greater than £250m. The reason for this change is because of the current protection under legislation given to commercial lenders in this sector.

To manage the potential risks associated with credit risk the strategy sets out maximum time limits for the different credit rating criteria when selecting counterparties, the principle being the lower the credit rating the shorter the period investments can be placed. The strategy is also seeking to expand the number of counterparties thereby achieving greater diversity in the numbers used to also manage counterparty risk and move towards a less highly risk averse strategy as operated in previously.

Due to the maturity of a number of high interest rate investments in 2013-14 which have in the past helped to sustain the rate of return, this strategy is now also looking

to use different options to improve the short term rates achievable, including the use of money market funds.

In managing liquidity risk, the strategy states that 65% of our funds have to be for periods of less than a year.

Mrs Hardwick suggested a number of small amendments to the strategy and requested clarification on some issues. The table on page 9 of Appendix 1 related to the number of defaults that have occurred in the past for the different credit ratings. She questioned the need for borrowing when we state that we are debt free and the need for such a high figure of £5m in the operational boundary for debt. Mrs Belenger responded that whilst we have an overdraft limit of £350,000, this would be charged around 2% or 3% above the bank base rate which could be punitive to use. The operational boundary is to cover the normal operational scenario where a shortfall could occur at a time when the council needs to pay, for example, its suppliers, salaries and housing benefit on that day and so the limit needs to be high enough to cover this type of situation.

Credit watches and alerts are checked on a daily basis and decisions are taken by staff daily on where to invest, at what rates and for how long. A regular treasury management report is sent to the Cabinet Member, Mr T Dignum, for review.

Mr Cherry praised the training provided to members which he considered had raised the understanding of the committee up to a higher level of knowledge.

Mr McAra wished to know whether there was a structured fee cost to us which may erode investment interest return. Mrs Belenger advised that there was no direct cost to the Council for setting up investments, as the borrower pays brokerage fees if deals are placed via a broker. There is a fee associated with the use of money market funds which is clearly set out by the various funds available.

Mr McAra asked about whether, for those investments we make over four or five years, there would be an option for a break clause to be included or ability to draw funds early if the organisation's rating is downgraded. The strategy does allow for the recall of the investment, however should this situation occur, the council would need to negotiate with the organisation direct and potentially there may be a cost to buy out of the deal.

With the Chairman's agreement Mr Oakley was invited to speak from the floor. Mr Oakley asked whether S106 receipts were included in total investment figures and whether that would change with the introduction of the Community Infrastructure Levy (CIL) in 2014. Mrs Belenger advised that the S106 receipts are included in the total as part of the funds available for investment, but interest would go back into the S106 pot, however the impact of CIL had not yet been factored in.

RECOMMENDED TO CABINET

That the Treasury Management Strategy, Investment Strategy and Treasury Management Practices (TMPs) for 2013/14 be agreed.

106. Risk Management Review

The Committee considered the report circulated with the agenda (copy attached to the official Minutes). Mrs Belenger introduced the report, saying that the key message in the policy is that we want to be appropriate and proportionate in how our risks are managed, with a clear framework for roles, responsibilities and reporting arrangements.

The Task & Finish Group recommendations included in this report were that a Cabinet portfolio holder be identified with responsibility for risk management, along with a link to a Corporate Management Team (CMT) lead, which was agreed to be the Chief Executive and the setting up of a Strategic Risk Group to include members of CMT, Cabinet and this committee.

The Risk Register will include the council's key strategic risks and how these link to and affect the delivery of the corporate priorities. This register will have a dynamic process of review and will be considered at the March meeting of this committee, when members of the Strategic Risk Group will be sought.

Mrs Hardwick suggested a number of amendments to the policy and framework which were agreed as follows:

- Revise the roles and responsibilities for this committee and the Strategic Risk Group (page 46 of Appendix 1) and repeated in the Strategic Risk Framework (Appendix 2 page 52) to include all corporate risks/strategic and operational risks.
- Amend the legal operational risks (page 46 Appendix 1) to read 'Relating to potential breaches of legislation or other duty'
- delete the 'section/unit' reference under the 'failure to provide statutory duties or meet legal obligations' in the Severity of Impact matrix (page 50 of Appendix 1).

Mrs Belenger advised that the strategic vs operational control of risks would be handled in line with the proposed framework at Appendix 2. A procedural manual would be drawn up for discussion at the next meeting of this committee showing escalation procedures.

A discussion took place on the types of strategic risk to be included in the register. The Chief Executive advised that one of the major risks to the council at present is the adoption of the Local Plan which is being managed on a daily basis.

RECOMMENDED TO CABINET

- (1) That the new Risk Management Strategy and Policy as set out in Appendix 1 of the report be agreed.
- (2) That the Risk Management Framework as set out in Appendix 2 of the report be agreed including the setup of a new Strategic Risk Group.
- (3) That a Cabinet portfolio holder is identified to have overall responsibility for risk management.

107. Audit Report and Audit Plan Progress

The Committee considered the report and the appendix circulated with the agenda (copy attached to the official Minutes).

Mr James advised that the Careline report had been put on the Members' Bulletin Board but had received no comment.

Progress on the Audit Plan was given. Two audit reports were in draft, two were finalised and four had been started. Mr James pointed out that due to non-programmed work some audits may need to be carried over to the new financial year. There were two bank reconciliation reports being carried out - one at service level (due to come to the March committee) and the other undertaken by the finance section (this report was at draft stage).

RESOLVED

- (1) That the Careline audit report placed on the Members' Bulletin Board be noted.
- (2) That the progress on the 2012/13 Audit Plan be noted.

108. Mr McAra had volunteered to attend the WSCC Policy & Resources Select Committee as the committee's representative and to report back on items of interest to this committee. The first meeting is on 24 January 2013.

109. At the Chairman's agreement Mr Oakley was again allowed to speak from the floor. He advised that at the last meeting of the committee a report on the Tangmere S106 contributions had been considered. Tangmere Parish Council had taken informal legal advice and would be writing to the council shortly on this issue.

110. Mr McAra raised the issue of changes to the national pension scheme and the effect this would have on the Local Government Pension Scheme with the increased cost of national insurance to both employers and employees and asked how this would affect the council.

Mrs Belenger responded that these changes, if approved by parliament, would come into effect in 2017 and some work had already been carried out to quantify this cost to the council at that time. The actuarial triennial review of the pension fund is due in 2013 and is expected to recommend an increase in the employers' contributions. The impact of these changes will need to be included in the council's Financial Strategy.

(Note: The meeting closed at 12.09 pm)

(Chairman)

Date: _____