



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2 - East Pallant House on Thursday 25 July 2019 at 2.00 pm

Members Present: Dr K O'Kelly (Chairman), Mr T Johnson (Vice-Chairman), Miss H Barrie, Mr M Bell, Mr J Brown, Mr A Dignum, Mr F Hobbs and Mr D Palmer

Members not present:

In attendance by invitation: Mr J Jones (Ernst & Young LLP) and Mr K Suter (Ernst & Young LLP)

Officers present:

248 **Chairman's Announcements**

Mrs O'Kelly advised the Committee that she wished to be called Chair.

With regard to timings, the Chair advised that she was keen to give members the opportunity to ask their questions as fully as they needed to and therefore had asked presenting officers to bring out the key points of their report and for everyone to be aware of the time.

The Chair thanked the officers for the reports they had produced and Mrs Belenger for the Corporate Governance training session held earlier in the day, which went very well.

249 **Approval of Minutes**

RESOLVED

The minutes of the meeting held on 28 March 2019 be approved and signed by the Chairman as a correct record.

Matters Arising: Minute 242, page 6 – Mrs Belenger advised that the number of claimants who had received overpayments during 2018-2019 was 14,000 involving 3,300 customers.

250 **Urgent items**

There were no urgent items.

251 **Declarations of Interest**

There were no declarations of interests.

252 **Public Question Time**

There were no public questions.

253 **Corporate Governance and Audit Committee Work Programme 2019-2020**

The Committee considered the Work Plan for 2019-2020 circulated with the agenda.

The following issues were discussed by members:

- *Budget Monitoring* – With regard to monitoring of the current budget against the approved budget and a request to add the quarterly budget monitoring statement to the work programme, Mrs Belenger advised part of the Council's ongoing financial management and transparency agenda, the statement was produced and made available on the Council's website and via the Members' Bulletin. In terms of budget setting there was the opportunity for members to sit on the Budget Task and finish Group to consider the future financial year's budget. Members commented that it would be positive to see that the Council is making the correct progress in keeping to the current year's budget three to four times a year. It was agreed that the October meeting the Committee would consider the half year position statement will review how the Council's budget is progressing for the current year as well as asking the Budget Task and Finish Group to look at the budget for 2020-2021. However, circulation of further quarterly updates may pose challenges taking into account Committee report deadlines.
- *Caution Alert Register Monitoring* – Mrs Belenger undertook to check if appropriate for this Committee.

Mrs Belenger advised that it was possible to add items to the Work plan throughout the year.

RESOLVED

That the Committee's work programme for 2019-2020 be approved, subject to the amendments made above.

254 **Audit Fees 2019-2020**

The Committee considered this report circulated with the agenda.

Mr Jones and Mr Suter from Ernst & Young LLP (EY) were in attendance.

Mr Suter and Mrs Belenger responded to members questions.

- EY's indicative fee was lower than it had been two years ago following a change in procurement arrangements. The tendering exercise had lowered the scale of fees across the board, which had influenced the fee for everyone. From EY's perspective, there was now more work to do compared to previous year's and were of the opinion that the fee was not moving in the right direction, and may increase. A member expressed concern that as a result the fees were too low

and was not convinced that the Council was getting the service for the level of depth of analysis required. It was appreciated that it was a national issue. The Council should apply pressure for there to be fair pay for the work undertaken by EY. Mrs Belenger advised that the previous Secretary of State for Housing, Communities and Local Government was looking to undertake a review of audit fees and whether the quality of the work had decreased. Mr Suter said that EY's reputation was dependant on the quality of their work and this was a number one priority.

- Mr Suter advised that he did not know if a No Deal Brexit would result in extra auditing with additional fees. It would depend on a number of factors. He was not aware that it would result in a substantial difference to this Council's financial statement. He was not aware that the Council had any material revenue streams dependant on EU funding or expenditure projects. There could potentially be an impact on the value for money conclusion, if impacted by National finances and uncertainties about the Local Government settlement amongst others.

RESOLVED

That the Ernst & Young LLP Audit and Certification fees 2019-2020 be noted.

255 Chichester District Council Audit Results Report for the Year Ended 31 March 2019

The Committee considered this report circulated with the agenda.

Mr Suter and Mr Jones were in attendance for this item.

Mr Suter took members through the main sections of the Audit Results Report for the year ended 31 March 2019. The auditors intended to issue an unqualified opinion on the Council's financial statements and an unqualified value for money conclusion that the Council's arrangements were in place and adequate to ensure that value for money was being provided to council tax payers and other stakeholders throughout the year.

The Committee made the following comments and received answers as follows:

- With regard to the adjusted differences, the Leisure Centre understatement was realised after a valuation desk top exercise, which had made a material difference to the accounts but had been corrected. The Council and external auditors had agreed because of the shorter period of time to carry out the audit by 31 July 2019 to aid this challenge for the external auditors that it was agreed the audit would start eleven days prior to the draft statement of accounts deadline of 31 May 2019. This had resulted in a shorter review period for the Council to accommodate an earlier audit, with the NNDR and the earmarked reserves errors being spotted by the Council and not by EY as stated in the report. Mr Suter said he was grateful for the early access to the District Council's accounts. He could not confirm, with regard to PPE, that the necessary steps had been taken to prevent the differences happening again in the future, due to it being the third year in a row that it had happened. Mrs Belenger explained that the draft terms had been issued to the Council's valuers

for the 2019/20 accounts and Financial Services had strengthened their requirements in this area to reduce the risk of the valuation differences that had occurred in previous years and to reiterate in stronger terms the Council's expectations in producing the valuations for the accounts.

- *Is the Council's pension scheme taken into account?:* Whilst not generally required to report on the Council's pension scheme, but do take it into account. He had no concerns with the assumptions the West Sussex Pensions scheme had made.
- *With regard to the use of data analytics would the system become more intuitive overtime, and if so could the Council's data be pooled with other authorities improve the accuracy of the data set?:* EY had moved from undertaking the audit on a sample basis to data analytics. By using larger populations of data and looking at trends and analyses, EY was hopefully improving the quality of their results. For some aspects tools were in development to investigate whether the use of AI could be used in the future, as the more you use it the more it learns. It was currently not possible to pool other council's data due to the various data hurdles that EY would have to go through. Details of AI audit transformation were available on EY's website.
- *Page 59 - certification work:* amend to read "December 2019".
- With regard to a comment made concerning the summary of adjusted differences that Westgate very old with potential substantial refurbishment requirements therefore it was not felt appropriate to revalue the Council's buildings on a crude index basis, EY challenged on an index basis and sought the advice of the valuers for any adjustments required and would not make a judgement solely on the basis of indices.
- Mrs Belenger undertook to meet with Mr Dignum outside of the meeting to clarify the two new accounting standards (IFRS 9 and IFRS 15) and to advise the Committee.

RESOLVED

That the Annual Results Report for the year end 31 March 2019 be noted.

256 Statement of Accounts for 2018-2019

The Committee considered this report circulated with the agenda.

Mr Catlow presented the Statement of accounts for 2018-2019. Mr Cooper was also in attendance.

Mr Catlow drew attention to the expenditure variances and the significant changes that had occurred including the net expenditure of £4.068 million related to the fair value movement of investment property and movements in valuations and £8.8 million of capital accounts and grants had been received this year, significantly more than previous years, mainly related to the receipt of a LEP grant to fund expenditure for the Southern Gateway project.

The balance sheet provided details of the Council's assets and liabilities and key changes, which under the various headings mainly related to the re-evaluation of Westgate Leisure Centre and the new Ravenna Point, the re-evaluation of Phase 2 of Barnfield Drive and a net change in the local government pension change. Short

term investments were increasing, partly due to some long term investments maturing this year and an increase in short term investments. Short term debtors had increased significantly due to the receipt of an LEP grant. Long term creditors remained the same year on year.

Officers responded to members' questions and comments as follows:

- Mr Cooper undertook to advise members of all the service areas included within the Planning Portfolio that produced the net expenditure stated in the comprehensive income and expenditure statement.
- *Page 67, paragraph 3.1.3:* Amend to read "March 2019".
- The most significant housing benefit overspend was due to the reduction in overpayments. The Council has experienced high levels of housing benefit overpayments, which were credited to the revenue account. Steps had been taken to reduce the number of overpayments, which had resulted in a change to the Council's forecast of the amount of money expected to be recovered during the year.
- The temporary accommodation development at Freelands Close, Chichester would be used for bed and breakfast accommodation.
- With regard to Brexit and the effect on the use of the Council's car parks, due to concerning the uncertainty of retail activity in Chichester and whether a no deal Brexit would affect parking income, the 2019-20 parking income target was reduced by £300k. The Accountancy Team were closely monitoring the car parks and were looking at the Quarter 1 monitoring.

RESOLVED

- (1) That the audited Statement of accounts shown in Appendix 2 for the financial year ended 31 March 2019 be approved;
- (2) That the outturn position be noted; and
- (3) That the letter of Representation be authorised and given to the Council's External Auditor.

257 2018-2019- Treasury Management Out-turn Report

The Committee considered this report circulated with the agenda.

Mr Catlow presented the report.

He drew members attention to paragraph 6.2 concerning investment activity. The intention had been to start restructuring the Council's portfolio and to start thinking about further external pooled investments. Unfortunately the Council was unable to progress this due to the changing accounting environment and the introduction of IRFS 9 by CIPFA into the 2018-2019 Code and having to wait for the results of Government consultations to decide if the accounting impact in terms of fair value movements on external pooled funds could be reversed, so that the general fund was not affected by fair value movements in external pooled funds. The Government had passed a regulatory override in January this year, which enabled the Council to update the 2019-2020 Treasury Management Strategy.

Paragraph 8.1 provided details of the Councils compliance with the main 2018-2019 Treasury limits. There was one reportable exception during the year due to human error where an investment had exceeded the £1 million counterparty limit for one particular bank.

In referring to Paragraph 11, he advised that as the Council had now been in pooled funds for two years a review of the Council's external fund investments would take place. A nomination was sought for a member of the Committee to sit on a group to complete the review.

Mr Catlow responded to members' questions and comments:

- With regard to the latest Brexit progress, the Council's preparations on Brexit were to ensure that should there be some short term disruption to funds flow the Council had the ability via UK domiciled money funds to maintain sufficient liquidity to maintain cash flow operations until the short term instability was resolved.
- Mr Ward confirmed that in terms of Brexit preparations the Council received a small grant to assist the Council prepare for its own Brexit business continuity arrangements. The provision of medicines was not something that the Council would be involved in. Other bodies, such as the NHS, had received grants towards their own Brexit preparations. The purchase of a fuel storage facility at Chichester Contract Services with the Council's grant of £34,900 was considered by an officer group and was deemed an appropriate use of money. The purchase would facilitate the continuation of household refuse collections in the event of disruption to fuel supplies and enable other vital Council services to continue.

RECOMMENDED

- 1) That the 2018-2019 Treasury Management Outturn Report be recommended to Cabinet; and
- 2) That Mr T Johnson be nominated to work with the Cabinet Member for Finance, Growth, Place and Regeneration and officers to complete a review of the existing external pooled fund investments as requested by Cabinet.

258 2018-2019 Annual Governance Statement and Corporate Governance Report

The Committee considered the report circulated with the agenda.

Mr James presented the 2018-2019 Annual Governance Statement and Corporate Governance report.

Overall Mr James was satisfied that the Corporate Governance arrangements along with supporting evidence and procedures remained very strong within the Council.

With regard to the report on the Internal Audit Section, the service had now complied with the Public Service Internal Audit Standard, following review by Hasting Borough Council. He would undertake an internal annual review to ensure compliance with the standard.

Mr James responded to members' questions and comments as follows:

- Presently he based the report on the information provided by other officers, which was tested to ensure it was factually correct. Nothing in the information provided gave an indication of any issues. He had agreed with the Chairman that he would amend the Risks Identified for future reports to provide more evaluation on any issues not yet mitigated. The Chairman referred to a 2018 CIPFA report that provided guidance on the annual governance statement. In order for the document to be meaningful it should include current challenges, identification of areas of improvement and an action plan. As well as real evaluation against the principles, not just descriptions. During the discussion of the report by the Committee the previous year the Committee had found areas where there was room for improvement.
- *Why is there no reference under Business Continuity on page 110 to the purchase of the backup servers at Chichester Contract Services? Concerned that implementation is still a year away:* Mr Ward addressed the Committee from the audience. His understanding was that the servers were due to go live in January 2020 (not June as advised earlier in the meeting) and gave an update on progress. If there was any change to the live date the Committee would be updated on progress.

RECOMMENDED TO COUNCIL

That the draft Annual Governance report on Corporate Governance at appendix 1, the Annual Governance Statement 2018-2019 (appendix 2), and Internal Audit and Corporate Investigations Annual Report 2018-2019 (appendix 3) be recommended to Council for approval.

259 Fraud Prevention

The Committee considered the report circulated with the agenda.

Mr Todd presented the report and provided details of Corporate Investigations Team's main achievements during 2018-2019.

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

- With regard to whether the amount of investment into fraud prevention was proportionate to the return, Mr Todd advised that his Team was responsible for finding the fraud only, not the recovery. Mrs Belenger provided details of the investment verses the return. The Council had made the decision to have a Fraud Team following the decision by the Department for Work and Pensions removed benefit fraud from councils and created a centralised team. It was felt appropriate to protect the public purse concerning the Council's own activities. The two year National Fraud Initiative data check had led to 7,500 matches when adding credit reference criteria. The Council looked at the best way to use these resources and the team was looking at potential new fraud areas in relation to business rate fraud, which was growing in the Country. She assured members that in terms of value for money the Council the resources were well directed.

- With regard to the New Homes Bonus, this Council did not offer a discount for empty homes. However, often the Council was not told when a house was occupied, which was a new homes bonus investigation rather than a fraud piece of work, as there was no financial gain to the owner/occupier.
- *Did the Council keep an eye on the types of fraud occurring at other local authorities?:* There were only a couple of council's in West Sussex with a Fraud Team. Mr Todd attended the East Sussex Fraud Officers Group quarterly to determine impacts that other councils encountered as well as receiving monthly emails. The National Anti-Fraud Network provided regular updates on trends.
- There was potential to expand the service, as business rates and joint working with Department for Work and Pensions were expected to increase. Mr Todd had arranged for a training course to take place for fraud offers from other Council's to learn about business rate fraud.

RESOLVED

- 1) That the Committee notes its stewardship role in fighting and protecting the public purse; and
- 2) That the Committee notes the Council will actively pursue potential frauds identified through ongoing investigations by the Corporate Fraud Officer.

260 Section 106 and CIL Annual Monitoring Report

The Committee considered the report circulated with the agenda.

Mrs Dower and Mr Davies were in attendance for this item. Ms Munns, Team Manager, Strategic Planning West Sussex County Council was also in attendance.

Mr Davies outlined the report. He apologised that there was no County data included. This was due to the recent migration of the County Council's data to a new system, had resulted in only raw data currently being available.

In terms of the income being received, the amount of Section 106 money received was reducing as it was phased out. The CIL money collected was starting to be spent.

During the discussion comments were made by members and answers provided by officers:

- With regard to affordable housing, money was provided to housing associations to build affordable homes. The money was handed over once the houses were completed. Trigger points were set out in the Section 106 agreements and related to commencement and occupation. The developer was required to notify the Council when trigger points were reached. If no notification received the Council would need to be proactive in finding out. There was scope for the Council to be more proactive but this may require more resources. A meeting was taking place on 2 August 2019 with the Planning Policy, Development Management and the Enforcement teams to discuss the matter. Mr Dignum explained that with regard to commutable sums for affordable housing, there was no question to the Cabinet or Council agreeing to fund the entire cost of an

affordable house. It made small scale developments viable that would not otherwise be taken up by registered social landlords.

- The Community Engagement Team was responsible for public art expenditure.
- Most of the Council's Section 106 agreements had a spending deadline of 10 years from receipt of funds. Those that did not contain a deadline were given a notional deadline of 5 years. However, a developer could seek to renegotiate the agreement. He prepared a quarterly report that set out those contributions with a deadline of less than two years of the expiry date. This was discussed by the relevant spending officers before being considered by the Strategic Management Team who would take action if required to ensure the funds were spent.
- The current number of non-financial and financial obligations had increased due to a number of Section 106 agreements made in the last year. This included the West of Chichester strategic development site, which was a complex document with a large number of obligations, which had not yet reached their trigger points.
- *With regard to sustainable transport, and the recent declaration of a climate change emergency, a comment was made that the table at paragraph 8 showed only a small amount of money was being spent?* This related to a historic sum of money following the transfer of responsibility for sustainable transport, approximately ten years ago, from the District Council to the County Council. The table provided details of money given to the Council in perpetuity. He provided further details of how the remaining balance would be spent. Following the introduction of the Community Infrastructure Levy, sustainable transport projects came forward as part of the Infrastructure Business Plan. Ms Munns explained that the County Council collected sustainable transport for which large amounts of money were collected. A lot of the money collected by the County Council was already allocated for schemes it was delivering. It was unfortunate that she had not been able to produce the allocation data and stressed that she was in attendance today to reassure everyone that they were transparent and open. In the strategic development sites the County Council was still allowed to collect Section 106 money. The Highways Teams worked closely with developers for a whole range of highway improvements. Mr Davies undertook to incorporate the County data, once the IT issues had been rectified, into the 30 September 2019 for each member's ward on Section 106 progress.
- Appendix 1 included some monies past their expiry date. Provided have been allocated permitted to spend the money by the expiry date the money was safe. He agreed that he would amend future reports by adding either a heat map, colour coding or high, medium or low to identify the degree of risk.
- *Community land trusts do they have a future and are they dependant on grants from central Government to make them possible?* This question was best directed to the Housing Team who he was aware were currently looking to support community land trusts. This information may be in the Council's Housing Strategy that set out the housing work the Team was trying to achieve.
- With regard to paragraph 6.8, non-performance of non-financial, obligations and the difficulties mentioned on some sites with developers not meeting their obligations, Mr Davies undertook to provide details to the next meeting of the expected timescales in resolving the issues. He provided an update on the provision of a Tucan crossing at Graylingwell hospital site, which was now moving forward.

RESOLVED

- 1) That the income and expenditure between 1 April 2018 and 31 March 2019 in respect of S106 contributions and from CIL be noted;
- 2) That the information on S106 agreements within two years of the expenditure target date as set out in appendix 1 be noted;
- 3) That the details of non-financial S106 obligations set out in appendix 2 be noted; and
- 4) That the monitoring information required by the CIL regulations as set out in Appendix 3.

261 Annual Partnerships Report 2019

The Committee considered the report circulated with the agenda.

Miss Loaring outlined the report and provided details of the background to the annual partnerships report. She confirmed all the strategic partnerships had good governance in place. However, not all of them had exit strategies in place, which would be addressed, but confirmed that officers were happy with the way they were running. All the District Council run partnerships had their risk assessments in place. Last year the Committee requested that the risk assessment process should be more in line with the Council's corporate process. This had not yet happened, due to changes to her Team and a lack of resources, but would be done for the coming year.

Miss Loaring responded to members' questions and comments. With regard to Chichester Social Prescribing's exit strategy and what would happen if funding ceased, the Council could look to identify other funding streams or create funding. However, the Council did not have an issue with the current funding in place. Mrs Belenger added that should this happen it would be subject to a growth item for the budget and consideration of all other projects and priorities.

RESOLVED

- 1) That the Annual Partnerships report is noted; and
- 2) That the partnerships annual report as an appropriate mechanism for ensuring our strategic partnerships have appropriate governance measures in place, should continue reporting to Corporate Governance and Audit Committee on an annual basis.

Mr Bell left the meeting at this point and did not return.

262 Corporate Health and Safety Business Continuity Management

The Committee considered the agenda attached to the agenda.

Mr Townsend outlined the report. He updated the report and advised that the off-site server replication was due for completion during January 2020.

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

- With regard to the suggestion of a WhatsApp group for the Management Team to assist with business continuity, it was confirmed that the Council already used WhatsApp groups. WhatsApp had been used during the business continuity exercise.
- *In the event of a disaster how would the Council deal with noncritical services, ie awarding planning permissions, would the Council be able to defer the decisions, which may result in an increase in planning appeals?:* The Senior Management Team would decide what the Council's critical functions were and if necessary the Council's staffing resources could be moved to other services to assist.
- With regard to Cloud storage, Mr Ward, spoke from the public seating area. The Government had asked Council's to ensure data from the IT providers was held in the UK or outside Europe so there remained continued access in the event of a No Deal Brexit. This Council had found no issues. He did not know about the providers own business continuity arrangements and whether they may switch over to European data storage. There was also the issue of domiciled data.
- With regard to fire safety management, concern was raised about the shop parade maisonettes at Whyke and Parklands Road, Chichester and the control of fire from spreading following fire safety risk assessments. A Fire Engineer had undertaken the assessments and had identified the risks posed. However, there was no duty for the Council to comply with current British Standards but works were identified. Mrs McKay advised that the required works were undertaken in priority order based on those considered to be a risk to life safety. She explained the reasons for the delay in carrying out the works to the remaining maisonettes and confirmed that the necessary works would be completed soon. The Council did not have responsibility for properties not owned by the Council. The Council's Housing Team used a housing health and safety ratings system to assess hazards when inspecting private rented properties and had legal powers to take action against landlords. Officers undertook to advise members when the works had been completed.
- *Paragraph 6.6 - Accidents by Type - Contact with Sharps:* Mr Townsend explained that the missing footnote explained that there was the potential contact with needles and undertook to add this to the report.
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Miss Barrie left the meeting during consideration of this item and did not return.

RESOLVED

That the Council's arrangements in place for monitoring and controlling the risks associated with health and safety and businesses continuity matters be noted.

263 Audit Reports, Progress Report - Audit Plan

The Committee considered the report circulated with the agenda.

Mr James outlined the final audit reports for Westward House Cash Handling, Income Generation, Trade Waste and Housing Applications, as well as the annual Key Financial Systems 2018-2019 Audit and IT Security follow up.

Mr Hughes confirmed that, with regard to the Westward House Cash Handling audit, all actions had been completed.

RESOLVED

That the Westward House Cash Handling, Income Generation, Trade Waste, Housing Applications, Key Financial Systems 2018/2019 and IT Security - Follow Up audits be noted.

264 **Appointment to the Strategic Risk Group**

RESOLVED

that Mr Brown, Mr Johnson and Mrs O'Kelly be appointed to the Strategic Risk Group for 2019-2020.

265 **Late items**

There were no late items.

The meeting ended at 4.45 pm

CHAIRMAN

Date: