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Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2 - East Pallant House on Thursday 23 January 2020 at 9.30 am

Members Present: Dr K O'Kelly (Chairman), Miss H Barrie, Mr J Brown, Mr A Dignum, Mr F Hobbs, Mr D Palmer and Mr P Wilding

Members not present: Mr T Johnson

In attendance by invitation:

Officers present: Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr T Radcliffe (Human Resources Manager), Mr G Thrussell (Assistant Lawyer - Barrister) and Mr J Ward (Director of Corporate Services)

279 **Chairman's Announcements**

One apology for absence had been received namely from Mr Johnson.

Dr O'Kelly, the Chairman of the Corporate Governance and Audit Committee (CGAC), had no announcements to make.

280 **Approval of Minutes**

The CGAC received the minutes of its meeting on Thursday 24 October 2019, which had been circulated in the agenda supplement.

There were no proposed changes to the minutes.

Decision

The CGAC voted unanimously on a show of hands to approve the aforesaid minutes without making any amendments.

RESOLVED

That the minutes of the meeting of the Corporate Governance and Audit Committee held on Thursday 24 October 2019 be approved and signed as a correct record.

Pursuant to the aforesaid resolution Dr O'Kelly duly signed and dated the minutes.

281 **Urgent items**

There were no late items for urgent consideration at this meeting.

282 **Declarations of Interest**

There were no declarations of interests made at this meeting by either CGAC members or other Chichester District Council members present as observers.

283 **Public Question Time**

There had been no public questions submitted for this meeting.

284 **Draft Treasury Management, Investment and Capital Strategies 2020-21**

The CGAC received and considered the agenda report and its five appendices.

This item was presented by Mr M Catlow (Group Accountant).

Mrs H Belenger (Divisional Manager Financial Services) and Mr J Ward (Director of Corporate Services) were also in attendance.

Mr Catlow explained that each year the draft Treasury Management and Investment Strategy for 2020-2021 and the Capital Strategy 2020-2021 to 2024-2025 were first considered by the CGAC prior to the Cabinet and then approval by the Council in readiness for the new financial year.

In summarising the report and its appendices Mr Catlow covered the following matters:

- The summary of key changes between 2019-2020 and 2020-2021 in appendix 1.

- The risk appetite statement in the draft Treasury Management and Investment Strategy 2020-2021 in appendix 2. Risk management was the starting point for and the driver of the Treasury Management Strategy (TMS). Chichester District Council (CDC) was debt-free and security of investments was the highest priority. Although CDC was fundamentally risk averse, a modest degree of risk was acceptable.

- The management of investments within the stated risk parameters set out in the approved investment counterparties table 4 on page 15 in appendix 2.

- The option of and approach to borrowing to finance new capital expenditure over the medium term if deemed prudent and also for short-term day to day cash flow management (pages 21 to 22 in appendix 2).

- The Capital Strategy 2020-2021 to 2024-2025 in appendix 3, which was regularly monitored for affordability and could be resourced without the need for external finance and borrowing (table 2 on page 39).

Members' questions and comments on points of detail were answered by Mr Catlow, Mrs Belenger and Mr Ward.

The range of matters covered included the following:

The Assessment of, Approach to and Adoption of Ethical, Social and Governance (ESG) Factors and Principles when Making Investment Decisions

(a) References were made to ESG in sections 5.2 and 9 of the report. There was a consensus in favour of incorporating into the TMS in future as a standard paragraph a short statement about ESG. This is set out below.

(b) Some members argued for more to be done to pursue ethical etc factors in making investment decisions eg taking account of pressing environmental issues.

(c) Notwithstanding the increasing emphasis given to ESG considerations, local authorities faced constraints in making investments decisions which those in the private sector did not and there was a clear obligation to prioritise security. Having said that, security and ethical, environmental considerations ought not to be viewed as being in fundamental conflict with one another or as mutually exclusive criteria.

During the discussion of this item Mr Catlow circulated to members a sheet of paper with a draft ESG statement which officers proposed should be routinely included in all future versions of the TMS. Members considered it. The statement (which was used by other councils) was as follows:

'Ethical Investments

Statutory guidance issued by CIPFA and MHCLG makes it clear that all treasury investments must adopt security, liquidity and yield (SLY) principles; ethical issues then play a subordinate role to those priorities. Nevertheless, there are a growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products. The Director of Corporate Services will consider such investments when deemed appropriate within the Council's overall treasury management policies, objectives and the risk management framework set out in this document.'

Members unanimously agreed that this would be a valuable addition to the TMS and the relevant TMS documents. It would be an improvement in emphasis to the tenor and content of sections 5.2 and 9 of the report, where ESG was listed as an alternative or an implication. It was an issue of growing significance and should be accorded greater prominence. The second sentence in the statement reflected that increasingly ESG products were being promoted and CDC would give due consideration to their merits when making investment decisions, taking into account legal and financial specialist advice. The statement would help to promote informed debate about what type of investments should be made.

The CGAC's resolution and its recommendation to the Cabinet and thereafter to the Council would be amended accordingly (as set out at the end of this minute para).

In reply to a question about examples of councils making ethical investments within a treasury management framework, Mr Catlow cited Torfaen County Borough Council (solar farm) and Warrington Borough Council (active ESG strategy). He

opined that those authorities would probably have sought and secured a favourable legal opinion in support of making ESG decisions consistent with the three criteria of credit rating, return rate and liquidity.

The Percentage of and Benefit of being Debt-free Local Authorities

A firm figure could not be given to the meeting now but it was probably in the region of 20%. This was then checked online by officers during the meeting and was advised to be 17%.

ACTION POINT The actual percentage would be confirmed in writing to members.

Typically debt-free councils were those which had transferred their housing stock to housing associations, as CDC had done almost 20 years ago.

The advantages of being debt-free and whether a council could earn more from its investments than it would cost to borrow were briefly discussed.

The Amount of Chichester District Council's Reserves

Clarification was sought and supplied on the details of CDC's reserves position.

Approved Investment Counterparties: Pooled Funds

It was noted with approval that the non-Local Authority Property Fund had an increased limit of £5m to £30m which would provide additional headroom for potential medium-term investments.

The Pursuit of Real Estate Investment Trusts (REIT)

The merits of investing in this form of property fund, which might be viewed as an example of ethical investment, had to be balanced against the fact that CDC had already invested some £25m in property and some felt that this should not be extended. It was suggested that perhaps the maximum investment limit for REIT should be reduced to £1m. Alternatively it was argued that the £2m limit should be retained but members should be consulted when making a potential investment decision. Officers said that they would always seek expert advice and consult members as part of an established protocol. The question was whether a committee of members or one or two selected senior and representative members should be consulted. In that respect it should be borne in mind that sometimes investment decisions might have to be made promptly in order not to lose an opportunity. After a debate the prevailing consensus was that the £2m should be retained in conjunction with officers having obtained the relevant professional advice and then consulting the Cabinet Member for Finance, Corporate Services and Revenues and Benefits and the CGAC chairman; the latter would be able to represent the CGAC members.

The resolution by the CGAC and its recommendation to the Cabinet and thereafter to the Council would be amended accordingly (as set out at the end of this minute para).

Miscellaneous Matters

- The reason for no entry in 2023 for the Community Infrastructure Levy (CIL) in the resource projection to 31 March 2014 table (page 12)

  Officers would need to make enquiries and revert to members.

  ACTION POINT The CIL 2024 nil entry to be advised in writing to members.

- The definition of what constituted a counterparty, for example which banks in the approved investment counterparties table (page 15).

- The frequency for issuing pooled funds reports. It was felt that in view of the considerable market fluctuations regular update reports were desirable ie quarterly to coincide with CGAC meetings. Officers said that this was, however, covered in the half-yearly treasury management report.

- The principal sources of the capital receipts figure of £7.9m in the resources available to fund CDC's capital programme table (page 39).

Officers would confirm whether these were as queried The Grange Leisure Centre Midhurst and the Portfield disposal site at Church Road Chichester.

ACTION POINT The capital receipts sources to be advised in writing to members.

- The amount of New Homes Bonus (NHB) in the resources available to fund CDC's capital programme table (page 39). The stated sum of £2.2m was queried as seeming to be too low. Officers said that the table recorded sums actually banked. The NHB scheme was due to end in 2023-2024.

- The use of New Homes Bonus (NHB) funding as recorded in the approved capital programme and major schemes 2019-2020 to 2024-2025 table on page 38. The initial officer reply that this related to the St James Industrial Estate was queried in view of the separate entry for St James at the start of the same table.

Officers would make enquiries and revert to members.

ACTION POINT The use of NHB allocations would be advised in writing to members.

- The reason for updating in the summary of changes table in appendix 1 the word 'BREXIT' to 'UK exit from the European Union'.

- The listed schemes in CDC's strategic aims and objectives section of the draft Capital Strategy 20210-2021 to 2024-2025 report (page 38) reflected CDC's current Corporate Plan priorities but there was no mention of investing significant money to mitigate/prevent the effects of climate change. It should be noted however that during the next few months CDC members would have the opportunity explore such options as part of the review of CDC's

corporate priorities/plan objectives. Moreover the Capital Strategy was reviewed annually.

- The governance criteria used with regard to service investments (page 25 in the Capital Strategy) and how those investments related to treasury management as a whole.

Dr O'Kelly concluded the debate by summarising the salient points discussed and the two amendments to the CGAC's resolutions and its recommendations to be made to the Cabinet and thereafter to the Council, namely the inclusion of a specific ESG statement and the governance approach to potential REIT investments.

Decision

The CGAC voted unanimously to make the resolutions and recommendations (as amended in the case of (1)) set out below.

RESOLVED

(1) That the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2020-2021 be noted subject to the following two amendments:

(a) with immediate effect the Draft Treasury Management, Investment report and the associated relevant treasury management documents should contain henceforth the following statement about ethical, social and governance factors when making investment decisions:

'Ethical Investments

Statutory guidance issued by CIPFA and MHCLG makes it clear that all treasury investments must adopt security, liquidity and yield (SLY) principles; ethical issues then play a subordinate role to those priorities. Nevertheless, there are a growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products. The Director of Corporate Services will consider such investments when deemed appropriate within the Council's overall treasury management policies, objectives and the risk management framework set out in this document.'

(b) before making a potential investment decision with respect to Real Estate Investment Trusts (REIT) officers will, after obtaining the appropriate professional advice, consult the Cabinet Member for Finance, Corporate Services and Revenues and Benefits and the Chairman of the Corporate Governance and Audit Committee.

(2) That the Capital Strategy for 2020-2021 to 2023-2024 be noted.

RECOMMENDATION TO THE CABINET AND THE COUNCIL

That the documents in the foregoing resolutions (1) and (2) be recommended by the Cabinet for approval by the Council.

285 **Internal Audit - Audit Plan Progress**

The CGAC received and considered the agenda report and its appendix of the audits completed since the previous meeting.

This item was presented by Mr S James (Internal Audit and Corporate Investigations Manager).

Mr T Radcliffe (Human Resources Manager) was also in attendance.

Mr James summarised the report as follows:

- The need to remove four audits from the 2019-2020 audit plan due to a variety of reasons as set out in para 2.2 and those items would be included in the 2020-2021 audit plan.

- The figures in para 2.4 should in fact read as 24 not 25 full audits and 35 not 36 reviews.

- The report addressed (a) four completed reports: (i) housing benefit overpayment recovery, (ii) HR recruitment and selection, (iii) treasury management and (iv) asset management; (b) three follow-ups: (i) trade waste, (ii) gifts, hospitality and car loans and (iii) GDPR; (c) one position statement: building control.

- The recruitment and selection HR audit was the only one of the four which included an overall assurance rating level of limited assurance having identified two high risk exceptions: (a) completion of checklist, take-up of references, qualification checking and (b) checking of criminal convictions and handling/retention of DBS certificates; and one low risk exception: ensuring that version control dates were applied to guidance documents.

Accordingly Mr Radcliffe was present to answer members' questions.

Mr Radcliffe confirmed that the issues pertaining to the high risk exceptions in (a) and (b) above were being addressed. As stated in the agreed actions, the HR team had been instructed about the matters. Adherence to these requirements would be monitored, as would implementation of reforms to procedures and processes to comply with the relevant practice guidance on DBS retention and ensure that duly appointed applicants provided evidence of their stated qualifications. Where such qualifications were not proved this might be a potential misconduct issue to address. With reference to objective 4 on page 70, he explained the timescales for sending contracts to successful applicants, which followed a prompt verbal offer of employment to the successful applicant. The HR team was sufficiently resourced and able to respond efficiently to the inevitable fluctuations in the recruitment process.

- The housing benefit overpayment recovery audit had two medium risk exceptions with a reasonable assurance rating.

Members had no questions.

- The treasury management audit gave rise to no issues and had an assurance rating.

Members had no questions.

- The asset management audit gave rise to no issues and had an assurance rating.

Members had no questions.

- The follow-up audit reports in respect of (i) trade waste and (ii) gifts and hospitality declared that all outstanding issues had been addressed. That was mainly the case with the GDPR follow-up audit; a review of CDC's data protection policy was underway.

Members had no questions.

- The building control audit was the subject of a position statement in view of the ongoing work being undertaken by the Divisional Manager and Finance as stated in para 3.3 on page 78. As a result the audit could not be completed until the 2020-2021 financial year. It was anticipated that the vacant post of building control manager would be (if not already) filled imminently.

In response to a member's question about whether this service had too much capacity to balance its books, Mrs Belenger explained that it was required to break even over a three-year cycle. The new divisional manager was looking at how data was recorded and the practices which were being followed in other West Sussex building control teams.

Decision

The CGAC voted unanimously to make the resolution set out below.

RESOLVED

That the performance against the 2019-2020 Audit Plan be noted.

286 **Corporate Debt Recovery Policy**

The CGAC received and considered the agenda report, its appendix with the draft Corporate Debt Recovery Policy and the first of the two background papers which had also been included within the agenda papers.

This item was presented by Mrs H Belenger (Divisional Manger Financial Services).

Mrs Belenger summarised the report with reference in particular to sections 3 (Background) and 5 (Proposal) and 9 (Community Impact and Corporate Risks). The objective was to create a new income collection and debt management policy which was comprehensive, co-ordinated, consistent, clear and considerate especially for vulnerable people who might need additional assistance in addressing

their financial affairs. The new policy adopted an overarching generic approach, taking into account different legislative requirements for the various Chichester District Council services, introducing interest payments for late payments, embracing a fair debt collection approach, establishing write-off arrangements and a new regular reporting requirement to senior leadership officers. The Money Advice Service and its 'Stop the Knock' campaign had made six recommendations and CDC's positive response was set out in para 5.7 of the report. Although the draft policy stated on page 86 that it would be effective from 1 March 2020, this would in fact be later in order to take account of the meetings cycle for the Cabinet and the Council.

Members welcomed and commended the ambit and approach of the new draft policy. They wished to be kept abreast of write-offs, trends and how the new enforcement arrangements were working. They endorsed the extra support for vulnerable people facing indebtedness. A hope was expressed that due account should be taken when implementing this new policy of the impact of the roll-out of Universal Credit or, for example, the exit from the EU on those who were more vulnerable in Chichester District.

Mrs Belenger confirmed that members would be given periodically details (in a data protection compliant manner) of the write-offs, the level and scale involved and who was making the write-off decision. In addition officers would look at and inform members about trends in indebtedness and the kinds of national and individual factors which might affect those trends.

Decision

The CGAC voted unanimously to make the resolution and recommendation set out below.

RESOLVED

That (a) the new Corporate Debt Recovery Policy and (b) Chichester District Council's response to the recommendations from the Money Advice Service be noted.

RECOMMENDATION

That the new Corporate Debt Recovery Policy be approved by the Cabinet.

287 **Motions Procedure**

The CGAC received and considered the agenda report and its appendix.

Dr O'Kelly explained that rather than discuss the report at this meeting the item should be adjourned. This would enable to enable a member task and finish group (TFG) to consider and analyse the report's good ideas and proposals but also other options before the matter was brought back to the CGAC in due course prior to approval by the Council. She suggested that the TFG should comprise five Chichester District Council (CDC) members, not all of whom would belong to the

CGAC. She encouraged expressions of interest from CGAC members to sit on the TFG but emphasised that the invitation would be extended to all CDC members. She and Mr N Bennett (Monitoring Officer and Divisional Manager for Legal and Democratic Services) would determine the membership.

The CGAC supported Dr O'Kelly's proposal.

Decision

The CGAC voted unanimously to make the resolution set out below.

RESOLVED

That a task and finish group consisting of five Chichester District Council members be established to consider the proposals in the agenda papers and other options and report its findings and conclusions to a subsequent meeting of the Corporate Governance and Audit Committee.

[**Note** After the end of this meeting the following six members were noted as having expressed their interest in participating in the TFG: Mr J Brown, Mr A Dignum, Dr K O'Kelly, Mr S Oakley (present as an observer during this meeting), Mr D Palmer and Mr P Wilding]

288 **Budget Review Task and Finish Group Feedback**

The CGAC received the following oral report from Mrs H Belenger (Divisional Manager Financial Services).

The TFG met on 17 January 2020 to understand the main variances on the budget which would be proposed to the Cabinet in February 2020 and the Council in March 2020 for council tax setting. The proposed budget took into account the high level assumptions made in Chichester District Council's (CDC) Financial Strategy five-year model and built on those forecasts.

Officers set out for the TFG the main projected variances for the 2020-2021 budget spending plans working from the approved base budget of 2019-2020. The variances and their impact were set out with detailed explanations eg inflationary increases for pay, prices and pensions which affected all service areas. Officers also gave detailed explanations of changes in individual service areas eg in housing to take account of the expected impact on service demand as result of the loss of West Sussex County Council funding in Chichester District or such as Chichester Contract Services and trade waste income targets with a drive to increase income generation opportunities.

So whilst the government's provisional financial settlement received was broadly in line with expectations, the detailed estimates showed a budget surplus for the coming financial year of £484,000, although this was subject to receiving the final settlement from the government. The surplus was down from the forecast in the Financial Strategy which was a surplus of £759,000, which was mainly due to a lower estimate on retained business rates. Thus the five-year model had a forecast of £3.659m and the proposed budget was now £3.421m, a difference of £238,000.

CDC had a statutory obligation to produce a balanced budget, which had been achieved for the proposed budget for 2020-2021 as an estimated surplus of £484,000 and it sought to adhere to the financial principles contained in CDC's financial strategy. However, it should be noted that the five-year model showed a deficit for the two years thereafter due to the expected changes due to the government's Fair Funding Review, so any use of the £484,000 should only be for one-off rather than ongoing expenditure.

Mr Dignum said that he chaired the TFG and it had been a very valuable meeting. Mrs Belenger and Mr D Cooper (Group Accountant) had very helpfully taken members through the variances and gave them a clear view of the trajectory.

The CGAC had no questions for Mrs Belenger and it noted the oral report without making a formal resolution to that effect.

289 **Exclusion of the Press and Public**

There were no exempt agenda items listed for this meeting and no resolution was made to exclude the press and the public from any part of this meeting.

290 **Late items**

As stated during agenda item 1 (minute 279) there were no late items for urgent consideration at this meeting.

The meeting ended at 11.27 am

CHAIRMAN

Date:

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