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Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 1 - EPH on Tuesday 24 November 2015 at 9.30 am

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

Members not present: Mr F Hobbs

In attendance by invitation: Mr P King (Ernst & Young LLP), Mr S Mathers (Ernst & Young LLP) and Mr M Young (Ernst & Young LLP)

Officers present: Mr J Ward (Head of Finance and Governance Services), Mrs H Belenger (Accountancy Services Manager), Mr D Hyland (Community and Partnerships Support Manager), Mr T Jackson (Acting Group Accountant (Technical & Exchequer)), Mr S James (Principal Auditor), Mrs B Jones (Principal Scrutiny Officer), Mr P Legood (Valuation and Estates Manager), Miss L Le Vay (Design and Implementation Manager), Miss K Parsons (ICT Operations Manager), Mr T Radcliffe (Human Resources Manager), Mrs J Ryan (ICT Manager) and Mr W Townsend (Health and Safety Manager)

27 **Chairman's Announcements**

The Chairman welcomed all to the meeting. Apologies had been received from Mr F Hobbs.

28 **Approval of Minutes**

The minutes of the meeting held on 29 September 2015 were agreed as a correct record.

29 **Urgent items**

There were no urgent items. The committee agreed to the Chairman's request to move item 15 to follow item 8 on the agenda for this meeting.

30 **Declarations of Interest**

There were no declarations of interest.

31 **Public Question Time**

No public questions had been received.

32 **Annual Audit Letter 2014/15 - Ernst & Young LLP**

Mr P King and Mr S Mathers from Ernst & Young LLP presented the report. Mr King advised that this letter repeated the findings from the Audit Results Report which came to the committee at its last meeting and confirmed that he had signed the unqualified audit report the same day.

He made the committee aware of a couple of issues for future; the need to include highways assets in the 2016/17 accounts and the requirement to prepare earlier draft accounts from the 2017/18 financial year (i.e. 31 May 2018).

Mr Ward advised that the footbridge to the Avenue de Chartres car park was covered under these highways assets and that work with estates colleagues was taking place to understand any further assets which needed to be declared. The Council was considering areas it could tighten up to allow the earlier close down of the accounts.

RESOLVED

That the Annual Audit Letter 2014/15 be noted.

33 **Audit Plan 2015/16 Progress Report - Ernst & Young**

Mr King provided an oral update of progress on the 2015/16 Audit Plan advising that planning would begin in the next few weeks. One area of work was certifying the Council's claims and return. The essential housing benefits and council tax benefit claims were certified on 17 November, and a qualification letter sent to the Department for Works & Pensions (DWP). A response was now awaited from the DWP and the findings would be reported to the next meeting.

Ernst & Young LLP's audit framework agreement with the Council comes to an end in 2016/17. The Department of Communities & Local Government (DCLG) had announced that contracts would be extended for one year to 2017/18 at which point authorities would be required to appoint their own auditors which may be procured individually or collectively. There was talk of a sector body being set up.

RESOLVED

That the oral report on the 2015/16 Audit Plan progress be noted.

34 **Financial Strategy and Plan 2016/17**

The Committee considered a report by the Head of Finance & Governance (copy attached to the official minutes). A revised Appendix 1 was tabled (copy attached to the official minutes).

Mr Ward advised members that the purpose of this report was to allow the committee to assess the financial strategy in terms of risk. The Government's spending review announcement was due the following day so the timing was unfortunate. Officers' assumptions were included regarding pay, pension and a council tax freeze over the next five years as well as anticipated savings. A surplus position was predicted over the next four years but not in the fifth year. Some of the risks to the Council include the achievement of EU set recycling targets, the localisation of business rates and phasing out the New Homes Bonus. An analysis was included of figures with a council tax freeze and without. There were a number of uncertainties – pay increases, welfare reforms and cultural grants with no further provision beyond 2018.

Mrs Hardwick asked for clarification of the operation of the business rate pool. Mr Ward advised that since April 2013 the business rate collection in the district was shared 50% with Government, 40% retained and 10% passed to WSCC (which receives 10% from each of its districts/boroughs). The Government decided that a 40% share (approximately £17m) was too high in comparison with our funding need so a levy was imposed removing all but £2m. In terms of growth the government also assessed 40% retention to be too high and so a levy is applied so we only retain 20% of the growth. The other 20% i.e. the levy that would have gone to Government is retained by the business rate pool and that money is spent on projects that would have an economic impact, either individually by Council or collectively. Finance officers assess the business case for projects and the West Sussex Leaders determine how the money is spent. The advantage of pooling for the Councils in the pool is worth an estimated £2m in 2015/16 that would otherwise have gone to the Government.

The types of projects coming forward include a bid for a West Sussex coastal tourism project and a request for a European Union (EU) Funding Officer based in WSCC to provide support to local authorities.

Mr Barrett asked whether we had a model in order to compete with wages in the private sector. Mr Ward responded that we undertake a review of salaries through South East Employers and had recently introduced some supplements for Chichester Contract Services (CCS) drivers and for Planning Officers. The cost of this, and a further similar amount has been built into the projections, however at this stage we were not sure where cost pressures may come from.

A number of services, but particularly Careline, had in the past suffered the effects of inflation in setting their fees as they are dealing with vulnerable customers often on limited income and were also struggling to expand the business. The Council has a Fees & Charges Policy and all services are required to break even unless there is a policy decision to subsidise the service. Careline was in a much stronger position going into next year's budget.

Mr Ward advised that the minimum level of reserves had been set at £5m since 2010 representing 7% of the Council's gross spend. He considered that £5m was a healthy and prudent level to maintain.

Mrs Hardwick questioned whether we had drawn against the Revenue Budget Support Grant of £1.3m. Mr Ward confirmed that there had been no need to draw

against it; there had been discussion about whether or not to retain this in the budget this year, however once we had our detailed settlement it may be reconsidered by Cabinet.

Mrs Hardwick requested that in order to be able to review this model at Appendix 1 appropriately it would be useful to have some historic figures to set the context. Mr Ward agreed that this could be done and circulated to members separately.

RECOMMEND TO CABINET

1. In the short to medium term the Council maintains a minimum level of reserves of £5m for general purposes.
2. To maintain the current provision of £1.3m of revenue support to smooth the impact of funding reductions and volatility associated with the comprehensive spending review and full localisation of Business Rates.
3. 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 work up options for consideration by Cabinet to implement a new deficit reduction programme.

35 Internal Audit - Audit Plan Progress

The committee considered a report from the Principal Auditor (copy attached to the official minutes).

Mrs K Parsons and Mrs J Ryan were in attendance for the IT Security of Assets audit. Mrs Parsons explained that the service was undergoing a period of change and that inventories, which were previously held in separate places, were now being drawn together into an asset database which allowed purchase details, serial numbers, costs etc. to be held together. Mrs Hardwick was concerned that the scope and title of this audit went further than solely hardware assets. Mr James explained that the IT audit was large and therefore it was being done in chunks, with hardware being handled at this stage. All actions were due for completion by March 2016 and he would be following up the audit at this time.

Mr James confirmed that the audit plan was progressing well with five reports currently in draft and due to come to the committee in January 2016.

RESOLVED

1. That the Audit Plan 2015/16 progress report be noted.
2. That the audit reports on IT Security of Assets and Use of Consultants be noted.

36 Treasury Management Strategy 2016/17

The committee considered a report from the Accountancy Services Manager (copy attached to the official minutes).

Mr Curbishley was concerned about penalties which may be incurred for moving investments to better deals. Mrs Belenger replied that the Council manages its investments and cash flow in a controlled manner. When fixing funds we are not looking to take them out prior to maturity. Decisions on proposed investments over 364 days need to be signed off by senior officers. These are Mr Ward (S151 Officer) and Mrs Belenger (Deputy S151 Officer). Mr Jackson is the temporary Group Accountant with a new member of staff starting in January and four members of staff on the day to day arrangements.

Mrs Hardwick questioned the extract from the current Financial Strategy under paragraph 10 Borrowing Strategy. Mrs Belenger advised it was a matter of timing but that the principles and wording from the Financial Strategy would be updated in this document if the Financial Strategy was approved by Council.

Mr Jarvis asked whether the payment period of invest to save projects under this section was ever longer than the life of the asset. Mr Ward advised that it ties in with the Financial Strategy principle with 'any project requiring funding being subject to a business plan, however he agreed that an amendment to the sentence 'the payback period for invest to save projects ~~should~~ must be shorter than the life of the project'.

Mr Jarvis had received a letter from his bank regarding bail in arrangements advising that the sum had been reduced from £85,000 to £75,000. Mrs Belenger informed him that this was due to the euro exchange rate against the pound, due to the strength of the pound, and as this compensation scheme was Europe wide it had been reduced accordingly. She advised that the Council was not part of this scheme. Arlingclose Ltd, in their training session, had been through the implications of the bail in arrangements. Table 4 in the strategy shows the limits recommended for secured and unsecured investments. All current investments in banks and building societies by the council are unsecured; and are limited to a maximum under the 2015/16 strategy and this limit will continue in the 2016-17 strategy. The Council is looking to use covered bonds with a lower rate of return but with increased security. A raft of information on counterparties is considered on a day to day basis helping the team make informed decisions.

Mrs Graves wanted to know the ratio of other local authority investments to others. Mrs Belenger advised that this had been covered at the training session and would let Mrs Graves have the relevant slide. Mrs Belenger later confirmed during the meeting that 66% of the investments were placed with other local authorities on the data supplied to Arlingclose for the training presentation.

Mrs Hardwick was concerned that the £10m cash limit for pooled funds was perhaps too high for this new type of investment as the Council was at risk of investment managers making the right decisions. Mrs Belenger confirmed that property funds were included under the pooled arrangement and advised that if members were minded to change this limit it would need to be amended under Table 4 as well. Property funds were new and therefore any investments go through a rigorous approval process. Any new instrument put forward in the Strategy is proceeded with caution. Mr Ward said pooled property funds are investments in property which are asset backed and therefore there is a degree of protection. Mrs Hardwick was concerned that with the six months' notice period we could end up

with a capital loss. £10m was quite high at a third of the estimated £35m being invested at any one time. Mr Ward advised that if members were concerned, then he was quite happy to reduce the limit to £5m and consider it again in a year's time once we have had 12 months experience.

Mr Hicks reminded the committee of possible US interest rates increase rise in December which may have an impact on mortgage rates and property values in the UK. He thought it prudent to go for £5m limit and consider again next year.

Mr Jarvis was concerned that this new way of operating was a risk. Mr Ward advised that we collect monies in advance and pay it out to precepting bodies throughout the year and in full by February/March each year. Property funds are still liquid funds which you can withdraw if required; there is a relatively low risk provided you don't put yourself in a position with a need to withdraw it during a downturn in the property market. Mrs Belenger gave some figures on the Local Authority property fund – the fund figure had grown to £500m, there were 125 investors with the minimum investment being £25,000 and the largest £30m. Mrs Hardwick was reassured at the size of the fund and the good returns received and therefore suggested it should be left at £10m and monitored for 12 months.

The Chairman advised that the type of investment we would make would be in commercial property so not as volatile as residential property. She was inclined to leave the limit at £10m and allow Cabinet to make the decision. The healthy debate on this subject at this committee would be reported as a concern of the risk involved.

RECOMMEND TO CABINET AND COUNCIL

That the Treasury management Policy Statement, the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the Investment Strategy for 2016/17 be approved.

37 Strategic and Organisational Risk Registers 2015 update

The committee received a report from the Accountancy Services Manager (copy attached to the official minutes). Mrs Belenger undertook to send Mr Jarvis the Council's Risk Management Policy and Strategy which held a description of the red/amber/green risk categories.

Mr Barrett wished to raise staffing issues which were again highlighted as a risk on the Commercial Board risk register.

RESOLVED

1. That the current strategic risk register and the internal controls in place, plus any associated action plans to manage those risks, be noted.
2. That the current high scoring organisational risks and the mitigation plans in place be noted.

38 **Protocol on Investment Opportunities Reserve**

The Chairman welcomed Mr Tony Jackson (Acting Group Accountant (Technical & Exchequer)) and Mr Legood (Valuation and Estates Manager) to the meeting. Mr Jackson presented the report (copy attached to the official minutes). He pointed out that the key to the protocol was a balance between financial and non-financial considerations. These were likely to be properties which included something like community benefits as part of the purchase.

Mrs Hardwick wanted to know how return on investments was quantified in terms of alternative benefits and whether this should be quantified over the lifetime of the project or a short term goal. Mr Legood advised that a good return was paramount with other benefits being a bonus. We currently assess rental against capital outlay; however Mr Jackson advised that in a real life situation we would assess the longer term return - financial and non-financial. One way was to try and determine the turnover or benefits that local businesses might achieve if a particular key shop was introduced into the area. Mrs Hardwick was concerned that the protocol was silent on projected capital value or volatility. Mr Jackson advised that once we are looking at a specific real project we would build in assumptions at the given time in the proposal. He confirmed that members were able to suggest any investment in their parishes as long as it was income generating and didn't involve community right to buy issues.

RESOLVED

That a Task and Finish Group (TFG) be set up to consider the Investment Strategy described in this report (including the Land & Property Sub-Strategy at Appendix 1) and report back to the committee as soon as possible.

That Mrs P Tull, Mr P Jarvis and Mr F Hobbs are confirmed as members of this TFG alongside Cabinet members Mrs P Hardwick, Mr B Finch and Mrs G Keegan.

39 **S106 exceptions report and update on the implementation of the Community Infrastructure Levy (CIL)**

Mrs Le Vay and Mrs Bayliss presented this report (copy attached to the official minutes).

Mrs Le Vay confirmed that the CIL inspector's report had been received the previous day approving the draft charging schedule which would now be reported to Cabinet in January for approval. It was proposed that CIL would be adopted on 1 February 2016. She also confirmed that outstanding contributions in respect of the Land north of Chaucer Drive development in West Wittering had been received. With respect to the Public Art contribution from Osbourne House, Stockbridge Road additional funds had now been received and Purchase Order Raised and this money should be spent by Christmas.

With the Chairman's agreement Mr Oakley addressed the committee, expressing his concern regarding the return of £25,000 to a developer in respect of the provision of a bus shelter at Farr's Field, ongoing since 2008 but not finalised. He questioned the sense of accountability between the three tiers of Government, with

WSCC sitting on large sums of money which the Council, as planning authority, had authorised the spend. Miss Le Vay confirmed that CIL has governance structures and an Infrastructure Liaison Group where WSCC and ourselves would be working together. The S106 process in respect of bus shelters will no longer arise as the system is no longer in place and this is very much a one off occurrence. With regard to this returned sum, Mrs Peyman had written to the developer to ask whether we could use the monies for maintenance of bus shelters in the district but the developer had declined.

Mr Oakley also raised the Boxgrove contributions at Halnaker which expired in August 2016 saying that the Parish Council were currently looking to utilise these funds on their play area but no further information had been forthcoming with respect to progress. Miss Le Vay advised that this spend was tied with Windmill Park agreement. Mrs Tull suggested that we write to Boxgrove Parish Council to get an update on this.

Mr Barrett was concerned regarding a recent receipt in West Wittering and how it was to be allocated. Mr Hyland confirmed that he had previously met with representatives of the Catholic Church and West Wittering PC to discuss potential improvements for the church owned Hall nearest the development. It is the nature of these types of opportunities that groups and organisations need to make decisions between limiting their improvements to the sums available, or make more significant improvements using their own resources and other funding. Inevitably, this does mean that monies are quickly "allocated" to projects but often not spent for several years, as projects progress.

RESOLVED

That the contents of this report concerning S106 agreements nearing their expenditure date (as set out in Appendix 1) be noted.

40 Corporate Health & Safety and Business Continuity Management

The Chairman agreed to take this agenda item 14 before agenda item 13. The committee received a report from the Health & Safety Manager (copy attached to the official minutes).

Mr Jarvis asked whether all the business continuity plans were held on the Council's drives. Mr Townsend confirmed that a copy was held on one of the Council's IT drives and another copy was held by all lead officers on their own laptop desktop and they were required to remove their laptop from the Council's buildings overnight. In the event of an incident, email continuity would be initiated and officers would have access to their desktop business continuity files.

Mrs Hardwick pointed out at paragraph 10.2 that the reputational risk had only been suggested to be relating to instances where legal action is taken against the Council. She stated that there is additional corporate risk of reputational damage even if legal action isn't taken against the Council in the event of a serious health and safety accident or incident.

RESOLVED

That this report be noted.

41 Public Interest Disclosures (Whistleblowing) Policy

The committee received a report from the Human Resources Manager (copy attached to the official minutes).

There had been no incidents in the last 12 months and only one or two over the last few years. Mrs Hardwick made some suggestions to the format of the report:

- Employees (including members) – deal with these together
- Members of the public (and contractors) - deal with these together
- In the scope, first bullet point ‘for employees, members of the public and contractors to follow....’
- Monitoring heading has one sub-heading, with Contract Workers again a main heading
- Stage 1 - add a final bullet point ‘keep a record of the disclosure’

Mr Radcliffe agreed to make these alterations to the format prior to presentation of this report to Cabinet. He advised that if the Council received a Freedom of Information (FOI) request on a whistleblowing issue, the Data Protection Act would override FOI and names and personal details would not be disclosed. Where a post title equated to an individual, it would also be justifiable to withhold this information.

RECOMMEND TO CABINET

That the Public Interest Disclosures (Whistleblowing) Policy be approved.

42 Budget Review Task and Finish Group

The committee considered the Terms of Reference for this review (copy attached to the official minutes).

RESOLVED

1. That the Terms of Reference for this review be agreed.
2. That Mrs P Tull, Mr I Curbishley and Mr Jarvis be confirmed as the committee’s representatives on this task and finish group.

The meeting ended at 12.55 pm

CHAIRMAN

Date: