

MINUTES OF GOVERNANCE COMMITTEE

MEETING DATE **Wednesday, 25 June 2014**

MEMBERS PRESENT: Paul Leadbetter (Chair), Peter Goldsworthy (Vice-Chair) and Julia Berry, Anthony Gee, Matthew Lynch and June Molyneaux

OFFICERS: Gary Hall (Chief Executive), Chris Moister (Head of Governance), Michael Jackson (Principal Financial Accountant), Garry Barclay (Head of Shared Assurance Services), Dawn Highton (Principal Auditor) and Dianne Scambler (Democratic and Member Services Officer)

APOLOGIES: Councillors Henry Counce and Margaret France, Gareth Winstanley (Grant Thornton PLC) and Peter Ripley (Independent Person)

14.G.21 Minutes

RESOLVED – That the minutes of the Governance Committee meeting held on 13 March 2014 be confirmed as a correct record for signing by the Chair.

14.G.22 Declarations of Any Interests

There were no declarations of any interests.

14.G.23 Internal Audit Annual Report 2013/14

The Committee received a report summarising the work undertaken by the Internal Audit Service during the 2013/14 financial year and gave an opinion on the adequacy and effectiveness of the control environment in the Council as a whole and individual service areas. The report also gave an appraisal of the Internal Audit Services performance, including an evaluation of the effectiveness of the Council's system of internal audit.

A detailed schedule of the work undertaken by the Internal Audit team had been provided and gave individual opinions on the adequacy of control for each of the areas audited during the year, as the majority of the reviews received a substantial or adequate controls assurance rating, it was the Internal Audit's opinion that the Council continues to operate in a strong control environment.

The key performance data for the Internal Audit Service was summarised that indicated that the majority of the authority's indicators were on or above target. Only two areas varied significantly from the agreed targets and explanations were provided.

The Committee were also informed of examples where the Internal Audit's work had added value. These included a review of CCTV which considered camera location, staffing hours and provided a range of options for future service delivery and the use of IDEA interrogation software to reduce the number of matches identifying potential fraudulent benefit claims.

Key achievements for the team also included retaining the ISO 9001 accreditation and the team continued to undertake training on a wide range of topics to increase knowledge to seek improved and more efficient working practices, maintaining a high quality service.

RESOLVED – That the report be noted.

14.G.24 International Auditing Standards

The Head of Shared Assurance Services presented a report comprising information to enable 'those charged with governance' and 'management/section 151 officer' to provide assurances being sought by Grant Thornton in respect of fraud and corruption as part of the Council's 2013/14 accounts.

Given the assurances requested were similar to the evidence being collated by Internal Audit to support the Governance Statement and in the interest of transparency, it was agreed with the external auditors that responses to their letters would be provided following consideration at this meeting.

The Committee were satisfied with the explanation given regarding correspondence received from the Equality and Human Rights Commission indicating a breach of legal duty.

Members noted that Internal Audit, having reviewed specific information was satisfied that the Council's arrangements were such that positive assurances could be given in the response to Grant Thornton.

RESOLVED – That the Chair of Governance Committee and Section 151 statutory chief finance officer sign the assurance letters.

14.G.25 Chorley Council Audit Plan

The Committee received the External Audit Plan for the Council as at 31 March 2014 that had been submitted by Grant Thornton, the authority's external audit providers.

A risk based audit of the Council had been undertaken that focused on those areas where there was a potential risk of material misstatement in the accounts and no specific risks had been identified for Chorley. The two risks that were listed in the report were generic to other Local Authorities and Members were assured that the necessary controls for Chorley already existed.

Interim audit work was currently being undertaken in advance of the final accounts audit fieldwork and at this stage there were no significant issues to report and it was

explained to Members that the Value for Money (VfM) conclusion was a requirement to ensure that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources and focuses on securing financial resilience.

RESOLVED – That the report be noted.

14.G.26 Treasury Management Annual Report 2013/14

The Committee received and considered the report of the Chief Executive updating Members on the Council's treasury management strategy. Part of the changes in the regulatory environment, concerning treasury management was a greater onus on Members to scrutinise policy and activity.

The report updated on the Prudential and Treasury Indicators and reported that the return on investments totalled 1.14% which exceeded the benchmark. Details of the borrowings were given and Members were updated on a number of issues that included the conclusion of the situation relating to the Icelandic investments.

The Committee were advised that the Council is required to consider, as a minimum, three treasury reports. In addition the Minimum Revenue Provision Policy for 2014/15 and revised Prudential Indicators were presented to Council in November 2013 as it had been necessary for the Council to approve changes to the MRP Policy and Prudential prior to the purchase of the Market Walk Shopping Centre.

The Council's Capital Expenditure as at 31 March 2014 totalled £25.615m compared to the revised budget of £26.583m. Of the total, £23.341m was for the purchase of the Market Walk Shopping Centre in November 2013, which was financed by prudential borrowing. Prudential borrowing of £1.323m had also been required to finance other capital investment.

The £0.968m variance from budget at outturn was not an underspend, but due to the requirement to rephase a number of projects to reflect revised delivery timescales and would be added to the 2014/15 Capital Programme.

Estimated borrowing at the end of 2013/14 was £30.263m and surplus cash available for investment was £15.000m, giving an estimated net figure of £15.263m compared to the estimated Capital Finance Requirement of £32.518m. The level of borrowing estimated in the 2013/14 reflected Council approval to purchase Market Walk and to finance the expenditure with £23.341m prudential borrowing. However, it had proved possible to achieve savings in financing the acquisition by using £10m internal cash balances and taking only £13.341m loans from PWLB.

In response to a query, the Chief Executive explained that this had been a decision that he had taken based upon the business model considered and approved by Council in November. He had felt, that with interest rates for cash investments remaining low, it was better to use cash balances to avoid borrowing at rates that could have exceeded 4%, than to invest at as little as the 0.25% paid by the Debt Management Office. The Chief Executive had been delegated to make these decisions on behalf of the Executive Cabinet.

It was reported that the Council had now reached a conclusion with regards to the Icelandic Investment. At the start of 2013/14, the impaired balance sheet value of the

Council's investment was £0.83m. During the year, the Winding-Up Board had made one repayment of £0.102m, reducing the balance sheet value of investment to £0.728m.

Recovery of the balance of investment had been expected to take several years and would have involved exchange rate losses and incurring of legal fees. To minimise the risks associated with the recovery process, the Council decided to participate in the auction of Landsbanki claims, and received auction proceeds of £0.728m. The total debt recovered was £1.856m (93%) of the original investment.

The Committee were also informed that the Council's treasury management advisors Capita Asset Services had provided a review of the year and had suggested that the base interest rate would not rise from its historic low level of 0.5% under December 2015.

RESOLVED – That the report be noted.

14.G.27 Statement of Accounts 2013/14

Members received a report of the Chief Finance Officer giving them sight of the draft Statement of Accounts (SOA) for 2013/14 that would be signed and authorised for issue by the Chief Financial Officer at the end of June. The report also gave advice on the processes leading up to their formal submission for the approval of Members following the completion of the external audit.

The Chief Executive reported that a training session would be provided to all Members of the Governance Committee before the finalised Statement of Accounts was presented to the Committee that would provide greater understanding of the processes and promote effective debate.

The report discussed the main parts of the statements and sought to explain significant changes from the previous year. It also advised about the statutory requirements for signature, audit, inspection and publication of the accounts.

Members were informed that categorisation of the Market Walk Shopping Centre within the Investment Properties section of the Balance Sheet was still subject to agreement with the external auditor. Therefore there may be a need for the asset to be reclassified and figures amended when the SOA was submitted for approval.

The SOA 2013/14 included corrections to two "unadjusted misstatements" that had been reported to the Committee in respect of the 2012/13 Statement of Accounts, these referred to Property, Plant and Equipment (PPE) relating to capital expenditure of £0.228m allocated to the wrong leisure asset, which had affected depreciation and revaluation calculations and Section 106 commuted sums (for maintenance of assets adopted from developers) totalling £0.493m that had been included against short term creditors instead of long-term.

A number of major issues had affected the Council's financial position during 2013/14 that included the implementation of the new Business Rates Retention (BRR), the purchase of the Market Walk Shopping Centre and the Pension Fund. The Committee were provided with further explanation of the reasons and how they had affected figures in the Statement of Accounts.

Members asked for more detail to be shown in the Statement concerning the figures relating to the money used to purchase the Market Walk Shopping Centre to provide greater clarity of the use of the £10m cash balances and how this had helped to achieve savings by not borrowing at higher rates of interest.

Subject to approval by Executive Cabinet and Council, the Movement in Reserves Statement indicated that General unallocated balances had increased by £0.129m to a total of £2.189m as at 31 March 2014. Reserves earmarked for specific purposes had increased by £0.967m to £5,276m. A balance of £0.325m usable capital receipts would be carried forward to 2014/15 to finance capital expenditure for that year.

The Comprehensive Income and Expenditure Statement showed a main variance in Net Expenditure at Cost of Services level in respect of Planning Services, which included economic development and town centre promotion. These service areas had been priority areas for new investment in 2013/14.

The balance sheet and cash flow statements showed the turnover of cash and final cash position as at 31 March 2014. The Council's Treasury Management Strategy was the key document for the effective day to day management of cash resources and set out policies for the investment of surplus cash. The Council had managed, in a very difficult environment, to maintain a healthy financial position. The Medium Term Financial Strategy envisaged no relaxation of the pressures, and forecasted budget shortfalls over the coming years.

The pension fund deficit had reduced to £32.676m; the main reason for the reduction was the £10.127m actuarial gain, which compared to the £6.158m loss the previous year. This figure was quite volatile and had changed significantly over the past few years.

RESOLVED

- 1. That the draft Statement of Accounts 2013/14 be noted.**
- 2. That training to be undertaken by Members of the Governance Committee before receipt of the final Statement of Accounts 2013/14.**

14.G.28 Members Code of Conduct: Amendment to Arrangements for Dealing with Complaints

The Committee received a report that sought authority to recommend to full Council amendments to the adopted procedure for dealing with complaints made under the code of conduct for elected members of the Council. The report also asked the Committee to give delegated authority to the Council's Monitoring Officer to draft future amendments to the arrangements before submitting to full Council for approval.

The proposed amendments would improve the clarity of the process and provide the Monitoring Officer with the opportunity of dealing with unfound complaints on receipt or to informally resolve complaints at an earlier stage.

The arrangements had been in place for approximately two years and having had some experience of using the procedures when dealing with complaints the Monitoring Officer had highlighted areas for improvement to the early resolution and local resolution stages and provided some clarity about the role of the Independent Person.

Members sought information on how members of the public and Elected Members could complain about a Councillor and asked if a link to the information could be included on the Council's main complaints page on its website.

RESOLVED

- 1. That the amended Arrangements for Dealing with Complaints about the Conduct of Elected Members of the Council be recommended to full Council for adoption.**
- 2. That the Monitoring Officer be given delegated authority to propose draft amendments to the Arrangements for Dealing with Complaints about the Conduct of Elected Members in accordance with the report.**
- 3. That a link be provided on the Council's main complaint page on its website to the Standards complaints process information.**

14.G.29 Annual Governance Statement

The Head of Governance presented a report reminding the Committee of the regulatory framework requiring the Council to continuously review its system of governance and to formally publish an annual governance statement alongside its annual financial statements.

Members considered the draft annual government statement which had been produced in accordance with guidelines issued by the Chartered Institute of Public and Accountancy (CIPFA) and the Society of Local Authority Chief Executive (SOLACE).

It was explained what arrangements the Council would take in the forthcoming financial year to build and strengthen our corporate governance arrangements. Following advice from our Internal Audit Service it was intended to include a review section to the Statement in future years to show continuity of the Council's Governance arrangements.

The Committee also thought that the Chair of Governance Committee should also sign off the Statement to evidence the Council's commitment to these arrangements extended across all political groups.

RESOLVED – That the Annual Governance Statement be formally signed off by the Leader, Chief Executive and Chair of Governance Committee before being submitted for external audit alongside the 2013/14 financial statements.

14.G.30 RIPA Application Update

The Monitoring Officer reported that there had been no RIPA applications made.

14.G.31 Exclusion of Press and Public

RESOLVED – To exclude the press and public for the following items of business on the ground that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A to the Local Government Act 1972.

14.G.32 Standards Hearing Update

The Monitoring Officer submitted a confidential report that informed Members of the nature and treatment of standards complaints. The report also sought confirmation as to the type of complaints that were being received and the approach taken by the Monitoring Officer in resolving them.

RESOLVED – That the report be noted.

Chair

Date