



**MINUTES OF GOVERNANCE COMMITTEE**

**MEETING DATE** **Wednesday, 23 September 2015**

**MEMBERS PRESENT:** Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Margaret Lees, Matthew Lynch and Debra Platt

**OFFICERS:** Gary Hall (Chief Executive), Chris Moister (Head of Governance and Property Services), Susan Guinness (Head of Shared Financial Services), 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:** Councillor Alan Cullens, Gordon France and Margaret France

**OTHER MEMBERS:** Fiona Blatcher (Grant Thornton UK LLP), Richard Watkinson (Grant Thornton UK LLP) and Gareth Winstanley (Grant Thornton UK LLP)

**15.G.15 Declarations of Any Interests**

There were no declarations of any interests.

**15.G.16 Minutes**

**RESOLVED – That the minutes of the Governance Committee meeting held on 24 June be confirmed as a correct record for signing by the Chair.**

**15.G.17 External Audit Finding Report 2014/15**

The Committee received a report of the External Auditor on their audit findings for the authority for the year ending 31 March 2015 that highlighted key matters arising for the Council's financial statements and appreciation of the finance team and associated officers for their assistance during the audit.

The Auditor intended to issue an unqualified opinion on the financial Statements and Value for Money conclusion on 30 September 2015.

During the course of the audit the need for an adjustment relating to Section 106 contributions had been identified which affected the Council's reported financial position. This meant that the overall net effect of the adjustment is that short term

debtors and usable reserves have both increased by £0.934m and further details were provided within the report.

A number of additional amendments had also been agreed that would improve the classification and disclosure of the notes to the accounts and it was decided not to amend the accounts for additional disclosures in respect of the cash flow statement.

The Auditor was pleased to note that, based on their review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; they proposed to give an unqualified Value for Money conclusion.

The Council's management is responsible for the identification, assessment, management and monitoring of risk, operating and monitoring the system of internal control and the Committee's attention was drawn to one area of significant weakness of internal control with regards to the arrangements in place for billing developers in respect of Section 106 monies and one minor weakness in respect of the bank reconciliation process.

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Executive and the recommendations set out in the action plans have all been discussed and agreed with the finance team.

Legislation has now been passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards and although this is some time away, the authority is already looking to make the significant changes needed to achieve this deadline. The shared financial team is already liaising with health colleagues who currently work to a much shorter deadline and are looking to implement its own closedown process to start to bring the closure forward in 2015/16. It was acknowledged that regular engagement with Governance Committee will be important to provide members with the necessary assurances that the Council is well placed to meet the earlier timescale.

**RESOLVED – That the report be noted.**

#### **15.G.18 Statement of Financial Accounts 2014/15**

The Committee received a report that sought approval of the audited Statement of Accounts for its publication by 30 September under the requirement of the Accounts and Audit Regulations 2011. Once approved the signed Statement would be published on the Council's website.

There had been many minor changes to the draft Statement of Accounts since the Governance Committee of 24 June 2015, however the accrual of £0.934m additional net Section 106 income had required several statements and notes to be changed and the specific details were contained within the report.

The appointed Auditor intended to issue an unqualified opinion of the Statement of Accounts; an unqualified Value for Money Conclusion and had advised about improvements to internal controls in respect of collecting Section 106 income and the checking of monthly bank reconciliations.

The Committee sought assurances that there were robust internal controls in place regarding the collection of Section 106 monies in future.

**RESOLVED**

- 1. That the report be noted.**
- 2. Approval of the Statement of Accounts for 2014/15.**
- 3. Approval for the Letter of Representation to be signed by the Chief Finance Officer and Chair of Governance Committee.**

**15.G.19 Internal Audit Interim Report as at 28 August 2015**

The Head of Shared Assurance Services presented a report advising members of the work being undertaken in respect of the Internal Audit Plans for Chorley Council and Shared Services for the period April 2015 – August 2015 and gave an appraisal of the Internal Audit Services performance to date.

The report demonstrated that all performance indicators had either been achieved or exceeded with the exception of the percentage of audit plan for Chorley Council. This was due to a significant over run of work on Section 106/Community Infrastructure Levy (CIL). A full review of the Section 106 register, verification of its accuracy and completeness by using legal, planning and financial source documents has been undertaken. The internal control systems relating to this area are part of an on-going review and would be reported on in due course. Until the review had been concluded an assurance rating was not available at this time.

Arrangements have been put into place to continue this work with a member of the Internal Audit team being seconded to the role. The Chief Executive had agreed to back fill this post within the team and they are confident that they could make up the deficit in the plan. The Chair commented that he was happy with the arrangements that had been implemented by the Council to address this issue.

**RESOLVED – That the report be noted.**

**15.G.20 Treasury Strategy and Prudential Indicators 2015/16**

The Committee received a report on the Council's performance and compliance with Prudential Indicators in the 2015/16 financial year to the end of August.

The report took into consideration the changes to revenue and capital budgets reported to the Executive Cabinet and Council during 2015/16. Prudential Indicators have been updated to reflect rephrasing of capital expenditure and changes to financing.

The Capital Financing Requirement (CFR) had been recalculated to reflect rephrasing of capital expenditure to be financed by borrowing from 2014/15. Net borrowing to gross borrowing and other long term liabilities less surplus cash invested is expected to be much lower than the CFR in 2015/16 due to the Council's use of internal cash balances where possible.

It was reported that the average interest earned was 0.52% to the end of August. As in 2014/15, cash balances have been used as a source of internal borrowing to minimise external borrowing at higher rates of interest, thereby achieving revenue budget

savings as smaller amounts of money are able to be deposited into the higher interest accounts.

The Prudential Indicator reported in March 2015 took account of estimated capital expenditure and sources of financing from 2014/15 to 2017/18. The Capital Expenditure Prudential Indicator for 2015/16 has been updated to include expenditure rephased from 2014/15 to 2015/16, and other changes to expenditure and financing budgets.

The current CFR for the current year had been recalculated to take account of the rephrasing of capital expenditure from 2014/15 to 2015/16, and other changes reflected against the capital expenditure. Of the £33.200m CFR as at 1 April 2015, £23,206m is in respect of Market Walk.

#### **RESOLVED**

- 1. That the report be noted.**
- 2. That the Governance Committee recommends full Council to approve the changes to Prudential Indicators 1 and 2, as presented in the report.**

#### **15.G.21 Change in Accounting Policy 2015/16**

The Chief Finance Officer submitted a report to justify and recommend a change in accounting policy from 2015/16 onwards, to permit capitalisation of borrowing costs (fees and interest) in respect of major capital projects up to the point that the qualifying assets become operational.

Under the Council's current accounting policy of "expensing" borrowing costs, such costs arising when prudential borrowing is incurred for the acquisition, construction, or production of a qualifying asset are charged to the General Fund budget in advance of an asset becoming operational.

Adopting a policy of capitalising borrowing costs for qualifying assets would mean that they would form part of the cost of the asset, and would be charged to the revenue budget when the asset becomes operational as part of the financing costs. In some cases, the financing costs would in effect be met from rental income that would be receivable only when the asset is ready for use. This policy would avoid borrowing costs being charged to the revenue budget for receipt of the rental income in such instances.

**RESOLVED – It was approved that from 1 April 2015 the Council should adopt the accounting policy of capitalising borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset, where the costs are incurred in more than one financial year before an asset becomes operational and where budgeted prudential borrowing required to finance the asset is £4m or more.**

#### **15.G.22 Members code of Conduct: Members discharging the role of a Councillor**

At its meeting in January, the Monitoring Officer had submitted a report that sought guidance from the Committee about the point at which Members are deemed to be discharging their role as a Councillor.

Although there have been relatively few complaints made against the conduct of members, one of the issues that is frequently the cause for discussion between the Monitoring Officer and the Independent Person is “when a Councillor is acting as a Councillor?” Using guidance from under the previous standards regime, this had a high threshold. Given that the new regime was intended to be light touch, the Monitoring Officer had been following the guidance by the Standards Board for England following the Ken Livingstone case. However, the Independent Person had indicated a view that this approach is too restrictive; a view supported by members of the Governance Committee who have expressed a view that members of Chorley Council should routinely demonstrated higher standards of behaviour than that required of by the local standards regime.

Any change in approach would have to be brought to the attention of all members and although this would not require a constitutional change the guidance note would be amended to reflect any changes for approval of full Council.

The report had prompted detailed discussion by the Committee and it was proposed to pursue the matter further with all Councillors through their group meetings.

This action had now taken place and Members discussed the two views that had been put forward by the two main political groups of the Council. It was proposed to adopt the view that a Councillor may be acting in his/her role of a Councillor at all times. However, there would be clear instances when members were acting in that capacity (such as attending council meetings) and clear instances when they were not (for example whilst at work). The facts of the particular situation would be taken into account when deciding at other times whether the Councillor was acting in that capacity. It was felt that this would help to raise the threshold but still afford for those occasions when a Councillor is acting in a different capacity and whilst the Monitoring Officer accepted that this places a greater responsibility on his and the Independent Person role, it was a position that he was happy to support. Members agreed that this flexibility would encourage members to give greater consideration to the application of the Code to their conduct.

**RESOLVED – That the Monitoring Officer communicates the agreed view to all Members and that the Code of Conduct be amended accordingly.**

**15.G.23 RIPA Application Update**

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

**15.G.24 Exclusion of the Public and Press**

**RESOLVED - That press and public be excluded for the following items of business on the ground that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.**

**15.G.25 Review of Investment Counterparties 2015/16**

The Committee received a report that reviewed the list of Financial Institutions and Investment Criteria approved by Council on 3 March 2015.

The objective was to increase the range of options available to the Council without unduly increasing the risk. A potential benefit could be an increase in yield from the cash balances available to invest.

The report recommended that all high credit quality UK-Incorporated institutions should be considered as Investment Counterparties, that the periods are adjusted to reflect the recommendations of Capita Asset Services and that the limit per institution should take account of the relatively low level of cash available for investment at present. Certificates of Deposit and Enhanced Money Market Funds would be added as investment options, but use of non-UK banks and Property Funds would not be considered.

Members were also informed that the Council checked the Capita ratings on a weekly basis to ensure that the authority's money was invested in the right institution and that any sudden changes were communicated urgently via email to the Council if needed.

### **RESOLVED**

- 1. That the report be noted.**
- 2. That Governance Committee recommends full Council to approve the changes to the existing list of Investment Counterparties as presented in Section 54 of the report.**

Chair

Date