

REPORT OF GOVERNANCE COMMITTEE

1. This report summarises the business transacted at the Governance Committee meeting on 23 September 2015.

GOVERNANCE COMMITTEE – 23 SEPTEMBER 2015

External Audit Findings Report 2014/15

2. We received a report of the External Auditor on their audit findings for the authority for the year ending 31 March 2015 that highlighted many 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 for the financial statements and Value for Money conclusion on 30 September 2015.
3. 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 had meant that the overall net effect of the adjustment was that short term debtors and unusable reserves had both increased by £0.934m and we were provided with details as to why this had occurred.
4. The arrangements that were in place for the billing of developers in respect of the Section 106 contributions was also highlighted as a significant weaknesses of internal control and Members were informed that the matter was currently under investigation.
5. All 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 had been discussed with the Chief Executive and the recommendations set out in the action plans been agreed with the finance team.
6. Legislation has now been passed to bring forward the deadline for the preparation and audit of Local Government financial statements from 2017/18 onwards and although it is sometime away we were assured that the authority are already looking to make the significant changes needed to achieve this deadline.

Statement of Financial Accounts 2014/15

7. The Committee received a report that sought approval of the audited Statement of Accounts for publication on 30 September 2015 under the requirement of the Accounts and Audit Regulations 2011. Once approved the signed Statement would be published on the Council's website.
8. There had been minor changes to the draft Statement since our Committee meeting in June, however the accrual of £0.934m additional net Section 106 contributions had required several statements and notes to be amended and we were furnished with the specifics within the report.
9. The appointed Auditor intended to issue an unqualified opinion on 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 checking of monthly bank reconciliations. We sought assurances that there would in future be more robust internal controls in place regarding

the collection of Section 106 contributions and approved the Statement of Accounts for 2014/15. It was also approved for the Letter of Representation to be signed by the Chief Finance Officer and myself as Chair of Governance Committee.

Internal Audit Interim Report as at 28 August 2015

10. We received a report of the Head of Shared Assurance Services advising the Committee of work being undertaken in respect of the Internal audit Plans for Chorley Council and Shared Services for the period April – August 2015 and gave an appraisal of the Internal Audit Services performance to date.
11. The report demonstrated that all performance indicators had either been achieved or exceeded with the exception of the percentage audit plan for this authority. This was due to a significant over run of work in relation to the Section 106/Community infrastructure Levy (CIL). The internal control systems relating to this area are part of an ongoing review and would be reported on further in due course. Until the review was a concluded an assurance rating would not be awarded.
12. Arrangements have been put in place for a member of the Internal Audit team to continue with this work and measures have been put in place to backfill this post within the team. The team is confident that they will be able to make up the deficit in the plan and I am happy with the arrangements that have been implemented to address this issue.

Treasury Strategy and Prudential Indicators 2015/16

13. The Committee received a report on the Councils 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 in financing.
14. The Capital Financing Requirement (CFR) has 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.
15. 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 are able to be deposited into the higher interest accounts.
16. The current CFR for the current year has been recalculated to take into account rephrasing of capital expenditure from 2014/15 to 2015/16, and other changes reflected against capital expenditure. Of the £33.200m CFR as at 1 April 2015, £23,206m is in respect to Market Walk. We noted the report and agreed to recommend full Council to approve the changes to Prudential Indicators 1 and 2, as presented to us in the report.

Change in Accounting Policy 2015/16

17. We received a report of the Chief Finance Officer 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.
18. 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.
19. We gave approval 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 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.

Members Code of Conduct: Members discharging the role of a Councillor

20. At our meeting in January, the Monitoring Officer 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 a cause for discussion between the Monitoring Officer and the Independent Person is "when is a Councillor acting as a Councillor?"
21. 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 previous local standards regime.
22. 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.
23. It was agreed 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. The Monitoring Officer will communicate this agreed view and amend the guidance for the Code of Conduct accordingly.

Review of Investment Counterparties 2015/16

24. The Committee received a report that reviewed the list of Financial Institutions and Investment Criteria approved by Council on 3 March 2015. The object being 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.
25. 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. We were also informed that Certificates of Deposit and Enhance Money Market Funds would be added as investment options, but use of non-UK banks and Property Funds would not be considered.
26. We were 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. Given this assurance we recommend full Council to approve the changes to the existing list of Investment Counterparties as presented in Section 54 of the report.

Recommendation

27. To note the report.

COUNCILLOR PAUL LEADBETTER
CHAIR OF GOVERNANCE COMMITTEE

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