

**MINUTES OF GOVERNANCE COMMITTEE**

**MEETING DATE** **Wednesday, 22 June 2016**

**MEMBERS PRESENT:** Councillor Paul Leadbetter (Chair), Councillor Anthony Gee (Vice-Chair) and Councillors Jean Cronshaw, Alan Cullens, Danny Gee and Debra Platt

**OFFICERS:** Gary Hall (Chief Executive/Statutory Finance Officer), Susan Guinness (Head of Shared Financial Services), Chris Moister (Head of Legal, Democratic & HR Services/Monitoring Officer), Garry Barclay (Head of Shared Assurance Services) and Nina Neisser (Democratic and Member Services Officer)

**APOLOGIES:** Councillor Gordon France and Margaret France

**16.G.42 Minutes**

**RESOLVED – That the minutes of the Governance Committee held on 9 March 2016 be confirmed as a correct record for signing by the Chair.**

**16.G.43 Declarations of Any Interests**

There were no declarations of any interests.

**16.G.44 Draft Statement of Accounts 2015/16**

The Chief Finance Officer presented the draft Statement of Accounts (SOA) for 2015/16 before they are signed and authorised for issue by the end of June 2016. The report also advised about the process leading up to the formal submission of the SOA for approval by Members following the completion of the external audit and the new statutory requirements arising from the Accounts and Audit Regulations 2015.

The statement is currently an unsigned draft, which may be subject to change before being signed and made available by the External Auditor. The SOA could not be signed until the Executive Cabinet approved transfers to reserves and financing of the capital programme at its next meeting.

The Accounts and Audit Regulations 2015 came into force on 1 April 2015. The main impact of the regulations is changes to the year-end closedown process and external audit arrangements will be required to enable the Council's audited accounts to be published two months earlier than they are currently. The deadline applies from 2017/18 onwards, with 2015/16 and 2016/17 being transition years.

Members of the Committee expressed concerns over what action would be taken differently this year to ensure that these audited set of accounts would be signed off by the end of June 2017. Members were informed that reviews had taken place and action logs created to mitigate any

difficulties faced last year reoccurring and granted assurance that the Council would deliver on this target.

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

#### **16.G.45 Treasury Management Annual Report 2015/16 - Chorley**

The Chief Finance Officer submitted the Treasury Management Annual Report that detailed the Council's performance and compliance with Prudential Indicators for the financial year ended 31 March 2016.

The report advised on compliance with Prudential and Treasury Indicators in 2015/16. The return on investments for the year was 0.44% which, although not high, had exceeded the benchmark of 0.396%. The report also detailed the Council's borrowing and investments as at 31 March 2016.

The current regulatory environment concerning treasury management places a greater onus on members to scrutinise treasury policy and activity. To enable this, each year the Council is required to consider, as a minimum, three treasury reports. These consist of an annual strategy statement in advance of the year, a mid-year review of that strategy, and an out-turn report.

Revised Prudential and Treasury Indicators for 2015/16 were included in the report "Treasury Strategies and Prudential Indicators 2016/17 to 2018/19", presented to Special Council of 1 March 2016. Where relevant, comparisons with 2015/16 indicators in this report were to those approved most recently.

In order to ensure that local authorities borrow only for capital purposes, the Prudential Code requires that borrowing net of investments should not exceed the Capital Finance Requirement for the preceding year plus any anticipated increase in the current and the next two years.

Total borrowing at 31 March 2016 was £14.300m (excluding accrued interest), £12.800m of which was from PWLB, and £1.500m was a temporary loan from another local authority. Cash balances (net of bank overdraft) invested at year-end were £0.822m, which meant that borrowing net of investments was £13.478m. This was a lower than estimated net figure of £15.022m because additional PWLB loans to finance new capital investment or to replace internal borrowing were not taken. The net borrowing figure is £20.019 less than the Capital Financing Requirement quoted above this figure representing the use of the Council's own cash to finance capital expenditure rather taking additional external loans.

It was explained to the committee that the current strategy had allowed the Council to take out more loans however, rather than rushing to borrow this would be deferred and an update provided in the mid-year report. Members were informed that the internal cash balances being utilised for borrowing would soon be depleted and external borrowing would have to replace this in future, although this had not occurred in 2015/16.

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

#### **16.G.46 Governance Committee Update - Chorley Council**

The External Auditors provided the Committee with a report on the progress made in delivering their responsibilities to the Council. It also included a summary of the relevant emerging national issues and development.

It was reported that everything was on track with regards to the 'progress against plan' and 'outputs delivered'. Works being undertaken on the audit of the 2015/16 final accounts and Value for Money (VfM) conclusion was also to be on track and scheduled to be reported to the Governance Committee in September 2016. There was discussion of this date moving forwards and it was suggested that the report be issued prior to September 2016.

Member's attention was brought to the article regarding Joint Venture Companies (JVC) which were considered to be evolving the way in which local government protects front-line services. It was advised that the new breed of JVC's between public sector bodies could be more successful at working and staying together. It was reported that there was an increased number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture. Members queried how the partnerships transpire and were informed that this is variable depending on what is desired out of a venture as regards to what discussions will take place.

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

#### **16.G.47 Chorley Council Audit Plan - 2015/16**

The External Auditors, Grant Thornton, provided the Committee with an overview of the planned scope and timing of the audit. The report allowed Members to understand what the External Auditors consider as the requirements to bring the plan together and outlined the risks and consequences of the work being carried out. Members were notified of a recent session held with finance staff at which Oldham audit were invited to share advice on how to obtain an earlier closedown.

Members were informed that the Value for Money (VfM) criteria was no longer set by the audit commissions, but was now set by the Audit office. It was reported that following the initial Value for Money risk assessment there were no significant risks identified. Grant Thornton would continue to review the arrangement, including a review of the Annual Governance Statement before the auditor's report is issued.

The results of the interim audit work produced positive conclusions in which the internal audit service provided an independent and satisfactory service to the Council. The review of the internal audit's reports did not identify any material weaknesses which impact the audit approach or which would be likely to adversely impact the Council's financial statements.

With regards to business rate comparisons it was expressed that local authorities are in consultation regarding what we would like to see introduced in the system and a Lancashire-wide discussion would be taking place in the upcoming weeks. Officers granted assurance over concerns regarding the potential risks in relation to the unknown and ensured that plans would be in place to mitigate the reduction of loss between plans and implementation.

**RESOLVED – That the report be noted**

#### **16.G.48 Draft Annual Governance Statement**

The Director of Policy and Governance provided 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 finance 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).

Agreed improvements were detailed within the report that would build and strengthen the Council's corporate governance arrangements in relation to three themes, staff/member development, information management and equality and diversity.

Members were informed that the self-assessment assurance had been amended to make it more user friendly to subsequently increase transparency. Members drew attention to the theme of Information Management regarding the incompatibility of Sharepoint. It was indicated that due the lack of functionality the Council requires from the system, alternative feasible programs were being pursued.

**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 2015/16 financial statements.**

#### **16.G.49 Changes to Arrangements for Appointment of External Auditors**

The Committee received a report of the Head of Shared Assurance Services providing an update on the work in progress to establish arrangements for the appointment of the Council's external auditor beyond the 2017/18 financial year when the current contract with Grant Thornton comes to an end.

The report indicated that in 2017 the Council will need to make a choice between the various options for appointing its external auditor which in summary are:

- Setting up an independent Auditor Appointment Panel
- Joining with other councils to set up a joint independent Auditor Appointment Panel using an existing independent panel of the authority (if a suitable panel already exists)
- Opting-in to a Sector Led Body (SLB) that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Appointment Panel

Although the Council has until December 2017 to make an appointment, in practical terms this means one of the above options will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

The Local Government Association's view is that the SLB approach would provide the most cost effective and value for money option to councils and as such had recently canvassed opinion as to whether they should take steps to establish such a body. Chorley Council had indicated that it would like to keep all options open at this stage including the SLB option. The Head of Shared Assurance Services would bring a further report to Committee once the SLB approach had been fully developed to enable a decision to be made on the appointment vehicle to be adopted.

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

#### **16.G.50 Compliance with International Auditing Standards**

The Head of Shared Assurance Services submitted a report to enable the Governance Committee, as those "charged with governance" and the Chief Executive on behalf of "management" to provide a range of assurances being sought by the external auditors, Grant Thornton, as part of their audit of the Council's 2015/16 accounts. The specific assurances being sought by Grant Thornton were set out in the two letters appended to the report.

Given that the assurances requested were similar to the evidence being collated by Internal Audit to support the Annual Governance Statement (AGS) and in the interests of transparency, it was agreed with Grant Thornton that response to their letters would be provided following consideration at this meeting.

Members sought clarification on the 'matter' referred to in relation any actual or potential litigation or claims that would affect the financial statements and were informed that this related to the recent land searches claim which have now been completed subject to the finalisation of costs.

**RESOLVED – That the Chair of Governance Committee, Councillor Paul Leadbetter and the Chief Executive, Gary Hall signs assurance letters requested by grant Thornton.**

## **16.G.51 Internal Audit Annual Report 2015/16**

The Head of Shared Assurances Services submitted a report that summarised the work undertaken by the Internal Audit Service during the 2015/16 financial year. The report also gave an opinion on the adequacy and effectiveness of the Council's framework of governance risk management and control and gave an appraisal of the Internal Audit service performance.

An appendix to the report provided a detailed account of the individual audits undertaken and showed the approach that had been taken, the controls assurance rating that had been awarded and a summary of any actions that had been agreed with management to further improve controls within the areas audited.

The start of the Payroll Project had once again been postponed and would not be undertaken as part of the 2017/18 Internal Audit Plan and the review of the Partnerships was deferred due to an impending update of the Corporate Partnerships Framework.

The variation (42 days) between the planned (345 days) and actual time (387 days) spent on the audits undertaken and contingency is due to a substantive investigation relating to Community Infrastructure Levy/Section 106. The reviews of the key financial systems were in the main, completed with the remaining work finalised in quarter one of 2016/17.

During 2015/16 a total of 19 systems/areas were reviewed, 15 of which were critical and 4 which were major systems. Members observed that the vast majority of areas reviewed were awarded an amber assurance rating, with 13 out of the 15 critical systems reviewed during 2015/16 receiving a score of 6 (substantial assurance). It was also noted that the red controls assurance ratings awarded only one audit, Community Infrastructure Levy/Section 106, which received a score of 9 (limited assurance). Therefore, it was concluded that the Council continues to operate within a strong control environment.

Members were informed that the Council would participate with the Lancashire District Councils Audit Group in undertaking reciprocal peer reviews. This entailed that over the next twelve months Chorley Council would be participating in a review of the Internal Audit Services of Fylde Council and Preston City Council. It is planned that the two above Councils will carry out the review of our compliance with the Standards in March 2018.

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

## **16.G.52 Strategic Risk Update Report**

The Committee received a report of the Chief Executive that provided an update of the Strategic Risk Register which included 15 strategic risks to the Council, including actions in progress and details of new actions planned to further mitigate identified risks.

The risk register is continually reviewed and currently, the majority of risk categories remain stable with five identified as 'high risk', six 'medium risk' and four 'low risk'. One risk had reduced following successful work to manage high profile consultations that have now progressed to delivery stages.

One risk has been increased to the highest level to reflect the impact of recent budget cuts to partner services. Members queried how these 'new risks' were defined and sought assurances on what action the Council was taking to mitigate these risks. Members were reassured that Chorley Council had responded to the cuts, particularly from Lancashire County Council by allocating funding, an example of this being the revised bus routes. Members also indicated reservations over the risks of reorganisation which exceeded the risks surrounding the mitigation of cuts and stressed the importance of good performance.

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

### **16.G.53 Governance Committee Skills and Knowledge Report**

The Committee received a report of the Chief Executive that informed members of the results of the Skills and Knowledge questionnaire that had recently been undertaken with members of the Committee to identify what level of understanding the membership was perceived to have. The questionnaire was completed individually and was a self-assessment approach.

An evaluation of the results of the questionnaire revealed that Members felt that their level of understanding gained by the current training methods was not sufficient enough for them to fulfil their role on Governance Committee effectively and that their overall level of understanding of the Committee's roles and functions could be improved upon. Subsequently, it was considered that the historic in-house training methods could be revised.

One of the main difficulties that Members considered was that membership frequently changes in line with Council elections and political group appointments, constant membership changes, against a backdrop the committee only meeting four times a year, can make consistency of knowledge levels difficult to remain. It was concluded that experienced membership is important to this committee however a balance needs to be struck between this and including new Members in to challenge and trigger new ideas.

Members provided feedback on previous sessions and it was suggested that training sessions be conducted a few weeks prior to subsequent meetings to provide wider understanding of the work of the Committee rather than focusing in on one aspect on the agenda.

**RESOLVED – That the report be noted.  
That training sessions be conducted in the weeks prior to when the Governance Committee meetings are scheduled to take place.**

### **16.G.54 RIPA Application Update**

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

### **16.G.55 Exclusion of the Public and Press**

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

### **16.G.56 Section 106 Agreement/Community Infrastructure Levy Update**

The Committee received a report of the Head of Shared Assurance Services providing an update to members on the current position regarding Section 106 Agreements and Community Infrastructure Levy (CIL) following a substantive investigation undertaken by Internal Audit. This investigation followed the identification of missed Section 106 trigger points.

The report highlighted the work that has been undertaken following the identification of the missed trigger points to minimise the loss of income to the Council. It also indicated the current arrangements and actions taken to ensure that robust systems are now in place and operating effectively.

It was reported that to date, 50 out of the 65 agreements have been invoiced, totalling £1,016,660. The remaining 15 agreements could not be pursued for a variety of differing reasons that included; non-progression of the original planning application, the replacement of supplemental agreements which did not contain commuted sums, or developments that had not yet commenced.

Only one historical agreement had passed the legal timeframe for invoicing totalling £28,000.

With regards to CIL, to date, 38 of the 54 CIL Liability Notices had been issued to developers, with invoices subsequently raised for £145,000. Further work confirmed that the remaining 16 planning applications were not liable for CIL and therefore a notice was not required.

Officers granted assurance to Members that they were confident that effective systems of control such as, appropriate checks and balances to avoid an absence of due process were now in place and would be monitored closely going forwards.

In response to Members, it was also agreed that the CIL group would meet more regularly to consider updated information on S.106 agreement and CIL contributions so as to ensure greater transparency of the process.

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

Chair

Date