

REPORT OF GOVERNANCE COMMITTEE

1. This report summarises the business transacted at the Governance Committee meeting held on 25 July 2018.

GOVERNANCE COMMITTEE – 25 JULY 2018

Treasury Management Annual Report 2017/18 and Monitoring 2018/19

2. The Chief Finance Officer submitted a report on Treasury Management performance and compliance with Prudential Indicators for the financial year ended 31 March 2018. The report advised that the return on investments for the year was 0.26%, which exceeded the benchmark of 0.24%. Details of borrowing and investments at 31 March 2018 were presented.
3. The Council's 2017/18 Capital Programme had been reported to Executive Cabinet and Council at intervals during the year. In summary, capital expenditure for 2017/18 (including Revenue Expenditure Funded from Capital under Statute) was £11.391m, compared to the estimate of £17.400m when the prudential indicator for the year was revised.
4. The Minimum Revenue Provision (MRP) charged to the Council's revenue budget each year was based on the Capital Financing Requirement (CFR). The actual CFR for 2017/18 was £1.724m less than estimated; the main variance being that capital receipts were applied to reduce the CFR rather than to finance new capital expenditure. Financing by prudential borrowing was higher as a consequence, but the effect of the change to capital financing was to reduce the MRP for the next few years.
5. The Council's own cash was used to finance capital expenditure as a form of internal borrowing, rather than taking external loans. Under borrowing was higher than estimated because new loans taken in the year were lower than planned, which produced savings against the budget for interest payable. As a result, cash available to invest remained low and cash was therefore held in highly liquid accounts so that cash could be withdrawn whenever necessary to make payments.
6. Actual external borrowing for the year was £15.267m (excluding accrued interest, but including other long-term liabilities) which was below the revised Authorised Limit set at £23.268m to allow a margin for temporary borrowing if required for cash management purposes.
7. It was advised that additional borrowing would be required during 2018/19, as anticipated in the Treasury Strategy for 2018/19 to 2020/21. This was required due to the large capital projects taking place within the borough. Members were reassured that this had been taken into consideration in the budget. It was advised that should there be an upward trend in interest rates that would increase the long-term cost of borrowing, it may be necessary to borrow sooner than anticipated. However this would be constantly monitored before a decision being made by the Chief Finance Officer.
8. Members requested a training session on identifying what expenditure the council can and can't capitalise. It was advised that guidance could be provided to the committee. The report was noted.

Statement of Accounts 2017/18

9. The Chief Finance Officer submitted a report for committee approval of the audited Statement of Accounts (SOA) 2017/18 for its publication by 31 July 2018 under the requirement of Accounts and Audit Regulations 2015. Once approved, the signed Statement would be published on the Council's website.
10. The Committee were advised that there had been no changes to the SOA from the draft version published on 30 May 2018 which affected the financial position of the Council. Changes were made to the Comprehensive Income and Expenditure Statement, Expenditure and Income Analysed by Nature note, and the Collection Fund. The changes were also discussed in the Grant Thornton Audit Findings Report.
11. It was understood that the auditor intended to issue an unqualified audit opinion of the SOA. Members were advised that at the time of preparing the report and the current version of the SOA, the auditors were still undertaking a limited amount of checks. As the audit had not been finalised, it was possible that further changes to the SOA could be required. As a consequence it was recommended that the Chief Finance Officer in consultation with the Chair of the Governance Committee should approve any non-material amendments before recertifying the SOA. In the event that the Chief Finance Officer was of the opinion that the amendments were considered material to the financial position of the authority, the Governance Committee would be reconvened to approve the new SOA.
12. Grant Thornton reviewed the Annual Governance Statement (AGS) and recommended a number of changes. As these were not considered essential in 2017/18, the recommended changes would be considered for inclusion in the 2018/19 AGS.
13. The Chief Executive thanked Chorley Council staff and the External Auditors for all their work in achieving completion by the statutory deadline; and recognised that any issues be worked on going forward.
14. Members agreed to approve the audited Statement of Accounts for 2017/18, subject to any non-material in delegation with the Chief Finance Officer and Chair of Governance Committee. In the event that the Chief Finance Officer was of the opinion that the amendments were considered material to the financial position of the authority, the Governance Committee would be reconvened to approve the new SOA. Members authorised the Chief Executive and Chair of Governance Committee to sign the Letter of Representation and agreed that the improvements to the Annual Governance Statement (AGS) recommended by Grant Thornton be considered for inclusion in the AGS for 2018/19. External Audit Findings Report 2017/18.

External Audit Findings Report 2017/18

15. The Committee received a report of the External Auditors on their audit findings for the authority for the year ending 31 May 2018 that highlighted key matters arising for the Council's financial statements.
16. It was advised that they had not identified any amendments to the financial statements that resulted in an adjustment to the Council's financial position. Members were informed that subject to outstanding queries being resolved, the Auditor intended to

issue an unqualified opinion on the Financial Statements and Value for Money conclusion on 31 July 2018.

17. A significant risk regarding financial challenges over the next few years was identified however, the External Auditors advised that this was an issue for all local authorities and concluded that Chorley Council had appropriate arrangements in place relating to financial planning and management.
18. Following queries, the External Auditors advised that the significant difficulties faced regarding communication requirements as indicated in the report were due to difficulties in receiving the financial information in the correct format and in a secure way following GDPR. These initial difficulties delayed the start of their detailed testing, resulting in a later completion of testing than originally planned. External audit recognised that this was a learning process and advised that a new cloud system was being tested to ensure this did not reoccur. Members were assured that they would be ahead of schedule for completion before the statutory deadline by 31 July 2018 as well as meeting next year's deadline.
19. Members also queried whether the extra resources could have been employed at an earlier stage in the process in order to meet the deadline sooner. The External Auditors noted the suggestion.
20. The group discussed the Market Walk Development. At the Council meeting the previous evening, Councillor Alan Cullens submitted a Notice of Motion requesting the following:
 - That the Council be provided with an up to date valuation of the current Market Walk.
 - That the Council are provided with forecasted projected income levels and property valuation for the existing Market Walk development based on 2020 and 2024.
 - That the Council are given similar projections and a comprehensive viability report before any decision to progress further with the development of phase 2 is considered.
21. The Deputy Leader, Councillor Peter Wilson, advised that the final accounts were due to be signed off by the external auditor at the Governance Committee the following day. The accounts included the valuation of Market Walk and the income generated to date. It was not possible to forecast projected income levels and property valuation beyond the estimated modelling. Councillor Alan Cullens withdrew the Notice of Motion to seek assurance from this Governance Committee.
22. Grant Thornton advised that they were unable to provide this information as it was not part of their remit. The Value for Money conclusions were provided from the level of evidence available and reassured the Committee that the authority had done as much as it could. It was agreed that the Valuation Report regarding the Market Walk Development, as undertaken by the Valuation Agency, could be made available to Councillors. Although difficult to forecast, the Council wanted to ensure that any rates would be reflected correctly and therefore the rates would be closely monitored and revalued annually.

23. The Committee were made aware of the audit fee for the year and were advised that this was due to reduce by an extra 23% next year. Members noted the report.

Work Programme

24. The Committee were presented with a work programme that outlined the reports to be considered at each Governance Committee meeting throughout the Council year. It was agreed that this be included on the agenda for each Governance Committee to update Members as it could be subject to change.
25. It was agreed that a report on GDPR and anti-fraud be included on the Governance Committee agenda in January 2019. Members resolved that the programme be noted and an updated version be brought to each Governance Committee meeting.

RIPA Application Update

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

Any urgent business previously agreed with the Chair

27. The Chair reminded Members of the Self-Assessment Survey and requested that this be completed if not already done so.

Recommendation – to note the report.