

MINUTES OF GOVERNANCE COMMITTEE

MEETING DATE **Wednesday, 29 November 2017**

MEMBERS PRESENT: Councillors Alan Ogilvie (Chair), James Patten (Vice-Chair), Paul Foster and Karen Walton

OFFICERS: Dave Whelan (Legal Services Manager/Monitoring Officer) and Andy Houlker (Senior Democratic Services Officer)

OTHER MEMBERS AND OFFICERS: Councillor Warren Bennett, Councillor Colin Clark (Deputy Leader and Cabinet Member for Corporate Support and Assets), Councillor Michael Green, Jane Blundell (Acting Chief Finance Officer), Mark Gaffney (Director of Neighbourhoods, Environmental Health and Assets), Lee Hurst (Principal Systems & Financial Accountant) and Noel O'Neil (Interim Manager) also Simon Hardman (Grant Thornton PLC) and Mark Heap (Grant Thornton PLC)

PUBLIC: 0

32 Apologies for absence

An apology for absence was received from Councillor Margaret Smith.

33 Declarations of Interest

There were no declarations of interest.

34 Minutes of the Last Meeting

In respect of Minute No.21, the Committee was informed that the re-structure of Democratic services had not yet been finalised to ensure it had capacity and was fit for purpose, but would be very shortly. A copy of the proposal was offered to members of the Committee.

Referring to Minute No.24, the Committee was conscious that it had still not received information on the City Deal Resource Review. This review was being conducted by the City Deal Partnership Board and information would be provided to members when available and be included into the Council's MTFS.

RESOLVED:

That the minutes of the meeting of the Committee held on 13 September 2017 be approved as a correct record.

35 External Audit - 2016/17 Annual Audit Letter

The Chair welcomed Mark Heap and Simon Hardman from the Council's External

Auditors, Grant Thornton, who presented their Annual Audit Letter for 2016/17.

The audit letter had concluded that the accounts were generally of a good quality and the Finance Team responded as required to queries identified. It had been agreed that some disclosure issues which were identified would be addressed for 2017/18.

As previously advised, the statutory deadlines for approval and publication of the audited accounts had been brought forward for 2017/18 and future years. The accounts would need to be available for audit by 31 May and the audited accounts published by 31 July 2017 (two months earlier than in 2016/17). Officers were working with the external auditors to ensure these deadlines could be achieved and Governance Committee dates were being revised to meet these new requirements (this was an item later on the agenda).

It was confirmed that the certification of grants would be completed by 30 November 2017 and it was unlikely that the fee would be much different to that in the report (£6968). In respect of aspects of the medium term financial planning, this would be part of the forthcoming 2017/18 audit.

RESOLVED (Unanimously):

That the findings in the Annual Audit Letter for 2016/17 (Appendix A to the report), be noted.

36 External Audit - Update Report

The External Auditors presented their progress report and provided a brief summary of emerging issues and developments in the report.

The progress report included information in relation to the following:

- 2016/17 statutory audit
- certification of the 2016/17 Housing benefits final claim
- issue of the auditor's fee letter 2017/18
- accounts audit plan 2017/18
- interim and final accounts audits 2017/18
- value for money conclusion 2017/18
- update on technical and local authority matters

Whilst the External Auditors had not seen the LGA's review of the Council's financial planning and budget, they were keen to as part of their overall work. In respect of the Interim Accounts Audit, the External Auditors confirmed that February 2018 had been suggested and was suitable. The External Auditors confirmed that any changes in the code of practice presented a challenge but there were no radical changes and this was a relatively quiet year. Referring to a Manifesto for a Vibrant Economy and the example of Manchester, the External Auditors posed to the Council a question – what was your natural area – and they indicated that the Council's basket of indicators might look quite different those for Manchester.

RESOLVED (Unanimously):

That the progress report be noted.

37 Budget Management Report as at 30 September 2017

The Committee considered the report of the Acting Chief Financial Officer detailing the Council's overall financial position compared to the financial plan for the second quarter 2017/18 financial year. Attached to the report was the Budget Management Report (Appendix One) and the Council's Capital Expenditure (Appendix Two). There was slippage in the Capital Expenditure and those schemes would be reviewed.

During the discussion the Committee commented on areas which included:

- business rates pooling arrangements - there had been legal advice and an assurance from the Government that whilst Burnley BC had been re-admitted to the scheme this would not negate/adversely affect the current pooling arrangements;
- governance & business transformation – it was accepted that on page 53 of the agenda pack this should read as an 'underspend' in line with the figures on page 52;
- provision for repayment of debt – this was explained as a revenue charge relating to the financing of capital vehicle procurement;
- budget figure (change) – whilst the report indicated that the budget had changed the overall figure had not, there had been a change in the way City Deal monies were shown in the budget;
- council tax profile – this figure was currently zero as Council tax income was only transferred to the revenue account at year end;
- severance payments – it was confirmed that these had not been included in the budget;
- pest control fees – the income figure was in line with the half year estimate; and
- interest on investments – the Council was constrained on the level of investments by its Treasury Management Strategy which was due to be refreshed

RESOLVED (Unanimously):

That the Budget Management Report as at 30 September 2017 be noted.

38 Closure of Annual Accounts 2017/18 Timetable

The Committee considered the report of the Interim Corporate Governance Manager informing them that the deadline for the closure of accounts for 2017/18 would be the end of May in 2018 and for subsequent years. This had previously been the end of June. This was to comply with new statutory accountancy requirements providing clarity on the finance position of all the local authorities.

This change needed to be reflected in the Council's Committee Timetable for 2018/19 with the Statement of Accounts needing to be considered earlier in the year. Hence it was proposed that the committee would meet on 24 May 2018 and then 26 July 2018 to consider the Closure of the Annual Accounts for 2017/18.

Assurances were sought and given that both External Audit and the Council's Shared Financial Services Team had plans in place and would closely liaise and

share information to ensure that this new deadline would be met. It was suggested that at its next meeting in January, the Committee receive a presentation on how this was proposed to be achieved including relevant resourcing plans.

It was also noted that in the proposed timetable for 2018/19 there were no meetings of the Committee scheduled between July and November 2018. This was felt to be a large gap and an additional meeting might be required.

RESOLVED (Unanimously):

That:

- (1) the need for meetings of the Governance Committee to be held on 24 May 2018 and 26 July 2018 to meet the deadlines for the Closure of the Annual Accounts 2017/18 be noted;
- (2) the Committee receive a presentation of plans by the External Audit and the Council's Shared Financial Services Team about how they would meet the new earlier deadline for the Closure of the Annual Accounts; and
- (3) consideration be given to scheduling an additional meeting of the Committee between July and November 2018.

39 Investment Property Strategy

The Chair brought consideration of this agenda item forward to enable the External Auditors to be in attendance during the discussion and contribute if felt appropriate.

Further to Minute No. 27 of the meeting held on 13 September 2017, the Committee considered the report of the Director of Neighbourhoods, Environmental Health and Assets which provided details of the draft Investment Property Strategy and the proposed governance arrangements, the use of commercial experts and their procurement.

The strategy document was appended to the report and set out the context for investment in commercial property and identified a range of criteria to be considered for each investment along with the due diligence and governance arrangements to be followed.

The Council had previously identified investment in property and assets as a source of income to support the delivery of the Medium Term Financial Strategy. An income target of £300,000 had been established and a Borough Investment Fund of £3.824m was created to fund this investment initially. Additional funding could be identified if other investment opportunities arose.

The Committee was asked to agree and recommend the strategy along with associated governance arrangements to Cabinet.

It was explained and confirmed that a decision on the strategy was a matter for the Cabinet and not full Council. Whilst members had previously been provided with a flow chart on the decision making roles of Cabinet and Council it was felt that not all members might have appreciated the significance and it was requested that some explanatory text be included and circulated to members. This was accepted.

The Committee went through both the report and strategy document in detail. During consideration the discussion included comments from the Committee on the following areas

- rates of return on investment – the anticipated return was influenced by the type of tenant/length of tenancy (usually the higher the risk, the higher the rate of return);
- procurement of expert/professional services – the process to be followed and whether local agents were to be considered and advised the Council was going through the Crown Commercial Services; Framework. This included an explanation of the period of commission and threshold level of future acquisitions;
- existing assets – this was a wider approach and these would be reviewed, looking at retention, investment or disposal. Going forward assets would link into the Council's Vision and Corporate Plan around growth;
- it was confirmed that this strategy was separate to any shared service arrangements with Chorley BC;
- due diligence – if the process regarding an item was finalised after a meeting of the Cabinet, a special meeting of the Cabinet would be convened and any decision would be subject to Call-in;
- it was confirmed that the Chief Executive was the Corporate Property Officer;
- approval of any additional amount to invest outside the Budgetary Framework or for additional borrowing would be subject to confirmation by full Council;
- it was accepted that investment in property by the Council should take factors into account such as economic growth and social benefit, although the Council was looking at investment opportunities that would provide a financial return to support its non-essential services;
- risk – the process would see assets regularly re-evaluated and probably reported quarterly in line with existing budgetary processes and it was confirmed that the impact of a significant reduction in value of assets would only be on the balance sheet. The External Auditor commented that they would look at that as part of their Value for Money conclusion. The development of schemes and their governance arrangements would be part of their assessment work;
- the committee was informed that it was desirable overall for the Council to have a more balanced property type portfolio; and
- formal measurement of return – this had stopped following changes nationally, however, this could be re-introduced as part of the Transparency Agenda

In respect of the Council's Investment Property Strategy document itself, the Committee suggested a few amendments to wording to reflect comments by the Committee. In Section 4 (Strategy for existing commercial portfolio), the spread of properties in the portfolio should include retail but not use the word 'predominantly'. Also the rationale for retaining lower yield assets be expanded to include meeting aims of the Council. In Section 6(e) (Investment Property Criteria - length of lease unexpired) following a query regarding WAULT (weighted average unexpired lease term), the Council's target WAULT of 6-8 years be included. Similarly following an enquiry Section 6(h) (management issues) be expanded to be more specific around minimising recurring management costs with more emphasis on tenant responsibilities.

In respect of Appendix A (the Council's pro forma) this has been drafted to capture core information for due diligence about a potential property investment. A more detailed report would then be presented for consideration by the Cabinet. It was suggested that this include reference to the investment's level of risk (low/medium or high) and to how it sat with the Council's strategy and its impact on the overall property portfolio. This was accepted. Similarly it was suggested and accepted that the Yield also be shown as a Net % in addition to a Gross %.

RESOLVED (Unanimously):

That subject to the suggested amendments above being incorporated in to the Council's Investment Property Strategy, the:

- (1) Investment Property Strategy and the governance arrangements outlined within the report be approved; and
- (2) Cabinet be recommended to adopt the Investment Property Strategy and the appointment of the external Property Investment expertise at the end of the procurement process.

Chair

Date