

## Governance Committee

**Meeting held at 6.00pm on Wednesday, 23rd September, 2015 in Wheel Room, Civic Centre, West Paddock, Leyland, PR25 1DH**

**Present:-**

Councillors Ogilvie (in the chair), Patten, Mrs Snape and Mrs K Walton.

**In Attendance:-**

Garry Barclay (Head of Shared Assurance Services), Carol Eddleston (Democratic Services Officer), Susan Guinness (Head of Shared Financial Services), Dawn Highton (Principal Auditor), Lee Hurst (Principal Systems and Financial Accountant) and Michael Jackson (Principal Financial Accountant).

Councillor Bennett (Cabinet Member for Finance and Resources).

Fiona Blatcher, Richard Watkinson and Gareth Winstanley, representatives of the Council's external auditors, Grant Thornton.

**Public Attendance:-**

1

**Officers:-**

3

**Other Members:-**

Councillors Mrs Moon and P Smith.

Minute No.	Description/Resolution
11	<p><b>Apologies for Absence</b></p> <p>Apologies for absence were submitted on behalf of Councillors Clark and Foster.</p>
12	<p><b>Declarations of Interest</b></p> <p>There were no declarations of interest,</p>
13	<p><b>Minutes of the Last Meeting, Held on 24 June 2015</b></p> <p>The chairman confirmed that, since the last meeting, preliminary discussions with officers had concluded that a different word than 'endorse' could be used in future recommendations relating to the retention of reserves, without changing the objective of the recommendation.</p> <p>RESOLVED (unanimously): That the minutes of the meeting held on 24 June 2015 be approved as a correct record and signed by the chairman.</p>
14	<p><b>External Audit - The Audit Findings for South Ribble</b></p> <p>Fiona Blatcher presented the report and confirmed that it was anticipated that the Council's external auditors, Grant Thornton, would issue an unqualified opinion in respect of the financial statements by 30 September and an unqualified Value for Money conclusion based on their review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>Ms Blatcher highlighted the challenge that would be presented for members and officers by new legislation which brought forward the deadlines for the preparation and audit of Local</p>

Government financial statements, meaning that the 2017/18 audit would have to be completed by the end of July. Councillor Bennett, Cabinet Member for Finance and Resources, acknowledged that this change would present challenges but confirmed that a 'dummy run' was already taking place to enable all parties to prepare for what lay ahead.

Ms Blatcher confirmed that the audit was now substantially complete, with only a few areas of work to be finalised by early the following week. She was confident that these would not necessitate a change to the accounts and considered that the chairman could sign the accompanying Letter of Representation this evening. The chairman said he was pleased to receive a positive report outlining only very minor differences between the pre-audited and post-audited accounts and, given Ms Blatcher's comments, indicated that he would sign the letter at the end of the meeting, with the caveat that it not be released until work on the accounts had been finalised and the External Auditor had confirmed the unqualified opinion.

The external auditors, the Head of Shared Financial Services and the Principal Systems and Financial Accountant responded to questions from the committee and the audience.

In relation to the amber assessment against bank reconciliation on page 14, the Head of Shared Financial Services assured the committee that effective system controls were already in place but that steps had now been taken to re-introduce a more formal review and sign-off of the Council's bank reconciliation.

The misstatement in the Collection Fund Statement was simply due to £883,000 having been misallocated to the 'Business Rates Receivable' line rather than the 'Increase/(Decrease) in Provision for Appeals' line.

Ms Blatcher considered it entirely appropriate that the Governance Committee should be aware of the governance arrangements around the City Deal and satisfied that these arrangements were effective but did not consider that there should be any specific relationship between the committee and its City Deal counterpart.

Ms Blatcher confirmed that there were no tax implications arising from the incorrect classification of expenditure relating to catering costs outlined on page 15.

Councillor Bennett, Cabinet Member for Finance and Resources, and Councillor P Smith from the audience commented that this was an excellent report and the Council should not be complacent about the achievement of yet another excellent External Auditor opinion.

In response to questions from the member of the public, Ms Blatcher said that this Council's reserves were higher than some other Local Authorities. Given the significant financial challenges that local authorities were facing in future years, however, she was of the opinion that this position was a helpful one.

Ms Blatcher confirmed that some local authorities used an external audit firm to carry out their internal audit function but explained that no such firm could act as both internal and external auditor for the same authority simultaneously.

RESOLVED (unanimously):  
That the report be noted.

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### **SRBC Audited Statement of Accounts 2014/15**

Councillor Bennett, Cabinet Member for Finance and Resources presented the covering report to the Audited Statement of Accounts which, as mentioned earlier, contained only minor changes from the pre-audited statement which came before the committee in June.

The chairman outlined that as this committee had already endorsed the unaudited accounts in June, it now only needed to consider the Grant Thornton comments received following the audit. He was pleased to note that only a very few minor misclassification and disclosure

	<p>changes had been identified by the Auditor which demonstrated the quality of the Council's Shared Financial Services team.</p> <p>In response to a question from the member of the public, Councillor Bennett explained that at any one time the authority was carrying a number of vacancies and at the present time this was in the region of eight. Cabinet Members were currently looking at the vacancies in their particular service areas but it was likely that the current vacant posts would be filled.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) The Statement of Accounts for 2014/15 as contained at Appendix A be approved and authorised for issue by means of their signing by the Chief Executive and chairman of the Governance Committee, and</li> <li>2) The Chief Executive and the chairman of the Governance Committee be authorised to sign the Letter of Representation contained at Appendix B for issue upon final completion of the outstanding areas of audit work.</li> </ol>
16	<p><b>Internal Audit - First Internal Audit Interim Report as at 28 August 2015</b></p> <p>The Principal Auditor presented the report which advised members of the progress made on the South Ribble and Shared Services Internal Audit Plans for the period April 2015 to August 2015 and gave an appraisal of the Internal Audit Service's performance to date.</p> <p>She was pleased to report that the assessment of the adequacy of internal controls over fuel management had found no critical issues and the arrangements were found to be robust.</p> <p>As responsibility for insurance fell within Shared Assurance Services, the audit had been conducted independently by Lancashire County Council. Our arrangements had again been found to be robust.</p> <p>At this stage in the year, '% of planned time used' and '% audit plan completed' were behind target. The Principal Auditor explained that this was simply due to the fact that the work programme was profiled equally across the year but, since the start of the year, a number of service areas had asked for reviews to start in the later quarters. The nature of the National Fraud Initiative meant that Internal Audit input was required at different stages of the year and it was anticipated that all the planned days would indeed be used.</p> <p>The chairman suggested that including an explanatory note in Appendix 3 about any re-profiling of the work programme would alleviate the negative connotation of 'below target'. He welcomed the positive report and commended in particular the fact that all management actions had been agreed.</p> <p>RESOLVED (unanimously): That the report be noted.</p>
17	<p><b>Treasury Management Activity Mid Year Review 2015/16</b></p> <p>Councillor Bennett, Cabinet Member for Finance and Resources, presented the report which outlined performance in the last five months and compliance with prudential indicators. The report also asked the committee to recommend that Council approve a number of proposed changes to Prudential and Treasury Indicators.</p> <p>Councillor Bennett explained that some of the proposed changes were in response to the fact that the authority had more cash available for investment than had been estimated before the year started and it was therefore timely to update the prudential and treasury indicators accordingly.</p> <p>The Principal Financial Accountant outlined the changes as proposed in Appendix B to Prudential Indicators 1 - Capital Investment, 2 - Capital Financing Requirement (CFR), 5 &amp; 6 - Borrowing and Investment Projections, 8 - Operational Boundary for External Debt, 9 -</p>

	<p>Authorised Limit, and Treasury Indicator 1 – Upper Limit on Variable Rate Exposure.</p> <p>RESOLVED (unanimously) that:</p> <ol style="list-style-type: none"> <li>1) The report be noted, and</li> <li>2) Council be recommended to approve changes to Prudential Indicators and Treasury Indicators as presented in Appendix B.</li> </ol>
18	<p><b>Review of Investment Counterparties 2015/16</b></p> <p>Councillor Bennett presented the report which summarised a review of investment options with the view of proposing an updated list of Investment Counterparties. This would provide a more flexible approach and thus facilitate potentially a higher rate of return on investment without sacrificing the security or liquidity principles of the decision making process.</p> <p>Drawing the committee’s attention to the benchmarking graph in Appendix A, Councillor Bennett illustrated that this Council was currently slightly below the average level of performance achieved by other local authorities and suggested that the recommendations in the report would allow the authority greater flexibility in its approach to investments to achieve a greater rate of return.</p> <p>The Principal Financial Accountant outlined a number of proposed changes to the Financial Institutions approved by Council in March 2015 and explained each of the categories of investment counterparty referred to on pages 4 and 5, some of which were new to this Council:</p> <ul style="list-style-type: none"> <li>- Certificates of Deposit (CDs) were broadly equivalent to term deposits. They were a negotiable form of fixed deposit but could be sold before they reached maturity if, e.g. the cash was required more urgently than originally intended or if a counterparty were to be downgraded and consequently no longer fitted within the approved investment parameters on the approved counterparty list. The purchase and sale of CDs required some broker involvement which would incur a cost.</li> <li>- Enhanced Money Market Funds/Enhanced Cash Funds were an enhanced version of the Money Market Funds with which the Council already placed deposits, but were designed to produce an enhanced return. Usually this involved some greater level of risk.</li> <li>- Property Funds could offer a higher rate of return (potentially in excess of 5%) for longer-term investments (i.e. of several years). Should any decision be taken in the future to invest in such funds the authority would work very closely with Capita Asset Services for help in selecting appropriate Funds.</li> </ul> <p>Councillor Bennett confirmed that the proposals in the report were intended to offer the authority additional options and greater flexibility with a view to increasing return without risking security or liquidity.</p> <p>Councillor Bennett, the Head of Shared Finance Services and the Principal Financial Accountant responded to questions from the committee and audience.</p> <p>Appropriate due diligence would be undertaken in the form of advice from Capita Asset Services, close scrutiny of relevant accounts, relevant research data such as identifying and liaising with local authorities which had invested in Funds in which we might be interested.</p> <p>The Head of Shared Financial Services reiterated that investments within Property Funds should not be confused with possible plans to expand the Council’s investment property portfolio. It was amplified that these two issues were separate matters with the latter being dealt with within the Capital Programme, the review of which formed part of the Budget Setting process.</p> <p>There was no intention to change the process or systems for approving investment decisions and placing cash investments. Responsibility and accountability for approving investment decisions lay with the Chief Executive as the Council’s Section 151 Chief</p>

Finance Officer. The Head of Shared Financial Services was the Deputy Section 151 Officer who could act on behalf of the CFO in the Chief Executive's absence if necessary.

Local authorities were not required to use treasury management advisors but it was common practice to do so. The Council engaged the services of their Treasury Advisors via a joint tendering arrangement with Chorley Council to achieve a discounted contract price.

In response to queries about the risk involved in placing deposits with other Local authorities it was reiterated that councils were legally bound to set a balanced budget and it was highly unlikely that a local authority would ever go bankrupt. Also the financial affairs of Local Authorities were in the public arena and therefore transparent. Financial problems in the public sector were publically reported across the board such as per the Governance arrangements in existence at South Ribble Borough Council. Inter local authority borrowing allowed local authorities to overcome any possible short term liquidity issues and to borrow at a lower rate of interest than that charged by PWLB.

The Treasury Strategy for the council was considered and approved as part of the budget setting process via Cabinet and Council in February/March each year. Performance reports were brought to the Governance Committee twice yearly in accordance with best practice. Should the recommendations in this report be approved, performance data would be brought to this committee on a quarterly basis.

It was clarified that the outcome of each Investment decision made by the Section 151 Officer was not audited but all relevant systems were audited for compliance with system controls and procedures, including compliance with the approved Treasury Strategy.

Selling a Certificate of Deposit early could result in a loss so it would be preferable to allow any such deposits to mature wherever possible.

The committee debated whether further research should be undertaken into some of the new categories of counterparties explained in the report so that officers and members could gain a deeper understanding of them before the proposed revised list of counterparties was taken to Council. Councillor Bennett assured the committee that he and officers were comfortable that the proposals contained in the report were right and appropriate. From the audience, Councillor Mrs Moon stated that she had no concerns about the proposals.

The Head of Shared Financial Services said that the purpose of the report related to only one element of the current Treasury Strategy, the potential to expand the Counter Party List. The processes, systems and decision making framework used for placing investment deposits would remain unchanged. The intention was to gauge members' appetite for broadening the current options available before further work was undertaken by officers on a more detailed basis. No investment would be made before appropriate due diligence was undertaken. She reassured the committee that the authority would continue to operate the Treasury Management Strategy within proven and audited processes.

The chairman concluded that whilst the proposals in the report were significant, this committee was being asked to make recommendations for Council to decide on. The existing arrangements, whereby the Section 151 officer made investment decisions based on his professional judgement and advice from the Council's treasury management advisors, would remain unchanged but the proposals would allow more flexibility with regards to investments. It was clear that additional information would need to be reported to Governance Committee at a future meeting but, as chairman, he was comfortable with accepting the recommendations in the report.

RESOLVED (unanimously) that:

- 1) The report be noted,
- 2) Council be recommended to approve a revised list of Investment Counterparties for the remainder of 2015/16 as presented as a table in section 7 of the report, and
- 3) The committee look forward to receiving more detailed information about Certificates of Deposit, Enhanced Money Market Funds and Property Funds.

19	<b>Forward Plan</b>  The Forward Plan was noted without further debate.
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The meeting finished at 8.09pm.

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