

Minutes

Corporate Governance Group

23rd July 2020



Present

Councillors	Present	Councillors	Present
P Euesden	Yes	R van Dulken (Chairman)	Yes
D Hume	Yes	D Wallace	Yes
H Johnson (Vice-Chairman)	Yes	T Walsh	Yes
D Mann	Yes	Mrs L Walters	Yes
Miss V Santomauro	Yes		

In attendance:

Chris Fleetham	Corporate Director
Jessica Mann	Governance and Members Officer
Angie Mitchell	Audit, Insurance and Fraud Manager
Phil Myers	Financial Services Manager
Chloe Waight	Governance Business Officer
Trevor Wilson	Head of Finance
Emma Wisbey	Governance and Members Manager

Steve Bladen BDO (External Auditors)

27 **MINUTES**

DECISION: The Minutes of the meeting of the Corporate Governance Group held on 16th January 2020 were approved as a correct record.

28 **PUBLIC QUESTION TIME**

INFORMATION: There were no questions asked, or statements made.

29 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

30 **KEY FINANCIAL INDICATORS – 31st MAY 2020**

INFORMATION: Members considered a report on key financial indicators which provided information on performance for the financial year to 31st May 2020.

Members were informed that in terms of the Council's budgetary expenditure, the general fund expenditure was split between salaries and other expenditure; estimated salaries

amounted to £18.8m and estimated other expenditure totalled £37.6m. Providing total estimated expenditure of £56.4m for the current year. In respect of general fund income, it was highlighted that commercial and property rental income was estimated to be £2.9m for the year, with other controllable income estimated to be £38.29m; therefore, the total estimated income for the year amounted to £41.19m. The difference between the two income streams was the net general fund revenue budget for the year, which was reported to be £15.226m.

As at 31st May 2020, there was a negative variance of £438,000 in comparison to the profiled budget of £4.402m. The variance had resulted primarily from a reduction in income of £0.725m; the main areas included planning fees, car park charges and interest received.

In light of the Covid-19 pandemic, Members were advised that the Government had requested that Local Authorities submit a monthly return as to the estimated financial impact of the virus on their finances. The next return was due to be submitted on 31st July 2020. It was added that there had been slight changes in the information requested by the Government in the returns to-date, and it was expected that this would include an indication as to the Council's income losses in light of the pandemic. It was reported that emergency funding of £3.2billion had been provided by the Government to Local Authorities, of which Braintree District Council had received two allocations that totalled £1.567m; since the time of the report publication, Members were informed that the Council had received a third allocation of funds from the Government of £218k. The total financial support provided to the Council as part of the Government's emergency funding therefore amounted to £1.785m. The Government had also announced that it would provide financial support to Local Authorities in regard to losses of income from fees and charges.

It was reported that the Council's accountants were currently working on the first quarter information to assess the impact of the Covid-19 pandemic and to predict the outturn position for the year; the outcome of the first quarter position was due to be received by the Cabinet on 7th September 2020, and this would inform the budget setting process for 2021/22.

Expenditure on salaries for the year to the end of May was £2.943m against the profiled budget of £3.013m. The budgets for salaries were set on the basis that all posts at the Council would be occupied for the whole year. An efficiency factor has been provided each year to recognise that vacancies will occur during the year although they are not identified at the beginning of the year; for the current year, the efficiency factor was set at £300,000. After allowing for two months of the current efficiency factor, the Council currently had a positive variance of £70,000. Attention was then drawn to the annual pay award, of which the profiled budget included an allowance for of 2%. The award was still to be agreed between the Unions and the Employers Organisation, with the latest offer proposed by the Employers Organisation of 2.75%.

In respect of rental income, it was reported that the budget for the year from commercial and industrial properties was £2.901m. The actual income for the year received to the end of May was £0.781 against a profiled budget of £0.786m. Six properties were unoccupied as at 31st May 2020, with properties at the Braintree Enterprise Centre and at ¾ Century Drive in Braintree. It was added that 31 tenants that were experiencing financial hardship due to the pandemic had requested and were granted a three month deferral of rent payments.

In terms of capital projects, expenditure was reported to have been £2.228m as of 31st May 2020 against the updated Capital Programme of £39.252m. This encompassed estimated expenditure on two major projects under the District Investment Programme; Manor Street Development of £17.579m and Horizon 120 of £12.465m. As at the end of May, the main schemes on which expenditure was incurred were the Suffolk Waste Partnership investment at £1.228m, the Manor Street Development at £512k and Horizon 120 at £398k.

The total Council Tax collectable debit for the year was reported to be £97.65m; as at the end of May, the collection rate was 20.12%, with £19.72m collected. This compared to a rate of 21.32% for the same period in the previous year. The total Business Rates collectable debit for the year was reported to be £27.26m; as at the end of May, the collection rate was 16.61%, with £4.53m collected, which compared to a rate of 20.5% for the same period last year. It was added that the amount of Business Rates to be collected was lower than in previous years due to the Government's Expanded Retail and Nursery rate relief schemes, having been awarded with a total value of £18.5m.

Members were informed that the report indicated that the market value of the pooled funds showed an unrealised net loss in the principle sum of £1.032m as at 31st May 2020; however, as at the end of June, this had reduced slightly to £940k.

Finally, it was reported that in addition to the Council investing some of its surplus funds with the Debt Management Office (DMO), the Council had also used the DMO to temporarily hold the Business Support Grant funding of £31.57m, which had been received by the Government in April.

DECISION: Members accepted the report of the Key Financial Indicator as at 31st May 2020.

REASON FOR DECISION: To provide evidence that the Council adopts good practice in actively monitoring its financial performance and actively manages issues that may arise.

31 **INTERNAL AUDIT UPDATE, INCLUDING PROGRESS AGAINST AUDIT PLANS 2019/20 AND 2020/21**

INFORMATION: Consideration was given to a report which provided Members an update on progress and performance against planned work and any other matters which affected the provision of the Internal Audit Service.

It was reported that the majority of items for the 2019/20 Plan were completed, with a number of other items included in the 2020/21 Plan. An update was also provided on progress against the External Quality Assessment Action Plan and the outcome of the Internal Audit Service self-assessment against the Local Government Application Note, which reflected the Public Sector Internal Audit Standards.

Members were informed that there had been no RIPA (Regulation of Investigatory Powers Act) or IPA (Investigatory Powers Act) applications for the period 2019/20 made by the Authority, or since the report was produced.

DECISION: Members noted the progress against the Internal Audit Plans 2019/20 and 2020/21.

REASON FOR DECISION: The Public Sector Internal Audit Standards (PSIAS) required the Internal Audit activity to report functionally to the Corporate Governance Group, being the Committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

The report provided an update on Internal Audit activity, and progress and performance against the approved Internal Audit Plan in accordance with the Corporate Governance Group role and the requirements of the PSIAS.

32 **INTERNAL AUDIT ANNUAL REPORT 2019/20**

INFORMATION: Members gave consideration to a report on the annual internal audit report 2019/20 and opinion, which could be used by the organisation to inform its Annual Governance Statement.

The Head of Internal Audit for the Council was required to provide a conclusion on the overall adequacy and effectiveness of the organisation's control framework or governance, risk management and control during the year 2019/20. It was reported that the conclusion from the 2019/20 report was that the Council's systems of internal control and internal control environment were generally adequate with some areas for improvement identified, of which management were in the process of resolving.

DECISION: Members accepted the Internal Audit Annual Report for 2019/20.

REASON FOR DECISION: To accept the Internal Audit Annual Report for 2019/20 in support of the Annual Governance Statement.

33 **DRAFT INTERNAL AUDIT PLAN 2020/21**

INFORMATION: Members gave consideration to a report on the Council's Internal Audit Plan for the period 2020/21, which built on the previous year's work and was based on the corporate risks that the Council was presented with and was also linked to the Council's Corporate Priorities.

Members were advised that the onset of the Covid-19 pandemic had influenced the Plan. It was reported that the Authority had given due consideration during the development of the draft Plan as to what the full impacts of the pandemic would be, particularly in respect of the Council's control processes and where new responsibilities had arisen, such as in the payment of business grants.

DECISION: Members endorsed the Internal Audit Plan process and draft Internal Audit Plan for 2020/2021.

REASON FOR DECISION: The Public Sector Internal Audit Standards (PSIAS) required the Internal Audit activity to report functionally to the Corporate Governance Group, being the committee charged with independent assurance on the adequacy of the risk management framework and the associated internal control environment.

Members were requested to endorse the draft 2020/21 Internal Audit Plan which had been prepared in accordance with the Accounts and Audit Regulations 2015 (Section 5), requiring an effective internal audit of risk management, control and governance processes taking into account the Public Sector Internal Audit Standards and guidance.

34 **EXTERNAL AUDIT PLAN 2019/20**

INFORMATION: Members received a report that summarised the work of the Council's External Auditors, BDO LLP, proposed to undertake in respect of the external audit for the 2019/20 financial year.

The proposed fees chargeable for the audit and grant certification work for 2019/20 amounted to £58,512 although this will increase by approximately £2,500, to reflect changes in audit scope and depth linked to current audit requirements for property assets or pensions liability valuation work; as the scale fee is based on the historical position from 2012/13. The fees may also be subject to variation should additional unplanned work be required.

BDO has assessed the audit risks which are most likely to cause a material misstatement in the financial statements or impact on its use of resources opinion; these included the risk of management override of controls, the risk of fraud in revenue expenditure and recognition, risks around the valuation of non-current assets and the valuation of the Council's pension fund liability. Two further significant risks had also been identified that were in relation to the sustainability of the Council's finances, which will include a review of the Medium-Term Financial Strategy and saving targets, and the Council's decision making processes, such as its governance arrangements around capital projects like those of the Manor Street Development and Horizon 120. BDO would be carrying out further work around the risks identified to assist with the Council's management of these.

It was added that BDO would report back to the Corporate Governance Group in October 2020 as to its findings in respect of the audit of the Council's financial statement, which would include an update against each of the significant risks identified.

DECISION: Members noted the External Audit Plan 2019/20 together with the proposed audit fees.

REASON FOR DECISION: That Members were aware of the coverage of the External Audit Plan for 2019/20 and the associated costs of the external audit.

35 **STRATEGIC RISK MANAGEMENT**

INFORMATION: Members considered a report on the review and updating of the Council's Strategic Risk Register, which was agreed at the meeting of the Cabinet on 10th February 2020.

Members were reminded that the Strategic Risk Register was reviewed by Members at the Member Development Evening on 21st November 2019. At the development evening, Members proposed that the number of strategic risks that were identified be increased by one to eleven, with the inclusion of a 'Climate Change' risk. The Register was then updated to its current format before being considered and approved by the Cabinet in February 2020. It was stressed that these risks were being monitored on a regular basis by the Council, with Management Actions Plans implemented where necessary.

Members were made aware that in light of the current situation surrounding the Covid-19 pandemic, it was expected that there would be revisions made to the risks identified within the report, and that these revisions were due to be presented to the Cabinet at its meeting on 7th September 2020.

DECISION: Members noted and endorsed the Strategic Risk Register and the Action Plans for managing the high rated risks.

REASON FOR DECISION: For Members of the Corporate Governance Group to be assured that the Council's strategic and operational risks, with a high risk rating, were being actively managed.

36 **UPDATED REGULATION OF INVESTIGATORY POWERS ACT (2000) AND INVESTIGATORY POWERS ACT (2016) POLICY**

INFORMATION: Members considered a report on the revised Draft Regulation of Investigatory Powers Act (2000) and Investigatory Powers Act (2016) revised policy for approval, and informed Members of the outcome of the recent RIPA / IPA inspection conducted by the Investigatory Powers Commissioner's Office (IPCO).

It was confirmed that Braintree District Council had not made any RIPA or IPA applications since 2012. It was reported that IPCO Inspections were conducted for each Local Authority approximately every three years; the Council's last inspection was undertaken in May 2020. The Inspector's conclusions were that the Council demonstrated a level of compliance such that no physical inspection was required. The Inspector's comments had been incorporated into the revised draft RIPA and IPA policy, which was presented to Members for approval.

DECISION: That Members:-

- a) Noted the outcome of the recent the Investigatory Powers Commissioner's Office Inspection, and;
- b) Approved the revised Regulation of Investigatory Powers Act 2000 and Investigatory Powers Act 2016 Policy.

REASON FOR DECISION: The Corporate Governance Group functions include monitoring the Council's counter fraud and corruption arrangements: RIPA is the legislation governing covert surveillance techniques used in investigations, and IPA makes provisions relating to the acquisition of communications data.

37 **ANNUAL GOVERNANCE STATEMENT 2019/20**

INFORMATION: Members gave consideration to a report on the Council's governance, risk management and internal control arrangements that had been reviewed in order to support the production of the Annual Governance Statement (the Statement) for 2019/20.

The review included a review of the Council's Governance framework against a best practice framework devised by CIPFA/SOLACE. The aim of the review process was to ensure that the Council had effective governance, risk management and internal control processes in place to assist with accountability and the delivery of objectives. The review comprised two elements of effectiveness; in-year and year-end review processes.

Further to the onset of the Covid-19 pandemic in March 2020, the Council was experiencing a number of areas of significant change that would require consideration and action as appropriate in 2020/21 and the medium-term. It was emphasised to Members that the Statement was a live document that required regular updates in light of the latest events; its current format reflected the Council's governance position for the

2019/20 period as well as at the time of publication. Any further events for reflection within the Statement would be brought before Members at the next meeting of the Corporate Governance Group in October 2020.

Issues that had been identified as part of the review included recognition that since March 2020, there had been a heavier reliance on electronic working and as such, improved monitoring of the Council's IT network and cyber security was of fundamental importance. Furthermore, the complexity and challenge that the Council's investment programme presented demanded management rigour in ensuring that there was effective, strong and continuous governance in place. Areas where there significant change identified as part of the review included the need to assess the impact of the pandemic on the Council's services and systems; early indications that there would be financial stress on the leisure management services contract that require local assessment in both the medium and longer term and the Government provisions that enabled the Council to conduct remote Council meetings held on or before May 2021. Other significant risks identified included the financial uncertainty regarding Government funding of Local Government beyond 2020/21, although this had since been overridden by the financial challenges imposed by the pandemic and as such, it was reported that the Government had delayed its review of relative needs and resources; there was also uncertainty about the implications of Britain leaving the European Union, as current priorities had changed in response to the pandemic and there was doubt as to whether the Government deadline of 31st December 2020 could be met, and whether there would need to be an extension.

In summary, it was confirmed the Council's governance arrangements had been found to be robust in 2019/20, there was acknowledgement that the Covid-19 pandemic would bring substantial levels of risk to the Council in the 2020/21 period. There would be an ongoing review of the financial impact, as well as the impact on procedures and processes in relation to the emergency.

Further to the conclusion of the report, Members were reminded that an additional meeting of the Corporate Governance Group was due to take place on Tuesday, 11th August 2020 where matters such as the LGA's consultation of the Model Code of Conduct would be given consideration.

DECISION: That Members agreed:-

1. The updated Local Code of Corporate Governance, and;
2. The Annual Governance Statement for 2019/20, for signing by the Leader of the Council and the Chief Executive.

REASON FOR DECISION: To evidence that the Council has conducted a review of the effectiveness of its system of internal control for 2019/20, ensure that the Annual Governance Statement for 2019/20 is correct and in order for the Leader of the Council and the Chief Executive to sign.

38 **TREASURY MANAGEMENT ANNUAL REPORT 2019/20**

INFORMATION: Members gave consideration to a report which focused on the treasury management activities of the Council for the period 2019/20.

The Council's Treasury Management Strategy Statement (TMSS) for 2019/20 had been approved previously at the meeting of Full Council on 25th February 2019, and a mid-year

report was later considered by the Corporate Governance Group on 24th October 2019. The latter report was subsequently presented to Cabinet on 18th December 2019.

Members were informed that the Council's capital expenditure for 2019/20 was £6.999m, which was a lower amount than had been projected at the time of the TMSS approval and mid-year review. The main area where expenditure in 2019/20 was less than had been expected was in relation to the District Investment Programme, particularly on the Manor Street regeneration scheme and the Horizon 120 project; however, it was highlighted that both projects would start to incur higher expenditure throughout 2020/21 as they had now both progressed to construction phase. The reduced expenditure for the period 2019/20 was reflected in the Council's Capital Financing Requirement (CFR), which was £12.803m at 31st March 2020.

It was reported that there had been a slight reduction in other long-term liabilities; these had been incurred during previous years to acquire property and vehicles and were being repaid by annual revenue payments. External borrowing remained at £6m and was comprised of two Lender Option and Borrower Option loans that were originally taken out in 2002. The Council's total internal borrowing at the 31 March 2020 was £4.6m, which had been incurred on the Horizon 120 Project. It was anticipated that the Council would sell service-land plots at this site in the near future which would reduce this borrowing requirement. Members were reminded that the Council was forecasting an increase in borrowing due to the District Investment Programme and that borrowing in advance of this need was kept under review.

In terms of the Council's investment activity, it was reported that investment balances averaged £63.640m over the year, and ranged between £50.187m and £73.265m. This was higher than had been expected due to the reduced expenditure on capital investment. As at 31st March 2020, the Council's total cash balances for investment was £52.309m. During the financial year, the amount invested in the Council's pooled funds was increased by £1m, which was added to the Kames Diversified Income Fund. The total amount invested in long-term pooled funds was therefore £19m as at 31st March 2020. The Council had also increased the amounts lent to other local authorities where demand had risen following an increase in the cost of borrowing to local authorities through the Public Works Loan Board in October 2019. The Covid-19 pandemic resulted in sharp falls in financial markets towards the end of the financial year leading to a reduction in the value of the Council's pooled fund investments, which totalled £16.744m as at 31st March 2020, representing an unrealised loss of £2.256m at that point. Members were advised, however, that there had been some notable recovery in values and that, at the current time, the funds were approximately £940k lower than the total sum invested. Members were also advised that the CCLA Property Fund had suspended dealing in the fund due to the significant uncertainty created by the pandemic over the valuation of property assets. This move was in line with the requirements of the Financial Conduct Authority. The position is being kept under review by the Council with Arlingclose.

As a client of Arlingclose, it was explained that the Council received quarterly benchmarking information; the current data indicated that the Council compared favourably on a number of indicators, and that this was especially so in relation to the credit quality of internally managed investments, and overall returns from income..

Interest paid on borrowing amounted to £393,549. Investment income for the year was £1,280,973, which represented an overachievement against the budget of £250,014. The pooled funds were a significant element of this at £922,622, with short-term investments contributing £358,351 of interest. In light of the heightened risks over the level of future

investment income, the Cabinet Member for Finance and Performance Management had agreed to increase the treasury management reserve by the amount of income overachieved against the budget in 2019/20. The balance on the reserve was therefore £1,217,413 as at 31st March 2020.

Members were informed that the Council's net rental income from its property portfolio was £2.233m. The Council also had a number of service loans and at 31st March 2020, the amount outstanding on these was £54,724.

Finally, it was confirmed that the Council continued to retain Arlingclose as its treasury management advisors.

DECISION: The Corporate Governance Group recommended to Cabinet acceptance of the Treasury Management Annual Report 2019/20 prior to its submission to Full Council.

REASON FOR DECISION: The Council has adopted the CIPFA Code of Practice for Treasury Management in Public Services, which requires that the Council receives an annual report on the treasury management function. This report is to be considered first by the Corporate Governance Group in order to exercise its responsibility for scrutiny over treasury management activities. The report will then be considered by Cabinet before submission to Full Council with the benefit of any proposed changes and/or comments of the Corporate Governance Group.

The meeting commenced at 7.15pm and closed at 9.12pm.

Councillor R van Dulken
(Chairman)