

Minutes

Governance Committee

24th October 2018



| Councillors | Present | Councillors | Present |
|---------------------------|---------|------------------|---------|
| Mrs J Beavis | Yes | Mrs J Pell | Yes |
| M Dunn | Yes | R Ramage | Yes |
| J Elliott (Chairman) | Yes | Miss M Thorogood | Yes |
| A Hensman | Yes | Mrs L Walters | Yes |
| H Johnson (Vice-Chairman) | Yes | Vacancy | |
| G Maclure | Yes | Vacancy | |

In attendance:

| | |
|-----------------|-------------------------------------|
| Chris Fleetham | Corporate Director |
| Tracey Headford | Performance and Improvement Manager |
| Jessica Mann | Governance and Members Officer |
| Angie Mitchell | Audit, Insurance and Fraud Manager |
| Phil Myers | Financial Services Manager |
| Trevor Wilson | Head of Finance |

Vicky Chong Ernst & Young (External Auditors)

54 **MINUTES**

DECISION: That the Minutes of the meeting of the Governance Committee held on 25th July 2018 be approved as a correct record and signed by the Vice-Chairman.

55 **PUBLIC QUESTION TIME**

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

56 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

INFORMATION: Consideration was given to the First Quarter Performance Management Report for 2018/19.

It was reported that of the end of the first quarter, four projects had been completed whilst 57 projects were on track for completion. Five projects were experiencing delays which would result in the end dates being deferred. There were nine performance indicators that had achieved or exceeded the target, two had missed the target by less than 5% and three had missed the target by more than 5%.

The recent delay in respect of the first part of the Local Plan was acknowledged as having impacted on other projects in respect of the garden communities. The project end dates were therefore to be amended in order to reflect the new timescales. An update was provided as to the status of the project regarding improvements to the rail link between Braintree and Witham; at the end of the first quarter, the Council was awaiting funding to move forward to the next stage of the project. The project in respect of the four new quality grow-on units at Braintree Enterprise Centre was mentioned as having experienced delays, which was largely attributed to the power installations by UK Power Networks to the properties although the handover had since taken place.

The two performance indicators that had missed the target by less than 5% related to the percentage of household waste that was recycled, and the percentage of invoices that were paid within 30 days. Those that had missed the target by more than 5% were in relation to the tonnage of residual household waste that was not recycled, the average waiting time for disabled facilities grants and the time taken to process housing benefit claim changes.

With regard to performance complaints, it was reported that there had been an increase in the first quarter for 2018-19 compared with previous years and that this was due to issues experienced with waste collections and the access by waste vehicles along routes where road closures had been implemented or there were a large number of parked cars. It was stressed that in such instances, the Waste Collections Team strived to return to areas missed as soon as possible but that this could not always be achieved on the same day. Another factor that had had an impact on the number of complaints received was the re-routing of some of the original collection routes which required there to be changes to collection times for residents. It was added that promotional techniques such as adverts on social media sites and reminders during telephone calls were utilised to help inform residents as widely as possible and alleviate some of the disruption.

In response to questions raised by Members, the following information was provided:

- Members were informed that the original target for the completion of the garden communities project had been established a significant time prior to the delay that occurred in respect of the Local Plan. It was relayed that the Planning Policy Team were working to amend Part 1 of the Local Plan as per the Planning Inspector's comments and that following this, the team would collaborate with the other local authorities involved with the garden communities. A new end date

for the project would be determined further to confirmation of the amendments made to the Local Plan.

- Members were advised that in respect of access issues for waste collection vehicles, notes were left where possible on cars that were identified as having caused an obstruction. In addition to this, the accessibility of waste vehicles along identified narrower roads was being assessed as part of the re-routing exercise and that the options that had arisen from this, such as the use of smaller vehicles where needed, would be considered. Issues that arose from road closures were generally unavoidable, but it was emphasised that the waste vehicles would endeavour to return to those areas when possible.
- In respect of the Manor Street Regeneration Project, it was confirmed that the Planning application was submitted at the end of June and that a decision was expected toward the end of October 2018.

In response to a question raised by a Member, the following action was agreed:

- With regard to penalties issued to residents that caused delays with parked cars on a regular basis, it was agreed that a response would be provided to Members at a later date as to what, if any, other penalties there were in place for residents in such instances.

DECISION: That Members noted the report.

REASON FOR DECISION: For Members to receive the First Quarter Management Report 2018/19.

58 **KEY FINANCIAL INDICATORS – 30TH SEPTEMBER 2018**

INFORMATION: Members considered a report on Key Financial Indicators which provided information on performance for the financial year to 30th September 2018.

In response to questions raised by Members, the following information was provided:

- The reduction in the footfall of the Town Hall and Braintree District Museum in Manor Street, in Braintree, whilst not allowed for in the current year's budget, an allowance would be incorporated into the following year's budget for the Town Hall. It was added that an estimated amount of £122,000 would be included as part of next year's budget to offset the anticipated reduction in income during the development period (such as from car parks and at the Town Hall).
- In respect of the Braintree Enterprise Centre and the Council's investment in this site, it was determined that the current figures being received suggested that there would be a net income received by the Council, and this would be included in next year's budget. It was added that the business units at Springwood Drive were all now occupied.
- On the subject of business rates, it was agreed that a written response would be provided to Members as to the number of businesses that had indicated to the

Council that they were having issues paying their bills within the required time frame.

- In relation to the trend of housing benefit overpayments, Members were advised that the Council had reached a transitional stage due to the implementation of Universal Credit. Whilst repayment plans were in place for many of the current overpayments, it was noted that these would take time to be received; however, as claimants of working age transferred from Housing Benefit to Universal Credit, the amount of new overpayments created would decline.
- Members were informed that in respect of the Disabled Facilities Grant, the Council budgeted for what was anticipated through the Better Care Fund; the actual figure was £162,000 higher. It was added that this amount, if not spent in full, would be retained and rolled over to the next financial year.

DECISION: That Members accepted the report of the Key Financial Indicators as of 30th September 2018.

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.

59 INTERNAL AUDIT UPDATE, INCLUDING PROGRESS AGAINST AUDIT PLAN 2018-2019

INFORMATION: Members were informed of the latest progress against the Internal Audit Plan for the period 2018/2019 which had been approved by the Governance Committee on 25th July 2018. The main topics included the progress against the planned work and implementation of actions arising from the External Quality Assessment and other matters which affected the provision of the Internal Audit Service.

Members were informed that since the publication of the last report, three audits had been completed which all resulted in a significant assurance rating; the audits related to Community Grants, Leased Cars and Consultants. It was added that in keeping with good practice and the outcome of the External Quality Assessment, a number of new processes had been introduced, including the use of a Terms of Reference for each audit, the composition of a full report to document all outcomes of audits, the development of an Internal Audit Manual and the introduction of a review process of the audit work performed.

In response to questions raised by Members, the following information was provided:

- With regard to the definition of “Significant Assurance,” Members were advised that reference was made to the Strategic Risk Register in determining audit plan priorities and key risks to the achievement of the objectives that guide the scope of audits. The outcome of Significant Assurance meant that some lower priority issues were identified for the audits. In the Community Grants Audit, issues related to the uploading of information onto the Council’s website, and the scrutiny of the Declarations of Interest. However, it was stressed that there were

no significant findings, and the outcome was therefore recognised as “Significant Assurance.”

- Members were informed that audits like those of Refuse Collection and Trade Waste and Leased Cars were implemented as part of the provisional Audit Plan which was later subject to scrutiny and revision. It was agreed that a response would be provided to Members further to the meeting as to the specific items of work that were enacted under the provisional plan.

DECISION: That Members:

- a) Noted progress against the Internal Audit Plan.
- b) Noted progress against the implementation of actions arising from the External Quality Assessment of Internal Audit.

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

This report provides an update on Internal Audit activity, and progress and performance against the approved Internal Audit Plan in accordance with the Governance Committee role and the requirements of the PSIAS.

60 **ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31ST MARCH 2018**

INFORMATION: Consideration was given to a report regarding the purpose and content of the Annual Audit Letter for the period ending 31st March 2018.

The key areas detailed within the letter were the financial statements for the year ended 31st March 2018; securing value for money in the use of the Council’s resources; and the annual Governance Statement.

Members were informed that further to the presentation of the External Auditor’s Audit Results Report for the year ended 31st March 2018 to the Governance Committee on 25th July 2018, the Auditor had issued a certificate on that date as confirmation that the audit was completed in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

The Council’s Housing Benefit Subsidy claim for 2017/18 had been audited and the external auditor was due to issue the Certification of Claims and Returns Annual Report for 2017/18 in November 2018; this would be presented to the Governance Committee on 23rd January 2019.

DECISION: That Members received and accepted the Annual Audit Letter for the year ended 31st March 2018 from Ernst & Young LLP.

REASON FOR DECISION: For Members to receive the Annual Audit Letter for 2017/18.

61 **TREASURY MANAGEMENT MID-YEAR REPORT 2018-19**

INFORMATION: Members considered a report on the Council's treasury management activities which were regulated by statutory requirements and by a Code of Practice ("the Code") issued by the Chartered Institute of Public Finance (CIPFA). The Treasury Management Strategy Statement (TMSS) for the period 2018/19 was approved in February 2018 as part of the overall Budget and Council Tax setting for 2018/19.

As part of the mid-year report, an updated economic and market commentary was provided. Members were updated on the following:

- The increase in the Bank Base Rate by 0.25% to 0.75% had resulted in higher money market rates. With the approach of the expiry of Article 50 on 29th March 2018, Members were advised that there would be a period of economic uncertainty as neither the Withdrawal Agreement between the UK and the European Union or details concerning the shape of the future relationship had been finalised. Gilt yields had displayed marked volatility, whilst the Financial Times Stock Exchange 100 (FTSE100) index had been fairly buoyant.
- Capital spending was forecast to be £13.863million in 2018/19, an increase of over £7million from what was originally anticipated in the TMSS. The increase was attributed to a number of decisions made earlier in 2018 by the Council in respect of projects under the Council's District Investment Strategy. Members were advised that a significant portion of funding toward these projects was to be from internal borrowing.
- The Capital Financing Requirement (CFR) was forecast to be £12.911million at 31st March 2019, which was higher than had been originally estimated (£6.133million) due to increased internal borrowing. The CFR was also expected to reduce by £2million in the year which related to the Braintree Local Authority Mortgage Scheme (LAMS), which was due to end in January 2019. Although borrowing was likely to remain at £6million during the year, it was expected that there would be reductions in other long-term liabilities of £1million which reflected the repayment to Essex County Council of their share of the LAMS funding. As at the end of the year, total borrowing and other long-term liabilities was estimated to be £8.506million.
- Under the Council's investment activity, it was reported that for the period April to September 2018, investments had averaged £59.356million with a high of £64.50million. The present forecast was that investments would average approximately £49million for the year, which was similar to the level assumed in the TMSS of £50million. However, it was anticipated that the investment balances would reduce to approximately £32million by the end of the year. Members were also advised of the main areas where the Council had invested its finances, which included: a mixture of fixed term deposits and call accounts with UK and non-UK financial institutions, money market funds, lending to other local authorities and pooled funds. An area of note was the merging of the

Standard Life Liquidity fund, currently used by the Council, with the Aberdeen Standard Investments fund to become part of the Aberdeen Money Market Fund.

- New investments of £55million had been made in the period April to September 2018, and approximately £37million of investments were reported to have matured. It was summarised that as of 30th September 2018, the Council's investments and other cash balances were £61.329million. The recent review of the Council's medium-term cash flow was also remarked upon; the review took into account both approved and pipeline projects under the District Investment Strategy for the purposes of assessing the Council's capacity for increasing the amount held in long-term investments. It was added that the overall limit approved by the Council was £20million and that only £16million of this had currently been utilised.
- The overall return to the end of September was £602,147 or 2.02%, which included dividends received and declared of £467,284, equivalent to an annualised return of 5.83%. Members were also advised that dividends from long-term pooled funds were paid quarterly and could therefore vary between quarters. In respect of short-term investments, the interest earned was £134,863 which equated to a return of 0.62%, which was higher than last year's outturn of 0.38%.
- As of the end of September, the value of the pooled funds was stated to be £17.979million which represented an unrealised gain of £1.979million against the original sums invested.
- Changes in accounting standards that came into effect from April 2018 involving the market value of pooled funds would potentially need to be accounted for and would impact on the Council's revenue account. The Ministry for Housing, Communities and Local Government (MHCLG) had recognised that this could introduce volatility into Council's budget setting processes and had therefore consulted on statutory overrides which were intended to mitigate the accounting changes. The consultation suggested a time-limited override of three years. The Cabinet Member for Finance and Performance had responded on behalf of the Council and suggested that the override should be permanent and apply to a wider range of pooled funds. It was added that the Government's response to the consultation had yet to be received.
- Investment benchmarking indicated a positive result for the Council in respect of income and total return. The Council's non-treasury investments were also mentioned; the Council held direct property investments with a market value of £34.367million which comprised industrial land and units, shops, offices, and other commercial property. Properties were also leased to third parties which generated rental income for the Council. In 2018/19, the net rental income was expected to be over £2million, representing a return of approximately 6%.
- The outlook for the remainder of the 2018/19 financial year as reported by the Bank of England's Monetary Policy Committee (MPC) was of maintaining expectations of a slow rise in interest rates over the forecast horizon.

In response to questions raised by Members, the following information was provided:

- It was confirmed to Members that the Council's internal borrowing of circa £7million to fund capital expenditure was derived from its own cash balances. Although there was an opportunity cost to the Council for the use of this money due to the loss of interest, the alternative option would be for the Authority to borrow money externally which would likely have resulted in higher associated costs. It was stressed that internal borrowing was not a sustainable long-term solution for funding projects, as the cash used had been set aside for other purposes.
- On the subject of lending money to other Local Authorities, Members were advised that there was a market for Authorities with surplus cash, like that of Braintree Council, to invest this money elsewhere in the form of lending. The rate received from lending between Local Authorities would likely be an improvement compared to the rates that would be available from financial institutions and the Public Works Loan Board (PWLB). It was added that typically, inter-lending between authorities was for short-term funding.
- With regard to the UK's exit from the EU, there was a degree of uncertainty as to the future of the financial market, and there was the possibility of increased volatility, such as in the value of the Council's equity investments. However, any fluctuations that might be experienced would only be pertinent if the Authority had plans to withdraw its funds at this time. It was stressed that the income flow received from the dividends was an area that would be closely monitored.

DECISION: That the Governance Committee recommended to Cabinet that the Treasury Management Mid-Year Report 2018/19 be accepted, 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 the Council to receive at least one mid-year report on its treasury management activities. This report is to be considered first by the Governance Committee before being recommended on to Cabinet and then Full Council.

To note the intention to maintain the Council's classification as professional client for regulated investment activity.

NOTE: The Chairman reminded the Members of the Committee of an e-mail that was sent on 19th October 2018 that included the details of the Governance Committee training evening, due to take place on Thursday, 22nd November 2018 at 7:00pm. It was emphasised that the processes under the Governance Committee were complex in nature and that it would therefore be in the interests of all Members to attend the training and refresh their knowledge. It was requested that Members confirm their attendance with Angie Mitchell, the Audit, Insurance and Fraud Manager as soon as possible.

The meeting commenced at 7:15pm and closed at 8:27pm.

Councillor J Elliott
(Chairman)