Minutes

Governance Committee

25th July 2018

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

In attendance:

Emma Wisbey	Governance and Members Manager
Jessica Mann	Governance and Members Officer
Tracey Headford	Performance and Improvement Manager
Angie Mitchell	Audit, Insurance and Fraud Manager
Phil Myers	Financial Services Manager
Trevor Wilson	Head of Finance
Kevin Suter	Ernst & Young (External Auditors)
Vicky Chong	Ernst & Young (External Auditors)

45 **MINUTES**

DECISION: That the Minutes of the meeting of the Governance Committee held on 12th April 2018 be approved as a correct record and signed by the Chairman.

46 **PUBLIC QUESTION TIME**

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

47 **DECLARATIONS OF INTEREST**

INFORMATION: There were no interests declared.

48 **FOURTH QUARTER PERFORMANCE MANAGEMENT REPORT 2017-18**

INFORMATION: It was reported that at the end of the fourth quarter, a total of 44 projects had been completed and a further 15 projects were on track. Members were advised that 13 performance indicators had been achieved or exceeded target, two had missed the target by less than 5% and five had missed the target by more than 5%.

Under performance was noted in a number of areas including the percentage of household waste sent for re-use, recycling and composting; the Council achieved an outturn of 50.41% against an annual aspirational target of 60%, which was a County-wide target, and saw a 2.55% reduction in recycling over the course of the last year. The Council was currently 3rd or 4th in Essex with in terms of the percentage recycled. In other areas, the tonnage of residual household waste that was not recycled saw a 1.95% increase. The increase was a national trend that included growth in the District, and a lower level of waste recycled.

At the end of March 2018, the number of affordable homes delivered was 124 against a target of 130. In March 2018, an additional 30 homes were also expected but delays were experienced following inclement weather conditions. However, the delivery target of 400 affordable homes over the 4 year period was still expected to be achieved.

With regard to the total number of visits to leisure facilities, the Council achieved 898,261 against the annual target of 1,041,121, and it was added that the closure of the Braintree Swimming Pool had an anticipated impact on overall participation levels. The targets set were based on Fusion's aspirational increase of 5%, however, Fusion only required a 2% increase year on year which equated to 923,654; therefore, the Council had missed the target by only 3%, and the revised targets were now aligned with the rate of delivery. The participation of under 16s in sport and health activities across the District achieved a 167,033 against the annual target of 249,000, and missed target by more than 5%. The decrease in participation levels was also related to the closure of the Braintree Swimming Pool due to the loss of swimming clubs other activities.

It was reported that the demand for passenger journeys as part of the Community Transport scheme had been met; however, it was noted that customer needs were changing, which included an increased need for specialist transport (e.g. to cater for wheelchair users or customers suffering with Dementia). The new demands had had an impact on the Council's capacity for hiring out vehicles such as minibuses, and resulted in the review and replacement of some minibuses to ensure there was availability for specialist needs. The performance indicators used to measure the service were reviewed to ensure that the correct information had been collected, which would assist with future reviews of the delivery options for community transport.

At the end of the year, the processing times taken to process Housing Benefit and Council Tax new claims were 19.24 days against a target of 18 days, the decrease of which started following the introduction of Universal Credit (UC) in October. There were two elements found to have impacted on performance, and these included; claimants who received UC still applied to the Council for Local Council Tax support, and the extended time taken to receive information from the

Department of Work and Pensions. It was added that processing times were still less than the national average of 23 days.

Finally, the number of complaints received remained low and Health and Safety and staffing levels were in a positive position, with no significant increases to staffing capacity experienced. With regards to the Financial Position, there was an overall positive variance for the year of £782,000 (5.4%) against the budget, and Income was overachieved by £492,000, and there was a general underspend of £290,000 in terms of Staffing and other expenditure. The figures represented an increase in the overall positive variance from that which was reported in the Third Quarter.

In response to questions from Members, the following responses were provided:

- Members were informed that there were a number of ongoing projects underway to help encourage people to continue to recycle as well as ascertain the reasons for the decrease in recycling rates, which included initiatives such door-knocking schemes enacted by the Recycling Team at the Council. The decrease was partly attributed to recent concerns surrounding plastic packaging, which was evident in supermarkets and their efforts to reduce the amount of plastic distributed.

- An area of concern with regards to recycling was residual waste.

- Concerns regarding recycling rates would be relayed to the Essex Waste Partnership. Members advised that the target of 60% recycling was an aspirational target, and the Council had only been 1.5% away from achieving its quarterly target.

- Members were reminded of the Task and Finish Group that was established for the “Recycling, Re-use and Reduce” Scrutiny Review. The group would eventually make recommendations to Cabinet, further to its evidence gathering. It was suggested that any Members present who were involved with the Task and Finish Group feedback the comments raised at the next scheduled meeting for the Review.

- It was confirmed that the total number of Fly-tipping incidents was 767 over the last year, and this likely indicated an increase when compared with previous years, although the exact figures were not available for confirmation. The number of prosecutions and Fixed Penalty Notices linked to littering and Fly-tipping had increased.

- The Council’s capacity in terms of resources for dealing with incidents such as Fly-tipping was renewed each year.

- With regards to the costs associated with Community Transport, Members were informed that the number of vehicles remained the same, although two had been replaced to accommodate changing customer needs. It was stressed that the demand for transport was being met, but that the demand had changed since the establishment of the scheme.

DECISION: That Members noted the report.

49 **KEY FINANCIAL INDICATORS – 30th JUNE 2018**

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

It was added that the under the "total budget for Salaries," the Efficiency Factor was only £200,000, as opposed to the figure of £250,000 stated in the report; this was still a significant figure achieved and allowed for the movement of staff throughout the year.

Members were informed that the overall financial position of the Council was positive.

DECISION: That the report of the Key Financial Indicators as at 30th June 2018 was accepted.

REASON FOR DECISION: To provide evidence that the Council adopted good practice in actively monitoring its financial performance and actively managed issues that arose.

50 **REVISED INTERNAL AUDIT PLAN 2018-2019**

INFORMATION: It was reported that an interim Internal Audit Plan for 2018/2019 was approved by the Governance Committee on 12th April 2018 to provide a schedule of work for Internal Audit staff, prior to the new Audit, Insurance and Fraud Manager commencing employment.

The Plan had been updated by Mrs Angela Mitchell, the new Audit, Insurance and Fraud Manager. Members were informed that the planning process had changed significantly to reflect the outcome of the Council's External Quality Assessment and to ensure that the organisation complied with public sector internal audit standards.

Members were apprised that a key change in the Plan was the increased engagement with key officers within the Council that helped to ensure that key risks, and corporate objectives and priorities, were considered. The Plan was now strongly associated with corporate risks and priorities.

It was relayed to Members that, as this was a transitional year, the new Plan did not include the Audits implemented previously under the original Plan. Higher priority items would be given primary focus by the Audit Team over the course of the upcoming year. The progress of the Plan would be reported to Members at future meetings of the Governance Committee.

Members were advised of an amendment to the report on Page 56, under the Petty Cash Audit. The recommendation should have stated: "Revised authorised signatory form to be completed by the Business Development Manager."

In response to questions raised by Members, the following responses were provided:

- On the topic of resources in the emergence of change, it was advised that new approaches were being considered in order to determine different ways through which the Council could gain assurance that supported audit work. One option was to assess internal reviews, such as Peer Reviews and public sector Network Reviews. Another option was establish a mechanism with colleagues in other local authorities who had carried out similar audit work for the purposes of information sharing and helping the Council to ascertain what work assurance could be placed on. A third option revolved around new audit training for staff in local government which permitted them to gain experience in other authorities, such as Braintree District Council, free of any charge, and was a long term method for enhancing resilience.

- Members were advised that the Plan related to the current financial year and would be closely monitored should there be significant changes to the organisation during this period. A new planning exercise was to commence between January and March 2019 as part of a review process and forward-look approach, the new Plan of which would be presented to the Governance Committee in April 2019. The Revised Plan had thus far received positive comments from members of staff across the authority.

DECISION: That Members:

1. Endorsed the revised Internal Audit Plan process and Internal Audit Plan for 2018/2019; and

2. Noted the progress against the Internal Audit Plan and Revised Plan.

REASON FOR DECISION: To request that Members endorsed the provisional Internal Audit Plan for 2018/2019 which was revised in accordance with the Accounts and Audit Regulations 2015 (Section 5) which required an effective internal audit of risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and Guidance.

51 STATEMENT OF ACCOUNTS 2017-18 AND THE EXTERNAL AUDITOR'S AUDIT RESULTS REPORT

INFORMATION: A draft set of Statement of Accounts was signed on 29th May 2018 by Mr Chris Fleetham, Corporate Director, as representing a "true and fair view" of the Council's financial position at the reporting date, and of its income and expenditure for the year ended 31st March 2018.

There were no reported changes to accounting policies or any significant revisions to the Code of Practice on Local Authority Accounting for 2017/18.

The Council's External Auditor, Ernst & Young LLP (EY), commenced the audit of the accounts on Monday 4th June 2018; 6 weeks earlier than the previous year. It was anticipated that the auditor would issue an unqualified opinion on the accounts, and the final audited accounts, with those amendments agreed with EY, would be published on or before the new statutory deadline of 31st July 2018. EY expressed their gratitude to the officers involved with supporting the Audit and for producing a set of accounts that were of good quality.

It was concluded by EY that in the area of Risk of Fraud, that no instances were identified, and that in the area of accounting for Property, Plant and Equipment Valuation, EY were able to place reliance upon expert valuers. The only area of significant finding was within the area of Pension Liability Valuation, where there was a slight variance in the asset value; the estimate was larger than EY's materiality at £111 million on a £6.5 billion pension fund as of 31st March 2018. Based on the Council's share of the overall difference EY requested the Council to adjust their accounts by £2.9 million. The variance was likely to have been influenced by the increased volatility in the financial markets at the end of the financial year. EY confirmed to the Governance Committee that this should not be a matter of concern. In the area of Value for Money, it was reported that the financial resilience of the Council was positive.

Members were informed that under Auditing standards, EY were required to formally update their understanding of the Council's arrangements for oversight of management processes and arrangements. To meet with this requirement, EY had written to the Head of Finance, the Audit Manager and the Chairman of the Governance Committee and asked a number of questions regarding management processes and arrangements. A copy of the response from Councillor Elliott, on behalf of the Governance Committee, was attached to the report.

Following a request from the External Auditor, a Letter of Representation had been prepared, a copy of which was attached to the report, and which was to be signed by the Corporate Director and the Chairman of the Governance Committee.

The accounts were available for public inspection between 1st June and 12th July 2018. Members were advised that no requests had been received to inspect the accounts.

In response to questions raised by Members, the following responses were provided:

- The predicted Reserve for 2021 used by EY in their assessment of Value for Money was determined from the General Fund Budget and Medium Term Financial Strategy, which had been presented at Full Council on 19th February 2018. The predicted Reserve also encompassed the historic performance of the Council against its budgets.

- It was confirmed that the Council did have investments in property and that, with this, came an element of risk as with any investment. It was therefore of vital importance that the Council recognised the potential risks and implemented strategies to manage these.

- Members were informed that the Council's notional share of the Pension Fund was 2.3%, and therefore its share of the difference in the year-end asset valuation amounted to £2.9 million.

DECISION: That Members:

1. Noted the letter, in respect of understanding how the Governance Committee gains assurance from management, sent to EY by Councillor

Elliott, Chairman of the Governance Committee (included in Appendix A to this report).

2. Received and noted the External Auditor's Audit Results Report for the year ended 31st March 2018.

3. Approved the certification of the Letter of Representation by the Corporate Director and Chairman of the Governance Committee.

4. Approved the Council's Statement of Accounts 2017/18.

REASON FOR DECISION: Members complied with the Accounts and Audit Regulations and approved the Council's Statement of Accounts with the benefit of the External Auditor's report to the Governance Committee.

52 **OPERATIONAL RISK MANAGEMENT**

INFORMATION: Members considered a report regarding operational risks identified by managers and staff likely to be encountered in the day-to-day work environment. Heads of Service were requested to review and update the risks faced in their service areas on an annual basis and to incorporate these in their Business Plan.

Members were advised that the current review had identified 55 operational risks, of which 9 above the tolerance line. Management action plans had been established in order to mitigate each risk found, and there was particular mention of the link between the approach to Audit and the ways it could help Heads of Service to minimise the level of risk.

DECISION: That Members noted the Operational Risks and the Action Plans for managing the high rated risks.

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

53 **TREASURY MANAGEMENT ANNUAL REPORT 2017-18**

INFORMATION: The Council's Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Full Council on 22nd February 2017. The Council continued to hold borrowings and invest substantial sums of money, and was, as such, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk were therefore central to the Council's Treasury Management Strategy.

The Annual Report contained an external context which provided an economic and credit background from the Council's treasury management advisors, Airlingclose, as to the key events that had taken place over the course of the financial year, and detailed how these events effected areas such as interest rates:

- There was an increase in the UK Bank Rate in November 2017, which marked the first rise in UK rates for 10 years. This also led to increases in money market rates.
- The Bank of England's Monetary Policy Committee made reference to its future actions with regards to maintaining its target for inflation, and a "gradual" and "limited" policy tightening was expected over the medium-term.
- Gilt yields displayed significant volatility over the course of the 2017/18 financial year. It was therefore important that the Council monitored this for the future, as gilt yields influenced the rates at which the Council could borrow.
- The Financial Times Stock Exchange finished strongly at the end of the 2017 calendar year at 7688, although this figure decreased to below 7000 at the beginning of 2018.

The Committee was advised that the duration limit on unsecured investments was reduced whilst uncertainty remained about the impact of ring-fencing of UK banks.

It was reported that new European Union regulations for Money Market Funds (MMFs) had been approved and published, and it was expected that the funds currently used by the Council would adopt the Low Volatility Net Asset Value structure.

Due to increased levels of commercial and financial activity undertaken by local authorities, a number of revised codes had been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The revised codes highlighted the risk management and governance arrangements that authorities were expected to have in place. The Council would need to adopt a Capital Strategy in future which looked at broader risks and their management. The Ministry of Housing, Communities and Local Government (MHCLG) had also made revisions to their statutory guidance in terms of investments and the way local authorities made provision for repayment of borrowing.

As a result of the second Markets in Financial Instruments Directive (MiFID II), from January 2018, local authorities were automatically to be treated as retail clients as opposed to the previous categorisation of professional clients. The impact of this was a potential restriction on the Council's treasury management activities. The regulations allowed for local authorities to "opt-up" to professional client status, which the Council has done where necessary.

It was reported that the Council held net investments of £35.341 million as 31st March 2018, comprising gross investments of £41.341 million and £6 million of borrowing. This was £2.421 million higher than at 31st March 2017, mainly due to changes in working capital (creditors, debtors and inventories).

It was reported that there was no new borrowing activity during the year; borrowing remained at £6 million and comprised two Lender Option and Borrower Option Loans (LOBO). The Council was expecting to increase its borrowing in the future to part fund the District Investment Strategy, but analysis undertaken during the year indicated no benefit would be derived from borrowing in advance. However, it was added that this position remained under review, and would take into account both interest rate forecasts and the Council's developing investment programme.

The total debt other than borrowing stood at £3.861 million on 31st March 2018, a reduction of £340,000 from that at 31st March 2017. This debt comprises the outstanding amounts due on finance leases (£2.861 million) and a £1 million repayable advance to Essex County Council (ECC) as part funding towards the Braintree Local Authority Mortgage Scheme (LAMS).

During 2017/18, the Council's investment balance ranged between £39.32 million and £63.49 million due to timing differences between income received and expenditure incurred. The average balance across the year was £54.39 million.

At 31 March 2018, the Council held £16 million in pooled equity and property funds, an increase of £2 million from that at the start of the year. The total market valuation of these funds at 31 March 2018, was £16.935 million, representing an unrealised gain of £935,000.

The report showed that in 2017/18 interest paid on borrowing and debt totalled £423,000, and income earned from investments was £881,000.

Although not classed as treasury management activities, the 2017 CIPFA Code required the Council to report on investments for policy reasons outside of normal treasury management. This included service investments for operational and/or regeneration as well as commercial investments which were made mainly for financial reasons. The Council held direct property investments with a market value of £34.367 million comprising: industrial land and units; shops; offices; and other commercial property. Properties were leased to third parties generating rental income for the Council. In 2017/18 the net rental income was £2.124m, representing a return of 6.3% on the value of assets.

Under the Compliance Report, the Corporate Director of Finance confirmed that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Council's approved TMSS.

With regards to Treasury Management Indicators, it was confirmed that the Council contained its activity within the year within the relevant limits.

In response to questions raised by Members, the following responses were provided:

- It was advised that the Council had flexibility within its overall limit of £20 million to increase its pooled fund investments and continued to monitor the position in light of planned cash flows required for the District Investment Strategy.

- Members were advised that the Council keeps under review the timing of any future borrowing anticipated for the District Investment Strategy, including considering whether or not to borrow in advance of need. In the meantime the Council has the capacity to internalise borrowing through using its own cash resources.

- It was confirmed that the LOBO loans were interest-only loans and contained no other ongoing charges.

- Debt was reduced by £340,000 as a result of contractual annual lease repayments. This repayment is contained in the Council's annual budget.

- Members were informed that the Mortgage Scheme enacted previously by the Council was cancelled by Lloyds Bank in July 2017. The Council was expected to receive back in full the £2 million invested as a result, with £1 million due to be repaid to Essex County Council.

DECISION: That Members recommended to Cabinet acceptance of the Treasury Management Annual Report 2017/18, prior to its submission to Full Council.

REASON FOR DECISION: The Council had adopted the CIPFA Code of Practice for Treasury Management in Public Services, which required that the Council received an annual report on the treasury management function. This report was to be considered first by the Governance Committee 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 Governance Committee.

The meeting commenced at 7.15pm and closed at 8.45pm.

Councillor H Johnson
(Vice-Chairman in the Chair)