

Minutes of a meeting of the **GOVERNANCE AND AUDIT** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 18 December 2014 at 5.30 pm.

PRESENT

A M Newton (Chairman)

F Biggadike
C J T H Brewis

P E Coupland
A Harrison

Apologies for absence were received from or on behalf of Councillors G R Aley and R M Rudkin and Helen Brookes (Manager, KPMG).

In Attendance: Finance Manager, Community Development Manager, Housing Manager, Property Asset Manager, Finance Business Partner, N Bellamy (Audit Director, KPMG) and J Scott (Audit Manager, Audit Lincolnshire), National Management Trainee and Democratic Services Officer.

19. ELECTION OF CHAIRMAN FOR THE MEETING

In the absence of the Chairman and Vice-Chairman the Democratic Services Officer requested nominations for a temporary Chairman to lead the meeting.

DECISION:

That, in the absence of the Chairman and Vice-Chairman, Councillor A M Newton chair the meeting.

20. MINUTES

The minutes of the Governance and Audit Committee meeting held on 25 September 2014 were signed by the Chairman as a correct record.

21. BUSINESS CONTINUITY UPDATE REPORT

Consideration was given to the report of the Community Development and Health Manager which provided members with an update on progress against the Business Continuity Audit of May 2014.

Audit Lincolnshire undertook an audit in May 2014 which focussed on the following: examination of the Business Continuity plans and procedures currently in place; an assessment of how this process was exercised and reviewed; and a check that key staff were aware of their roles and responsibilities.

Action By

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The audit findings provided limited assurance but with improving direction of travel. It was noted that the implementation of shared and partnership arrangements (shared management and CPBS in particular) had resulted in some plans becoming outdated and in need of review. The audit also recognised that work was underway to ensure that robust plans were in place and that staff were aware of their responsibilities and suitably equipped to respond.

The audit highlighted 4 high and 3 medium level recommendations. The key areas for improvement were highlighted as being: Completion of all Business Continuity Plans with regular reviews and updates scheduled; Promotion and embedding of processes with greater emphasis placed on business continuity management at senior management level; Regular exercising of the Business Continuity Plans; and Training on Business Continuity for all staff.

Since the audit in May, a number of steps had been taken to address the issues highlighted by the audit report. As a result, two audit recommendations had been fully completed and signed off.

A table was attached within the report, detailing progress against all recommendations from the audit.

The Community Development and Health Manager clarified that the recommendations from the audit linked in with countywide and regionwide recommendations.

Members noted that a Resilience Group had been established, which consisted of a Director from the Corporate Management Team, the Community Development and Health Manager and two Resilience Officers from Lincolnshire County Council. The Group was responsible for reviewing the individual service business continuity plans, with assistance from the relevant Service Managers. The Resilience Group would be meeting on a six monthly basis and would review a different service plan at each meeting.

Scenario exercises were discussed. The Community Development and Health Manager advised that team exercises would be carried out, for which the service manager would be responsible, as well as scenarios which affected the whole organisation.

AGREED:

That the report be noted.

(The Community Development and Health Manager left the meeting at 5.51 pm, following consideration of the above item.)

22. QUARTER 2 RISK REPORT

Consideration was given to the report of the Executive Director (Commissioning and Governance) which provided an update on the current state of risk management within the organisation.

The updated strategic risk register included 9 strategic risks. In the past, that report had been by exception, but as there were just 9 in total, all low, medium and high risks had been included and were available within the report. These covered the over-arching risks that may affect the strategic direction of the council, rather than risks linked to business continuity or those that affected discreet service areas.

Risks were grouped into two categories:

- Strategic – these were risks that affected the whole and long term plan of the council. These risks could fundamentally impact upon the Authority's reputation, the organisation that it was, and the dependable, accountable delivery of public services.
- Operational – these risks concerned the day to day activities in the delivery of functions and services.

Risks were rated using a 3x3 matrix through a numerical number that combined the impact score of the risk occurring, with the likelihood score of it happening. Risks were then classed as High, Medium or Low risk, dependent on their rating.

The risk summary covered two areas: a) The risk summary table showed the total number of risks by category and the percentage of high, medium and low risks within each category; and b) The exceptions report, a detailed report to provide focus on high level risks.

Two Risk Summary Tables were detailed within the report, showing the risk position at 30 June 2014 (Quarter 1, 2014/15) and 30 September 2014 (Quarter 2, 2014/15). Each table detailed 9 strategic risks and 64 operational risks.

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This information informed that:

- Strategic risks were predominantly medium;
- Strategic risks had not changed;
- Operational risks were predominantly medium and low level risks;
- No operational risks had closed; and
- One operational risk had increased from a low to a medium rating within Human Resources.

Therefore:

- Strategic Risk Overview: Overall rating was medium; and
- Operational Risk Overview: Overall rating was evenly spread across medium and low.

Councillor F Biggadike referred to the risk regarding the monitoring of S106 agreements. Councillor C J T H Brewis advised that it was necessary to monitor the S106 agreements and have member monitoring in place to ensure the allocations were dealt with appropriately. He suggested that the Performance Monitoring Panel might want to review the S106 agreements on a six monthly basis. Councillor A M Newton advised that she would liaise with the Chairmen of both scrutiny panels in order gather their views and agree a way forward.

Councillor Brewis referred to village burial sites and queried what the District Council's role was should there be an issue with availability of space. He requested that the National Management Trainee provide him with an answer outside of the meeting.

AGREED:

- a) That Councillor A M Newton liaise with the Chairmen of both scrutiny panels in order to gather their views and agree a way forward with regard to monitoring the S106 agreements; AN
- b) That the National Management Trainee provide Councillor CJ T H Brewis with information with regard to the District Councils role with the potential lack of burial space in village burial sites; and CD
- c) That the report be noted.

(The National Management Trainee left the meeting at 6.03 pm, following consideration of the above item.)

**23. HOUSING REVENUE ACCOUNT (HRA) DRAFT 2015-16
ESTIMATES**

Consideration was given to the report of the Shared Housing Manager which provided information on the Housing Revenue Account (HRA) draft 2015-16 estimates.

A brief presentation was delivered to explain the HRA Budget 2015-16 and 30 Year Business Plan, which covered the following areas:

- Introduction
- The Housing Revenue Account
- Revenue Budget
- Operating Account
- Capital Programme
- 30 Year Business Plan
- Challenges, Risks and Sensitivity
- Next Steps

Members noted that following a recommendation from Council, Governance arrangements for the management of the HRA 30 year Business Plan needed to be established and the Governance and Audit Committee had been tasked with these arrangements.

The Housing Revenue Account (HRA) reflected a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989.

The HRA was a ring-fenced account, which meant that it may not be supported by the General Fund and Council Tax or vice-versa. Expenditure and income that may be charged to the account were defined either by statute or regulation; the HRA was not permitted by law to be in deficit.

From April 2012 the financing of social housing had radically changed. The HRA subsidy system had been replaced by a reformed system of council housing finance through powers enacted in the Localism Act. The 30 year HRA business plan finance model become more important as the Council had to rely on its own resources to maintain a positive HRA Reserve given the constraints of the Housing Debt Cap.

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The appendices to the covering report outlined the draft 2015-16 revenue and capital estimates for the Housing Revenue Account, the outline capital programme through to 2019-20 and the 30 year HRA operating account.

AGREED:

That the report be noted.

(The Housing Manager, the Property Asset Manager and the Finance Business Partner left the meeting at 6.27 pm, following consideration of the above item.)

24. SHDC ANNUAL AUDIT LETTER 2013/14

Consideration was given to the report from KPMG, which provided details of the Annual Audit Letter 2013/14.

The report summarised the key findings from the 2013/14 audit of South Holland District Council. Although the letter was addressed to the members of the Authority, it was also intended to communicate these issues to key external stakeholders, including members of the public.

The audit covered the audit of the Authority's 2013/14 financial statements and the 2013/14 value for money conclusion. All the issues within the letter had previously been reported. The detailed findings were contained within the reports listed in Appendix 1.

AGREED:

That the report be noted.

25. EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE

Consideration was given to the report from KPMG, which provided details of the external audit progress and technical update, as at November 2014.

The report provided the Governance and Audit Committee with an overview on progress in delivering KPMG's responsibilities as the external auditors. The report also highlighted the main technical issues which were currently having an impact in local government. The articles that were believed to have an impact at the Authority had been flagged and a perspective had been provided on each issue.

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The Audit Director, KPMG, advised that an audit plan would be submitted to the next Committee meeting in March 2015.

AGREED:

That the report be noted.

26. INTERNAL AUDIT UPDATE REPORT

Consideration was given to the report of the Head of Audit & Risk Management – Audit Lincolnshire, and the Finance Manager which provided an update on progress with the Audit Plan between September 2014 and November 2014.

The purpose of the report was to:

- Advise of progress being made with the 2014/15 Audit Plan
- Provide details of the audit work during the period
- Provide details of the current position with agreed management actions in respect of previously issued reports
- Update the committee on any changes to the 2014/15 Audit Plan and any other matters that may be relevant to the Governance and Audit Committee role.

Detailed information in relation to assurance definitions; audits with limited assurance; outstanding recommendations as at 03/12/14; outstanding Recommendations as at 03/12/14; and the internal audit plan and schedule, were contained within the appendices which were attached to the report.

The Audit Manager, Lincolnshire County Council, advised that the outstanding reports would be submitted to the next Committee meeting in March 2015.

AGREED:

That the report be noted.

27. MID TERM TREASURY REPORT 2014/15

Consideration was given to the report of the Section 151 Officer which provided an update of the treasury management position of the Council as at 30 September 2014.

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Treasury management was defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 was adopted by South Holland District Council on 8 March 2012. The primary requirements of the Code were as follows:

- Creation and maintenance of a Treasury Management Policy Statement which set out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For South Holland District Council, the delegated body was the Governance and Audit Committee.

In summary, the mid year report had been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covered the following:

- An economic update for the 2014/15 financial year to 30 September 2014;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2014/15;
- A review of the Council's borrowing strategy for 2014/15;
- A review of any debt rescheduling undertaken during 2014/15;
- A review of compliance with Treasury and Prudential Limits for 2014/15

There were no key changes to the Treasury or Capital Strategy.

AGREED:

That the report be noted.

**28. TREASURY MANAGEMENT STRATEGY STATEMENT,
MINIMUM REVENUE PROVISION POLICY STATEMENT AND
ANNUAL INVESTMENT STRATEGY 2015/16**

Consideration was given to the report of the Section 151 Officer which gave the Committee the opportunity for pre-decision scrutiny of the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015/16.

Treasury Management was defined as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, adopted by the Council on 8 March 2012, required the Council to set out its Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for the forthcoming year. These outlined the Council's strategy for borrowing and its policies for managing its investments and for giving priority to the security and liquidity of those investments. The strategy statements for 2015/16 were attached to the report at Appendix A. The strategy statements covered:

- Reporting requirements
- Capital prudential indicators 2014/15 to 2017/18
- The borrowing requirement
- The Minimum Revenue Provision (MRP) policy
- The use of the Council's resources and the investment position
- Prudential and Treasury Indicators
- Treasury limits in force which would limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment policy
- Creditworthiness policy
- Country limits

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- Investment strategy

The strategy document presented to the Governance and Audit Committee for scrutiny was currently at draft stage as the future Capital Programme had yet to be finalised and approved by Council. Once this was known, the tables within the strategy document shown at Appendix A would be updated and submitted to Council for approval before the commencement of the 2015/16 financial year.

The Council was currently considering the creation of a Housing Company and was preparing a Housing Investment Strategy. This could involve the Council taking on additional borrowing and providing a loan to the Housing Company. Once further information became available, it could result in amendments to the draft strategy attached to the covering report.

The Finance Manager advised that he had a meeting with the Treasury Advisor in January 2015 from which any changes would be report to Cabinet.

AGREED:

That the report be noted.

29. GOVERNANCE AND AUDIT COMMITTEE SELF-ASSESSMENT

Consideration was given to the report of the Finance Manager. Members noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) advocated that it was good practice for Audit Committees to undertake regular assessments. Thus enabling members to gain an appreciation of what affords best practice, to confirm the level of compliance being achieved, and to identify any potential areas for enhancements to be made to arrangements.

CIPFA's Audit Committee Self-Assessment Checklist, which was attached as an appendix within the report, focussed on 6 fundamental areas, and 66 individual aspects of operations. The key areas were as follows:

- Establishment, Operation and Duties;
- Internal Control;
- Financial Reporting and Regulatory Matters;
- Internal Audit;
- External Audit; and
- Administration.

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At a workshop session on 25 September the Governance and Audit Committee systematically went through the checklist to assess its performance against the CIPFA standard. The results of the assessment were set out within Appendix 1. The exercise identified a handful of actions that would improve its effectiveness. These were highlighted in bold within the appendix. The actions included the production of an annual report of the work of the audit committee, ensuring that members had appropriate induction and training, and the need to hold private meetings with the internal and external auditors.

AGREED:

That the report be noted.

**30. GOVERNANCE AND AUDIT COMMITTEE WORK
PROGRAMME**

Consideration was given to the report of the Democratic Services and Legal Manager which presented the work programme of the Governance and Audit Committee, as set out in Appendix A within the report.

Members noted that the schedule of meeting for 2015/16 had been finalised and the new dates would be included within the Work Programme to be submitted to the next Committee meeting in March 2015.

AGREED:

That the report be noted.

(The meeting ended at 7.15 pm)

(End of minutes)