

Confirmed



Minutes of a Meeting of the **Audit and Governance Committee** held in the Conference Room, Riverside, on **Monday, 6 January 2020 at 6.30pm**

Members of the Committee present:

Councillor Edward Back, Councillor Judy Cloke, Councillor Tony Cooper, Councillor Linda Coulam, Councillor Tess Gandy, Councillor Geoff Lynch, Councillor Chris Mapey

Other Members present:

Councillor Maurice Cook

Officers present: Sarah Davis (Democratic Services Officer), Laura Fuller (Audit Manager), Siobhan Martin (Head of Internal Audit), Brian Mew (Finance Consultant), Hilary Slater (Head of Legal and Democratic Services), Julian Sturman (Senior Accountant)

1 Apologies for Absence and Substitutions

An apology for absence was received from Councillor Smith-Lyte.

2 Declarations of Interest

There were no declarations of interest.

3 Minutes

Reference was made to item 4 in relation to the Update on Return Rate for Register of Interests and it was queried if any further forms had been returned. The Head of Legal and Democratic Services confirmed that some additional forms had been received so there were now less than 10 outstanding.

Officers were thanked for their proactive work in obtaining such a high rate of return and Members were urged to encourage Parish and Town Councillor colleagues to complete their forms.

RESOLVED

That the Minutes of the Meeting held on 18 November 2019 be confirmed as a correct record and signed by the Chairman.

4 **Proposed Changes to the East Suffolk Council Constitution**

Members received the Leader of the Council's report detailing proposed changes to East Suffolk Council's Constitution for consideration by the Committee prior to the changes being considered by Full Council. The Committee was reminded that all Councils must have a written Constitution which includes its standing orders, code of conduct and such other documents as the Council considers to be appropriate.

The Head of Legal and Democratic Services reported that, whilst the Constitution had been prepared and written by a Shadow Authority Member Working Group prior to being approved by the Shadow Council for East Suffolk on 28 January 2019 (REP29(SH)), it had always been acknowledged that the document would need to be reviewed to fit the working practices of the new Council as it bedded in. She added that, although she had delegated authority in the Constitution to make minor changes, she felt that the following four proposed changes required consideration by this Committee and then Full Council:

1. **Scrutiny Procedure Rules** - Change to reflect that the Chairman and Vice-Chairman of Scrutiny Committee are elected by Full Council at its Annual Meeting and not at the Scrutiny Committee's first meeting.
2. **Financial Procedure Rules** - Change to allow a Deputy Chief Finance Officer (CFO) to be appointed who can then act in the CFO's place if he or she is absent.
3. **Budget and Policy Framework** - Change to reflect that the Investment Strategy will be considered by the Audit and Governance Committee then Cabinet rather than by the Scrutiny Committee then Cabinet.
4. **Code of Good Practice/Guidance for Members - Planning and Rights of Way** - Change to reflect that site visits are purely factual meetings provided to give Members a better understanding of a site, prior to consideration by either of the Planning Committees of any application in relation to it.

In relation to the latter, it was noted that the Strategic Planning Committee had approved the proposed changes at its meeting on 9 December 2019 prior to the recommendation being put before this Committee and then Full Council. The point was made that it was very important for the Council to ensure that members of the public were very clear on the procedure for Site Visits given how contentious they could be.

On the proposition of Councillor Cooper, seconded by Councillor Mapey it was

RESOLVED

That approval be given to the above proposed changes to the Constitution as detailed in the report and that they be recommended to Full Council for approval.

5 **Treasury Management Strategy Statement for 2020/21 and Treasury Management Investment Strategy 2020/21**

The Committee received the report of the Leader of the Council and Cabinet Member with responsibility for Resources which set out the East Suffolk Council's Treasury Management Strategy Statement for 2020/21 and the Investment Strategy for 2020/21.

The Assistant Cabinet Member for Resources stated that the report covered:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy; and
- the investment strategy.

It was explained that the Treasury Management Strategy Statement provided Members with details of the economic background that the Council has been operating in and the credit outlook and interest rate forecast. The Treasury Management Indicators helped the Council to measure and manage its exposure to treasury management risks. The indicators covered:

- security;
- liquidity;
- interest rate exposure;
- maturity structure of borrowing;
- principal sums invested for periods longer than one year;
- operational boundary for external debt; and
- authorised limit for external debt.

The Assistant Cabinet Member referred to Annex A of the Treasury Management Strategy Statement which provided Members with Arlingclose's economic and interest rate forecast as at November 2019. It was noted that, as at 30 November 2019, the Council held £77.41m of borrowing and £120.82m of investments and reference was made to Annex B of the report which provided a further breakdown.

The Committee was informed that the Investment Strategy provided Members with details on treasury management investments and commercial investments. It also provided detail on capacity, skills and culture that operated within the Council and detailed the investment indicators that operated:

- total risk exposure;
- how investments are funded; and
- rate of return received.

The Assistant Cabinet Member concluded that the report highlighted the positive aspects by earning money through Treasury Management and also detailed the risks involved.

A query was raised as to whether there was likely to be any impact on the Council now that a new Bank of England Governor had been appointed. The Assistant Cabinet Member indicated that it was too early to say yet but he pointed out that Arlingclose would continue to give advice on anything that would impact on the Council.

Reference was made to Table 1 of the Treasury Management Strategy Statement which listed the approved investment counterparties and principal limits and the Chairman suggested that, in future, further detail should be provided on those institutions with

credit ratings above AA- that the Council currently use or could use. The point was made that institutions did move between the bandings but it was acknowledged that it was unlikely the Council would use any that had a rating below AA-.

The Assistant Cabinet Member referred Members' attention to an error in the recommendation in the report and explained that the documents did not need to be considered by Cabinet but, if approved by this Committee, would go straight to Full Council.

On the proposition of Councillor Back, seconded by Councillor Cloke it was

RESOLVED

That the Treasury Management Strategy Statement and the Treasury Management Investment Strategy for 2020/21 be recommended to Full Council for approval.

6 Capital Strategy 2020/21 to 2023/24

The Committee received the report of the Leader of the Council and Cabinet Member with responsibility for Resources which set out East Suffolk Council's Capital Strategy for 2020/21 to 2023/24.

The Assistant Cabinet Member for Resources reported that, following the large amount of commercial investment undertaken by Local Authorities using 100% borrowing to finance their investments, the Chartered Institute of Public Finance and Accountancy had issued a new Prudential Code in February 2018 requiring all Councils to produce an annual Capital Strategy that would give a high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of local public services, along with how associated risk was managed and the implications for future financial sustainability.

It was noted that the East Suffolk Capital Strategy for 2020/21 through to 2023/24 pulled together all the various policies and strategies that the Council had in relation to capital and provided the key elements from them, such as:

- capital expenditure and financing, which related to the Council's capital programme;
- asset management strategy, which was still under development and was being led by the Asset Management Team;
- treasury management, covering borrowing and investments;
- investment for service purposes, where there was a strategic case to do so, such as entering into joint ventures with Norse;
- commercial investments, which linked to the East Suffolk Commercial Investments Strategy;
- other liabilities, such as pension fund deficits and business rates appeals;
- revenue implications of the capital programme;
- knowledge and skills of officers, external advisors and Councillors; and
- the Chief Finance Officer's statement on the affordability and risk of the Capital Strategy.

Clarification was sought in relation to 2.1.4 of the Strategy relating to the funding for the Felixstowe Regeneration Project and it was noted that £10m had been allocated in 2020/21 and the rest of the £21m project costs would be allocated over the remaining life of the four year project.

Reference was made to paragraph 7.1.1 of the Strategy relating to a £3m payment towards the pension deficit and it was confirmed that this was a one off payment in 2019/20 but there would not be a requirement to make any further lump sum payments in future years as the employer's contribution rate would increase from 2020/21 to incorporate the deficit on an ongoing basis rather than having to pay periodic lump sums. Clarification was sought on how often the Council received an update on the Pension Fund and the Finance Consultant reported that Suffolk County Council as the Pension Administrator provided information every three years. Concern was expressed that waiting three years might make financial planning more difficult for the Council and Officers were asked to see if updates could be received more frequently. A suggestion was made that the Pension Fund Administrators could be invited to attend a future Committee meeting in order to provide Members with more details on how the Fund worked.

Reference was made to paragraph 2.1.4 of the Strategy in relation to Commercial Investment and the Senior Accountant stated that investments had to be right for the Council and Cabinet was considering a report on the proposed projects at its meeting on 7 January 2020. The Chairman suggested that the Committee should receive an overview on these projects after the first six months to ensure that they were on track.

The Assistant Cabinet Member referred Members' attention to an error in the recommendation in the report and explained that the documents did not need to be considered by Cabinet but, if approved by this Committee, would go straight to Full Council.

On the proposition of Councillor Mapey, seconded by Councillor Cooper it was

RESOLVED

1. That the Capital Strategy 2020/21 to 2023/24 be recommended to Full Council for approval.
2. That the Pension Fund Administrators be asked to attend a future meeting of this Committee.
3. That Officers be asked to provide an overview of the Commercial Investment Projects after the first six months.

7 Internal Audit Charter

The Committee received the report of the Leader of the Council and Cabinet Member with responsibility for Resources which presented the refreshed Internal Audit Charter.

The Assistant Cabinet Member reported that the Internal Audit Charter defined Internal Audit's purpose, authority, responsibility and position within the Council and

was regularly reviewed to take account of any practical or best practice changes. It was noted that the Charter had last been reviewed in September 2018. The Charter had now been reviewed and refreshed and other amendments sought to make the Charter more accessible and reflect the creation of East Suffolk Council. The Committee was informed that this report was being presented to enable it to fulfil its terms of reference "To review and approve the Internal Audit Charter to ensure that it is appropriate to the needs of the organisation".

The Head of Internal Audit referred to the Mission of Internal Audit as detailed in 2.1 of the Charter which stated that all audit activity was designed to support and achieve the Mission "To enhance and protect organisational value by providing risk-based independent and objective assurance, advice and insight".

The Committee was informed that Internal Audit must be independent of the organisation to ensure that objective, impartial and effective professional judgements were provided. The Head of Internal Audit referred to a recent external Public Sector Internal Audit Standards (PSIAS) review which had determined that East Suffolk conformed with all key elements of the PSIAS. She added that a copy of their report would be brought forward for the Committee's consideration at the next meeting on 2 March 2020. Members noted that the Charter needed to make it clear what her role was, re-emphasise the rights she had and also show clearly those areas for which she had operational management responsibility and external audit would be required. Attention was drawn to paragraph 9.9 of the Charter as an example which stated that "the Head of Internal Audit, where appropriate and resources allow, may provide audit services for organisations other than East Suffolk Council" and Members were reminded that the Head of Internal Audit undertook some work for the Anglia Revenues Partnership so it was important that the Charter reflected that.

Clarification was sought on team resources and the Head of Internal Audit indicated that it was tight given they also covered Data Protection which impacted on the time available for audit work. She stated that she would be bringing a report on Data Protection to the proposed 30 March 2020 Committee meeting to give Members an update on what work was being undertaken. Members were also informed that there was still a problem recruiting qualified and experienced auditors. The Chairman stated that it was very positive that there was such flexibility within the Audit Team which enabled them to undertake different types of work.

There being no further questions, on the proposition of Councillor Cooper, seconded by Councillor Cloke it was

RESOLVED

That the refreshed Internal Audit Charter be approved.

8 Audit and Governance Committee's Forward Work Programme

The Committee reviewed the Work Programme at the end of the meeting in light of the discussions during the meeting.

The Chairman proposed that the extra meeting on 30 March 2020 should be confirmed and any Officers with overdue recommendations be asked to attend to explain any

delays in achieving their deadlines. A suggestion was made that the External Auditors should also be asked to attend on 30 March to give an update on the latest position and explain the reasons for the delays in auditing the accounts. Clarification was sought on whether the Council would be fined due to the delay in signing off the Accounts, however, Members were assured that this would not happen as it was outside the Council's control. Concern was expressed that this delay would start to impact on the Internal Audit Team and the Chairman suggested that their resources might need to be boosted in order to carry out their workload.

On the proposition of Councillor Cooper, seconded by Councillor Cloke it was

RESOLVED

That the Committee's Work Programme be updated in accordance with the discussions at the meeting and the proposed extra meeting date of 30 March 2020 be confirmed.

9 Exempt/Confidential Items

RESOLVED

That under Section 100A(4) of the Local Government Act 1972 (as amended) the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

10 Internal Audit: Status of Actions

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

11 Internal Audit Reports Recently Issued

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

12 Exempt Minutes

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).

The meeting concluded at 7.50pm.

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Chairman