

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 13 January 2011 at 6.30 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Mrs Russell, Day, Mrs Johnston, Mrs Lodge-Pritchard, Mrs B Nicholson, Peppiatt and McCastree

110. ALSO PRESENT:

Sue McGonigal – Deputy Chief Executive
Harvey Patterson – Head of Legal and Democratic Services (Monitoring Officer)
Nikki Morris – Corporate Governance and Risk Officer
Sarah Medus – Capital and Treasury Officer
Zoe Harrison – Senior Systems & Incomes Officer
Lisa Robertson – Audit Manager – Audit Commission
Harpal Singh – Audit Commission
Christine Parker – Head of the East Kent Internal Audit Partnership

111. VARIATION OF AGENDA ORDER

Members agreed to vary the order of the agenda and take Items 8 and 9 after Item 5 (followed by Item 6, 7 and 10, 11 and 12).

112. APOLOGIES FOR ABSENCE

No apologies were received.

113. DECLARATIONS OF INTEREST

There were no declarations of interest.

114. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 28 September 2010, were approved and signed by the Chairman.

Christine and Nikki were thanked for the presentations given at the above meeting.

115. ACTION POINTS FROM PREVIOUS MEETINGS

The issue regarding tourism grants had been responded to by Harvey Patterson. Members still had concerns regarding this matter and it was agreed that at the time these grants had been given, the auditing of them had not been as thorough as it should have been. Sue McGonigal assured members that the role of monitoring was now resilient and robust processes were in place. Members asked for a breakdown of what monies were given, to whom and when. (SMc).

At the meeting of Governance and Audit Committee on 28 September, Members had asked that a Valuation Officer attend the next meeting. However, the information sought

was thought to be provided in the briefing note though Members had further enquiries. It was noted that the criteria for carrying out valuations had recently changed and included energy certificates being required to be up to date. A RICS red book was also needed and valuations were to be carried out by a qualified expert.

The following list of concerns were to be addressed by the attendance of the Valuation Officer and/or Estates Manager at the next meeting:

1. What is being done about assessing the sustainability of the buildings as part of the valuation process.
2. Declaration of Energy Certificates required.
3. Rent reviews are not happening on time creating a backlog.

Members noted the report.

116. NATIONAL FRAUD INITIATIVE

The Governance and Audit Committee received a presentation from Zoe Harrison, Senior Systems & Incomes Officer, on the National Fraud Initiative.

Members asked whether a cost analysis had been done to establish Value for Money as the amounts retrieved were relatively small compared to the time and costs of administration. Sue McGonigal informed Members that the fraud initiative was a very small area of Zoe's role and was indeed cost effective.

A copy of the presentation had been asked to be sent to Members following the meeting. (Done). It was also agreed that an update would be provided to this Committee following the matching exercise.

Harvey advised Members that the definition of fraud had recently changed although if unintentional it was still recoverable. Discussion took place regarding the 'single person discount' and how the council were informed of rising '18' year olds. This was still reliant on the honesty of the person filling in the forms.

Christine Parker, Head of the East Kent Internal Audit Partnership informed the Committee that Thanet Council did very well and good controls were in place.

Members received the presentation.

117. QUARTERLY GOVERNANCE PROGRESS REPORT

Nikki Morris, Corporate Governance and Risk Officer outlined the report which provides Governance and Audit Committee with a progress report on governance related issues.

Climate change was a matter of concern to Members and an action plan to deal with outstanding climate change related projects is underway.

A further risk causing concern was that gaps remain across the organisation in staff that have not yet undertaken child protection training. The training is on-line and other methods are being developed to assist staff who are unable to undertake the training on-line.

The matter of decision making protocols was also raised with Members and the matter of the Dane Valley Allotments which should have gone to the Asset Management Working

Group. Harvey said that he would look into this as the Scheme of Officer Delegations may have permitted the decision to be made by the officer.

Moved by Councillor Peppiatt and seconded by Councillor Day that:

“(a) Members noted the content of annexes 1 and 2 and had identified any issues on which they required more clarification

(b) that Members approved the changes to the Governance Framework and Local Code of Corporate Governance (annexes 3 and 4)

(c) that Members agreed the revised Business Continuity Management Strategy and Policy (annex 5) and recommend that it be forwarded to Cabinet for their approval”

MOTION ADOPTED.

118. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROGRESS REPORT AND UPDATED TIMETABLE

Sue McGonigal, Chief Executive (Designate) summarised the report which updates the Governance and Audit Committee on progress in relation to the adoption of International Reporting Standards (IFRS) for 2010/11.

The absence of a qualified Capital Accountant and the late publication of detailed guidance continues to have an impact on the IFRS implementation project. The original timetable has therefore been revised accordingly. There are no costs associated with the implementation of these changes as they will be dealt with within existing staff resources, although there may be future budget implications dependant on the result of ongoing reviews.

Members noted the report and the updated timetable to implement the changes required under IFRS.

119. MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT REPORT

Sarah Medus, Capital and Treasury Officer outlined the report which is to inform the Governance and Audit Committee about the Treasury Management activity in the first half of 2010-11, and for the approval of any change to the prudential indicators.

The report is structured to highlight the key changes to the Council's capital activity (the prudential indicators (PI's) the economic outlook and the actual and proposed treasury management activity (borrowing and investment). It was reported that the investment strategy and the Prudential Indicators are not materially changed, except for the borrowing need in line with capital expenditure. This has reduced by £600,000 which is due to the authority no longer being required to fund the construction of the pontoon as part of the London Array agreement.

Some Members raised concerns regarding the Council's borrowing policy. Sarah explained that the table at 2.2 to the report is the expected Capital Expenditure and the table at 2.5 shows the Capital Finance Requirement, the overall need to borrow using reserves rather than actual borrowing. In addition, some concerns from Members regarding the interest rate were discussed. Sue McGonigal said that the Council had treasury advisors and that 2.75 was a good rate over a 5 year period.

Members also asked whether the Council had a facility to have money when it was needed. Sue McGonigal said that, to some extent the Council do that. The key objectives

of the Council's investment strategy are the safeguarding the re-payment of the principal and interest of its investments on time, the investment return being a secondary objective. The current investment climate has one over-riding risk consideration, that of counterparty risk. As a result of these underlying concerns officers continue to implement an operational investment strategy which tightens the controls already in place in the approve investment strategy.

It was also asked whether borrowing less could be 'offset'. Although this has been looked into before, Sarah is to ask treasury advisors again if there is any such facility for the public sector.

Thanks were given to the officers.

Moved by Councillor Mrs Johnston and seconded by Councillor Day that:

"the Governance and Audit Committee recommend to Council that:

to note the report, and the treasury activity, and recommend approval of any changes to the prudential indicators"

MOTION ADOPTED.

120. BUDGET AND RENT SETTING REPORT AND TREASURY MANAGEMENT STRATEGY REPORT 2011/12 - 2013/14

Sarah Medus, Capital and Treasury Officer outlined the report which provides the Governance and Audit Committee with the proposed Treasury Management Strategy Report for 2011-12 for their approval.

This is the first time that this report has come before the Governance and Audit Committee with a recommendation. In comparison with last year's strategy, not many changes have been made. The time and monetary limits for institutions on the Council's Counterparty List are as follows.

	Fitch, Moody's, Standard & Poor's respectively	Money Limit	Time Limit
Upper Limit Category	F1+,P1, A1+	£6m	1 yr
Middle Limit Category	F1, P1, A1	£5m	1 yr
Debt Management Account Deposit Facility	-	No Limit	6 months
Money Market Funds	AAA	£5m	1 yr
Guaranteed Organisations (Eligible Institutions)	-	£4m	1 yr

The Council's capital expenditure plans were summarised within the report and forms the first of the prudential indicators. A certain level of capital expenditure is grant supportive by the Government; any decisions by the Council to spend above this level will be

considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for Money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax and rents);
- Practicality (e.g. the achievability of the forward plan).

The layout, as prescribed by CIPFA show best practice and recognises the trail between the table, net financing needs and capital investment.

The Capital Expenditure Plans

The table at 2.2 was noted by Members.

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement. This is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources,

The table at 2.3 was noted by Members.

Debt and Investment Projections 2011/12 – 2013/14

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The expected Operational Boundary prudential indicator, is shown which may be different from the year end position.

The table at 3.2 was noted by Members.

Limits to Borrowing Activity

The Section 151 Officer reports that the Council has complied with this prudential indicator in the current financial year and does not envisage difficulties in the future.

The tables at 3.3 were noted by Members.

It was also noted that Members would like more training to be provided which was agreed.

Moved by Councillor Mrs Johnston and seconded by Councillor Mrs Russell that:

“the Governance and Audit Committee recommend to approve each of the key elements of these reports, and recommend these to Council:

- (1) The Prudential Indicators and Limits for 2011/12 to 2013/14 contained within Appendix A of the report, including the Authorised Limit Prudential Indicator.

- (2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy MRP.
- (3) The Treasury Management Strategy 2011/12 to 2013/14 and Prudential Indicators contained within Appendix B. the treasury
The Investment Strategy 2011/12 contained in the treasury management strategy (Appendix B), and the detailed criteria included in Annex B1"

MOTION ADOPTED.

121. INTERNAL AUDIT PROGRESS REPORT

Christine Parker, Head of the East Kent Internal Audit Partnership outlined the report which gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30 September 2010.

Disabled Facilities Grants are now receiving a Substantial assurance level. The process is working very well with expected controls effectively implemented within the established procedures and working practices. The information provided to applicants on DFG's is clear, detailed and appropriately repeated throughout the grant stages either through the use of the internet, standardised process documentation, or direct contact with the DFG Officer.

Fourteen follow-ups were carried out and show the performance against the plan up to the end of September. The results show that the council is on target and making good progress.

Members noted the report.

122. ANNUAL AUDIT LETTER 2009/10

Lisa Robertson, Audit Manager from the Audit Commission presented the Audit Commission's Annual Audit Letter 2009/10 to the Governance and Audit Committee.

The Audit Commission's Annual Audit Letter summarises the findings from the 2009/10 audit. It includes messages arising from the audit of the Financial Statements and the results of the work undertaken to assess the arrangements to secure Value for Money in the Use of Resources.

An unqualified opinion was issued on the financial statements on 29 September 2010. In the course of the audit two material accounting misstatements were identified as well as some non-material accounting and disclosure errors. These were corrected and did not impact on the Council's overall reported financial balance.

An unqualified value for money conclusion was also issued stating that the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010. The Council has made good progress in terms of its governance and use of natural resources. It has also demonstrated good

financial management, delivering budget savings and efficiencies in difficult external circumstances.

The Council is facing a difficult year and is currently revisiting its medium term financial strategy in the light of the Chancellor's recent comprehensive spending review. The scale of savings is unprecedented in recent memory and difficult choices will be required regarding future service delivery. The success of this will be critical to the future of the Council.

Members noted the report.

123. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

Members had earlier indicated that they would like some further training on Treasury Management for those sitting on the Governance and Audit Committee.

Following some discussion on the most cost effective and efficient way of pursuing this Harvey Patterson suggested that this training could form part of Members Induction Training following the election and ALL Members could be invited.

There was also discussion on the changes to the Fraud Act, and it was agreed that this could also be an item for consideration for training.

Meeting concluded : 9.20 pm