

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Thursday, 9th February, 2017, 2.00 pm

**Councillors:** Brian Simmons (Chair), Barry Macrae and Christopher Pearce

**Independent Member:** John Barker

**Officers in attendance:** Tim Richens (Divisional Director- Business Support), Jeff Wring (Head of Audit West), Andy Cox (Audit Manager (Audit West)) and Giles Oliver (Finance & Resources Manager)

**Guests in attendance:** Barrie Morris (Grant Thornton)

**123 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**124 ELECTION OF VICE-CHAIR**

**RESOLVED** that a Vice-Chair was not required on this occasion.

**125 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Andrew Furse.

**126 DECLARATIONS OF INTEREST**

There were none.

**127 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

**128 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

**129 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**130 MINUTES OF THE MEETING OF THE 8TH DECEMBER 2016**

These were approved as a correct record and signed by the Chair.

**131 TREASURY MANAGEMENT STRATEGY**

The Divisional Director – Business Support presented the report.

He set the Strategy in context by referring to recent speculation about the solvency of the Co-operative Bank. Members should be reassured by the fact that the Council had not invested with this bank for some time because of the Strategy. He reminded Members that the Strategy was reviewed annually. It had already been approved by Cabinet and would be submitted for approval to Council on 14<sup>th</sup> February. Any comments made by this Committee would be reported to Council.

He drew attention to the table setting out the scope of the Strategy in paragraph 5.3 of the covering report

He said that the funding of capital investment from cash flow would be maintained in 2017/18 because of the continuing low interest rate environment. This practice had resulted in the Council's actual debt being much lower than its borrowing limits. The borrowing limits seemed high because the Council had a substantial capital programme for the next 3-4 years. A significant proportion of this would be funded by borrowing. The borrowing limit would allow the Council to respond flexibly to fluctuations in cash flow.

A Member asked whether the borrowing limits took account of possible decreases in Government grant to the Council. The Divisional Director – Business Support replied that decreases in Government grant were not treated as a risk. The limits set were considered affordable limits, based on a judgement about the likely level of future interest rates, so the potential need to borrow up to the limit had been factored in. The Council had, in return for submitting an efficiency plan, secured a four-year settlement with the Government, which would be changed only in very exceptional circumstances. The Council also maintained a capital financing reserve, which would provide a small cushion against a shock rise in interest rates, allowing higher interest to be paid while the revenue budget was rebalanced.

The Divisional Director – Business Support drew attention to Arlingclose's interest rate forecasts on agenda page 23. Arlingclose expected Bank Rate to remain at 0.25% up to the end of 2019.

He commented on the Investment Strategy (agenda page 29). He emphasised that only very risk-averse positions were taken; the Council had not invested in Icelandic banks and, as already stated, nothing was invested in the Co-operative Bank. The Council's Treasury Management Team managed the Avon Pension Fund's internal cash. It also managed the West of England Revolving Investment Fund and the Local Growth Fund on behalf the Local Enterprise Partnership (LEP). These would be transferred to the West of England Combined Mayoral Authority (MCA) on 1<sup>st</sup> April. The MCA had actually come into being on the previous day. In reply to a question from a Member, he explained that the MCA could meet and take decisions before the election of a Mayor, which would take place in May this year, and that it was due to meet for the first time in late February or early March when it was expected to appoint statutory officers, including a Chief Executive, Monitoring Officer and Chief Finance Officer (CFO). It was envisaged that he would be seconded to the MCA to act as its part-time CFO, with a permanent appointment being made after the election of the Mayor. It would be surprising, in view of the size of the funds managed by the MCA, if it did not appoint a full-time CFO.

A Member asked whether any discussions were planned or in progress about aligning the procedures of the MCA with those currently applied in the Council and to

the LEP fund. The Divisional Director – Business Support explained that as acting CFO to the MCA he was establishing the basic financial procedures and that B&NES finance officers would provide services to the MCA under a service level agreement. B&NES would be fully reimbursed for these services, which would enable it to retain skills and staff resources in an increasingly challenging environment. The MCA's initial Treasury Management and Investment Strategy will be based on the Council's.

A Member asked him about the impact of his secondment on the Council's Finance Team. He replied that consultations were already taking place about the restructuring of the team, and he was sure that there would be sufficient staff resources to support the Council. There was no threat to the funding of his own post from the fact that 50% of his salary would be paid by the MCA until it appointed its own CFO. In reply to a further question about the risks to the MCA from the spending plans of any of the member authorities, he pointed out that all financial decisions by the MCA had to be agreed unanimously by the member authorities.

A Member asked about the Council's use of Natwest Bank given its low credit rating. The Divisional Director – Business Support replied that Natwest's credit rating was too low for the Council to invest money in them or leave significant sums of money with them overnight, but it was the Council's main bank for ordinary banking transactions.

A Member asked how often the Treasury Management Advisor's appointment was reviewed. The Finance and Resources Manager replied that it was reviewed every three years, with the possibility of an extension period. The Divisional Director – Business Support said that there had been a contraction in the number of firms offering this service. Four or five years ago there were about five, but now only two, Arlingclose and Sector.

A Member asked about the reporting of changes to borrowing during the year. The Divisional Director – Business replied that a report was made to every formal and informal meeting of the Cabinet. Changes to projected borrowing might be caused by construction being delayed because archaeological work had to be carried out, for example, or by the fact that buildings could only be acquired as and when they came onto the market. Borrowing could be transferred between financial years to reflect this. In reply to a question from the Chair he said that the establishment of the Brunel Investment Company would have no impact on the cash management of the Avon Pension Fund.

**RESOLVED** to recommend to Council:

1. The actions proposed within the Treasury Management Strategy Statement (Appendix 1).
2. The Investment Strategy as detailed in Appendix 2.

## **132 EXTERNAL AUDIT UPDATE REPORT**

Mr Morris presented this item. He reminded Members that the deadline for the draft accounts would be brought forward to 31<sup>st</sup> May from 2017/18, and that the finance team had agreed to a dry run this year with a deadline for the 2016/17 draft accounts

of 31<sup>st</sup> May 2017. Grant Thornton planned to complete the audit of the accounts by the end of June 2017.

A Member asked about the impact of the changes taking place from the 1<sup>st</sup> April 2017 in how intermediaries legislation will be applied to off-payroll working in the public sector. He wondered whether it was clear how responsibilities would be divided between the Council, which procured and paid for the service, and the service providers. The Divisional Director – Business Support replied that this change had been in the pipeline for some time, and HR and Procurement had done a great deal of work on it. HR had talked to all Directorates employing agency staff or procuring them through public service procurement companies to ensure that the Council is totally compliant with IR35. This means that, where appropriate, external staff should be brought on payroll. Some staff are provided by NEPRO, who are actually the employers, so IR35 does not apply when the Council uses them. The Head of HR had reported about three weeks ago there were only 8 or 9 cases that might be problematic, and that they were being worked through. If after the 1<sup>st</sup> April there were external staff working for the Council to whom IR35 applied, the Council would become responsible for their tax and National Insurance. Every effort was being made to ensure that this did not happen.

A Member asked whether the finance team had sufficient people and skills to achieve the new mandatory deadline for the completion of the draft accounts. The Divisional Director – Business Support replied that it did. Recruitment had taken place over the past couple of months, though it had to be said that there were fewer applications in response to job advertisements than previously. Lessons had been learnt from the dry run, which would help the team to meet the new deadline. Mr Morris advised that the earlier deadline would require the finance team to use more estimates. An increase in the number of adjustments identified by the audit might result. This would not by itself indicate a decline in the performance of the finance team.

**RESOLVED** to note the report and updates by the External Auditor.

### **133 ANNUAL GOVERNANCE REVIEW UPDATE**

The Audit Manager (Audit West) introduced this item. Members noted that the 2016/17 Annual Governance Review had commenced and that by March all Divisional Directors would have had the opportunity to contribute and to highlight any potential issues for inclusion in the Annual Governance Statement (AGS). Members were invited to raise any issues for consideration.

The 2015/16 AGS had identified the financial challenge as the only significant issue. The latest position with regard to the mitigating actions recorded against this issue was detailed in paragraph 4.11 of the covering report. He drew attention to the four issues identified for further consideration for possible inclusion in the 2016/17 AGS listed in paragraph 4.12

A Member thought that the creation of the MCA should not be included as a significant issue for the Council, as it would have its own funding and accounting and audit procedures.

A Member suggested that Brexit and the uncertain international situation should be included as significant risks. Brexit might impact on the workforce, tourism and the tax regime. Another Member disagreed because the Council had no control over these things. The Member who made the proposal suggested that the inclusion of these two risks in a public document would demonstrate that the Council was alert to the potential impact of these issues.

The Divisional Director – Business Support advised that the Cabinet Member for Finance and Efficiency had requested that a report on the potential impact of Brexit should be brought to Council. Strategic Directors had been asked to input. There was as yet no date for the submission of this report because of continuing uncertainties about the timing and consequences of Brexit. The Member who had made the proposal responded that Brexit was a known unknown that could impact on the Council. The Head of Audit West suggested that it was not a governance issue, but agreed to take it on board.

The Chair suggested that the possibility of a tourist tax was risk that might have to be considered next year.

**RESOLVED** to note the progress of the review.

The meeting ended at 3.11 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**