BATH AND NORTH EAST SOMERSET COUNCIL

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 7th February, 2012, 4.30 pm

Councillors: Andrew Furse (Chair), Gerry Curran, Will Sandry, Geoff Ward, Kate Simmons, Barry Macrae and Brian Simmons
Independent Member: John Barker
Officers in attendance: Tim Richens (Divisional Director - Finance), Jeff Wring (Divisional Director - Risk and Assurance Services), Andy Cox (Group Manager (Audit/Risk)) and William Harding (Head of Human Resources)
Guests in attendance: Chris Hackett (Audit Commission), Wayne Rickard (Audit Commission) and Councillor Charles Gerrish (Bath & North East Somerset Council)

46 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

47 ELECTION OF VICE-CHAIR

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

48 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

49 DECLARATIONS OF INTEREST

There were none.

50 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

52 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

53 MINUTES: 6 DECEMBER 2011

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

54 TREASURY MANAGEMENT BRIEFING BY STERLING, ADVISORS

Nicholas Keeling of Sterling Consultancy Services gave a presentation on "Introduction to Treasury Management for Elected Members".

Members thanked Mr Keeling for his extremely interesting and useful presentation.

55 TREASURY MANAGEMENT MONITORING REPORT

The Divisional Director – Finance presented the report. He explained that monitoring of Treasury management took place on a daily basis. The summary of returns was given in paragraphs 1.8 and 1.9 and the summary of borrowings in paragraph 1.10. A total borrowing of £151 million was projected for 2011/12. A great deal of borrowing was funded from cash flow. He drew attention to the information given in paragraphs 1.14 about the decision to disinvest from the Eurozone and in paragraph 1.15 about the downgrading of the credit rating of many UK banks and the challenge this presented for the delivery of the Treasury Management and Investment Strategies for 2012/2013. More of the Council's cash would be invested in Central Government funds, which gave a lower rate of interest than banks.

Councillor Simmons asked about the longevity of the debt inherited from Avon County Council, referred to in paragraph 1.11 of the report. The Divisional Director – Finance replied that the principal and interest on this was being repaid; he could report on when the debt would be liquidated at a future meeting. Councillor Sandry noted the Council's investments in December were lower than in September. The Divisional Director said the cash balance tended to be highest in the first half of the year; in the latter half there was an increase in bills to be paid and a fall in receipts, because no Council Tax was collected in February and March. This year's trend was entirely normal.

RESOLVED

1. To note the Treasury Management Report, prepared in accordance with the CIPFA Treasury Code of Practice, to 31st December 2011.

2. To note the Treasury Management Indicators to 31st December 2011.

56 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2012/13

The Divisional Director – Finance presented the report. He explained that the strategies set out the rules that would govern the Council's investment and borrowing during the next financial year. If significant changes in market conditions required the strategies to be amended the financial year, they would need to be resubmitted to Council.

He said that in accordance with CIPFA's *Code of Practice on Treasury Management in the Public Services*, adopted by the Council in February 2010, the Council was required to approve a Treasury Management Statement for each financial year. The draft Treasury Management Strategy 2012/13 was attached as Appendix 1 the report. Page 8 specified borrowing limits for 2012/13 in terms of Authorised Limits and an Operational Boundary.

The Investment Strategy was Appendix 2 to the report. There were two kinds of investment: “specified” (as defined in CLG Guidance) and “non-specified” (those falling outside the definition of specified investments). The table on page 14 set out in broad terms the type of institution in which the Council would make specified investments, the minimum credit rating required and the maximum monetary limits for these investments. Possible non-specified investments were listed on page 17. As stated on page 15, the Council did not intend to make the following non-specified investments during the coming financial year:

- those denominated in foreign currencies
- in bodies with low credit ratings
- those defined as capital expenditure in any legislation, e.g. company shares

The minimum credit ratings and time limits for non-specified investments were listed in the table on page 15.

Concluding his introduction to the report, he said that the Council’s capital programme was included in the Financial Plan 2012/13-2014/15, which would be considered by Cabinet the following day.

Councillor Sandry asked whether, given that inflation was currently higher than interest rates on deposits, investment in company shares could be a means of protecting the value of the Council’s reserves. The Divisional Director – Finance replied that there were difficulties with this. If shares fell, the Council would lose capital, which could impact on services. In addition, the value of shareholdings would have to be stated as at 31st March each year in the Council’s accounts, so the fluctuating value of shares would increase the volatility of the Council’s balance sheet. Councillor Sandry remained concerned that in current conditions inflation was eroding the value of the Council’s cash holdings, and suggested that means should be sought to mitigate this. The Divisional Director – Finance replied that reserves were committed over the next three years for various items, i.e. redundancy payments, and that if this money was invested in shares it would be subject to the risk of falls in market value. Councillor Sandry suggested that the remainder of the reserves might be used. The Divisional Director – Finance said that the highest priority was not to put the Council’s capital at risk; however, he understood the Member’s concern, and assured him that the possibility of finding a low-risk option for mitigating the impact of inflation would be kept under review.

In response to a question from John Barker, the Divisional Director – Finance explained that the Avon Pension Fund set its own Treasury Management Strategy and Investment Strategy. Regulations had been changed a couple of years ago to require Pension Fund cash to be separated from the Council’s. Pension Fund cash was still managed by the Treasury Management team, but in accordance with the Pension Fund’s policies.

Councillor Charles Gerrish (Vice-Chair of the Avon Pension Fund Committee and Chair of the Avon Pension Fund Committee Investment Panel) said that the Avon Pension Fund had made a decision to increase its investment in corporate bonds because of current market conditions, and asked whether it might be appropriate for the Council to invest in them. The Divisional Director – Finance noted that corporate bonds were listed as possible non-specified investments on page 17 of the

Investment Strategy. However the risks of investing in corporate bonds were the same as for shares: possible loss of capital and increased volatility of the balance sheet. Council Sandry suggested that it might be an appropriate time for the Council to accept a higher level of risk in order to try to protect the value of its cash. The Divisional Director – Finance said that one means of maximising the value of cash holdings was already being employed: using the cash balances instead of borrowing money for the capital programme at interest rates which were higher than inflation; it was hoped to do this to a greater extent in future for Keynsham regeneration. The current Strategy was admittedly cautious, but a higher level of risk could be incorporated, if that was what the Council wanted.

It was moved by Councillor Macrae and seconded by Councillor Brian Simmons and **RESOLVED**

1. To recommend the Council to approve the actions proposed within the Treasury Management Strategy Statement (Appendix 1).

2. To recommend the Council to approve the Investment Strategy as detailed in Appendix 2.

3. To recommend the Council to approve the changes to authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3.

4. To recommend the Council to adopt CIPFA's revised Code of Practice on Treasury Management as detailed in paragraph 5.5 of the report.

5. To recommend the Council to approve the revised Treasury Management Policy Statement as detailed in Appendix 4.

To note the Treasury Management Indicators detailed in Appendix 1 and note that Cabinet are recommended to delegate authority for updating the indicators prior to approval at Full Council on 14th February 2012 to the Divisional Director – Finance and the Cabinet Member for Community Resources, in light of any changes to the recommended budget as set out in the Budget Report elsewhere on the agenda at 8th February Cabinet.

57 ANNUAL GOVERNANCE REVIEW - UPDATE REPORT FOR 2010/11 AND 2011/12

The Divisional Director – Risk and Assurance Services reminded Members that the Committee had approved the Annual Governance Statement 2010/11 at the meeting of 28 June 2011.

The Group Manager (Audit/Risk) presented the report. He summarised the annual governance process and commented on progress with the significant issues identified in last year's Annual Governance Statement 2010/11. These were listed in Appendix 2.

Members discussed the second significant issue, the loss of a judicial review of a planning enforcement decision, from which the Council incurred damages and costs. Councillor Curran (Chair of the Development Control Committee) explained the process followed by the Development Control Committee in reaching, and subsequently reversing, its decision. He said that main ground of the judicial review had been the lack of an environmental impact assessment (EIA). The Committee had reversed its decision after receiving legal advice that its original decision had been unsound. He thought that the local planning authority had become more risk averse because of this case. Councillor Sandry wondered whether the omission of something as basic as an EIA suggested that the planning process was not robust enough. Councillor Curran acknowledged that there had been an error, but efforts were being made to put a process in place to ensure it did not happen again. Councillor Macrae thought this was an old case and expressed concern that the governance process might become retrospective rather than forward-looking. The Divisional Director – Risk and Assurance Services replied that while the risk management process was about the here and now, there was inevitably a retrospective element in statutory and legal processes. Councillor Ward noted that a QC had been engaged to deal with this case, which must also be a substantial cost to the Council. He was concerned that three planning cases in the space of eighteen months had been subject to legal action, and wondered whether there were issues in the Planning Service that merited investigation. Councillor Simmons felt that the Council had historically been considered ineffective in planning enforcement. He suggested that a QC was necessary if the Council was to defend a legal action robustly. Councillor Curran commented that there were many hazards and pitfalls in the planning system; planning applications had to be determined, but there was the risk of costs if the applicant appealed and if objectors sought judicial review.

The Head of Human Resources commented on three payroll issues, which though not identified as significant, were considered by the Committee at its June 2011 meeting to require monitoring.

1. <u>HMRC returns.</u> The Council's returns had been challenged and there had been the possibility of a penalty for non-payment. The issue had been largely resolved, and it now appeared that HMRC might owe the Council money. However, there were ongoing difficulties with reconciliation between the payroll software used by Mouchel and the Council's ledger. The errors were not consistent, with Mouchel's software sometimes reporting over and sometimes under the true figure. This situation has existed for some years.

2. <u>Teacher's Pension Fund Return (TR17)</u>. A number of schools used a neighbouring local authority as their payroll provider. This provider had not been helpful in allowing access to their records to resolve the problem. It was now believed that the returns were correct.

3. <u>Avon Pension Fund.</u> Errors had been identified in employee contributions. The total sum was not large, but a large number of employees were affected. He understood that the issue had now been resolved.

The Head of Human Resources said that Mouchel had appointed a new and more experienced payroll manager. There would be a need for the Council to invest in new payroll software. A decision would also have to be taken about the future of payroll provision in 2013 when Mouchel's current contract ended. In relation to future HMRC returns, he had said that he would be initially prepared to pay for a maximum of five days reconciliation work. John Barker said that as several partners were involved in this issue, there needed to clear accountability. If the Committee was being asked to support investment in new software, then there should be a report to the next meeting on what the unresolved issues were and who was accountable for their resolution. The Head of Human Resources responded that the improvement plan agreed with Mouchel was due to be refreshed and could be reported. However following discussion it was proposed that a report should only come back to the committee if actions were not happening as agreed or errors were still occurring.

RESOLVED

1. To note action taken to date in relation to the 'Significant Issues' recorded in the Annual Governance Statement Review 2010/11.

2. To note the process and timetable for the Annual Governance Review 2011/12.

3. To support the planned investment in improving the effectiveness of the Payroll Client.

58 EXTERNAL AUDITOR UPDATE REPORTS

The District Auditor presented the report. He reminded Members that in accordance with the Code of Audit Practice he had a duty to give an opinion on the accounts and on Value for Money (VfM). Appendix 1 to the report contained the Audit Plan for 2011/12 for the Council and Appendix 2 the Audit Plan for the Avon Pension Fund. The Committee was invited to approve these. The Audit Plan for the Council identified a number of significant risks in relation to the accounting statements and two significant risks for VfM. The audit fees were lower than for the previous year. He explained that fees were being reduced as the Audit Commission was being reduced in size.

Councillor Curran asked why "heritage assets" had been identified as a significant risk. The Divisional Director – Finance explained that new accounting standards for the first time required the separate identification of heritage assets on the balance sheet. The District Auditor said that the external auditor would want to understand the Council's conception of heritage assets and ensure that the heritage asset inventory and insurance records were up to date. The aim was to ensure that the Council took a pragmatic approach, with the insurance value or a nominal value appearing on the balance sheet.

The District Auditor commented on the Audit Plan for the Avon Pension Fund, which would also require approval by the Avon Pension Fund Committee. One significant risk identified in relation to the accounting statements related to the £1.8bn units in pooled investment securities. The value of these would be ascertained from the reports of the auditors of the fund managers responsible for these investments or, in the absence of information from that source, prices recorded in the Financial Times. There was no requirement for a VfM conclusion in relation to the Pension Fund. The fee to be charged for the audit of the Pension Fund was the scale fee.

He commented on the Claims and Returns Report (Appendix 3). This concluded that the Council had performed well in preparing claims and returns, though some issues had been identified.

He drew attention to Appendix 4, which gave an update on the future of the Audit Commission, and to Appendix 5, the Government Response to the Future of Local Audit Consultation. The Divisional Director – Risk and assurance reminded Members that the consultation document had said a great deal about the composition and role of local authority audit committees. However, the Government Response was still somewhat vague and proposals still needed significant work before they could be properly considered.

RESOLVED

1. To approve the External Audit Plan for the Council for 2011/12.

2. To approve the External Audit Plan for the Avon Pension Fund for 2011/12.

3. To note the findings from the External Audit Annual Report on Grant Claims.

4. To note the emerging issues from the External Audit Update Report.

The meeting ended at 8.28 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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