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ELMBRIDGE BOROUGH COUNCIL

AUDIT AND STANDARDS COMMITTEE

REPORT of a meeting held on 28 June 2017

Members of the Committee:

- * A. Coomes (Chairman)
- * S.J. Foale (Vice-Chairman)

- | | |
|---------------|-----------------|
| * M. Axton | Mrs. C.J. Cross |
| * A.P. Burley | * N. Haig-Brown |

Co-Opted Members:

- Mr. S. Hassel, Independent Member
- Mr. C. Johnson, Independent Member
- * Claygate Parish Councillor M. Sugden

(* Denotes attendance)

Also present:

C.R. Sadler

2/17 DECLARATIONS OF INTEREST

There were no declarations of interest.

3/17 MINUTES OF THE MEETING OF THE COMMITTEE HELD ON 22 MARCH 2017

The Minutes of the meeting of the Committee held on 22 March 2017 were agreed as a correct record and signed by the Chairman.

MATTERS OF REPORT

4/17 GRANT THORNTON'S AUDIT FEE 2017/18

(Link to Council Priorities: All)

The Committee received a copy of Grant Thornton's Annual Audit Fee letter for 2017/18.

The Committee was advised that the Council's scale fee for 2017/18 had been set by Public Sector Audit Appointments Limited (PSAA) at £51,120, the same level as the scale fee applicable for 2016/17. Members further noted that the Council's indicative Grant Certification fee had been set by the PSAA at £10,200.

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The Committee was pleased to note that the total cost, including the Grant Certification work, of £62,320 could be met from the existing budget.

RESOLVED that the Annual Audit Fee for 2017/18 be received and noted.

5/17 ANNUAL GOVERNANCE STATEMENT

(Link to Council Priorities: All)

The Committee was provided with the Annual Governance Statement (AGS) 2016/17 which complied with the Council's Code of Corporate Governance and met the requirements of the Accounts and Auditing Regulations 2015.

The requirement to publish a Statement on Annual Governance had been introduced with effect from the 2007/08 financial year.

The Annual Governance Statement provided public assurance about the effectiveness of the Council's System of Internal Control and the Council's Corporate Governance arrangements and assurance framework.

The Committee welcomed the comprehensive Annual Governance Statement and noted that the format for the 2016/17 Statement had been revised taking into account the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executive's (SOLACE) "Delivering Good Governance in Local Government" Framework 2016.

Members were pleased to note that, on the basis of the Annual Assurance Statements received from Heads of Service for the period relating to 31 March 2017 and the corporate governance health check undertaken by Internal Audit, there were no significant governance issues to report. Furthermore, the review of the Council's system of governance and internal control had not identified any significant weaknesses.

During consideration of the Annual Governance Statement 2016/17, as the Statement contained various references to the new Joint Waste Collection Contract, the Committee raised a number of questions regarding the issues that were currently being experienced following the commencement of the new contract on 3 June 2017.

The Claygate Parish Councillor Co-Opted Member queried whether the risk element of the new contract had been looked at and whether the issues currently being experienced would have an impact on any future budget savings. The Head of Internal Audit reminded the Committee that the Annual Governance Statement was for the 2016/17 year and whilst it contained references to the Joint Waste Collection Contract, these were related to the assurance work in respect of the preparation of the contract. He advised that the procurement stage had been thoroughly examined and possible risks had been identified including those around mobilisation. The Head of Finance further commented that the Council's Risk Register did include the work associated with the contract, particularly in respect of the operational elements

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and the first phase of the mobilisation. With regard to budget savings, the Head of Finance confirmed that the savings had been included within the 2017/18 budget and savings would continue to be delivered despite the recent challenges following the commencement of the new contract. The Committee was also advised that Amey, the new Joint Waste Collection Contractor, would be attending the Overview and Scrutiny Committee on 13 July 2017 to discuss the issues following the mobilisation of the contract. The Strategic Director and Deputy Chief Executive further confirmed that there was a strong and transparent tender process for the Joint Waste Contract, clear selection criteria that had given due weight to quality of service as well as price and further commented that Amey had not been the cheapest but they were the highest quality and safest choice of all the bidders.

Whilst acknowledging that financial penalties would have been included within the contract, one Member asked whether any discussions had taken place in this regard and whether penalties would be imposed given the ongoing issues. The Strategic Director and Deputy Chief Executive advised that the Council's Chief Executive had met with the Chairman / Chief Executive of Amey and discussions had taken place regarding penalties and compensation. The Member further commented that there was a need to communicate to the residents of the Borough as to how they would be compensated for the issues experienced with the waste collection service.

The Claygate Parish Councillor Co-Opted Member also took the opportunity to compliment the Council and specifically the Customer Services Team for their efficiency and genuine interest & concern in dealing with the complaints and queries regarding the waste collection service.

Whilst noting that the Council had a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement, one Member queried how continuous improvement at the Council was maintained. The Strategic Director and Deputy Chief Executive advised that the Council frequently undertook Peer Reviews which helped to showcase what the Council had done well and also helped to identify areas where the Council could improve.

With regard to the outcomes of flagship activities in 2016/17, one Member commented that he was disappointed that the Council had not achieved the target to deliver 40 additional affordable homes. The Strategic Director and Deputy Chief Executive reminded Members that an Affordable and Social Housing Working Group (ASHWG) had been established and was in the process of reviewing different methods of delivering housing and in particular various local housing company delivery models were being considered in this regard.

RESOLVED that

- (a) the Annual Governance Statement for the year ended 31 March 2017, be approved; and

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- (b) authority be delegated to the Strategic Director and Deputy Chief Executive should any minor additions / amendments be required to the Annual Governance Statement.

6/17 STATEMENT OF ACCOUNTS 2016/17

(Link to Council Priorities: All)

The Committee was reminded that following the Government's change to the Regulations, the Chief Finance Officer was now required to approve the Council's Statement of Accounts by 30 June. The Accounts would then be subject to audit, with the formal approval required by 30 September after the completion of the work by the Council's external auditors (Grant Thornton). In this regard, the Committee received the Statement of Accounts for the year ended 31 March 2017.

Members noted that the accounts were un-audited at this stage. Grant Thornton had already completed their planning and some preparatory work on the Statement of Accounts, and the main auditing of the Statement of Accounts had commenced. It was further noted that should any material changes be necessary the accounts would be amended prior to consideration by the Committee in September.

With regard to significant issues on closing the 2016/17 Accounts, the Head of Finance highlighted to the Committee that the main issue that had been identified was in respect of the Community Infrastructure Levy (CIL). The CIL regime had commenced in 2013/14 and the original legislation on the Scheme issued by central Government had indicated that the expenditure would be of a Capital nature. Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) had indicated that CIL would be classified as a Capital Grant and this continued to be the case in respect of the 2016/17 accounts.

Whilst legislation and statutory instruments continued to indicate that CIL could be used for either Capital or Revenue expenditure, the Head of Finance reported that having discussed this issue with CIPFA, their advice was that statute overrides accounting guidance and accordingly for the third year running, the Finance Team had classified the expenditure as an earmarked Revenue reserve.

In respect of provisions, the Committee was advised that the Council had a full repairing responsibility on an asset it leased and in this regard, a further provision of £250,000 had been made to meet these obligations. Members also noted that the Council had increased its provision for Non-Domestic Rates (NDR) appeals as a consequence of the information received as part of the 2017 revaluation exercise.

With regard to the work on the Sports Hub at Waterside Drive, the Committee was advised that in order to ensure that the Balance Sheet reflected the value of the asset and given the material value of the expenditure (remediation of the

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land and installation of a barrier to protect against contamination), an impairment charge had been made to the Income and Expenditure account.

The Head of Finance also took the opportunity to update the Committee on the statutory deadline for preparing the 2017/18 Statement of Accounts which would be May 2018. As the Finance Team had finalised the 2016/17 Statement on 31 May 2017, the Council was on target to achieve the revised deadline. In addition to moving the deadline forward for the preparation of the accounts, it was also noted that the deadline for the completion of the audit would move from the end of September to the end of July.

The Committee discussed in detail the Statement of Accounts for 2016/17 and with regard to the impairment reference for Waterside Drive, one Member commented that he felt that this charge would have an impact on somebody and accordingly, considered that the wording 'had no impact on the Council Taxpayer' was misleading. The Head of Finance reassured Members and provided a technical explanation of the reasons behind reflecting the impairment charge against the Income and Expenditure account. Whilst local government accounting was complex, he commented that he was satisfied that there would be no impact on the Council Taxpayer as defined under statute. However, given the comments made regarding the terminology used in the report, he agreed to look at this in the future.

Whilst noting that there was approximately £10.7 million of Community Infrastructure Levy funding to be allocated, one Member asked where these monies were deposited within the Council's accounts. The Head of Finance confirmed that these monies formed part of the Council's investments and had been recorded within the Statement of Accounts as earmarked reserves.

RESOLVED that

- (a) it be noted that the Statement of Accounts for the year ended 31 March 2017 was issued by the Strategic Director and Deputy Chief Executive by 31 May 2017; and
- (b) the timetable for the audit of the 2016/17 Statement of Accounts, as set out in Paragraph 5 of the report, be noted.

7/17 TREASURY MANAGEMENT 2017/18

(Link to Council Priorities: All)

The Committee was provided with a report that set out the activities and results of the treasury management function for 2016/17 in accordance with the Council's Treasury Management Strategy and in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice for Treasury Management in Public Services and the Investment Guidelines for England issued by the Department of Communities and Local Government.

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The investment position of the Authority as at 9 June 2017 was also reported and Members noted that all of the limits and targets were within the parameters set by the Council. The Committee was also advised that at the end of May 2017, the yield on the Council's money market investments was 0.16% (0.96% annualised) compared to the 7 day London Interbank Bid Rate (LIBID) rate of 0.02% (0.11% annualised). Officers were continuing to explore other options to increase the yield on money market investments while preserving the money invested, however many of the Council's approved counterparties continued to have access to cheap funds from the Bank of England's Funding for Lending Scheme and, consequently, interest rates available to the Council were still significantly reduced.

Members noted that despite careful and effective management of the Council's investments, a higher than expected investment balance combined with placing funds at a higher level than anticipated in the 2016/17 budget meant the interest earned in 2016/17 was £64,000 higher than the budgeted target.

During consideration of the item, one Member queried the Council's counterparty list and specifically the rationale behind using Moody's financial strength ratings for the Council's investments. As the Member did not recognise the C minus category, he suggested that the definitions be looked at and in this regard, bank deposit ratings be considered instead. The Head of Finance confirmed that advice in respect of credit ratings was obtained from the Council's advisors, Capita, but agreed to speak to them in this regard. He also suggested that an explanation of the credit ratings used could be included within the annual Treasury Management session that was due to be held prior to the next Audit and Standards Committee meeting on 20 September 2017.

With regard to monies invested, one Member asked whether the Council had a policy or strategy in place on how much money the Council would hold at any one time. Whilst the Council did not have a specific policy or strategy in this regard, the Strategic Director and Deputy Chief Executive advised that this information was included within the Medium Term Financial Strategy and budget papers.

One Member also queried why Elmbridge was receiving one of the lowest percentage rate of return on investments compared to the other Surrey authorities. As outlined in the report, the Head of Finance confirmed that the majority of the Surrey authorities were investing in the CCLA Local Authorities Property Fund and in this regard a recommendation to invest £10 m had been included on the Cabinet agenda for consideration on 5 July 2017 which would increase the Council's rate of return.

RESOLVED that

- (a) the Treasury Management Activity Report for 2016/17, be noted; and
- (b) the investment position as at 9 June 2017, be noted.

