

## **CORPORATE GOVERNANCE COMMITTEE**

Minutes of a meeting of the Corporate Governance Committee held in Conference Room 1a, County Hall, Ruthin on Wednesday, 5 September 2012 at 9.30 am.

### **PRESENT**

Councillors Raymond Bartley, Stuart Davies, Gwyneth Kensler, Jason McLellan (Chair) and David Simmons

### **ALSO PRESENT**

Councillor Julian Thompson-Hill (Lead Member for Finance and Assets), Head of Legal and Democratic Services (RGW), Head of Internal Audit Services (IB), Audit Manager (BS), Head of Finance and Assets (PM), Technical Accountant (RJ) and Committee Administrator (KEJ) together with Wales Audit Office Representatives (DO & AV)

#### **1 APOLOGIES**

Paul Whitham, Lay Member

#### **2 DECLARATION OF INTERESTS**

No declarations of personal or prejudicial interest had been raised.

#### **3 URGENT MATTERS**

No urgent matters had been raised.

#### **4 MINUTES**

The minutes of the Corporate Governance Committee held on 11 July 2012 were submitted.

***RESOLVED** that the minutes of the meeting held on 11 July 2012 be received and approved as a correct record.*

#### **5 APPOINTMENT OF REPRESENTATIVE ON CORPORATE EQUALITIES GROUP**

The Head of Legal and Democratic Services provided a brief overview of the responsibilities of the Corporate Equality Group which met on a quarterly basis together with membership details. Nominations for a representative and named substitute from this committee were sought to sit on that Group.

After consideration it was –

***RESOLVED** that Councillor Martyn Holland be appointed the committee's representative on the Corporate Equality Group and Councillor Stuart Davies be appointed as substitute member.*

## 6 INTERNAL AUDIT PROGRESS REPORT

The Head of Internal Audit Services (H:IAS) submitted a report (previously circulated) updating members on the latest progress of the Internal Audit Service in terms of service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

The H:IAS highlighted particular areas of the report as follows –

- progress in delivering the Internal Audit Strategy for 2012/13
- recent internal audit reports issued in respect of Ysgol Dinas Bran, Llangollen and Welsh Government – Adult Community Learning Provision 2011 – 12
- management response to issues raised by Internal Audit, and
- Internal Audit performance and key measures.

Members noted the good progress made against the Internal Audit Strategy and the need to revise the Strategy as appropriate in order to reflect the Council's changing priorities. The committee was also pleased to note the two positive audit reports received since their last meeting showing a high assurance rating. The H:IAS advised of a number of audit reports which were close to completion which would be circulated to committee members shortly. In terms of management's response to issues raised by Internal Audit there were currently no actions outstanding or exceeding the three month deadline and the system was working well. Finally reference was made to the key measures which were currently on target for completion.

During consideration of the report the H:IAS clarified particular issues in response to members' questions thereon, particularly regarding the status and remit of various audit assignments. The committee also discussed a number of specific issues with the H:IAS as follows –

- members considered the six high risks in the Corporate Risk Register and the H:IAS reported upon progress of work in those individual areas. He reminded members that the Register would be updated on a regular basis and Internal Audit would assess whether the risks were being robustly managed and addressed. The following two risks were discussed in more detail –
  - the risk that strategic ICT infrastructure did not enable improvement and support change – the Wales Audit Office had undertaken some work on the ICT Strategy which would reduce the amount of work required from Internal Audit Services
  - the risk that the time and effort invested in collaboration was disproportionate to the benefits realised – members highlighted the importance of this piece of work and concerns that some initial areas of collaborative working had ceased, and the need to ensure that collaboration was relevant and appropriate. The H:IAS explained that Internal Audit work was usually planned three months in advance with

no start date allocated for this audit as yet. He was aware that some services had undertaken self assessments on collaborative working which could be utilised. It was explained that the earlier collaborative projects had been initiated without the robust processes which had since been introduced under the Partnership Framework. New projects required a business case and assessment by the Collaboration Board. The Wales Audit Office Representative (AV) added that it was important to ensure clarity and mapping of processes for partnership arrangements and how they were managed

- with regard to Home to School Transport (a collaboration service between Denbighshire and Conwy) the H:IAS explained that Internal Audit had been asked to look at the service with Conwy's Audit Team because of financial issues identified in Conwy. He assured the committee that Denbighshire's Home to School Transport service was good and that any problems identified had been in Conwy's area. In response to questions the H:IAS confirmed that any financial difficulties experienced by Conwy would not impact on Denbighshire and that the final audit report would be publicly available. It was noted that there had been some negative publicity regarding Conwy's service and concerns were expressed that Denbighshire's reputation might suffer by association once the report was published. In order to mitigate the potential for negative publicity it was suggested that a press release or similar approach might prove useful and that members be issued with a briefing paper. It was also suggested that service performance be taken into account when the merits of collaboration were being assessed. The H:IAS agreed to raise the management of those issues directly with the Joint Head of Highways and Infrastructure and advised of the intention to submit the final audit report to Conwy's Audit Committee on 25 September. Accordingly members agreed it would be timely for this committee to consider the report at their meeting on 26 September
- reference was made to the impact of welfare reform on the county and the Audit Manager confirmed that work had been carried out in Revenues and Benefits in that regard. The Heads of Revenues & Benefits and Finance & Assets had been attending meetings of the Area Member Groups to share statistical information and discuss the impact on each area. Such information was available to all members.

Finally the H:IAS advised that any issues members wished to raise should be brought to the attention of Internal Audit or the relevant service area to look into in the first instance.

**RESOLVED** that –

- (a) subject to members' comments above, the progress report on the Internal Audit Service be received and noted, and*
- (b) the final audit report on the Home to School Transport service be submitted to the committee's next meeting on 26 September, 2012.*

## 7 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME

A report by the Head of Legal and Democratic Services (H:L&DS) was submitted (previously circulated) outlining the committee's forward work programme.

The H:L&DS advised that the Annual Report on 'Your Voice' would not be available for the committee's next meeting on 26 September and had subsequently been scheduled for 14 November. The Head of Internal Audit Services reminded members that the audit report on Home to School Transport needed to be scheduled for 26 September. The Wales Audit Office Representative (AV) indicated that there would be future reports forthcoming from the Wales Audit Office and he would arrange for their inclusion within the committee's work programme as appropriate.

Members agreed to the amendments and wished to retain the flexibility of their work programme to allow for the inclusion of any urgent or emerging issues requiring the committee's attention. Consequently it was –

**RESOLVED** that, subject to the amendments and agreements referred to above, the forward work programme be approved.

At this juncture (10.05 a.m.) the committee adjourned for a refreshment break.

## 8 TREASURY MANAGEMENT REPORT

Councillor Julian Thompson-Hill, Lead Member for Finance and Assets introduced the report (previously circulated) and provided some background information on the Council's treasury management functions and the role and responsibility of the Corporate Governance Committee in that regard. In view of the scale and complexity of treasury management, regular updates and training would be provided for the committee to aid members' understanding and enable effective scrutiny of those functions.

The Head of Finance and Assets (H:F&A) drew members' attention to a timetable of reports and training for the committee (paragraph 2.2.1 of the report) together with reporting arrangements to Council and Cabinet. In guiding members' through the report, the H:F&A explained each of the issues in detail to aid the committee's understanding of the complexities involved within treasury management activities and provide a working knowledge of those particular functions. The main report included individual reports on the following areas –

### **Paper on Borrowing (Appendix 1) –**

The H:F&A referred to the timeliness of this paper given that members would be discussing financing of the Corporate Plan after Full Council the following week. In considering the Council's aspirations for capital investment for future years it was important that members had an understanding of borrowing. The H:F&A explained why and how the Council borrowed and provided details of the strategy adopted.

The presentation on borrowing covered –

- background to the legal situation in terms of borrowing
- borrowing only permitted for capital purposes to build new assets or to improve/repair existing assets
- capital expenditure could be financed by grants, contributions and capital receipts but any shortfall had to be met by borrowing
- the different types of borrowing (Internal/External) and the elements and proportions of each type together with the level of borrowing over the last five years
- the current level of debt and details of the various individual loans varying in length from 1 to 50 years together with the basis of those loans (Maturity/Equal Instalment of Principal/Annuity) and the maturity profile of that debt together with details of interest rates payable
- details of the elements of the Capital Financing Budget (approximately £12m) set aside to cover the cost of borrowing
- the principles on which the treasury management strategy was based to ensure that the Council did not borrow more than was needed and could afford to pay back the debt which included setting prudential indicators to determine borrowing limits and to measure affordability, and
- the source of the Council's current debt with loans linked to future revenue streams and reference to interest rates for loans and their calculations.

Members took the opportunity to ask questions and discuss a number of issues with the H:F&A arising from his presentation to which he responded as follows –

- in comparison with other local authorities the Council's borrowing proportion was somewhere in the middle, but had been distorted somewhat by the money spent on housing stock as detailed in the Housing Revenue Account
- the Council's credit limit was set by Full Council
- confirmed the intention to include revenue implications in costing the Corporate Plan
- elaborated upon the Private Finance Initiative which had been used previously by local authorities as a means of funding schemes which was no longer in favour
- reported upon the Council's reserves and balances advising that approximately £7.2m was available in general balances with over £20m in reserves which had been set aside for specific purposes.

Members also noted that the vast majority of the Council's debt had been taken out by predecessor authorities in the 1980s and 1990s (approximately £100m against total borrowing of £134.39m). The H:F&A elaborated upon the impact of the different types of loans on the Council's finances and members discussed the merits of each loan type. There had been a shift in recent years from Maturity Loans to Equal Instalment of Principal Loans to ensure debt was being paid off on a regular basis. Members considered the various risks associated with borrowing together with the benefits which could be achieved as a result. Examples of capital investments in line with the Council's priorities were discussed including schools, highways and extra care housing and the potential savings generated from investments as a result in particular areas. It was accepted that those issues would

be discussed further by councillors at the session on financing the Corporate Plan the following week.

### **Annual Treasury Management Report 2011/12 (Appendix 2) –**

The H:F&A presented the Annual Treasury Management Report which provided details of the Council's treasury management activities and an overview of the economic background for the year. It also reported upon the risk implications of treasury decisions and transactions and confirmed compliance with treasury limits and Prudential Indicators. The H:F&A elaborated upon the following elements contained within the report –

- borrowing activity and strategy to use mainly internal resources instead of external borrowing as the most cost effective means of funding capital expenditure
- investment activity and level of the Council's investments at the start and the end of the year with low interest rates continuing to have a significant impact on the investment return earned by the Council; investment objectives focused on security, liquidity and yield with security being the main objective for investment, and
- compliance with prudential indicators.

In response to a question regarding the depreciation of assets, members were advised that the Council did not charge depreciation by law because of the potential for figures to be manipulated. Instead a charge was made against assets based on a particular formula. In addition, asset sales were not included in the revenue budget but had to be kept separate by law.

### **Treasury Management Update Report 2012/13 (Appendix 3) –**

The H:F&A presented the Treasury Management Update Report which provided details of the treasury management activities during 2012/13 including the Economic Outlook; Risks, Activity, Controls and Future activity. Members' attention was drawn to the following points –

- the volatile financial markets and position in Europe
- risk management strategies to safeguard the Council's investments
- the maturity profile of the Council's investments which was currently limited to seven days and consequently returns remained low
- robust auditing of treasury management by both Internal Audit and the Wales Audit Office on a regular basis. The Internal Audit review undertaken in February 2012 had concluded that processes and procedures were robust, well established and followed meticulously with key risks effectively managed
- the Council intended to reduce its investment balances and use temporary borrowing as a means of funding short term cash flow requirements.

The H:F&A responded to members' questions as follows –

- reported upon the officers responsible and safeguards in place when making investments which focused more on cash flow management in the current financial environment rather than strategic investment
- the need for a debate on the nature and purpose of reserves and balances to ensure its most effective use which was linked to the forthcoming discussion on the Corporate Plan timetabled after Full Council the following week
- there was no guidance on minimum balances and it was a matter for individual Councils to set their own level of financing
- agreed that borrowing for individuals and corporate bodies was completely different and members needed to consider what they wanted to achieve and how they were prepared to realise those achievements.

The Head of Legal and Democratic Services (H:L&DS) reported that he had received an e-mail from Lay Member Paul Whitham advising that he had been pleased to note the training and updates planned for members of the committee. He had also queried whether treasury management was subject to annual and formal risk assessments. In his address the H:F&A had elaborated upon the robust and regular audit reviews undertaken on the function which the H:L&DS agreed to report back directly to Mr. Whitham. The H:F&A added that in addition to the regular auditing of the function the department had their own risk register and reported to the Corporate Governance Committee on a quarterly basis.

The presentation had been well received by members and at its conclusion the committee was keen to learn more about the treasury management function and processes and highlighted the need for members to gain a greater understanding of those activities. During consideration of their training requirements the H:F&A confirmed that sessions could be held before meetings to build an understanding of the subject and regular updates would be provided to the committee. Councillor Julian Thompson-Hill added that it had been agreed previously that such training be mandatory for committee members.

Finally the Chair thanked the H:F&A for his interesting and informative presentation and the knowledge imparted which gave members a greater understanding and insight into treasury management activities.

**RESOLVED** that –

- (a) *the Paper on Borrowing (Appendix 1 to the report) be noted;*
- (b) *the performance of the Council's Treasury Management function during 2011/12 and its compliance with the required Prudential Indicators as reported in the Annual Treasury Management Report 2011/12 (Appendix 2 to the report) be noted, and*
- (c) *the Treasury Management Update Report 2012/13 (Appendix 3 to the report) be noted.*

The meeting concluded at 12.35 p.m.