

CORPORATE GOVERNANCE COMMITTEE

Minutes of a meeting of the Corporate Governance Committee held in Conference Room 1B, County Hall, Ruthin on Wednesday, 3 September 2014 at 10.00 am.

PRESENT

Councillors Joan Butterfield, Martyn Holland, Gwyneth Kensler (Vice-Chair) and Jason McLellan (Chair) and Mr P. Whitham (Lay Member).

Councillors Councillors Meirick Lloyd Davies, Barbara Smith and Julian Thompson-Hill attended as observers.

ALSO PRESENT

Head of Legal and Democratic Services (GW), Head of Internal Audit (IB), Head of Finance and Assets (PM), Chief Accountant (RW), Acting Strategic Procurement Manager (SA), HR Services Manager (CR), Property Manager (DL), Wales Audit Office Representatives (AV and GB) and Committee Administrator (CIW).

1 APOLOGIES

No apologies for absence were received.

2 DECLARATION OF INTERESTS

A personal interest was declared by Councillor M.L. Holland as a Director of the Enterprise Agency.

3 URGENT MATTERS

No items were raised which in the opinion of the Chair, should be considered at the meeting as a matter of urgency pursuant to Section 100B(4) of the Local Government Act, 1972.

4 MINUTES

The Minutes of a meeting of the Corporate Governance Committee held on 21st May, 2014.

***RESOLVED** – that the minutes be received and approved as a true and correct record.*

5 BLESSED EDWARD JONES RC HIGH SCHOOL - UPDATE

A report by the Head of Internal Audit, which provided details of Internal Audit's follow up work at Blessed Edward Jones School following its initial report in October 2013 and first follow up report in June 2014, had been circulated previously.

A report on Blessed Edward Jones School in October, 2013 had given a 'medium' assurance rating, included an action plan with 13 areas for improvement. However,

the Committee had expressed concern that the School should address its financial pressures and requested a follow up report.

The HIA explained that the follow up report in July, 2014 had showed good progress overall with the Action Plan but the Committee expressed concerns over the lack of a financial recovery plan at that stage, and a further report had been requested.

The follow up Action Plan, Appendix 1, indicated that the School had made further progress in delivering improvements and agreed its financial recovery plan.

The Chair welcomed Mr Dominic Tobin, Headteacher, and Ms Sonia Weaver, Business and Finance Manager, to the meeting. The school representatives replied to questions from Members of the Committee, and provided the following responses as to how the School would meet its budget in 2016/17.

- Changes in the school funding formula now appeared to be transparent and fair.
- The current situation experienced by the school had arisen as result of previous considerable outlays of money.
- It was felt that with the planning and organisation plan adopted the situation could be addressed entirely within a two to three year period.
- The major factor currently being negated had been the five year drop in role numbers. Details of the role numbers for years 7 and 11 were provided, together with, the effect on funding provision, the impact on the schools current status and the work currently being undertaken to address the situation.
- An assurance was provided that the school organisation and staffing structure was now more efficient, and that high quality education would be delivered to the students at the school.
- There was now a confidence in the school that the year 7 numbers would improve, and an outline for the long-term future of the school, including funding provision, was provided.
- Details of the work to promote the future of the school were provided in light of the publicity relating to the campaign for a new faith school.
- An outline of the work undertaken in respect of reconciling staffing issues in terms of contracts was outlined for the Committee.
- School Governors had become more involved in the operation of the school and had been viewed as a critical friend who was willing to submit questions and offer good positive challenge. Members were informed that the number of Governor Finance meetings had also increased, and steps were currently being taken to fill the LEA Governor vacancy on the Governing Body.
- The Headteacher would this term be commencing negotiations with staff and Governors in respect of the Teacher and Learning Responsibilities (TLRs) structure within the school.

In response to concerns raised that the matter of surplus financial reserves held by schools, and the monitoring of timescales in relation to the Recovery Plan were issues for consideration by the Scrutiny Chairs and Vice Chairs Group and the respective Scrutiny Committees, the HIA explained that it had been agreed that

Internal Audit would undertake an audit of the financial management of schools, and the Committee agreed to review the matter pending receipt of the report.

Members of the Committee noted the progress made at the school during the short period of time since the appointment of Mr Tobin as Headteacher. Following further discussion, it was:-

RESOLVED – *that Corporate Governance Committee:-*

- (a) receives the Internal Audit follow-up report and notes the progress made, and*
- (b) requests that the Internal Audit report on the financial management of schools be presented to the Corporate Governance Committee when completed.*

(IB to Action)

6 BUDGET PROCESS 2015/16

A report by the Head of Finance and Assets (HFA), which provided an update on the process to deliver the revenue budget for 2015/16, had been circulated previously.

Councillor J. Thompson-Hill introduced the report. Table 1 outlined the schedule of Freedoms & Flexibilities Service Budget Meetings which had taken place. The outcomes, along with a full analysis of the service budget, had been presented for consideration at the Member Budget Workshops (MBW). Two Workshops had been afforded additional time to allow Members sufficient opportunity to discuss each service budget and service saving proposals. Additional MBW's had been arranged and added to Table 2 in the report which provided details of key events.

The Workshops had been well attended with wide ranging debate taking place and numerous questions being asked. Members had been asked to express views as to whether saving proposals should be 'adopted', 'developed', or 'deferred'. A number of proposals which Members had indicated that they would be content to adopt would be presented to Council for approval on the 9th September, 2014.

The CA emphasised that the new process which had been adopted had provided Members with the opportunity to participate fully, and had included an unprecedented level of consultation process. Members expressed their appreciation for the work undertaken and the transparency of the process adopted.

In response to a question from the WAO Representative, the CA explained that a model would be developed by the Head of Business, Planning and Performance to undertake an impact assessment.

Mr P. Whitham expressed concern that a reduction in resources might lead to a decrease in control, which could subsequently result in an increase in risk to the Authority and impact on Governance. He explained that he would be compiling a list of possible risks to be presented to the Chief Executive and Elected Members. The Chair felt that Elected Members had understood the concept that the Authority

would be presented with a situation where it would do less with less with regard to the resources available.

RESOLVED – *that Corporate Governance Committee receives the report and notes Members comments.*

The Chair informed the Committee that the remaining agenda items would be taken in the following order 8,15,11,9,12,10,7,13 and 14.

7 CORPORATE GOVERNANCE COMMITTEE ANNUAL REPORT

A report by the Chair of the Committee provided a verbal report on the remit and work undertaken by the Corporate Governance Committee which had included:-

- Ensuring that Denbighshire had a robust governance framework.
- An audit role which included the scrutiny of internal audit reports, consideration of the findings of external audit reports, and the overview the Audit Charter.
- Corporate Risk Management, ensuring that the Authority's Risk Management System and Information Management Strategy were robust.
- A Financial Role which included overseeing the Council's Financial Management, Budget Process, Statement of Accounts, Treasury Management and Prudential Indicators.
- The receipt of external reports, with no formal recommendations having been received.
- Assisting in ensuring that the Council meets its Corporate Priorities.

Other areas, issues and topics covered by the remit of the Committee included:-

- Providing an overview of various Council policies such as the Whistle Blowing and Fraud and Corruption Policies.
- Responding to and addressing reports in the media.
- Receipt of the Annual Complaints Report.
- Overseeing Safeguarding Issues and Member Protocol for Outside Bodies.
- Addressing various specific issues as and when they arise.
- The inclusion of the new Model Constitution in the Committee's Forward Work Programme.

During the ensuing discussion Members of the Committee agreed that a report detailing the work undertaken by the Corporate Governance Committee be included on the County Council Forward Work Programme.

RESOLVED – *that:-*

(a) Corporate Governance Committee receive and note the Corporate Governance Committee Annual report, and

(b) a report detailing the work undertaken by the Corporate Governance Committee be presented to County Council.

(JM (Chair) and GW to Action)

8 TREASURY MANAGEMENT ANNUAL REPORT 1 - 2014/15

A report by the Head of Finance and Assets (HFA) had been circulated previously.

The HIA and CA provided an in-depth summary of the reports. The Annual TM Report 2013/14, Appendix 1, detailed the investment and borrowing activity during 2013/14, outlined the economic climate at that time and showed how the Council complied with its Prudential Indicators. The TM Update Report, Appendix 2, described the Council's TM activities during 2014/15.

TM included the management of the Council's borrowing, investments and cash flow. Approximately £0.5bn passed through the Council's bank accounts annually. Outstanding borrowing at 31st March, 2014 had been £141.65m at an average rate of 5.63% and the Council held £32.5m in investments at an average rate of 0.66%.

The role of Corporate Governance Committee, and the timetable for the provision of reports and training and reports to the Committee, had been included in the report.

Members were informed that the purpose of the Annual TM Report was to:-

- present details of capital financing, borrowing, debt rescheduling and investment transactions in 2013/14;
- report on the risk implications of treasury decisions and transactions;
- confirm compliance with treasury limits and Prudential Indicators.

The TM update report provided details of the following:-

- External economic environment
- Risks
- Activity
- Controls
- Future Activity

Denbighshire had adopted the revised CIPFA Code of Practice on TM in November, 2011 and it was a requirement of the Code for the Committee to receive TM activity updates twice a year and to review an Annual TM Report. An ambitious Corporate Plan of investing £124m in delivering its priorities over a five year period had been adopted, so it was vital that Council had a robust and effective TM function underpinning the investment and all other activities. The HFA invited attention to the Audit Review, in Appendix 2, which confirmed compliance with TM requirements.

Reference was made to two major TM issues which included changes to housing revenue account financing, and the PFI issue relating to County Hall, Ruthin. Details pertaining to the changes to housing revenue account financing were

provided by the CA, and this included the consultation process which would be reported to the Committee.

RESOLVED – that Corporate Governance Committee notes the performance of the Council's Treasury Management function during 2013/14, and its compliance with the required Prudential Indicators as reported in the Annual TM Report 2013/14.

9 PROCUREMENT OF CONSTRUCTION SERVICES - UPDATE

A copy of a report by the Head of Internal Audit (HIA), on the follow up work of Procurement of Construction Services following its initial report in October, 2013 and the Wales Audit Office's (WAO) report of March 2014, had been circulated with the papers for the meeting.

Internal Audit (IA) had issued a report on Procurement of Construction Services in October, 2013 which had given a 'low' assurance rating, with an Action Plan which included 11 areas for improvement. The review concluded "there was considerable scope for improvement. By developing a strategic approach, there was potential to make Construction Procurement much more efficient through streamlining processes and making them more consistent, with the benefit of removing duplication."

The WAO report covered school building maintenance work, concluding that "Improvements need to be made to the current procurement arrangements to ensure that the Council can demonstrate that it is achieving value for money. In addition, the Council was not complying fully with its current contract procedure rules." The WAO Recommendation Action Plan had included six areas for improvement.

The follow up Action Plan, Appendix 1, incorporated all actions from both the Internal Audit and WAO Action Plans and showed lack of progress to date in delivering the improvements identified by the relevant services within timescale. Only 2 of the 17 risks had been addressed in full, with others in progress at various stages. In particular:-

- there was no procurement strategy in place;
- framework agreements had been delayed by several months of the agreed implementation date;
- e-sourcing roll-out was delayed by a year of the agreed implementation date; and
- revised contract procedure rules (CPRs) had not been agreed and would be delayed by a year of the agreed implementation date. This had affected the implementation of several other improvement actions. The HIA explained that a report pertaining to CPR's would be presented to the Committee in November.

In response to concerns raised by Councillor J. Butterfield regarding the need to increase the number of accredited contractors on the approved list, the Property Manager (PM) outlined the main function of the framework, and pre-qualification questionnaire, and explained that the expression of interest document had been designed to gauge interest and provide an opportunity to assess the competency of

applicants. He referred to the importance of demonstrating best value and engaging with local contractors, and confirmed that work had been undertaken with the Third Sector Liaison Group and Federation of Small Businesses to promote opportunities for small businesses.

The HFA referred to the composition of the approved list in relation to the availability of work and he highlighted the need to stimulate competition. The PM confirmed that a report would be presented to Members following completion of the Framework Agreements.

Mr P. Whitham expressed concern regarding the absence of a procurement strategy and the general lack of progress. The HIA agreed that a further progress report could be presented to the Committee at its meeting on the 17th December, 2014. Mr Whitham referred to the WOA report on school building maintenance and the importance of the concept of aggregation, and he suggested that reference to relationships with contractors incorporates gifts and hospitality.

In reply to a question from Councillor M.L. Holland, the Acting Strategic Procurement Manager (ASPM) explained that contracts for highway works in Denbighshire and Flintshire, the joint collaborative agreement, were currently being progressed. Details of the management and performance of the contracts was outlined and benefits arising from the merger of the Denbighshire and Flintshire Procurement Teams were highlighted.

RESOLVED – *that the Corporate Governance Committee:-*

- (a) receives the report and notes the concerns expressed regarding the lack of progress.*
 - (b) agrees that the Head of Internal Audit submit a progress report to the December meeting of the Committee, and*
 - (c) requests that a report be presented to Members following completion of the Framework Agreements.*
- (IB, SA and DL to Action)**

10 REPORT ON ARM'S LENGTH COMPANIES

A report by the Head of Internal Audit (HIA), which outlined the preliminary work undertaken and detailed the assessment framework for the Council to gain assurance on governance and performance from its 'arms-length' organisations, had been circulated previously.

Performance Scrutiny had requested a report on how it could gain assurance on the performance of 'arms-length organisations', which the HIA agreed to develop into his project for CIPFA's Certificate in Corporate Governance. It was subsequently agreed that the report be presented to the Corporate Governance Committee as it covered a wider remit than performance.

The report, Appendix 1, formed the first phase of a project to develop a robust framework to monitor governance arrangements in 'arms-length organisations' or Council funded service providers' (CFSPs). It provided examples of good practice

and guidance from Scotland and suggested a way forward for the Council to develop a simple but effective framework which would not be too bureaucratic.

Currently the recommendations were generic, with the next phase being to develop a specific framework for the Council for implementation by the 1st April, 2015, consulting with services, CFSPs and Members. The framework could also be developed for use in partnerships and large third party contract arrangements, where the Council relied heavily on third parties to deliver key services.

The new framework for monitoring CFSPs would contribute to the Council's governance arrangements and address a significant governance weakness highlighted in its 'Annual Governance Statement' to provide stakeholders with an assurance that public money was fully accounted for and used for its intended purpose in delivering the Councils' Corporate Priorities and statutory duties. The Committee would receive further reports as phase two progressed.

The Chair questioned how historic agreements could be addressed. The HLDS highlighted the importance of identifying the nature of relationships between the Council and the respective organisations with regard to purchases, representation on controlling bodies and funding issues. He stressed the need for a definitive legal agreement which would set out roles and responsibilities, with the clarity of the agreement defining the nature of the relationship. The HLDS responded to a question from MR P. Whitham, regarding the need for an implementation plan, and provided details of the possible introduction of documentation to address the issues. He explained that current guidance on the role of Members and training provision had been based on WLGA guidance.

During the ensuing discussion the WAO Representative endorsed the actions implemented by the Authority to address the current situation. Members of the Committee noted the progress to date and agreed that a progress report be present to the January, 2015 meeting of the Committee.

RESOLVED – *that Corporate Governance Committee:-*

- (a) *receives the report and notes the progress to date, and*
 - (b) *requests a progress report by the Head of Internal Audit be included on the Committee's Forward Work Programme for January, 2015.*
- (IB to Action)**

11 STRATEGIC HUMAN RESOURCES INTERNAL AUDIT REPORT - UPDATE

A report by the Head of Internal Audit, which detailed Internal Audit's latest work in Strategic HR, following its initial report in August 2012 and previous follow up reports, had been circulated previously.

The Committee had requested that the Strategic Human Resources be revisited to provide an assurance that the Internal Audit Action Plan had been fully implemented and the service's Improvement Plan had been achieved.

Details the latest report, Appendix 1, indicated that significant progress had been made, resulting in a new 'Medium' assurance rating. The report also commented on the commitment of the Strategic HR staff to make the project a success and provide confidence in the service making further progress.

Councillor B.A. Smith confirmed that she had been pleased with the progress made. Members of the Committee and officers thanked the HR Services Manager and her team for the work undertaken.

RESOLVED – that Corporate Governance Committee receives the Internal Audit report, and notes the progress made.

12 INTERNAL AUDIT PROGRESS REPORT

A report by the Head of Internal Audit (HIA), which provided an update on Internal Audit's (IA'S) latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement, had been circulated previously.

The HIA provided an update in respect of:-

- delivery of the Assurance Plan for 2014/15 (Appendix 1)
- recent IA reports issued (Appendix 2)
- management's response to issues raised (Appendix 3)
- IA's performance (Appendix 4)

A breakdown of IA's work during 2014/15, compared to the IA Assurance Plan, had been included in Appendix 1. It incorporated assurance scores and number of issues raised for the completed reviews, definitions used to form our audit assurance and the ratings used to assess the risk-levels for issues raised. Progress had been very good and the Plan was on target for completion by the 31st March, 2015.

A summary of the final IA reports issued since March, 2014 had been provided in Appendix 2. Executive summary reports and Action Plans had been included for information. Most IA reports identified risks and control weaknesses and were rated as critical, major or moderate risk. Instances where management failed to respond to follow up work, or where they exceed the agreed implementation date by more than three months, was reported. The Committee would decide whether further action should be taken.

Follow up reviews completed during 2014/15 to date had been incorporated in Appendix 3, and two follow up reports had been included as separate agenda items.

The HIA explained that IA measured its performance in two key areas:-

- Provision of 'Essential Assurance'
- 'Customer Standards'

Appendix 4 indicated performance to date for 2014/15. IA were on target to deliver 100% of 'Statutory Assurance' projects by 31st March, 2015. They were also on target to achieve 100% on all 'Customer Standards' with two exceptions:-

- For one project, IA had failed to issue a project scoping document in advance of commencing the project.
- For one project, IA had issued a draft report after 17 days rather than the agreed 10 days.

Mr P. Whitham explained that he hoped that integrating the Payroll and HR system data would address the problem of the overpayment to school leavers.

RESOLVED – *that Corporate Governance Committee:-*

- (a) *receives and notes Internal Audit's progress and performance in 2014/15, and*
- (b) *notes the recent Internal Audit reports issued and follow ups carried out.*

13 FEEDBACK ON CORPORATE EQUALITIES MEETING

Councillor M.L. Holland provided an update on the Corporate Equalities meeting held on the 15th July, 2014.

The main points of discussion had related to:-

- Equality issues pertaining to the Residents Survey Report.
- The Staff Survey which had indicated that 22 Members of staff had considered themselves to be disabled.
- Equality Impact Assessments, with random reports submitted to Cabinet having been selected for scrutiny.

RESOLVED – *that Corporate Governance Committee receives and notes report.*

14 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME

The Corporate Governance Committee's Forward Work Programme (FWP) (previously circulated) was presented for consideration.

The Committee confirmed the Corporate Governance Committee Forward Work Programme subject to the inclusion of the following reports:-

5th November, 2014:-

- Progress report on Clwyd Leisure.

17th December, 2014:-

- Update report on Construction and Procurement.

28th January, 2015:-

- Progress report in respect of Arm's Length Companies.

In response to a question from Councillor J. Butterfield, the HLDS agreed to provide details of the reasons for the slow progress in finalising lease documents, which often related to the lack of the provision of the necessary information from the respective Directorates.

The HLDS responded to a question from Councillor G.M. Kensler and explained that reference to the Whistling Blowing Policy had been included in the new Model Constitution.

The HIA referred to the considerable number of business items on the Committee's agenda and suggested the possibility of matters being submitted as information reports. The HLDS explained that the possibility of circulating committee agenda's, with a separate information pack, had been discussed at the recent Budget Workshops. He explained that any issues of concern highlighted by Members could be placed on a future agenda for consideration by the Committee.

RESOLVED – *that, subject to the above, the Committee approves the Forward Work Programme.*

PART II

Exclusion of press and public

RESOLVED – *that under Section 100A of the Local Government Act 1972, the Press and Public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraphs 14 and 15 of Part 4 of Schedule 12A of the Local Government Act 1972.*

15 COUNTY HALL - PFI

A confidential report by the Head of Finance and Assets (HFA), which provided an update on the progress of negotiations on the future of the Ruthin PFI contract, and outlined the risks and process to completion, had been circulated previously.

A report presented to Cabinet Briefing outlining the history of the PFI and initial ideas being discussed had been circulated as Appendix 1. It had been agreed that the HFA progress the proposals discussed at a Members' Budget Workshop in July. A project group had been formed to manage the process and details of the advice received from external solicitors had been included in the report.

As a willing seller Neptune were content to waive the need to go through the formal process and selected the 'market value' option for valuation. Following discussions an initial submission had been suggested and both WG and the WLGA had been approached for a contribution.

The option of not understanding the valuation had been outlined with the possibility of there being a need to rely on a value for money judgment. As well as understanding how much Neptune required for the contract the Authority may need to understand how much it would cost to buy and run the building. This had resulted in two work streams and property related costs and the Balance Sheet and Treasury Management implications had been outlined in the report. As PFI was a mix of capital and revenue costs Finance Officers had sought advice from the Council's Treasury Management Advisers on the correct balance sheet treatment.

The PFI had been shown on the balance sheet with a long term lease liability. This had been deemed to be capital and could therefore be converted to a loan with no real implications. Any remaining amount required by Neptune would need to be treated as a revenue payment.

Details of the way in which PFI schemes were supported by Central Government, the aims of the Council's Corporate Plan, how savings could be achieved, other benefits, principals and consultations carried out had also been included in the report.

Following detailed discussion, which included the provision of responses to questions from Members and the views of the WAO Representative, it was:-

RESOLVED – *that Corporate Governance Committee:-*

- (a) receive and support the principals laid out in the report, and*
- (b) request that the process proceed with caution.*

(PM and RW to Action)

At this point the meeting resumed in open session.

Meeting ended at 14.40 p.m.