

GOVERNANCE, AUDIT AND RISK MANAGEMENT COMMITTEE MINUTES

1 DECEMBER 2011

Chairman: * Councillor Sachin Shah

Councillors: * Sue Anderson * Chris Mote
* Mano Dharmarajah † Richard Romain
† Thaya Idaikkadar * Stephen Wright (2)

* Denotes Member present
(2) Denotes category of Reserve Members
† Denotes apologies received

123. Attendance by Reserve Members

RESOLVED: To note the attendance at this meeting of the following duly appointed Reserve Member:-

Ordinary Member

Reserve Member

Councillor Yogesh Teli

Councillor Stephen Wright

124. Declarations of Interest

RESOLVED: To note that the following interest was declared:

Agenda Item 9 – Half Yearly Health and Safety Report

During consideration of this item Councillor Sue Anderson declared a personal interest in that her husband was Chair of Governors at Kingsley High School. She would remain in the room whilst the matter was considered and voted upon.

125. Minutes

RESOLVED: That the minutes of the meeting held on 21 September 2011 be taken as read and signed as a correct record.

126. Public Questions/Petitions/Deputations

RESOLVED: To note that no public questions were received, questions put or deputations received at the meeting under the provisions of Committee Procedure Rules 17, 15 and 16.

127. References from Council and other Committees/Panels

None received.

RECOMMENDED ITEMS

128. Creditworthiness and Counterparty Policy

The Interim Director Finance introduced the report, which proposed changes to the Counterparty Policy in response to recent revisions to UK Bank credit ratings while continuing to prudently manage the investment portfolio. She advised the Committee that the proposed change would allow the Council to earn more investment income without exposing the Council to a materially higher risk.

The Interim Director informed Members that the Council's short term investments were placed with Banks and Buildings Societies selected in accordance with the Creditworthiness Policy set out in the annual Treasury Strategy. The rate of interest received on short-term investments was low and it was felt that some of the cash balances of £110m held by the Council could earn a better interest rate, if the proposal was agreed. It would help meet some of the existing gaps in the Council's budget.

The Chairman welcomed David Whelan, Managing Director of Sector, a leading and independent provider of capital financing, treasury advisory and strategic consulting services to UK public service organisations, to address the meeting.

David Whelan set out the context for the current financial and economic climate and how the dynamics of risks had altered from pure banking risks to quasi governmental risks. He was of the view that it was important to manage risks effectively whilst maximising income opportunities.

David Whelan advised that with regard to Banks that had been nationalised, such as the RBS Group and Lloyds Bank, the Council could consider going beyond the specified 1-year investment limit to up to 3-years. He added that since the report was circulated, the situation had altered but the advice given was based on the market view that the Banks were unlikely to return to private ownership in the immediate future. However, it was likely that the government would eventually want to dispose of its holdings in the Banks. In so doing the

government would need to consider the possible loss to the tax payer of the price paid for the equity shares purchased including the market share price of the two Banks due to the quantity of the shares it had already purchased. As a result, he was of the view that the government would give advance notice of its intention to dispose of its holdings and he expected any such disposal to take some 3-5 years. He explained that the rewards for extending the investment for longer periods were potentially good.

Members enquired about the penalties that could be imposed for early withdrawals, the challenges that the Council would face if the government decided to dispose off its holdings, whether the UK Banks were strong enough to take the pressures of the current volatile period in the UK Banking history. The Chairman asked whether the Bank of England would step in with support in the event of a liquidity issue provided the banking institutions were solvent.

In response, the Interim Director stated that the Banks were fundamental to the UK Banking System and support of the government was therefore virtually guaranteed. David Whelan stated that he expected a period of subdued economic growth and even if the Banks' share prices rose, it was unlikely that the government would instigate disposal unless, and until, the Banks were considered stable. One of the reasons that Banks were not lending long term was because they were not receiving many long term deposits.

The Divisional Director Risk, Audit and Fraud stated that the philosophy of the Council's Risk Management Strategy was to become less risk averse and take advantage of opportunities through managed risks but within the Council's risk appetite. The proposal before Members was therefore fully in keeping with the overall Risk Management Strategy.

The Interim Director Finance informed Members that the proposal would also help meet gaps in the Council's budget and difficult choices may need to be made by Cabinet in December. The proposal before the Committee could help reduce some of the cuts in services that were currently being mooted. She assured Members that of the £110m cash balance, only some monies would be invested long term thereby ensuring a balanced portfolio.

David Whelan stated that he envisaged that only those Banks that were important to the UK Banking Industry would be supported by the government. There were also risks associated with the Euro.

The Interim Director Finance suggested some changes to the recommendations, which were supported by the Committee.

Resolved to RECOMMEND: (to Council)

That

- (1) the revised Counterparty Policy for non-specific investments set out at below be approved, with the maximum maturity period for Term Deposits for Banks and Building Societies being revised to 36 months;

Non – specified Investments (Revised)

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks and building societies	A Long Term [AA-] F1 Short-term [F1+] 1 Support [2] B Individual UK or AAA Sovereign	In-house	50%	24 months [5 years]
Callable Deposits	F1 Short term [F1+] A Long Term 1 Support	In-house	20%	3 months [5 years]

Changes to the current counterparty policy are highlighted in [].

- (2) the adjusted maximum maturity recommendation for the current Counterparties, based on the Council's treasury advisor and advice from Sector, be adopted as follows:

36 months - RBS and Lloyds/HBOS

3 months - Barclays, Santander UK, Nationwide and Svenska.

- (3) the limits on investment with RBS and Lloyds/HBOS be increased to 30% for each of the two Groups;

RESOLVED: That the report be submitted to Cabinet for comment prior to Council approval.

RESOLVED ITEMS

129. INFORMATION REPORT - Capital Implementation Plan

The Committee received a joint information report of the Interim Director Finance and the Director of Legal and Governance Services, which set out progress made against the Capital Implementation Plan following the request made by Cabinet to monitor this area as a result of the overspend in the Children's Services Capital programme.

An officer reported that overall the progress made against the Implementation Plan was good with 83% of the action agreed having been implemented. 12% of the actions were being progressed and 5% had yet to be addressed. The officer was satisfied that the remaining 5% did not pose huge risks, as one was classified as a low risk and the other two were considered to be of medium risk. She added that a further report would be submitted to the March 2012 meeting when the actions on the remaining recommendations would be addressed, including how those already implemented were working.

In response to a question from a Member about the use of inappropriate cost codes, surreptitious working, the quality of managers, the Interim Director Finance, the Divisional Director Corporate Finance and Procurement and an officer responded as follows:

- the levels of scrutiny had been increased to ensure that such failures did not arise again, including increased training on guidelines;
- there was a consistent check of the ledgers with a view to eradicating such issues and increased vigilance from staff in the Finance Directorate;
- those involved had not accorded with the rules rather than in a surreptitious manner and that the monitoring of spend had not been in depth. There had been an issue for applying the correct cost codes. As a result, the Capital Forum which had been set up to monitor projects had been strengthened such that the status of each individual project was reported and scrutinised;
- two separate investigations had been carried out on the overspend in Children's Services Directorate resulting in a number of recommendations. As a result, a more holistic approach to project monitoring had been instigated whereby an end to end process was considered and monitored. This process now covered roles, responsibilities, accountabilities, adequacy of guidance, compliance with Contract Procedure Rules and Financial Regulations, adequacy of monitoring and reporting, and the use of project management in order to ensure that a robust process was in place and that it met with all internal controls.

In response to a query from another Member, the officer explained that where good progress had been made in relation to a recommendation but it remained to be finalised, the actions were classified as Amber.

RESOLVED: That the report be noted and a further report be submitted to the March 2012 meeting.

130. INFORMATION REPORT - Half Yearly Health and Safety Report

The Committee considered an information report of the Assistant Chief Executive, which summarised the Council's Health and Safety Performance for the period 1 April – 30 September 2011. The report provided an update of the activities undertaken and included outcome measures on the training undertaken, audits performed and accidents reported.

The Divisional Director Risk, Audit and Fraud highlighted the achievements, particularly in relation to the monitoring of asbestos. He added that the 2-year Plan was broadly on target and that a great deal of work on reviewing policies had been carried out since its instigation as a response to both the Improvement Notices served and the Independent Peer Review in 2011.

The Divisional Director Risk, Audit and Fraud informed Members that the take up on the numbers of training courses on offer had been relatively low compared to previous years and that Managers had expressed concerns about the Occupational Health Service in relation to referrals. As a result of these concerns, discussions with the providers of the Service had ensued and a series of actions and monitoring had been agreed to resolve difficulties.

Various aspects of the report were queried by Members, such as the high take up of Fire Safety Awareness courses by the Children's Services Directorate, the continued provision of Health and Safety courses together the advice and support being given, the poor take up on the course on Stress Awareness, the general take up of courses on offer by Councillors, the plans for working with Academies, training with schools, and asbestos management in Council housing. In response, the Divisional Director and the Assistant Chief Executive stated that:

- the take up Fire Awareness courses by the Children's Services Directorate had been as a result of a direct marketing campaign at schools;
- the number of courses had not been reduced but the take up had fallen, as a result of which e-learning was being considered;
- improvements in working with schools had taken place and policies revised in relation to staffing problems. Levels of accidents in schools remained an issue;
- work was underway in drawing up Service Level Agreements (SLAs) with Academies. However, the Academies were not required to report on their health and safety performance through the Council;
- they were not aware of any specific issues relating to the management of asbestos in the Council's housing stock but undertook to speak with the Member concerned to identify the problem. A comprehensive programme on identifying asbestos and issuing advice as part of the Decent Homes Programme was being undertaken by the Council's partner Kier which was scheduled to be completed in 2013.

A Member congratulated officers on the courses on offer, particularly the quality which had improved drastically. He stressed that there was a need to promote these courses to Members. Another Member asked about the working relationship with the Trade Unions in relation to health and safety issues. In response, the Divisional Director stated that regular meetings were held with the Trade Unions and between the lead members. However, further development of the relationship was essential.

The Chairman suggested that comparative figures be provided in relation to reported number of accidents and it was noted that full year figures would be provided.

RESOLVED: That the report be noted.

131. INFORMATION REPORT - Internal Audit Mid-Year Report 2011/12

Members considered an information report of the Assistant Chief Executive setting out the mid-year progress against the 2011/12 Internal Audit Plan, including key issues arising from the work undertaken. The Committee also considered a confidential appendix setting out details of potential irregularity.

An officer introduced the report and reported on the following:

- only 14 days had been spent on investigating suspected financial irregularities in the first half of this year;
- 12.5 days had been spent on non-standard follow-ups that had required further audit testing;
- a rigorous process had been undertaken in ensuring that the schools would be able to comply with the new government standards from 2012/13 and, in the future, audit reviews would concentrate on the financial controls aspects of schools;
- a total of 35 reports were issued in the last 6 months with a majority achieving a Green assurance rating;
- the audit team had exceeded its target of productive days by 30.

The officer assured Members that schools would be required to ensure that the controls around the systems were operating properly. The Assistant Chief Executive stated that improvements were continuous and challenged through the Council's Improvement Boards. The implementation of audit recommendations would become a formal performance indicator. In addition, audit response times to draft audit reports and follow-ups would be measured and reported as a formal performance indicator.

The Divisional Director Risk, Audit and Fraud undertook to examine the asbestos management in relation to housing stock following a query from a Member.

The Chairman congratulated officers for their continued excellent work in regard to the work relating to the Internal Audit Plan.

RESOLVED: That the report be noted.

132. INFORMATION REPORT - Risk, Audit and Fraud Commissioning Panel Proposals

The Committee received a report of the Assistant Chief Executive, which set out the options for meeting the budget challenges facing the Council in relation to the Risk, Audit and Fraud Division.

The Assistant Chief Executive introduced the report and set out the context in which the proposals had been submitted to the Committee for comment following a series of Commissioning Panels to discuss the options identified. He added that the proposals would be included in the draft budget report to Cabinet.

The Divisional Director Risk, Audit and Fraud outlined each of the proposals being put forward, details of which were set out in the report. He informed Members that since the report was written, and following professional advice, two of the 18 proposals would not now be put forward and explained the reasons for the change as follows:

- Service Change R15 – Reduce Annual Contribution to Internal Insurance Provision - a reduction of £330k was not now considered feasible following advice from the Council's insurance actuary. The proposal would therefore not go forward to Cabinet as a potential saving;
- Service Change R17 – Increased Excesses on Property and Liability Policies with Council-wide Policy Proposals to Reduce Claims – the advice received was that this proposal could not be realised. The proposal would therefore not go forward to Cabinet as a potential saving.

However, an additional proposal had been identified which would help realise a saving of £70k by the use of the in-house legal service to defend insurance claims made against the Council instead of employing external lawyers. The proposal would involve the employment of a specialist lawyer in this field. With regard to R15, Future Trading with Academies, this could now commence following legal advice. In respect of R12, Merge Civil Contingencies and Insurance Teams, including Joint Working Arrangements with Ealing Council, the proposal would not be implemented until 2013, as a result of the 2012 London Olympics. It was welcomed that minimal savings were being proposed to Internal Audit. The proposals put forward had been drawn up with a view to ensuring that they had the least impact overall, including on staff and services provided.

Members were informed that discussions had taken place with those staff who would be affected by the proposals and redundancies were likely bearing in mind that opportunities for redeployment were relatively low in the current economic climate. All services in the Assistant Chief Executive's Directorate had been required to suggest 26% savings.

A Member enquired if vacant posts were being financed. Another Member commented that the report did not address or quantify the impact of cuts on services provided nor did it measure the impact on residents. In response, the Assistant Chief Executive stated that at least 43% of the savings were insurance related and that he did not consider the proposals to have a significant impact overall.

The Divisional Director Risk, Audit and Fraud informed Members that these proposals would not stop officers from working on new initiatives and these would be reported to the Committee as they were identified in the future.

Both the Assistant Chief Executive and the Divisional Director responded to queries from Members on the proposals, including the types of initiatives underway in each of the service changes being proposed.

RESOLVED: That the report be noted.

133. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
15	Information Report – Internal Audit Mid-Year Report 2011/12 – Appendix 3	Information under paragraphs 1 and 7, (contains information relating to individuals and information relating to actions taken in connection with the prevention, investigation and prosecution of crime)
16	Information Report – Strategic Risk Register Update	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information))
17	Information Report – Green and Amber Internal Audit Reports	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information))

134. INFORMATION REPORT - Strategic Risk Register Update

The Committee received a confidential report of the Assistant Chief Executive setting out the Council Strategic Risk Register. The Register was submitted to the Committee to help ensure transparency.

RESOLVED: That the report be noted.

135. INFORMATION REPORT - Green and Amber Internal Audit Reports

The Committee considered a confidential report of the Assistant Chief Executive that included an update on the actions taken by the Internal Audit team to address areas of key risk within the Council.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.25 pm).

(Signed) COUNCILLOR SACHIN SHAH
Chairman