

Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Monday, 12 May 2014.

PRESENT

Mr. E. D. Snartt CC (in the Chair)

Mr. G. A. Boulter CC
Mr. G. A. Hart CC
Mr. K. W. P. Lynch CC

Mrs. J. Richards CC
Mr. S. D. Sheahan CC
Mr. R. J. Shepherd CC

68. Minutes.

The minutes of the meeting held on 10 February 2014 were taken as read, confirmed and signed.

69. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

70. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

71. Urgent Items.

There were no urgent items for consideration.

72. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

73. Change to the Order of Business.

The Chairman sought and obtained the consent of the Board to vary the order of business from that set out on the agenda for the meeting.

74. East Midlands Shared Service Outturn 2013/14 and 2014/15 Audit Plan.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to present the East Midland Share Services (EMSS) Audit Outturn for 2013/14 and the draft Audit Plan for 2014/15. A copy of the report is filed with these notes.

The Chairman welcomed to the meeting Shail Shah, Head of Internal Audit and Robert Smith, Audit Manager, of Nottingham City Council.

Arising from discussion, the following points arose:

- i. The Committee welcomed the progress being made and the work undertaken by both Council's;
- ii. Although the system was still bedding in in some areas, in terms of functionality it was now operating across all required services;
- iii. System audits and testing had taken longer for this first full year of operation and some areas were still therefore highlighted as being 'in progress'. Initial teething problems had now been resolved and improvements established to help speed up the process for the future;
- iv. Limited assurance had been given to both the County Council and Nottingham City Council in respect of the 'Systems Administration Team'. This was mainly due to access controls being weaker than expected. An Action Plan had been put in place to ensure controls were improved and work was progressing well.

RESOLVED:

That the East Midland Shared Services Audit Outturn 2013/14 and Audit Plan for 2014/15 be noted.

75. External Review of the Medium Term Financial Strategy 2014/15 - 2017/18.

The Committee considered a report of the Director of Corporate Resources which presented the key findings from a review undertaken by the Council's external auditor, PricewaterhouseCoopers (PwC), on the Medium Term Financial Strategy (MTFS) 2013/14 – 2016/17. A copy of the report is filed with these minutes.

The Chairman welcomed Matthew Elmer, Audit Senior Manager at PwC, to the meeting.

Arising from discussion, the following points were noted:

- i. The cumulative levels of savings required to be made over the next four years, particularly in 2015/16, were significant and would be very challenging for the Authority. This was despite prudent planning and the early delivery of savings which had enabled earmarked reserves to be established to help mitigate those risks likely to be faced in future years;
- ii. The County Council had robust governance arrangements in place and recognising this, it had established the Transformation Board which considered possible service changes to meet the savings identified in the MTFS;
- iii. Some members questioned the sustainability of continuing to make the necessary savings year on year. The external auditor confirmed that there were currently no signs that costs would increase due to the proposals being put forward. However, it would be important for the Transformation Board to continually monitor and track closely any changes introduced to protect against

false economies arising in later years. The Committee suggested that, in future years, this might be an area for the Scrutiny Commission to consider, as part of its budget monitoring role;

- iv. The external auditor highlighted that it would be unlikely for all the savings required to be made to be delivered through efficiencies and that over time, services would be affected. This was the case for all local authorities over the coming years;
- v. In response to questions raised, the Committee noted that the external review of the County Council's MTFS by PwC was provided at no extra cost, but as part of its ongoing contract as agreed by the Audit Commission. PwC provided an external and independent level of challenge to the assumptions made by the Authority as part of its MTFS which was increasingly important during this period of austerity. It also provided a useful comparison with other local authorities.

RESOLVED:

That the report of the County Council's external auditors, PricewaterhouseCoopers, on the Medium Term Financial Strategy 2014/15 – 2017/18 be noted.

76. Risk Management update.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an overview of key risk areas and the measures being taken to address them. The report also provided an update on the outcome of the Internal Audit risk review and on related risk management matters such as Insurance and Business Continuity. A copy of the report is filed with these minutes.

The Committee also received a presentation on the risks associated with the delivery of savings and efficiencies through service redesign and transformation recorded in the Corporate Strategic Risk register. A copy of the presentation slides is filed with these minutes.

Presentation – Transformation

The Committee noted that through the Transformation Board a more co-ordinated approach had been adopted to ensure plans put forward to achieve future savings were robust. The operation of this Board did not replace specific governance arrangements already in place to monitor transformation through this Committee and the Cabinet etc. This therefore provided an additional check during this difficult period.

The Committee was assured that changes introduced would be monitored closely throughout to ensure any issues or concerns arising from the transformation programme could be addressed early on.

Corporate Risk Register

Transfer of nine elderly persons homes

Some members raised concerns regarding the delay by Leicestershire County Care Limited (LCCL) to pay the balance outstanding in accordance with terms previously agreed with the County Council (i.e. by 31 March 2014).

In response to questions raised, the Director of Corporate Resources confirmed the following:

- Independent accountants advice had been taken to secure the new payment arrangements with LCCL;
- A revised payment schedule had been negotiated with additional security obtained, as detailed in the report;
- Escalating interest rates had been agreed starting at a rate of 7% above the Bank of England base rate for the 2014/15 financial year;
- As detailed in the report to the Cabinet on 4 February 2014, the County Council had independently verified with LCCL's proposed lender, that its application for finance had been approved at a local level and had been passed for approval at a national level;
- LCCL had a single Director who had provided a personal guarantee on all his assets. Further guarantees had also now been obtained from a new company and the original parent company.

The County Solicitor reported, for clarification, that the nine elderly persons homes had been transferred to LCCL, but that the County Council had a legal charge secured against each of the homes should LCCL not meet the arrangements for repayment.

The Committee agreed that it would be important to continue to monitor this risk area and requested that a further update be provided at its next meeting.

General

- i. Some members raised concerns regarding the Single Local Growth Fund (SLGF) and the lack of advanced preparation of schemes within the Environment and Transport Department. It was noted that work to accelerate the early planning of schemes was being undertaken which would enable projects to be identified and delivered quickly, to meet the short time frames by which SLGF funding must be spent;
- ii. The Committee noted the risk within the Children and Young People's Service regarding a duplication of risk reporting processes which had the potential to cause confusion and result in risks potentially not being reported. This had been identified by Internal Audit as a high importance recommendation and a structured process was now in place to address this. Follow-up testing would be undertaken shortly;
- iii. The Committee noted the risks associated with Municipal Mutual Insurance going into administration and the potential cost to the Authority. Earmarked reserves of £5m were being held to mitigate this and other uninsured losses. However, the final amount payable would not be known for several years;

- iv. The Committee noted the addition of risk 19 relating to increased unplanned and speculative local developments to address the shortfall in the 5 year housing supply which could have an adverse impact on the functioning of the transport network and the County Council therefore as the Highway Authority. The Committee requested that a presentation on this new risk area be provided at its next meeting;
- v. In respect of risk 20, it was questioned whether such liability (i.e. deficit budgets and repair costs) would also apply if a foundation school was directed to become a sponsored academy and if so, if this should be made clearer within the Risk Register. The Director of Corporate Resources undertook to clarify the position and advise members of the Committee after the meeting.
- vi. A number of issues were arising around future housing developments in the area and in particular around developer contributions. The revision of the County Council's developer contributions policy would shortly be subject to a public consultation. It was suggested that to obtain members input into that consultation, an all member briefing/workshop would be helpful.

RESOLVED:

- (a) That the contents of the report and presentation be noted;
- (b) That the current status of the strategic risks and emerging risks facing the Council, as detailed in the report and the Corporate Risk Register, be noted;
- (c) That a presentation be provided at the next meeting of the Committee on the risks associated with an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply and the possible adverse impact on the functioning of the transport network, as detailed in the Corporate Risk Register (Risk 19);
- (d) That the Committee support the proposed briefing to members regarding the revision of the policy on developer contributions;
- (e) That the updated Corporate Risk Register be approved;
- (f) That, in light of the concerns now raised by some members of the Committee, a further update be provided on the risks to the County Council surrounding arrangements in respect of the transfer of nine elderly persons homes at the next meeting of the Committee.

77. Employee Code of Conduct.

The Committee considered a joint report of the County Solicitor and the Director of Corporate Resources, the purpose of which was to present the draft revised Employee Code of Conduct for consideration and to advise the Committee of progress in revising a range of other employee related policies. A copy of the report is filed with these minutes.

The County Solicitor explained that a revised Employee Code of Conduct had been developed to address some key issues that required updating and to ensure this linked more directly with other HR policies.

To address a general lack of awareness amongst staff of the previous version of the document, a guidance document had also been developed. This would be more accessible for staff and therefore ensure they understood how it applied to their role as an employee of the County Council.

The County Solicitor reported that, to address concerns raised by the Employment Committee regarding a lack of detail, particularly in respect of paragraph 6.2.1 and the rules around relationships between staff and elected members, the guidance document included cross-references to a number of other protocols in the County Council's Constitution, such as the Protocol on Member/Officer Relations. This avoided the need for the Constitution to be revised whenever an employment policy was revised.

Regarding Part 7 (paragraph 7.5.1) of the Code, the Committee suggested that it should be made clear to whom such declarations should be made. It was noted that a separate process for the registration of interests was currently being reviewed and would be brought back to the Committee for consideration.

Members were keen to ensure that, once finalised, the new Code was brought to the attention of all employees, particularly in light of the wording on page 81 of the guidance (Appendix 2 to the report) which highlighted that unintentional and inadvertent disregard to the revised Code could still result in disciplinary action.

RESOLVED:

- (a) That the County Council be recommended to approve the proposed Employee Code of Conduct, as set out in Appendix 1 to the report;
- (b) That it be noted that a further report will be presented to the Corporate Governance Committee in relation to procedures on declarations of interest, gifts and hospitality and whistleblowing.

78. Covert Surveillance and Regulation of Investigatory Powers Act 2000 - Quarterly Update.

The Committee considered a report of the County Solicitor the purpose of which was to provide the Committee with a quarterly update on the use of powers under the Regulation of Investigatory Powers Act 2000. The report also detailed the use of covert surveillance during the period 1 January to 31 March 2014. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

79. Annual Treasury Management Report 2013/14.

The Committee considered a report of the Director of Corporate Resources on the action taken and performance achieved in respect of the treasury management activities of the Council in 2013/14. A copy of the report is filed with these minutes.

RESOLVED:

That the contents of the report be noted.

80. Quarterly Treasury Management Report.

The Committee considered a report of the Director of Corporate Resources, which provided an update on the actions taken in respect of treasury management in the quarter ended 31 March 2014. A copy of the report is filed with these minutes.

The Director of Corporate Resources reported that the Local Authority Mortgage Scheme (LAMS) had now ceased due to the introduction of the Governments 'Help to Buy' scheme. The Committee noted that a total of 350 mortgages had been issued locally under the County Council's scheme run with Lloyds Banking Group and none of the customers were currently in arrears.

RESOLVED:

That the contents of the report be noted.

81. Section 106 Developer Contributions.

The Committee considered a report of the County Solicitor the purpose of which was to provide reassurance to members that income from section 106 (s.106) developer contributions had not been lost and that such money was being appropriately collected. A copy of the report is filed with these minutes.

Arising from discussion, the following points arose:

- i. The increase in developer contributions in 2013/14 had been as a result of a particular development coming on stream for which the s.106 agreement had been completed some 8 years ago. This was an example of the delay between the date when such agreements were finalised and when these were subsequently triggered and came to fruition;
- ii. The Committee were reassured that the requisite data was being collected and monitored by each spending service and that there was no evidence to suggest that developer contributions owed to the Authority were not being collected or pursued.
- iii. The introduction of the new IT system would allow for data around s.106 contributions to be recorded centrally in line with the recommendations of the Internal Audit Service;
- iv. Some members expressed concern that claw back clauses in some s.106 agreements allowed developers to request a reduction in the contributions payable, for example because of a subsequent fall in the housing market and thus a reduction in profits arising from the development. This did not reflect a change in the services to be provided by the Authority nor therefore the costs it would incur as a result of the development. As the Authority could not seek more funds in times of a booming housing market some members considered that the renegotiation of settlements should be agreed only in exceptional circumstances;
- v. Some members noted that a s.106 agreement relating to the Birstall Park and Ride development completed some time ago and paid for by the County Council had required the cost of this to be reimbursed by the developer. It was

questioned whether or not such payment had been received and the County Solicitor undertook to obtain and circulate this information to members of the Committee.

RESOLVED:

That the contents of the report and the progress made to implement a centralised recording system to respond to the recommendations of the Internal Audit Service be noted.

82. Annual Governance Statement 2013/14.

The Committee considered a joint report of the Director of Corporate Resources and the County Solicitor outlining the background and approach taken to produce the County Council's 2013/14 Annual Governance Statement (AGS) and presenting the draft AGS for comment prior to sign off by the Chief Executive and Leader of the Council. A copy of the report is filed with these minutes.

RESOLVED:

- (a) That the draft 2013/14 Annual Governance Statement be approved;
- (b) That it be noted that the Statement may be subject to change as required by the Code of Practice in Local Authority Accounting, as detailed in paragraph 17 of the report, and that such changes will be notified to members of the Committee;
- (c) That the proposed actions and improvement areas detailed in section 6 of the Statement be confirmed.

83. Quarterly Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources which summarised the work of Leicestershire County Council's Internal Audit Service (LCCIAS) finalised since the last report to the Committee and highlighted audits where high importance recommendations had been made to managers. The report also provided an update on progress against the audit report on members' allowances and expenses whistleblowing complaints (East Midlands Councils), information on a prosecution for fraud by former County Council employees, and an update on the implementation of the Public Sector Internal Audit Standards. In addition, the report set out the provisional annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework and provided a brief summary of LCCIAS performance during 2013-14. A copy of the report is filed with these minutes.

Update on the County Solicitor's report on investigation into allegations concerning a former member's conduct

The Committee noted that the instalment due from Mr Parsons on 1 May 2014, as detailed in paragraph 11 of the report, had not been received. The County Solicitor confirmed that the usual debt recovery process would be followed to recover the money outstanding.

Fraud committed at Leicestershire highways Operations

In response to questions raised, the County Solicitor reported that a hearing would be held on 15 August when the Court would consider making an order to determine the amount that the County Council would be able to recover as proceeds of crime. The Committee noted that the County Council would consider and pursue, as appropriate, all possible means to recover as much as possible.

RESOLVED:

That the contents of the report and the information now provided be noted.

84. Internal Audit Service Audit Plan for 2014/15.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide members with information about the contents of the Internal Audit Service Audit Plan 2014-15 for the County Council and audit resource allocated to other organisations. A copy of the report is filed with these minutes.

In response to questions raised, the Committee noted that the days of audit work provided by the Internal Audit Service solely in respect of County Council services had been reduced by 200 days to 1,500. The 200 days had been re-allocated to audit work conducted on behalf of other organisations on a traded basis, such as academies and the Fire and Rescue Service. This allowed for a larger 'pool' of audit resource to be maintained.

RESOLVED:

That the Internal Audit Service Plan for 2014/15 be approved.

85. Date of next meeting.

RESOLVED:

That the next meeting of the Committee be held on 22 September 2014.

86. Chairman's Announcement - Mr B. Boulter CC

The Chairman announced that, as Mr Boulter would become Chairman of the County Council next year, he would cease for this period to be a member of the Committee. On behalf of the Committee, the Chairman thanked Mr Boulter, who had been a member since the Committee's inception, for his contribution and input over the years and wished him well in his year as Chairman of the County Council.

10.00 am - 12.20 pm
12 May 2014

CHAIRMAN