

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 9 March 2018 at 10.30 am in The Executive Meeting Room - Third Floor, The Guildhall

(NB These minutes should be read in conjunction with the agenda for the meeting which can be found at www.portsmouth.gov.uk.)

Present

Councillor Scott Payter-Harris (Vice-Chair)
Alicia Denny
Councillor Leo Madden
Councillor Hugh Mason

Officers

Julian Pike, Deputy Head of Finance & S151 Officer
Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)
Michael Lawther, City Solicitor, Deputy Chief Executive
Elizabeth Goodwin, Deputy Chief Internal Auditor
Paul Somerset, Principal Auditor
Jon Bell, Director of HR Legal and Performance
Kelly Nash, Corporate Performance Manager
Matt Willis, Manager Revenues and Benefits

External Auditors

Helen Thompson, Executive Director, Ernst & Young
David White, Manager, Assurance - Government and Public Sector, Ernst & Young.

16. Apologies for Absence (AI 1)

Apologies for absence were received from Councillor John Ferrett and Councillor Neill Young.

The Vice Chair, Councillor Payter-Harris, welcomed everyone to the meeting and advised that he would be chairing the meeting today. He said the meeting would be livestreamed and would be available on the website.

The Chair then read out the housekeeping rules relating to evacuation procedures in the event of an emergency.

Introductions were then made round the table.

Deputations were made at this point in the meeting by Mr Jerry Brown on item 6 - Treasury Management Policy, by Ms Hilary Reed on item 9 - Councillor Training and Development and by both Mr Brown and Ms Reed on items 10 -

Changes to the Standing Orders and 11- Proposed amendments to the Council's constitution. These have been included at the beginning of the items concerned and can be viewed in full using the following link <https://livestream.com/accounts/14063785/GAS-09Mar2018/videos/171292263>

17. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

18. Minutes of the Meeting held on 2 February 2018 (AI 3)

A discussion took place concerning general issues pertaining to minutes after which it was agreed that

- Deputations would be recorded as for full council - as headings but including enough information to make sense of any answer given in response
- In future only one of Michael Lawther's titles (Deputy Chief Executive, City Solicitor and Monitoring Officer) would be used in the minutes

RESOLVED that the minutes of the meeting held on 2 February 2018 be confirmed and signed by the Chair as a correct record.

19. Annual Audit Letter for the year ended 31 March 2017 (AI 4)

(TAKE IN LETTER)

Helen Thompson, Executive Director, Ernst & Young (External Auditors), introduced this item and referred to the Executive summary. This is the final document for last year's audit which was delayed. It summarises information previously reported to this committee and Ms Thompson said she was happy to answer any queries.

During discussion the following matters were clarified:-

- With regard to page 31 - PFI Highways Maintenance - confirmation was given that significant progress with the re-negotiation is being made. There is an issue around indexation and although not yet complete, progress is being made. The External Auditors explained that their comments are made in relation to the accounting model to advise that when a conclusion is reached, PCC need to go back through entries in financial statements to make sure they are correctly done.
- With regard to Harbour Accounts, Ms Thompson said they had not been able to discover whether there would be any consequences should these not be done. External Auditors would make another attempt to gain clarity on the matter.
- With regard to page 37 about RAG ratings, it was confirmed that it was up to PCC officers to encourage all directorates to adopt the same style of performance reporting.

- With regard to the statement on page 38 that "staff satisfaction levels appear to be reasonable", the External Auditor explained that was made in relation to trying to find out if there was anything to suggest that the extra burden on senior management was having an effect on the level of risk. The External Auditors considered that the level of staff satisfaction might be an indicator of that.

RESOLVED that the Committee noted the Annual Audit Letter.

20. External Auditor's Progress Report (AI 5)

(TAKE IN REPORT)

David White, Manager, Assurance, Government and Public Sector, Ernst & Young - introduced this item explaining that it provides an update since the last report in February. He referred to the bullet points listed under the heading "Progress on 2017/18 external audit" of the report which updates the Committee about improvements aimed at ensuring the smooth progress of the 2017/18 audit.

He drew the Committee's attention to work that has begun on accounting estimates. The Council revised its approach to calculating the Minimum Revenue Provision (MRP) last year. For reasons given in the report he said Ernst & Young will use an internal specialist to give assurance over the Council's workings to re-calculate MRP. This was likely to result in an increased cost to the Council as has been the case with other authorities which have revised their MRP calculations.

He also said that the year-end audit is due to commence on 25 June 2018 - this is earlier in the year than has previously been the case. He drew the Committee's attention to Appendix 1 which provides details of common messages to local authorities around the earlier close of accounts.

In response to a question, an explanation was given by David White about what was meant by performance materiality. He explained that it was the application of overall materiality at an account level. The headline materiality was set based on the perceived value that would influence a user of the accounts ie that would significantly impact their understanding of the accounts. The auditors would then apply either a 75% or 50% figure based on the likelihood of finding errors. If set at 50% then their expectation of finding errors would be greater than if it were set at 75%.

Although the external auditors are not expecting to find a high number of errors, Property, Plant and Equipment (PPE) has been a problem area in the past.

The External Auditors will not be setting a separate performance materiality level for testing PPE. Instead they will apply the performance materiality that they will use for the rest of the financial statements to their work on PPE (£8.25m, being 75% of planning materiality), but will reduce the testing thresholds they use for PPE, to ensure their work remains focussed as communicated in the audit plan.

Helen Thompson said she would arrange to circulate an example to show how this works in practice.

RESOLVED that the Committee noted the External Auditor's Progress Report.

21. Treasury Management Policy 2018/19 (AI 6)

(TAKE IN REPORT - for information only)

A deputation was made by Mr J Brown concerning Wightlink terminal concerning how these transactions are accounted for and about the change in risk appetite.

Michael Lloyd introduced the report and explained that it is before this committee for scrutiny but that it went on to Cabinet and then Council for approval and decision. He drew members' attention to the Executive summary in relation to the premium arising from the granting of a new head lease for land in White Hart Road occupied by Wightlink Ltd in 2016/17. He explained that following discussion with the auditors it was agreed that these transactions would be accounted for as borrowing rather than a capital receipt. Consequently some of the outturn prudential and treasury management indicators for 2016/17 have been revised. The Executive summary also provided details of the main changes proposed to the Treasury Management Policy Statement.

Mr. Lloyd then explained all the recommendations set out in paragraph 3 of the report and invited questions from the committee.

During discussion, the following matters were clarified:-

- The proposed increase to the maximum term of bonds that can be purchased from Hampshire Community Bnk from 6 years to 10 years did not "considerably increase" the risk to PCC in Mr Lloyd's view as the bonds would all be secured against land so that in the case of default PCC should be able to recover any losses. It was confirmed that the money the government had lent to HCB was unsecured. The loan book at the moment was understood to be about £1m made up largely from the money from government and commercial organisations. PCC would offer back to back lending to HCB. HCB would propose to lend to a business with the loan secured against land owned by that business. PCC would then lend to HCB with PCC's funds secured on the loan made by HCB. If HCB default the loan to the business would pass to PCC and if the business itself then defaults the business' land on which the original loan is secured would pass to PCC.
- Mr Julian Pike said that HCB is expecting to receive its licence in the third quarter of 2018 and the reason for the change proposed in the report is to ensure the necessary infrastructure is in place to enable PCC to buy bonds as soon as they are secured. Therefore he did not believe the proposal to be premature. He also advised that members will receive a briefing note giving information about HCB setting out details of the Banking Licence.
- With regard to page 94 of the report, reference is made to money lodged with Lloyds Bank to guarantee MMD's Banking limits. This amounts to over £500,000 of PCC's money so a query was raised about whether there is a way that PCC could at least receive some

return on that money? Mr Lloyd said PCC has been in discussion with Lloyds Bank but despite offering letters of guarantee from the Council, Lloyds insisted on a deposit being paid - and this is not interest bearing. Mr Lloyd said he would contact the Bank again about this and would provide members of the committee with an update on progress.

- With regard to Wightlink, it was confirmed that the change required by the external auditors to account for these transactions as borrowing rather than as a capital receipt just meant moving the transaction from one place to another on the balance sheet - it was not a change of substance.
- It was confirmed that recommendation 3.1f meant that those mentioned in the recommendation (including the Chair of the Governance & Audit & Standards Committee) would be advised immediately of variances from the Policy and this Committee would receive notice of any breach by way of an update to its next meeting.
- With regard to recommendation 3.1e (v), concerning mitigating foreign exchange risks, PCC does not have much exposure to this. It is almost always in relation to engineering contracts at the Port.

RESOLVED that the Committee noted the recommendations to Council set out in section 3 of the report.

22. Quarterly Performance Management Update (AI 8)

(TAKE IN REPORT)

Kelly Nash, Corporate Performance Manager, introduced this item which reports significant performance issues, arising from Quarter 3 performance monitoring. She explained that the information is often out of date by the time it gets to this Committee because it reports on performance for the end of the quarter so real time reporting would be useful for some indicators. This could perhaps be managed through the briefings by consulting with the Chair about where it would be most useful to bring real time information to the next committee meeting. The report is now very long so the format will be looked at for the next municipal year. She advised that it may be useful if the committee received additional information on Children's Safeguarding.

During discussion the following matters were raised

- With regard to page 171 referring to the Municipal Energy Company being on track, energy prices seem to be rising over the longer term so what are the financial implications for Victory Energy? Officers said they would need to do some research into that before they could provide an answer.
- Page 168 refers to risks identified around the strategic and long-term management of the waste contracts and members wanted to know how it was intended to deal with these? Ms Nash said she would need to find out and advise members at a later date.
- Page 205 refers to "planning to move from a one stop shop to offer a menu of services". Members asked if there were any cost implications? Ms Nash said that Transformation of housing is a large part of the transformation plan. It was expected that there would be a cost

reduction in the longer term. She agreed to find out more and circulate a briefing paper to committee members.

- Page 228 refers to percentages of those becoming intentionally homeless and qtr 2 is 4.0 %. An explanation is included stating "4.0% - This is due to a number of factors including a rise in case complexity and capacity issues" - but the figure is lower than in the previous 2 quarters so it seems counter intuitive to include an explanation against the figure that is the lowest. Ms Nash said she would seek clarification and provide a briefing note for members.
- Page 253 - develop key heritage sites - proposed resubmission - Members wanted to know what had gone wrong. Again it would be useful to have briefing notes so that members could be satisfied on these matters.
- Re RAG ratings - members said that those compiling the information need to assess it and decide which category these should be in. They should not be left blank.
- With regard to the schools forum mentioned on page 166, it would be useful to have had an update from the meeting on 28 February 2018 on the outcome concerning investment.
- Page 233 records the number of bin collections missed is 13 - this has risen slightly- but is rated green. Ms Nash said this was probably because the number is within a certain tolerance level but she would check on this.
- Page 176 - Members asked why the information relating to the Youth Justice Board was so old - why was it taking so long to be collected? Ms Nash advised that she did not have a detailed explanation but it is taken from a data set collected from external sources. Using local knowledge however, it has been rated red as indications are that this is not moving in the right direction.
- With regard to Environmental Health, Members asked why no data had been provided. Ms Nash explained that the reason for this was that a key officer had been absent for the period concerned. However the qtr 3 data would be circulated as soon as it was available and qtr 4 data would also be completed. Members asked that in future an explanation should be added where data was not supplied.

Members asked that briefing papers be circulated to committee members on all the matters where they have requested additional information.

RESOLVED that the Committee

(1) Noted the report

(2) Noted the continued improvement in quality of reports from directorates

(3) Agreed further action required in response to performance issues highlighted

23. Audit Performance Status Report to 13 February 2018 (AI 7)

(TAKE IN REPORT)

The Chief Internal Auditor, Elizabeth Goodwin, introduced the report which updated the Committee on the Internal Audit Performance for 2017/18 to 13 February 2018 against the Annual Audit Plan and highlighted areas of concern and areas where assurance can be given on the internal control framework.

Section 5 outlined the Audit Plan status for 2017/18. Ongoing areas are listed in paragraph 5.7 and Continuous Audit areas in paragraph 5.8.

The Chief Internal Auditor drew members attention to the Appendices.

Appendix A – Completed audits from 2017/18 Audit Plan

Appendix A - Municipal Year 2017/18

Appendix B - Completed follow up audits from 2017/18 Plan

Appendix C - Internal Audit Charter & Code of Ethics

Appendix D - Internal Audit & Counter Fraud Strategy

She also advised

- that the audit of Youth Centres was given no assurance as testing resulted in six high risk and three medium risk exceptions and
- that a follow up audit on Port CCTV had only shown limited progress since the original audit

During discussion the following matters were clarified

- If Internal Audit were not listened to by senior management, there were actions available to escalate the matter. This could be through External Auditors with whom Internal Audit had a good relationship, or through the Corporate Governance Board, or through the Chair of this Committee. The Chief Internal Auditor said she knew of no occasion where senior management had ignored issues raised with them by Internal Audit at PCC.
- The Chief Internal Auditor explained the obligations on the authority regarding money laundering. Where regular cash payments are made to the same individual and reach a specified level, there is a requirement to refer the information to Internal Audit to carry out particular checks. If a pattern emerges and the amounts reach the level specified, PCC is legally bound to disclose this information through a secure portal to the Serious Crimes Office. This enables the Serious Crimes Office to build up a national set of indicators and returns. Legislation is in place to stop disclosure by PCC of any returns being made to the SCO. It was confirmed that money laundering had occurred in PCC and had resulted in prosecutions for fraud.
- The Vice Chair advised members that he had sought additional information from Internal Audit concerning Youth Centres and asked that the information he had been given be circulated to the committee members and this was agreed.
- It was confirmed that Youth Centres and Community Centres were included in the audit that resulted in no assurance being given as

outlined in section 6 of the report. However Internal Audit would not be involved where PCC staff were not running the centres. It was confirmed that four Centres were visited and that the experiences of the Centre with 9 exceptions was being used to ensure the problems were not replicated elsewhere.

- With regard to CCTV at the Port, this had been an issue for quite some time and was still not satisfactory. A discussion had now taken place with the Port Director and the matter had also been reported to Corporate Governance Board concerning the lack of progress. Matters were improving but at a slower pace than should be the case. There were some mitigating factors such as staff changes both at the Port and in PCC. The matter was still a critical exception and as such whatever was necessary to be put in place should be implemented within 3 months. An update would be provided at the next meeting of the Committee.

RESOLVED

- (1) That Members noted the Audit Performance for 2017/18 to 13th February 2018**
- (2) That Members noted the highlighted areas of control weakness from the 2017/18 Audit Plan.**
- (3) That Members approved the proposed Internal Audit Charter & Code of Ethics (Appendix C) and the Internal Audit Counter Fraud Strategy (Appendix D) for the use of Audit resources for 2018-19.**

24. Councillor Training and Development (AI 9)

(TAKE IN REPORT)

A deputation was made on this item by Ms Hilary Reed. She welcomed the enhanced training plan and included suggestions about logging councillor training and about equality impact assessment training being given more prominence.

The Chair thanked Ms Reed for her deputation.

Jon Bell introduced the report and advised that the training calendar outlined 4 categories of training

- Initial/induction training for new members
- Specific training relating to particular committees
- Required training such as on Safeguarding
- Personal development training

He advised that after the local elections, the intention is to contact Group Leaders to gain their support to encourage members to attend training.

There followed a discussion concerning whether or not training could be made compulsory. The City Solicitor advised that before the 2011 Localism Act, it was possible to make training compulsory but since then, there are no

sanctions available if members do not attend training. Consequently the words used in the training calendar reflect this.

Members agreed that training is important and wanted to emphasise this in the words used in the Training Calendar. They asked that the document be amended to make clear that all priority training is marked as being "essential" and welcomed assistance from Group Leaders to support attendance at required training as outlined in the report.

A Member suggested that Group Leaders should receive feedback on their Group Members' attendance at training sessions and the City Solicitor said he would raise this matter at a future Group Leaders' meeting.

Members also asked that every member should be given a copy of the Training Calendar at the start of each Municipal Year as that would serve as a useful reminder about training and included the dates. This was agreed.

RESOLVED that Governance & Audit & Standards Committee

(1) approved the annual training plan prior to delivery (Appendix 1 of the report) subject to amending the sentence next to the exclamation mark symbol on page 2 to read "When you see this symbol by the title of a course, this indicates that it is of high importance and it is essential that you attend"

(2) Group Leaders to support attendance at required training.

25. Changes to the Standing Orders (Council Procedure Rules) (AI 10) (TAKE IN REPORT)

A deputation was made by Mr Brown including comments that he believed he had found errors and inconsistencies in the revised Standing Orders. His view was that the item should be deferred and a revised set of Standing Orders should be drafted.

A deputation on this item was given by Ms Reed who agreed with the comments made in the previous deputation and queried aspects of the process and some of the wording such as in Standing Order 4 - the change from "will" to "should".

The Chair thanked those making deputations.

The City Solicitor introduced the report and said he would arrange for the errors - which he considered were not material - to be corrected. He explained that the changes from "will" to "should" in Standing Order 4 had been made to reflect the legislative framework within which the Council works. It is not always practical to publish papers giving 5 clear days' notice and in such circumstances, alternatives are specified in the legislation.

He drew Members' attention to the following changes

- SO 10 pg 377 - the note at the end of this Standing Order has been deleted as it is not necessary as it appears in the Constitution.
- SO 24 d) (iv) - deletion of the word "single" in relation to plans

- SO 14 - six month rule - the word "subject" has been replaced by "matter"
- SO 55 para b - re licensing sub - committees, the current wording has been replaced by "a councillor may make a deputation at Licensing Sub Committee as long as they have given the required statutory notice within the prescribed timescales"

The City Solicitor undertook to circulate an advisory note on the prescribed timescales.

He also said that an addition would be made to the recommendations to provide that amendments referred to would be done in consultation with the Chair.

During discussion

- it was confirmed that with regard to deputations at Planning, any councillor can make a deputation as a member of the public except where the councillor has a disclosable pecuniary interest.
- Members commented that on this occasion the revisions amounted to a tidying up exercise but that when they are next due for a major revision, it may be useful to consider in more detail the six month rule, the allocation of time for members to speak especially in relation to the unlimited time allowed to Group Leaders at budget meetings and the time allowed for public questions.

RESOLVED that the Committee

(1) Considered the proposed amendments to the Standing Orders in accordance with the revisions set out in Appendix 1 to this report

(2) Recommended to Council that

- (i) the revised Standing Orders, (attached as appendix 1), and which include the Committee's recommended changes, are adopted.**
- (ii) the City Solicitor, in consultation with the Chair of the Governance and Audit and Standards Committee, may make amendments to the standing orders to reflect any changes arising out of legislative changes, deal with typographical alterations or amend the layout of the document, none of which would change the material substance of the standing orders.**

Note - In respect of Standing Order 55 b), the City Solicitor will circulate an advisory note in due course regarding the respective timescales for Licensing Sub Committee deputations.

**26. Proposed amendments to the Council's constitution Part 2 -
Responsibility for Functions: Chief Officers' Delegated Authority (AI 11)
(TAKE IN REPORT)**

A deputation was made by Mr Brown including that he believed the item should be deferred to allow more work to be done on the draft to correct instances where he considered there to be errors.

A deputation was made by Ms Reed including her view that the process should be more transparent and that the document should be deferred for a re-write.

The City Solicitor introduced the report explaining that it was largely a tidying up exercise and was only changing some sections of the Constitution. He explained that he is seeking delegated power to make small amendments in consultation with the Chair of this committee. He said that typographical errors and changes in titles would be made as necessary. This was a fluid document and was now more up to date.

RESOLVED that the Committee recommended to Council that

- (1) It approves the proposed amendments to Part 2 Decision Making of the Council's constitution, (attached as appendix 2) and which include the Committee's recommended changes, and be adopted by Full Council on 20 March 2018, subject to 4 below.**
- (2) It agrees that the City Solicitor, in consultation with the Chair of the Governance and Audit and Standards Committee, may make amendments to the scheme of delegation which reflect changes in legislation, structure within the Council or typographical amendments, none of which would result in changes in extent of delegations to officers.**
- (3) It agrees that the City Solicitor, in consultation with the Chair of the Governance and Audit and Standards Committee, may make amendments to the constitution to reflect any changes arising out of legislative changes, deal with typographical alterations or amend the layout of the document, none of which would change the material substance of the constitution.**
- (4) It notes the amendments to Part 2 Section 3 Responsibility for Cabinet Functions as these responsibilities are within the gift of the Leader.**

27. Appointment of Independent Persons (AI 12)

(TAKE IN REPORT)

Michael Lawther, City Solicitor, introduced the report which outlined the requirements for the appointment of Independent Persons, pursuant to the provisions of Section 28 of the Localism Act 2011.

He advised that In February 2018 an advertisement was placed for applications to be submitted for the role of Independent Person and interviews then took place. Three candidates were recommended by the Member Panel (that included some members of this Committee) to go forward for formal appointment.

RESOLVED

That Governance & Audit & Standards Committee recommended that Council appoints the following Independent Persons for three years through to May 2021:

- (1) Mr Bill Bailey**
- (2) Ms Carole Damper**
- (3) Ms Diana Turner**

28. Exclusion of Press and Public (AI 13)

RESOLVED that, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following items on the grounds that the reports contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972"

Although there is provision for the meeting to continue in exempt session, it was agreed that the meeting would continue in open session unless anyone wished to discuss the contents of Appendix 1 which is marked as exempt.

29. Verification of Housing Benefits Framework (AI 14)
(TAKE IN REPORT)

The Chief Internal Auditor introduced the report in the absence of the Director of Customer and Communication and advised that Matt Willis, Revenues and Benefits Manager would be able to answer any technical questions members may have. The purpose of the report is to approve Portsmouth City Council's policy relating to Risk Based Verification of Housing Benefit and Council Tax Support claims. It is not mandatory to adopt the policy but PCC believes it would be advantageous to do so.

Risk based verification is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. Local authorities adopting the method must still comply with relevant legislation while enabling them to make maximum use of intelligence to target more extensive verification activity on those claims shown to be at greater risk of fraud or error.

She advised members that if the Policy is adopted, the Local Authority must implement certain arrangements. The policy has to be approved by the section 151 Officer and the committee responsible for risk and audit and the policy must be reviewed annually. The Policy cannot be amended in-year.

In response to questions it was confirmed that

- for some categories of customers, adopting the policy would speed up the process.

- Risk based verification will streamline the verification process to enable more time to be focused on the higher risk cases
- The number of documents required to be produced may decrease for some categories of customers
- Other Local Authorities that have adopted the policy have seen improvements in processing speeds.

Members of the Committee asked the City Solicitor to look at the exempt classification of the Appendix to the report with a view to making it an open appendix as they did not understand why it was exempt.

Members of the Committee agreed to adopt the policy as this would lead to a better, more precise and fairer process. This would require an additional resolution to require a report back to this Committee on an annual basis and they suggested this should start in Spring 2019.

RESOLVED that the Committee

(1) Approved the policy at Appendix 1

(2) Noted that DWP Circular HB/CTB S11/2011 provides guidance on the policy and requires that the policy should not be made public due to the sensitivity of its contents

(3) Requested a report be brought to this Committee annually starting in Spring 2019 to report on the effectiveness of the changes

The meeting concluded at 12.52 pm.

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Chair