

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 8 March 2019 at 10.30 am at the 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 Leo Madden (in the chair)

Councillor Simon Boshier
Councillor John Ferrett
Councillor Hugh Mason

Officers

Michael Lawther Deputy Chief Executive, City Solicitor and Monitoring Officer
Peter Baulf, Deputy City Solicitor and Monitoring Officer
Julian Pike, Deputy Head of Finance & Deputy S151 Officer
Michael Lloyd, Directorate Finance Manager
Jon Bell, Director of HR Legal and Performance
Elizabeth Goodwin, Chief Internal Auditor
Paul Somerset, Deputy Chief Internal Auditor
Kelly Nash, Corporate Performance Manager
David Moorman, Senior Procurement Professional

External Auditor

David White, Manager, Assurance - Government and Public Sector, Ernst & Young.

16. Apologies for Absence (AI 1)

The Chair, Councillor Leo Madden, welcomed everyone to the meeting and advised that it is being livestreamed and would be available to view on the website. The Chair then read out the housekeeping rules relating to evacuation procedures in the event of an emergency.

The Chair advised that Michael Lawther, City Solicitor would soon be retiring and this would be his last attendance at Governance & Audit & Standards Committee. He thanked him for all the good advice he had given and wished him well in his retirement. The Chair welcomed Peter Baulf to the meeting advising that Peter would be replacing Michael on this committee.

Apologies for absence were received on behalf of Councillor Neill Young and Councillor Ian Lyon.

17. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

18. Minutes of the Meeting held on 1 February 2019 (AI 3)

RESOLVED that the minutes of the meeting held on 1 February 2019 be confirmed and signed by the Chair as a correct record.

Matters arising from the minutes

The query relating to page 5 of the minutes concerning the "requirement to seek comparative quotes for procurements over £30k" being set at quite a high figure had not been revisited. The City Solicitor said he would chase this up and advise the committee.

The City Solicitor said he would provide Mr Brown with the anonymised schedule of claims he referred to which had been circulated to the committee.

The Chair said he would look into how follow-ups could be put into the public domain.

Deputations were then made by Mr Jerry Brown on the following items on the agenda:

Item 5- Audit Performance Status Report to 22 February 2019
Item 9- Quarterly Performance Management Report

These have been referred to at the beginning of each item concerned and can be viewed in full using the following link

<https://livestream.com/accounts/14063785/GAS-08Mar2019>

19. External Auditors 2017/18 Certification Report (AI 4)

(TAKE IN REPORT - for information only)

David White, Manager, Assurance - Government and Public Sector, Ernst & Young, introduced the report which covers the work on the Council's housing benefit subsidy claim for 2017/2018. He explained that external audit undertake a programme of work set out by the Public Sector Audit Appointments Ltd (PSAA). Detailed case testing is carried out on an initial sample of 20 cases per benefit type. More extensive '40+' or extended testing is undertaken if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims.

Errors were found in a small number of areas and extended testing was therefore carried out identifying errors which the Council amended. They had a net impact of increasing subsidy claimed by £43,565. He explained that they had reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter to the Department for Work and Pensions which then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. The report includes a summary of the main issues reported in the qualification letter.(pages 5 to 7). Mr White advised that the overall rate of error is small and is similar to prior years and is also comparable with other authorities of similar size.

Mr White advised that a small additional fee had been charged as the work carried out in 2017/18 had increased since 2015/16, the year on which the scale fee was based. He explained that the scale fee was set by the PSAA. The additional fee had been agreed by the Director of Finance but remained subject to agreement with PSAA.

In response to a query, Mr White advised there was no assurance rating as such, but the certification process requires the subsidy claim to be signed off as correct subject to the qualification letter.

The report was noted.

20. Audit Performance Status report to 22 February 2019 (AI 5)

(TAKE IN REPORT)

Mr Jerry Brown gave a deputation on this item that can be viewed using the following link <https://livestream.com/accounts/14063785/GAS-08Mar2019>

The Chief Internal Auditor introduced the report which updates the Committee on the internal audit performance for 2018/19 to 22 February 2019 against the Annual Audit Plan, highlights areas of concern and areas where assurance can be given on the internal control framework.

She advised that expected reporting times are given in the reports but these could be delayed if the work has not been completed - as happened for some of the MMD audits which will be deferred to the next reporting cycle.

She said that the audit plan is almost completed as set out in section 5 of the report. There are no critical risk exceptions.

However there is one area of no assurance - community centres. The Authority currently has overall responsibility and ownership of 18 Community Centre buildings across the City. 5 of the Centres fall within the remit of the Housing, Neighbourhood & Building Services Directorate and are managed by Portsmouth City Council. The remaining 13 fall within the remit of the Culture & City Development Directorate and are managed by Community Associations. The audit carried out was only in respect of the 5 centres being managed by PCC.

To summarise, eight high risk exceptions have been raised as a result of this audit review and a no assurance opinion has been given as a result of testing. Internal Audit has discussed the results with the Directorate concerned and full co-operation has been given and actions are now in place to address the many issues raised and a follow-up audit will be carried out in the new Municipal Year to check everything has been implemented. An exercise will be undertaken next year in relation to the community centres that receive grants but that audit will be slightly different.

The Chief Internal Auditor said the report also includes the 2019/20 Audit Plan - but this is not a complete list of audits as it will depend on the number of follow-ups relating to work currently in progress. Any area of high risk and critical risk will be followed up. The Plan submitted will therefore grow.

With regard to schools, internal audit will undertake some reviews but negotiation will determine which schools they will be. A discussion has not yet taken place with the directors of MMD as to what will be within the scope of the audit.

The City Solicitor advised that PCC only owned two active companies - VESL and MMD - and he confirmed that they should both be fully compliant with PCC policies.

During discussion

- With regard to community centres run by associations, it was confirmed that these would be the focus of a future audit. Two independent audits had been carried out into what was happening in community centres and although the Chief Internal Auditor was aware of the contents of the reports, these were not carried out by Internal Audit. The City Solicitor confirmed that one report had been carried out by Mr Greg Povey into the management and running of one centre by the Paulsgrove Community Association. The second report was carried out by Mark Heath, a former City Solicitor at a neighbouring authority, to look at the procedure followed in the initial report by Mr Povey and found that the first report was sound. One Member said that there seemed to be some serious issues around community centres and he was concerned that liability rests with the Council. There is a need to focus on the best use of assets we have.
- The Chief Internal Auditor confirmed that the number of community centres run by associations had erroneously included Drayton Centre, so the number should be 17 and not 18 community centres.
- With regard to a query about the audit plan for the coming year, and the scope of the audit as regards the Guildhall and the Pyramids, the Chief Internal Auditor said these were provisional. With regard to the Guildhall, internal audit would be looking at the use of funds and also how any PCC assets are being used and will also be looking at long term Trust plans and how these correlate with the funds they have.

- With regard to the Pyramids, the Chief Internal Auditor said they have carried out reviews on the contract and management side but a number of financial and reputational risks rest with the authority. Internal audit has not looked at the Pyramids for a few years. The Pyramids review is likely to be largely contract related.

RESOLVED that Members

(1) Noted the Audit Performance for 2018/19 to 22nd February 2019.

(2) Noted the highlighted areas of control weakness from the 2018/19 Audit Plan.

(3) Endorsed the Audit Plan for 2019/20.

21. Treasury Management Policy (AI 6)

(TAKE IN REPORT for information only)

The Chair drew members' attention to page 61 where it states that the report was before this committee to fulfil the requirement for scrutiny before being recommended to the Council.

Michael Lloyd introduced the report advising that the Policy Document attached sets out the policies on borrowing and investing surplus cash. He advised that government guidance had been revised and is reflected in the Policy. In particular, the Treasury Policy in previous years included the risk appetite statement and the minimum revenue provision policy. Those are now in the new Capital Strategy going to Cabinet and Council.

The report also sets out the Treasury Management indicators - the boundary within which the council's Treasury Management Policy activities should operate.

There are two significant changes to this:

- (i) That a new category of non-specified investments be added to permit investment in pooled investment vehicles including equity funds, property funds, supply chain finance funds and multi asset funds with a limit of £50m per fund
- (ii) That the maximum limit of an investment in a subsidiary company be increased from £20m to £30m

Mr Lloyd advised that the reason for increasing the limit is to allow development of a subsidiary company to develop housing in the Portsmouth area on a commercial basis.

The report also contains a recommendation for officers to be given delegated authority as set out in 3.1(d) and a recommendation on who should be informed if there are any variances from the Treasury Management Policy when they become apparent as set out in (3.1 (e)).

In response to questions

- The Committee was advised that there is substantial amounts of borrowing in our capital programme (such as in respect of the Port). In terms of flexibility - borrowing costs are fixed so there is less flexibility in future years to set the budget. Mr Lloyd said we have to accept this as part of the Council's capital plans. He did not consider this to be a

serious issue as he believed the revenue resulting from the investment would counteract those effects. All borrowings are subject to a detailed financial appraisal and that would dictate whether or not PCC would enter into that borrowing.

- With regard to reference to "pooled investment vehicles" in the recommendations, PCC would be likely to pool with private sector organisations such as pension funds. Effectively, a number of organisations pay into a fund and it is managed by an investment manager - similar to a unit trust.
- With regard to page 89 and the housing company, it was confirmed that the company has been formed - Ravelin - and the company is putting in place a framework to allow it to build houses but it will do so in accordance with its own business case and it is not possible to comment on what the housing mix will be at this stage as matters had not progressed that far.
- With regard to debt re-scheduling mentioned on page 77, it was confirmed that premium payments to the Public Works Loans Board would be by lump sum rather than in instalments. If a loan is paid off early PCC would have to find the money to do that - usually from surplus cash balances. This would only happen if PCC wanted to redeem a loan early and this would have to be of net benefit to the council. It would be unusual to restructure debt on this basis.
- With regard to Page 79 - although the Municipal Bonds Agency was set up a few years ago, it has not really progressed yet. .
- With regard to reverse repo mentioned on page 88, essentially this is where PCC could lend to an organisation that may not meet PCC's credit criteria but would be secured on acceptable collateral as set out in 11.21 making it a very safe investment. The policy includes this to maintain PCC's ability to invest in this way although it has not yet done so.

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

22. Health and Wellbeing Board Constitution (AI 7)

(TAKE IN REPORT)

Kelly Nash introduced the report advising that the recent review of partnerships has concluded that there would be benefits for efficiency of working and effectiveness of decision-making, if the current three cross-organisation partnerships that look at issues around health and wellbeing in the city (the Health and Wellbeing Board (HWB), the Safer Portsmouth Partnership (SPP) and the Children's Trust Partnership (CTP)) came together as one grouping with a single Terms of Reference and membership, and that this should be under the auspices of the Health and Wellbeing Board as the statutory body. All three partnerships agreed that this would be their preferred way forward.

Consequently there was a need to draw up revised Terms of Reference and as this represented a Constitutional change, it had to be brought to Governance & Audit & Standards Committee and Council.

During discussion

- It was confirmed that the success of the HWB could be judged by whether or not it achieved its objectives. Ms Nash said she would be happy to circulate these if that would be useful.
- It was confirmed that HWB is audited as part of Internal Audit's programme and was last audited in 2016/17. It is not causing concern at present but would be audited again in the future.
- One Member expressed some reservations about the lack of explanation and justification contained in the report for combining the three partnerships and was concerned in case elements that had been dealt with by the individual bodies would not be dealt with as effectively when combined. In particular he was concerned about crime statistics and trends that had been focused on previously by SPP. He appreciated that SPP was in agreement with the recommendations in the report and would be interested to see anything that had been put in writing by SPP to that effect.

Ms Nash said that the re-written aims included in the report covered SPP's previous focus. There had been convergence by the separate entities on many issues anyway over the last few years so to an extent this was formalising the position. She said that the separate bodies had tended to look at the same issues from different perspectives whereas the joint body could look at the issues from all angles. The membership of the new HWB had been extended to include for example the Chief Superintendent of Police, probation colleagues and representatives from schools. She said she would be happy to let Members have details of the discussions that had been had relating to setting up the combined HWB. The Member concerned said he would find that useful.

The Chair said the membership of HWB had evolved and he considered its composition to be more balanced now. He said that the matters raised today had been fully discussed by the bodies concerned and they had concluded that the combined HWB would be an improvement on the previous separate arrangements. He said that as the report was going on to full Council, the Member concerned could express his reservations there if he remained unconvinced that this represented an effective way forward. Meanwhile Kelly Nash could provide him with additional information.

Kelly Nash confirmed that there are some very specific functions for SPP and HWB and these have generally been carried out by task and finish groups and these would continue unchanged under the combined HWB.

With regard to the Constitution, Kelly Nash said that the lead Member for Community Safety was not a member but that role would be fulfilled by the Leader of the Council who was a member.

RESOLVED that the Governance & Audit & Standards Committee

- (1) Supported the changes to the constitution for the Health and Wellbeing Board set out in the report and**
- (2) Recommended these to Council on 19 March 2019.**

23. Councillor Training and Development (AI 8)

(TAKE IN REPORT for information only)

The City Solicitor introduced the report which updates members on the 2019 training programme for councillors.

During discussion

- The City Solicitor confirmed that the only training that is mandatory before members could sit on the committees is in respect of Licensing and Planning. He said that it was not possible to make training mandatory because neither the Code of Conduct nor the Localism Act had effective sanctions should a member not attend training. He said that the Code of Conduct is under review nationally so it may be that this situation changes in future.
- The City Solicitor said he would look into whether it would be possible for members to have a formal record of their training so they could use it on future CVs.
- One Member suggested that training enforcement could perhaps be carried out informally through the group leaders regularly reviewing who had attended training and using their influence to encourage members to attend.

The Chair thanked members for requesting this report which was noted.

24. Quarterly Performance Management Update (AI 9)

(TAKE IN REPORT)

Mr Jerry Brown gave a deputation on this item that can be viewed using the following link <https://livestream.com/accounts/14063785/GAS-08Mar2019>

Kelly Nash introduced the report advising that this is a regular report and the themes are generally similar - as outlined in sections 3.6, 3.7 and 3.8 of the report.

Ms Nash said that it had been agreed at the last meeting that the report format would be revised for the new Municipal Year to provide a subset of information and would be moving to a strategic risk basis. An example of the new report format would be circulated to members at the end of the meeting and was similar to that which was provided by other authorities.

In response to questions

- With regard to page 189 - regeneration - stating "There are some risks around consultation on major schemes such as coastal defences with the extra cost of delivery that may result from these processes", Kelly Nash said she would find out what these risks were and would circulate the response to the committee.
- With regard to page 195 - referrals to early help - this seems to have gone up significantly. Kelly Nash advised that part of this is that for some years, the authority did not have an early help offer but it has now been made available and uptake is increasing.
- With regard to the RAG rating on page 197 - youth offending team caseloads - this was still rated Red as it is still high compared with other authorities and the service considers it to be high and wants to reduce it.
- It was confirmed that the Directors' summaries will be retained in the new report format. Kelly Nash agreed to chase up the detailed report from Public Health that is missing from this report.
- In response to a query about why work on the Air Quality action plan is on hold (page 267), Kelly Nash explained that much work is in fact going on. Some of it is around validating the data that is held by DFT that has resulted in the ministerial directive. Some contradictions have been in evidence as the government has relied on modelling which is at variance with actual data collected in Portsmouth.

In future, reports, the Air Quality Action Plan will appear as a line in its own right to make progress clear.

- With regard to page 349 - recruitment and retention of teachers in the city - it was confirmed that Portsmouth Education Partnership will have oversight of this matter and this is their top priority.
- In relation to the Troubled Families recovery plan mentioned on page 348, Members asked whether the 2020 target date is likely to be achieved as progress appears to be slowing down. The Committee was advised that much work is being done to reverse the slow down and the most recent data shows that Portsmouth is the most improved authority. This has resulted in some money being released so the expectation is that progress will accelerate again.
- It was confirmed that the replacement of fire doors referred to on page 365 would be at the contractor's expense.
- With regard to page 377 mentioning the full business case on the Southsea Flood Defence Scheme, it was confirmed that PCC is approaching LEP for funding. However this is not the only body being approached. Members said it would be useful to be given an idea of the sequence and timing of who is being approached and when. Kelly Nash said she would request the relevant teams to supply that information.

The proforma for the revised report was then circulated to the committee members.

RESOLVED that the Governance and Audit and Standards Committee

- 1) noted the report;
- 2) noted the continued improvement in quality of reports from directorates;
- 3) agreed if any further action is required in response to performance issues highlighted.

25. Exclusion of Press and Public (AI 10)

The Chair, Councillor Leo Madden, proposed 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 exempt appendices in item 11 on the grounds that the appendices contain information defined as exempt in part 1 of schedule 12A to the Local Government Act 1972. This was agreed.

RESOLVED that the meeting move into exempt session for the consideration of the exempt appendices relating to item 11.

The Chair explained that provision had been made on the agenda to consider the exempt appendices in item 11 in exempt session but that he would keep the meeting in open session during discussion of the non-exempt parts of the report.

26. Procurement Management (information) report (AI 11)

(TAKE IN INFORMATION ONLY REPORT)

David Moorman, Senior Procurement Professional, introduced the report which was divided into 8 sections and which had 5 appendices.

He summarised each section of the report.

Section 1 - **compliance with contract procedure rules**

This table reports on all invoices paid against purchase orders with a value of £5,000 or more in **December 2018**.

Section 2 - **waivers awarded this quarter**

This table presents a summary of those contracts added to the contract register during Q3 2018/19 which have a waiver associated with them. Although broadly in line with previous reports, more detail regarding waivers approved in Q3 is contained in Appendix 2.

Section 3: **spend with waiver**

The table and graphs provide a breakdown by directorate of the actual spend during Q3 2018/19 on contracts which have waivers associated with them (regardless of when the waiver was approved).

Section 4: **spend by contract size**

The graphs present the actual spend by directorate in Q3 2018/19, and how this is broken down into spend under high and medium value contracts.

Section 5: **top 20 suppliers**

The table shows the council's top 20 suppliers and provides details of the nature and value of the contracts with them.

Section 6: suppliers paid over £100,000 in Q3 by directorate

The tables show those suppliers who have been paid over £100,000 in Q3 2018/19 by directorate. They are arranged in descending order of value by directorate.

Section 7: supplier performance

Section 8: Supplier Performance Monitoring

This section shows contracts which have never had a KPI score and contracts that had not had a KPI score in 12 months.

During discussion

- With regard to a query relating to the words on page 436 "not indicative of compliance with legal requirements", it was confirmed that this should not concern members as it would have to be compliant to be on the register and there is a link that relies on officers to tag the link to the contract in the register (which is sometimes overlooked). The City Solicitor said the committee could rest assured that if there is a problem the legal team will deal with it.
- With regard to the requirement to obtain 3 bids being waived in one instance, the committee was advised that there are a number of reasons for this - for example sometimes there are niche markets, sometimes it is a matter of scheduling and supplying and sometimes it could be that the contract is too small to be of interest to many suppliers.
- With regard to page 445, it was confirmed that there are 2 separate contracts each for £130m.

The committee then moved into exempt session to give more detailed consideration to the two exempt appendices.

Following on from the confidential examination of appendix 4 (relating to contract performance issues) and appendix 5 (minutes from the strategic contract management board 10/12/18) there were two pieces of work requested:

- i) Awarding of capital contracts of a transportation nature - Internal Audit would undertake this specific project
- ii) Contingency/business continuity planning to ensure commercial failures can be dealt with.

The meeting concluded at 12.40 pm.

Councillor Leo Madden
Chair

