

Minutes of the meeting of the
GOVERNANCE COMMITTEE held in
the Fire and Rescue Service
Headquarters, Barmston Mere on
MONDAY 30 JUNE 2014 at
10.30AM.

Present:

Mr G N Cook in the Chair.

Councillors Burdis, M Forbes, Mole, Padgett and Mr Knowles.

In Attendance:

Gavin Barker (Mazars)

Mark Kirkham (Mazars)

Apologies for Absence

Apologies for absence were submitted to the meeting on behalf of Councillor Price and Miss Goodwill.

Declarations of Interest

There were no declarations of interest.

Minutes

1. RESOLVED that the minutes of the meeting of the Governance Committee held on 17 March 2014 be confirmed and signed as a correct record.

Internal Audit Annual Report 2013/2014

The head of internal audit submitted a report presenting the performance of Internal Audit for 2013/2014, the areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

Members were directed to the Key Performance Indicators (KPIs) for the Internal Audit service shown at Appendix 1 of the report. All of the KPIs had been achieved apart from two, which were the number of audits completed by the target date and the implementation of medium risk recommendations.

57.1% of audits were completed by the target date, from the scoping meeting to the issue of the draft report, against a target of 70%. The head of internal audit advised that this target was not met due to negotiated changes to the review timetable due to the industrial action which had taken place during 2013/2014. In some cases the fieldwork was completed over a longer period than desired but all audits scheduled for 2013/2014 were completed within the financial year. The head of internal audit stated that he did not have any concerns with regard to this and there was nothing significant to draw to Members' attention.

The implementation of medium risk recommendations stood at 81% against a target of 90% but it was highlighted that there were only seven agreed actions not implemented by the target date and this was not a matter of concern at this point in time.

The results of audits carried out in 2013/2014 and the findings of the work from the previous two years had been taken together to form an opinion on each of the identified key risk areas and an opinion on the adequacy of the overall system of internal control for the Authority. A number of recommendations had been made as a result of this work, 15 medium and seven low risk, but these were not material to the overall internal control environment of the Authority.

The Committee were also informed that the external auditors had carried out an independent review of the effectiveness of Internal Audit and been satisfied that the service continued to comply with the relevant standards.

Mr Knowles noted that the report stated that the Internal Audit service measured its performance in terms of 'Efficiency, Quality and Client Satisfaction' and queried how efficiency was assessed.

The head of internal audit explained that the KPIs which applied to the Fire Authority were very similar to those used for the City Council's Internal Audit service. In the case of the Council, annual benchmarking was carried out through CIPFA which looked at the performance of the service as a whole. However, this had not come through into the indicators for the Fire Authority and was something which would be picked up for 2014/2015.

Having considered the report, the Committee: -

2. RESOLVED that the Internal Audit Annual Report be noted.

Annual Governance Review 2013/2014

The Chief Fire Officer, Clerk to the Authority, Finance Officer and Personnel Advisor submitted a joint report providing details of the findings of the 2013/2014 Annual

Governance Review and seeking approval for the Annual Governance Statement, prior to its incorporation into the Statement of Accounts.

Assistant Chief Fire Officer (ACFO) Brindle explained that the Authority had a duty to prepare an Annual Governance Statement and drew members' attention to the diagram on page 16 which set out all the elements of the process by which the adequacy of governance was assessed against national standards.

The report outlined the key areas considered by the Corporate Governance Steering Group as part of the review and that they had no identified any areas of significant concern. ACFO Brindle highlighted that when looking at the Functional Self Assessments and Area Manager Controls Assurance Statement, the implementation of the new command and control system had been noted as an action which could affect the Authority's performance and which was being closely monitored.

The Group had also looked at Internal Audit and the Corporate Risk Register and the process for considering corporate risk throughout the organisation. It was noted that there were always action plans in place to manage and mitigate corporate risk.

Performance was regularly scrutinised by the Authority's Policy and Performance Committee and the trends showed an improving picture. There were a small number of areas where work was still to be done, but there was general satisfaction that the performance management arrangements were robust.

ACFO Brindle stated that the Group had also looked at external views of the Authority and these included the maintenance of the Investors in People Gold Standard and the award of ROSPA Gold accreditation for the eighth consecutive year. The service had also received a Diversity and Inclusion in the Workplace award and was accredited to ISO22301 for Business Continuity. Another significant achievement was being placed eighth in the Stonewall Top 100 Employers Workplace Equality Index and it was highlighted that this was the first time a fire and rescue service had entered the top ten.

Customer views were collated through an ongoing 'After the Incident' survey and employee views on a range of issues were sought on a biennial basis. Members of the Authority also receive a questionnaire asking whether they felt that the statements made in the existing Code of Corporate Governance were being met and all respondents had stated that they believed they were.

ACFO Brindle referred the Committee to the Statement of Assurance which was presented at pages 23-25 of the report, and informed Members that this demonstrated how the Authority met all of the requirements of the Fire and Rescue National Framework.

Members were also directed to the Action Plan which had been developed as a result of the Annual Review of Corporate Governance and Internal Control Arrangements. A number of actions had been rolled forward from the previous year and the actions added for 2014-2015 were: -

- Carry out 'Your Views Count' survey

- Review the Members' learning programme
- Further roll out the Risk Management and Assurance Database to cover more areas of the organisation's activities
- Review and update the Whistleblowing and Fraud and Corruption policies to ensure compliance with new guidance.

Councillor Mole commented that this report provided a feeling of security about the governance of the Authority and he complimented the officers who had carried out the work for the Annual Governance Review.

The Chair was extremely pleased to note the list of accolades and awards achieved by the Authority and stated that the organisation was striving to achieve the best and should be proud of the report.

3. RESOLVED that: -

- (i) the revised Code of Corporate Governance be received and noted;
- (ii) the Annual Governance Statement be received and noted; and
- (iii) further reports be received as appropriate.

External Auditor – Audit Progress Report up to June 2014

The Finance Officer submitted a report presenting the external auditor's progress report covering the period up to June 2014.

Gavin Barker, the Authority's Senior Engagement Manager was in attendance to present the report. Gavin advised that the audit continued to progress well, preliminary work had been completed and there were no significant issues to report. Mazars maintained an ongoing dialogue with officers and continued to review the Authority's arrangements for securing Value for Money in its use of resources and again, had identified no significant issues.

Gavin went on to highlight a number of emerging issues and developments, including the consultation on bringing forward the timetable for the production of local authority accounts. The consultation had raised a large number of issues and most respondents were opposed to any change. DCLG had now issued a second consultation on a proposal to bring forward the accounting timetable by one month from 2017/2018, so that Accounts would be produced by 31 May and the audit would be completed by 31 July.

The Chair commented that the response to the consultation was very clear in being opposed to an alteration in the timetable and queried what could be driving the changes. Gavin stated that in his view, this was being driven by the fact that Government departments run to this schedule but he did not feel that the complexity of local government accounts was fully appreciated.

The arrangements for the closure of the Audit Commission and the transfer of its functions had now been clarified. The Commission was expected to close at the end of March 2015 and the responsibility for managing contracts would transfer to an independent company established by the Local Government Association (LGA). Existing audit contracts would run until 2016/2017 but there was an option to extend these for a further three years. At the end of the contract period, authorities would be free to appoint their own auditors.

The counter fraud functions of the Commission would transfer to CIPFA, who were establishing a new public sector counter fraud centre, and the work carried out under the National Fraud Initiative would transfer to the Cabinet Office.

The external auditors were keen to highlight the Audit Commission's Value for Money profiles and that these were available for the Authority and members of the public to consider data on the cost, performance and activities of local authorities. These profiles would be maintained by the LGA company in the future.

The Fire Authority's audit fee for the 2014/2015 had been confirmed as £40,848 which was the same fee as 2012/2013 and 2013/2014. During March 2014, the Audit Commission had rebated £8m in audit fees across all locally audited bodies. This represented a rebate of 13.7%.

Having thanked Gavin for the external auditors report, it was: -

4. RESOLVED that the Audit Progress Report be noted.

Treasury Management – Review of Performance 2013/2014

The Finance Officer submitted a report outlining the Treasury Management performance of the Authority for 2013/2014 in line with best practice requirements as prescribed by the Chartered Institute for Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

The Authority's Treasury Management function continued to contribute significant financial savings which were used to provide funding to support future years' capital programmes and to help support the Authority's revenue budget. The average borrowing rate of the lead authority was at 3.47% for the year and this was in the top quartile of the lowest rates when benchmarked against other authorities.

It had not been possible to reschedule any debt during the year due to the prevailing market conditions. The rate of return achieved on current investments was 0.54% for the year against a benchmark rate of 0.35% and there were limited opportunities to invest for the Fire Authority. The Treasury Management function were working with an assumption that interest rates could rise in Spring 2015 and any investments were taken over the short term to enable the service to react quickly to any such changes in the rate.

The Finance Officer's representative confirmed that the Authority had not exceeded any of its Treasury Management Prudential Indicators during 2013/2014 and was well within the tolerance for the Authorised Borrowing Limit for External Debt. Members were reminded of the basis of the Borrowing Strategy for 2013/2014 and that it had been regularly reviewed by the Committee throughout the year and updated where necessary to reflect changing circumstances.

Financial markets were monitored on a daily basis and these were reflected in the appendices to the reports which outlined the Lending List Criteria and Approved Lending List. These lists were regularly updated in the light of financial institution mergers and changes in institutions' credit ratings and were predicated on the Government's guarantee scheme for all UK based institutions. If this position changed then the Authority's Treasury Management policy would have to be reviewed accordingly. It was possible that new Lending List Criteria would have to be drawn up if the Government's guarantee support scheme was ever withdrawn, which was rumoured could occur in the early part of next year, but any such changes would be brought back to the Committee for approval should this be required.

The Chair commented that the withdrawal of the guarantee support scheme would be an issue for organisations nationally. He commended the Treasury Management function for remaining ahead of the benchmarks in challenging circumstances.

5. RESOLVED that the Treasury Management performance for 2013/2014 be noted.

Statement of Accounts 2013/2014 (Subject to Audit)

The Finance Officer submitted a report providing Members with a certified copy of the Authority's Statement of Accounts 2013/2014 (Subject to Audit) and copies of the draft Letters of Assurance required by the external auditor as part of the final accounts process.

The Finance Officer's representative referred to the appendices D, E and F to the report, which had been tabled, and which provided a summary to help make the Accounts more meaningful to Members and some presentational adjustments which had been made after the Statement of Accounts had been circulated to the Committee.

The Statement of Accounts had been certified by the Finance Officer to the Authority in accordance with regulations and would now be published and passed to Mazars to be audited.

Members were directed to the Finance Officer's Foreword to the Statement of Accounts on pages 6 – 15 of Appendix A. Referring to the Revenue and Income summary, it was highlighted that the Revenue Budget Outturn for 2013/2014 had shown a net underspend of £1.618m as a result of individual underspend in areas such as employee costs, firefighter ill health retirements, premises and supplies and services. It had been agreed by the Authority that this underspend would be transferred to the Development Reserve, which would be used strategically to

identify areas of one off spend and to help reduce the revenue budget on an ongoing basis.

Following the finalisation of the Accounts, a further underspend of £0.439m was identified as a result of late accounting entries in respect of PFI, leasing and the confirmation of the DSO surplus for the year. This variation would also be transferred to the Development Reserve.

The Capital Programme for 2013/2014 had been set at £3.448m but had been revised upwards during the course of the year to £4.072m. There was £1.733m slippage to be transferred into 2014/2015 and this was mainly due to the planned expenditure on projects at Marley Park and Rainton Bridge not occurring during 2013/2014.

The Authority continued to closely monitor the costs of its Private Finance Initiative (PFI) schemes and it was highlighted that the Authority had contributed to a PFI smoothing reserve for 11 years. Over the last year, work had been carried out to identify when the reserve would be used and it had been confirmed that all of the reserve was fully committed and would be used over the lifetime of the PFI scheme. The Authority anticipated that it would cease putting funds into the reserve in 2017/2018 and it would start to be used from that point onwards.

With regard to arrangements for the funding and accounting for pensions, Members were advised that changes in the level of employee and employers' contributions had made a significant impact. Tyne and Wear Fire and Rescue Authority had a net pension liability due to the presentational requirements of the international accounting standard IAS19 but that the position was in reality being well managed and was being addressed appropriately over a number of years in accordance with government guidelines. The Finance Officer's representative explained that there were a large amount of disclosure notes to accompany this section of the Accounts.

The Command and Control project was one of the major capital projects for the Authority and although this had become operational in November 2013, it was still in progress with further spending expected in 2014/2015. The Authority continued to report positive performance with a small number of areas being identified for improvement.

The Finance Officer's representative concluded by saying that the financial health of the Authority was good and that it had a good record and took a prudent and planned approach to its finances. There were concerns that budget cuts would jeopardise the service provided, but from a financial perspective, the Authority was in a positive position with assets of £62m and cash backed reserves of £37m. It was felt that the Authority had a net worth despite the pension liability position that was presented under IAS19 which was in effect being actively managed and masked the true balance sheet net worth of the Authority.

Councillor M Forbes asked if the accounting process for PFIs was complex or obfuscatory and the Finance Officer's representative stated that it was complex. The notion of it was simple but the difficulty was in the analysis which needed to be done to get the right allocation of costs in order to comply with complex accounting

standards and a lot of authorities were struggling with aspect. This element of the Accounts had been reviewed and the external auditor was likely to look at this area to ensure compliance.

Referring to the PFI projects which had come on to the balance sheet, Councillor M Forbes queried if the Government had looked at the costs of this nationally. The Committee were informed that it was for each authority to consider its own schemes and Tyne and Wear was looking at its ongoing costs. ACFO Brindle added that DCLG was interested in the work that the Authority was doing in trying to drive down costs and advised that the Government had introduced a code of practice for PFI partners which would allow reviews to take place.

Mr Knowles stated that what the Committee had been told about the underspend was important and provided reassurances and that the Chair's letter was comprehensive and accurate and again provided appropriate assurance.

Having given due consideration to the report, the Committee: -

6. RESOLVED that: -

- (i) the Statement of Accounts 2013/2014 (Subject to Audit) be noted:
- (ii) the contents of the Letter of Assurance from those charged with governance be approved; and
- (iii) the Letter of Assurance from those charged with discharging management processes and responsibilities be noted.

(Signed) G N COOK
Chairman