

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on MONDAY 30 JUNE 2008 at 1.30p.m.**

**Present:-**

Mr G N Cook in the Chair

Councillors Allan, M. Forbes, Wares and T Wright.

**Declarations of Interest**

The following Councillors declared personal interests in the report listed below as a Member of the bodies indicated:-

Item 6 – Statement of Accounts 2007/2008 (Subject to Audit)	Councillor M Forbes Councillor T Wright	Members of the Tyne and Wear Fire and Rescue Authority
	Mr G N Cook	Member of the Governance Committee of the Tyne and Wear Fire and Rescue Authority

**Apologies for Absence**

Apologies for absence were received from Councillor Arnott and Mr Paterson.

The Committee agreed to send a letter to Mr Paterson wishing him a speedy recovery.

**Minutes**

1. RESOLVED that the minutes of the meeting of the Committee held on 23 May 2008 be confirmed and signed as a correct record.

**Annual Governance Review 2007/2008**

The City Treasurer and City Solicitor submitted a joint report which provided details of the findings of the 2007/2008 Annual Governance Review and the draft Annual Governance Statement.

(For copy report – see original minutes).

The City Treasurer provided an overview of the report and drew attention to the fact that the Council reviews its governance arrangements on an annual basis. In line with the new framework published by CIPFA/SOLACE in June 2007, the Council is now required to publish an Annual Governance Statement (AGS).

The Annual Governance Review was undertaken by the Corporate Governance Steering Group and followed an agreed methodology including extensive consultation, research and information gathering and self assessment.

The City Treasurer highlighted the priorities for improvement contained within the Action Plan and made particular reference to the action highlighted by external auditors that new and emerging risks within the External Audit Plan should be considered by the Council's Executive Management Team throughout the year. The review concluded that robust arrangements were in place for governance across the Authority, however it was noted that this was an overall judgement and there would always be the possibility of some small weaknesses existing within the system.

Councillor Wright queried the process which had taken the Authority from a need to produce a Statement on Internal Financial Control to a need to produce an Annual Governance Statement. It was explained that the Statement on Internal Financial Control had been replaced with a Statement on Internal Control and subsequently this had been replaced with the need to produce an Annual Governance Statement. These developing requirements recognise the impact on overall governance arrangements of the whole span of the council's arrangements. It was also reported that the Annual Governance Statement would be produced from now on and would also form part of the Statement of Accounts.

Councillor Allan enquired if there had been any changes in recommended practice for 2007/08 and the City Treasurer advised that the Annual Governance Statement had been devised to widen the coverage of research across both the council's internal arrangements, and also how it interacted with external stakeholders and partners. It was felt that the system had reached a maturity now and further material changes were not anticipated.

Councillor Allan also asked if there were likely to be any further changes to the deadline for submission of the Statement of Accounts. The City Treasurer reported that they had managed to meet the required deadlines although this was the result of an extensive effort by all of the Officers involved. Whilst further changes could not be ruled out, there was no intelligence to suggest that this was under review at this stage.

Councillor Wright noted that the Audit Commission's comments had been very pleasing but queried what the role of the Audit and Governance Committee would be in monitoring the areas which had been identified for development. The City Treasurer advised that the responsibility of the Audit and Governance Committee was to ensure that adequate internal control and governance arrangements exist and are adequate. Once any issues have been identified by the Audit Commission where improvement should be made, if no action was taken by the council then the

Audit Commission would draw this to the attention of the Council by referring to the continued need for improvement and the lack of action to date. It was considered that this was a sufficient safeguard.

Councillor Allan referred to the Action Plan and the fact that there were 19 actions and questioned if this was a large number. The City Treasurer acknowledged that this could give the impression that there was a lot of work still to do but this was dependent on the nature of the actions, many of which, in this case, were relatively minor in nature, or already well in hand. It was also not a precise science as another Authority could have fewer items in the Action Plan but not have scored as well in the appraisal. The Action Plan includes everything that has been identified at this time which needs to be done to strengthen further the good corporate governance arrangements that the council has in place.

Upon consideration, it was:-

2. RESOLVED that the findings of the Annual Review, the draft Annual Governance Statement and the updated Code of Corporate Governance be noted.

### **Corporate Risk Profile**

The City Treasurer submitted a report informing the Committee of the Corporate Risk Profile following an earlier review together with the recommended amendments and the proposed actions.

(For copy report – see original minutes).

The City Treasurer provided an overview of the report and highlighted how the risk management process had evolved over many years and that there was now a system in place to look at and review the Corporate Risk Profile every six months. He reported that the profile seeks to capture all the major areas of risk that the Council faces and in so doing covers the vast majority of programmes and projects the Council is involved in.

The City Treasurer drew attention to changes to the Corporate Risk Profile since it was last presented to the Committee. These were summarised as:

- A new risk issue ‘Sustainability’ has been added;
- The risk issue relating to ‘Regeneration Activity’ had been divided into two separate risk areas, ‘Physical Regeneration’ and ‘Economic Regeneration’;
- The previously linked risk issues of ‘Community Cohesion’ and ‘Equality and Diversity’ had been combined to form ‘Inclusive Communities’;
- The separate risk issues relating to ‘Housing Strategy’ and ‘Adults Services’ had now been combined into ‘Health, Housing and Adults Services’ risk issue; and,

- A number of risks have been renamed –
  - (i) 'Children's Services' to 'Outcomes for Children and Young People',
  - (ii) 'Procurement' has been extended to 'Commissioning Procurement',
  - (iii) 'Civil Contingencies Act' to 'Resilience to Major Incidents',
  - (iv) 'Section 17 Crime and Disorder Act 1998' to 'Safer City'.

It was noted that the risk profile is an evolving, living document which reflects how the Council is developing and moving forward. The recommended actions for each risk area are the responsibility of the relevant Chief Officer and it is for them to ensure that the action is taken in a timely way.

The Chair enquired which actions had not met deadlines and what had been done to address these. The Head of Risk Management and Insurance Services advised that there were no issues with major actions within the profile and where targets had not been achieved, action had been taken to resolve this. The City Treasurer reported that the profile is reported to Cabinet and is scrutinised by the Executive Management Team on a regular basis.

Upon consideration, it was:-

3. RESOLVED that the Corporate Risk Profile be received and noted.

### **Statement of Accounts 2007/2008 (Subject to Audit)**

The City Treasurer submitted a report presenting the Statement of Accounts for the financial year 2007/2008 to the Committee for approval, subject to audit.

(For copy report – see original minutes).

The City Treasurer highlighted that after the Statement of Accounts was approved, it could not be changed without the agreement of external auditors. Material alterations count against the CPA rating and it was essential to ensure that the best possible set of accounts were produced.

The City Treasurer also drew attention to a number of amendments which had been made to the Statement of Accounts since it was circulated to the Committee. The majority of the changes were related to presentational issues or intended to expand understanding. One significant amendment was that it was proposed to reduce the gross expenditure on Planning and Development Services by £8,747,592 and gross expenditure on Non Distributed Costs being increased by this amount. This change is in accordance with the Statement of Recommended Practice (SORP) 2007.

Councillor Allan enquired about the figures relating to landfill allowances and queried if this reflected increases in landfill charges. The City Treasurer explained that this was only a notional loss and was related to the valuation of landfill allowance permits issued and accounted for under the Landfill Allowance Trading Scheme and how this was reflected in the accounts.

The Committee were reminded that the main driver for the timely closure of the accounts was central Government's Whole of Government Accounts (WGA) initiative which seeks to enable compilation and publication of accounts for the whole of the public sector in the UK.

The Committee were also informed that the Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2007 (SORP) had introduced some major changes to accounting requirements for the 2007/2008 Statement of Accounts, as local authority accounting requirements continue to converge with the accounting requirements of UK GAAP.

Members then referred to the main financial issues arising from the Statement of Accounts 2007/2008 (Subject to Audit) and the City Treasurer highlighted the following:

**Revenue Expenditure and Income Summary** – the budget had been approved at £229.575m and the actual expenditure was very close to the revised estimate. It was also pointed out that 18 £5.64m had been transferred to reserves to cover equal play, single status and capital programme issues.

**General Reserve** – this had decreased by £3.396m.

**Movement on Locally Managed Schools Reserve** – this has been increased by £1.429 million.

**Capital Expenditure and Income** – this had totalled £73.442m.

**Building Schools for the Future** – the costs of this were estimated to be between £120m to £130m.

**Connexions** – the Statement of Accounts sets out in detail the impact of the reorganisation of the Connexions service.

**Accounting for Pensions** – the accounts have to be fully compliant with Financial Reporting Standard 17 (FRS17) which means that the full cost of pensions have to be shown as at the 31<sup>st</sup> March 2008 (regardless of the actual retirement dates of staff). Money does not have to be provided at this point in time as the costs can be spread over a period of up to 25 years but in accordance with FRS17 it has to be accounted for as if the full liabilities are due for all staff as at the accounting date. The revised approach to the Local Government Pension Scheme introduced by central government from 1<sup>st</sup> April 2008 as expected to reduce the council's cost of the scheme by almost 2% over time. The Government was also consulting on cost sharing approaches which could possibly further reduce the costs to employers.

**Efficiency** – the Council had performed well in this area and had exceeded government targets.

**Major Acquisitions, Capital Works and Disposals during 2007/2008** – schemes highlighted included the Sunderland Aquatic Centre and the Southern Radial Route.

**Capital Borrowing** – limits had not been exceeded on borrowing.

**Single Status** – Phase one had now been implemented and provision was being made in reserves for Phase 2 as work was still ongoing in respect of this element.

**Equal Pay Claims** – it would be some time before the results of all the claims would be known but they would be defended and periodically reviewed to ensure the Council takes timely and appropriate action where necessary.

Councillor Forbes asked if there was a likely date for equal pay issues to be finalised and the City Solicitor advised that the Council was currently caught up in appeal cases which would affect the view taken on current cases. The Court proceedings resume on 14 July and will continue for a week scheduled in September but the process would still not be concluded by then.

**Insurance Provision** – the Council continues to benefit from reduced insurance premia by successfully managing some risks itself and it has also been possible to transfer £1m from the insurance reserve into general fund balances in 2007/2008.

**Annual Report and Summary Annual Report** – this would be presented to the Cabinet at the end of July.

Councillor Allan referred to the position with Newcastle International Airport as presented in the accounts and noted that there was no dividend this year and queried the current situation with the Authority's stake in the Airport. The City Treasurer advised that the Airport's refinancing carried out in December 2006 had been based on a robust business plan, running to the year 2030, and that as a result of this refinancing changes to the company structure. The Airport had clear financial targets and had also been necessary but that the council still held the same percentage share in the Airport. The Airport had comfortably met its new debt funding repayment targets in 2007 and that in accordance with the business plan it was not expected to make any dividends this year. The Airport would however pay out dividends in the future but this would depend upon how well the Airport performed in the future. It had to be noted that the Airport had to meet its new debt refinancing repayments first and then any surplus would have to cover any agreed capital commitments and other operational priorities before proposing dividends in the future. , as part of the refinancing appraisal process also set within a revised business plan actually -this target for 2007/2008 by approximately £4m which had been transferred to earmarked reserves to meet ongoing operational issues in respect of pension liabilities. The trading figures were projected to be on target for this year.

Councillor Forbes enquired about deferred charges Note 25 in respect of Private and Public Sector Housing and was informed that this related to capital grants provided to private individuals to refurbish their homes and also included work in connection with the area renewal programme. As there will be no tangible fixed asset to the Council, in the accounts this has to be 'charged' to the Income and Expenditure Account in the year the expenditure takes place. This 'charge' is then reversed out in the Statement of Movement in the General Fund Balance as this is funded from capital income and as such should not impact on the council tax.

In response to a query from Councillor Forbes, it was clarified that the increase in the Unutilised RCCO Reserve had already been reported to Cabinet and was as a result of slippage in the capital programme for 2007/2008.

Councillor Forbes also referred to a European Court of Auditors (ECA) report which indicated some technical issues had been found in respect of the Sunderland Arc feasibility study project grant claim and queried who had responsibility for submitting the claim and monitoring it. The City Treasurer advised that the Council was responsible for the grant claim however discussions were ongoing with GO-NE on the issues raised by the European auditors to try and reduce the potential grant loss. Every possible action was therefore being taken to ensure that any loss to the Council was minimised.

Councillor Forbes raised a final point about the technical issues which had been identified in respect of URBAN II grant claims and asked if these were serious issues or ongoing problems. The City Treasurer advised that these issues were taken very seriously and the Authority had a strong track record on grant claims and resisting claw back situations. These issues had been outstanding for some time and an audit review had been carried out with the result that a more rigorous approach to third party claims is adopted. Where the Council is claiming a grant on behalf of a third party, there was also recourse to the lead agent who would bear any loss.

Upon detailed discussion, it was:-

4. RESOLVED that the Statement of Accounts for the financial year 2007/2008 be approved, subject to audit.

(Signed) G N COOK  
Chairman