Minutes of the meeting of the GOVERNANCE COMMITTEE held in the Fire and Rescue Service Headquarters, Barmston Mere on MONDAY 29 JUNE 2015 at 10.30 am.

Present:

Mr G. N. Cook in the Chair.

Councillors Maughan, Mole, Lauchlan, Price and also Miss Goodwill.

In Attendance:

Gavin Barker (Mazars)
Mark Kirkham (Mazars)

Apologies for Absence:

Apologies for absence were submitted to the meeting on behalf of Councillors Burdis and Pickard.

Councillor Maughan was welcomed to his first meeting of the committee.

Declarations of Interest

There were no declarations of interest.

Minutes

1. RESOLVED that the minutes of the meeting of the Governance Committee held on 16 March, 2015 be confirmed and signed as a correct record.

Internal Audit Annual Report – 2014/2015

The Head of Internal Audit submitted a report for the committee to consider the performance of Internal Audit for 2014/2015, areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

Members were referred to Appendix 1 of the report, which detailed performance throughout the year. All but one of the KPI's were achieved.

The aim of 80% of audits to be completed by the target date was not achieved and actual performance was 78% completion to the initial target date set. Two audits missed the target date, each by only one day.

The findings of the 2014-2015 audit had been taken into account with the findings of audits from previous years, to form an opinion on each of the key risk areas, and an opinion on the adequacy of the overall system of internal control. The analysis of each of these opinions was detailed at Appendix 2 of the report.

Members noted that a 'substantial' level of assurance was given to each of the key risk areas, which was an extremely positive result for the Authority.

As a result of the audits carried out, 3 medium and 8 low risk recommendations had been made. Overall, the work undertaken did not identify any matters material to the overall internal control environment of the Authority.

2. RESOLVED that the contents of the Internal Audit report be noted and endorsed.

Annual Governance Review 2014/2015

The Chief Fire Officer, Clerk to the Authority, the Finance Officer and the Personnel Advisor submitted a joint report to provide members with details of the findings of the 2014/15 Annual Governance review and to seek approval of the Annual Governance Statement, prior to its incorporation in the Statement of Accounts.

ACFO Brindle referred members to the diagram within the report which set out the agreed stages and methodology used. Detailed at Appendix A was the Local Code of Corporate Governance and the Annual Governance Statement 2014/15 was included at Appendix B.

The 2014/15 Annual Review of Corporate Governance and Internal Control Arrangement Action Plan was detailed at Appendix C of the report. Members were advised that this included:

- Review of the standing orders and financial regulations
- Review of the Members Learning Programme
- Review and further roll of Programme Evaluation
- Review and improve sharing across partners (focus - vulnerable people)
- Meet data security requirements
- Review the officer delegation scheme
- Ensure governance implications associated with trading company were built into Standing Orders.

ACFO Brindle explained that based on the evidence examined, the Authority had robust and effective governance and internal arrangements in place. Principles of good governance were embedded, and independent assurance had been provided on all areas required, as well as areas not required. The review had not identified any weaknesses that would need to be highlighted in the Authority's Annual Governance Statement.

Councillor Mole referred to the views of customers outlined within the report and proposed a press release be produced to publicise these findings given the 100% overall user satisfaction.

Councillor Lauchlan asked questions in relation to the 20% of the workforce who felt that they were treated unfairly at work. ACFO Brindle explained that this was likely to be a result of the organisational changes which had taken place and also forthcoming reviews. It was felt that these had left staff feeling worried and concerned however fair procedures were in place to mitigate the impact on staff and also manage vacancies, to minimise the effect on staff.

3. RESOLVED that:-

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

Statement of Accounts 2014/2015 (Subject to Audit)

The Finance Officer submitted a report to provide members with the certified copy of the Authority's Statement of Accounts 2014/2015 (Subject to Audit), on or before 30th

June 2015 and also providing members with the Letters of Assurance required by the external auditor as part of the final accounts process.

Members were referred to the financial statements for 2014/2015 (Subject to Audit) detailed at Appendix A. Appendices B and C contained the Letter of Assurance from those charged with Governance and the Letter of Assurance from those charged with discharging management process and responsibilities, respectively. Each year, a set of presentational adjustments were provided along with the accounts, these were circulated within Appendix D. Members were advised that these were purely presentational changes and that no figures in the financial statements had been amended.

The Finance Officer also circulated a simplified version of the accounts and offered a training session to members should they feel that this would be beneficial.

Members were advised that the Foreword by the Finance Officer (pages 6 to 15) set out the main financial issues and performance of the Authority that were reflected within the statement of accounts for the year. It was explained that the net revenue budget for 2014/15 had been approved at £51.858m which included a 4.72% cut to the Authority's overall government revenue grant funding when compared to the previous, 2013/14, year. The Council Tax Precept had also been frozen for the fourth consecutive year. It was anticipated that £2m of reserves would need to be utilised in 2014/15 to help temporarily address a gap in the budget and also similar amounts would be required for the next few years to help mitigate against central government funding reductions until permanent savings could be made by the Authority. It was taking various actions to realise these savings via its agreed Integrated Risk Management Plan, which could possibly need to be revisited following information in relation to both the summer budget and the Autumn Spending Review. The Authority was already projecting a very difficult financial outlook in its latest Medium Term Financial Strategy. In addition, the Authority's Capital Programme spending in the year of £3.601m had also been designed to invest in new and existing fire stations and equipment in order to help reduce the future running costs of the Authority. This was seen as prudent and important especially when cuts to funding the Revenue Budget of the Authority were being made.

The Finance Officer then drew members attention to the net overall underspend for 2014/15 of £0.011m and the reasons for this which were detailed within the report on page 8 of the statement of accounts document. This was slightly below the position of £0.024m reported at out–turn but was still in fact a very positive outcome as it had meant that the £2m planned use of reserves had not been required due to significant savings in staffing costs achieved mainly because of the much higher numbers of fire-fighters retiring during the year than anticipated combined with the achievement of its planned IRMP actions. The amount of £0.011m had been transferred to the General Fund.

The net underspend for the year also took into account planned transfers to reserves and provisions of almost £2.2m in total.to address potential identified pension top up grant costs and the Authority's approved sprinkler programme initiative.

Overall the Authority had performed very well financially in 2014/15 and this was reflected in the strong underlying Balance Sheet included within the Accounts for 2014/15, with assets of over £65m and healthy cash reserves. This position would be helpful to the Authority as it has significant challenges to face in the next few years as government austerity measures continue.

4. RESOLVED that:-

(i) the Statement of Accounts 2014/2015 (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.

Treasury Management – Review of Performance 2014/2015

The Finance Officer submitted a report to outline the Treasury Management performance of the Authority for 2014/2015 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

The Finance Officer advised that the average rate of the lead authority's borrowing at 3.11% was one of the lowest in the country and was in the top quartile when benchmarked against other authorities, with a comparative average of 4.5-5.0%.

The Authority had benefited from additional investment income during the year as its interest rate of return of 0.41% was slightly higher than compared to the benchmark rate of 0.35%.

The Finance Officer went on to say that the Authority had not exceeded any of its Treasury Management Prudential Indicators during 2014/2015. Therefore the Authorised Borrowing Limit for External Debt was set at £54.828m and the highest level reached during the year was £38.322m, which was well below the set limit. The Operational Boundary for External Debt was set at £49.828m and this level was also not breached.

With regards to borrowing, the strategy for 2014/2015 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow. A benchmark financing rate of 5.00% had been set. Sunderland City Council had taken

out £50 million of new borrowing during the financial year as these rates were considered opportune. The highlight being that £10m of borrowing had been acquired at the historical low level of 2.84% on 2 occasions during this period. Since that time, borrowing rates had fluctuated with a comparable 50 year rate of 3.08% and this position had continued to fluctuate upwards, and was currently standing at 3.25% (average rate of borrowing being 3.11%). The Finance Officer explained that anything below 4% was deemed to be excellent.

Members were advised that all investments had been made in accordance with the approved Investment Strategy and complied with the Approved Lending List set by the Authority (detailed at Appendix 2). The Investment Strategy had the flexibility to take full advantage of changes in market conditions and the Finance Officer had the delegated Authority to vary the Lending List Criteria (Appendix 1), should circumstances dictate.

In response to a question from Councillor Price, the Finance Officer confirmed that the PWLB borrowing rates were fixed, however caution was always taken to ensure best value for money was beign obtained at the time these are taken out as early penalty charges would be applied to any debts being repaid early. The costs of the premium usually mean debt is very rarely repaid early.

5. RESOLVED that the Treasury Management Performance of the Authority for 2014/2015, be noted.

Audit Progress Report – June 2015

The Finance Officer submitted a report to consider and comment upon the external auditors' regular Audit Progress Report covering the period up to June 2015.

Members were advised that early audit work in respect of both the 2013/14 accounts and Value for Money conclusion was progressing well and that no significant issues, had resulted from interim work on the Authority's financial systems.

Gavin explained that as from 2017/18, the accounts timetable would be brought forward significantly,therefore early testing had been undertaken where possible.

Members were then advised that Mazars were seeking to establish a North East Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees, with the aim of promoting good governance and sharing ideas and best practice. Two free places were available to Tyne and Wear Fire and Rescue Authority, and the first meeting would take place in October 2015.

6. RESOLVED that:-

(i) the Chairman would attendthe North East Governance Forum on behalf of the Authority; and
(ii) the contents of the report be noted.

Review of Arrangements for Securing Value for Money

The Finance Officer submitted a report to enable the Committee to consider and comment upon the external auditors' Review of Arrangements for securing Value for Money which covered the financial year 2014/2015 and formed the basis of the external auditors Value for Money Conclusion which would be finalised and reported to the Committee later in the year.

Mark Kirkham reminded the Committee that the criteria for fire authorities were as follows:-

- proper arrangements in place for securing financial resilience; and
- proper arrangements for challenging how they secure economy, efficiency and effectiveness.

Members were advised that Mazars had used red/amber/green ratings (RAG) when carrying out their risk assessments of arrangements in place. The definitions were detailed within the report.

Gavin explained that the RAG ratings had been applied to the five characteristics of proper arrangements as set out in the Audit Commission guidance and also the six financial indicators. The results were as follows:-

Proper arrangements

- Financial Governance (green)
- Financial Planning (green)
- Financial Control (green)
- Prioritising Resources (green)
- Improving efficiency and productivity (green)

Key financial indicators

- Working Capital Ratio (green)
- Long-term Borrowing to Long-term Assets (amber)
- Long-term borrowing to tax revenue (amber)
- Useable reserves to gross revenue expenditure (green)
- Net spend per 1,000 population (amber)
- Spend on supplies and services as a proportion of total spend (amber)

Gavin summarised the findings of the report and in doing so, he reported that the Authority had a strong track record of delivering savings and remaining within budget. A budget shortfall of £6.1m had been identified over the next 3 years, therefore a clear Integrated Risk Management Plan (IRMP) had been implemented to address this, following fundamental reviews. Some actions had already been completed. Mazars acknowledged that the Authority had undertaken some difficult decisions and would be faced with further challenges in the forthcoming years.

7. RESOLVED that the contents of the report be noted.

(Signed) G. N. COOK
Chairman