

**NORTH DEVON COUNCIL**

Minutes of a meeting of Governance Committee held at Barum Room - Brynsworthy Environment Centre on Tuesday, 11th June, 2019 at 6.00 pm

PRESENT: Members:

Councillor Roome (Chairman)

Councillors Phillips, Bushell, Henderson, Saxby, Topps and Walker

Officers:

Head of Corporate and Community Services and Head of Resources

**1. APOLOGIES FOR ABSENCE**

There were no apologies received.

**2. DECLARATIONS OF INTERESTS**

There were no declarations of Interest announced.

**3. ANNUAL GOVERNANCE STATEMENT 2018/19**

The Committee considered a report by the Head of Corporate and Community Services (circulated previously) regarding the Annual Governance Statement 2018/19.

The Head of Corporate and Community Services advised that the Annual Governance Statement 2018/19 was presented to the Committee on an annual basis to set out the governance arrangements and core principles of the Council. He added that the report for consideration at the meeting was up to the period ending 31st March 2019. The statement explained how the Council had complied with the code and that it had met the requirements of the Accounts and Audit Regulations in relation to the publication of a statement of internal control.

He outlined the key elements of the Council's Governance Framework, which were detailed in sections 3.1 to 3.6 of the report.

He explained how the Council had complied with the Framework in relation to the key arrangements that were in place to meet the core principles, which were as follows:

- Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Principle B - Ensuring openness and comprehensive stakeholder engagement.

- Principle C and D - Defining outcomes in terms of sustainable economic, social and environmental benefits and determining the interventions necessary to optimise the achievement of the intended outcomes.
- Principle E - Developing the entities capacity, including the capability of its leadership and the individuals within it.
- Principle F - Managing risks and performance through robust internal controls and strong public financial management.
- Principle G - Implementing good practices in transparency, reporting and audit to deliver effective accountability.

He highlighted the following points to the Committee:

- Internal Audit was responsible for objectively reviewing the Council's internal systems of control with a view to reporting on and making recommendations to management with regard to their effectiveness for managing business risk and achieving the organisation's objectives. Internal audit reviews were designed to assess the effectiveness of the internal controls on which the council relied for managing risk. There was an annual risk-based internal audit plan approved by the Audit Committee. During the year Internal Audit undertook 17 audits. Audit Recommendations are reported to SMT on a regular basis.
- The External Auditors appointed by the Council were Grant Thornton. The 2017/18 Annual Audit Letter (received in August 2018) provided an unqualified opinion on the Council's accounts but made some recommendations in relation to financial savings targets to 2021/22 and in respect of the reporting for the 21:21 programme. The reporting of progress in relation to 21:21 now occurred as part of the quarterly business report and so this recommendation had not been carried forward to the Action Plan. The MTFP was reviewed in February/March 2019 but further work needed to be undertaken to bridge any funding gaps in subsequent years. This was reflected in the Action Plan.
- The Local Government Ombudsman (LGO) reported to all Councils on an annual basis. The report for the year 2017/18 indicated that 23 complaints were received, which was consistent with the level of complaints over the previous five year period. The Investors in People (IIP) and Local Government Association (LGA) Peer Review were referenced in the previous Annual Governance Statement. The Council had not yet implemented the whole range of recommendations and so an action had been included in the Action Plan.
- No formal reports had been made by any statutory officer.
- The Senior Management Team (SMT) met each week to develop policy issues and also considered internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. All members of SMT had responsibility for maintaining a system of sound internal controls and management processes within their area of responsibility, and for reviewing their effectiveness. Each member of had completed an Assurance Statement for their area confirming that a sound system of internal control had been in place throughout the financial year, and identified any areas that were less robust.

Any issues identified as part of these had been incorporated into the Action Plan.

- The Council had considered the outcomes of the governance arrangements referred to in the Annual Governance Statement 2018/19. One significant issue in relation to business continuity had been identified and had been outstanding for some time. Other issues identified related to the development of an action plan to implement recommendations from the Investors in People (IIP) report and the Peer Review together with the development of a savings plan to plan for budget reductions during the period 2020/21 – 2022/23 as part of the Medium Term Financial Plan. There were also plans to implement a system to report breaches to the Governance Committee. He added that with a new administration in place following the elections in May 2019 he would like to undertake another Peer Review to baseline the Council in 2019.

In response to a number of questions the Head of Corporate and Community Services and Head of Resources advised the following:

- In relation to principles C and D and the provision of workshops for new Councillors as part of Growing North Devon, the Committee was advised that whilst Growing North Devon was a priority, creating communities was also an important element and that all Members would be involved in that process going forward.
- In relation to cyber security and the provision of a backup mechanism on site, the Committee was advised that there were backup facilities at both Brynsworthy Environment Centre and at Lynton House. However, Senior Management Team were mindful that Lynton House was located within a flood plain. With that in mind there were plans for future investment as part of capital resources to enable more data recovery storage within the cloud. The provision of offsite backup systems was also an item on the Corporate Risk Register and there were firewalls in place, which were patched every week to ensure that they were fully updated. The Council also had cyber-attack insurance, which would enable systems to be up and running quickly should such a threat occur.
- The Business Continuity Plans were not yet completed with some additional work required to develop specific recovery plans to address key systems.

The Chairman and the Committee welcomed and supported the possibility of another Peer Review.

RECOMMENDED that the Annual Governance Statement proceed to Council for adoption as an accompaniment to the Statement of Accounts for 2018/19.

#### **4. STATEMENT OF ACCOUNTS 2018/19**

The Committee considered a report by the Head of Resources (circulated previously) regarding the Statement of Accounts for 2018/19.

The Head of Resources highlighted the following points for the Committee:

- The most important elements of the report were contained within the first 10 pages, which set out the challenges and reviews for the year 2018/19.
- The purpose of the narrative report was to provide an easy to understand guide to the most significant financial matters reported in the accounts. This element of the report focussed on the year 2018/19 and beyond.
- The Council originally budgeted to spend £12.220m in 2018-19. As at 31 December 2018, the Council was forecasting a net deficit of £0.019m against the budget.
- The last quarter of the financial year had seen some favourable variances since the last reported position; additional income through the one-off pilot year for 100% Business Rate Retention scheme and additional savings achieved throughout our staffing budgets.
- The final outturn position was a net budget surplus of (£0.754m), which was an overall movement of (£0.773m) from the last forecast at quarter three.
- The Collection Fund Reserve balance at 31<sup>st</sup> March 2019 was £1.017m and was set aside to smooth the future year's impacts on the budget from the Collection Fund balances. Following a contribution to the Collection Fund reserve of £0.236m in 2018/19, a residual surplus of £0.518m would remain in the 2019/20 year.
- He outlined the following earmarked reserves as follows:
  - £0.050m into Strategic Contingency Reserve to fund projects coming through the Strategy and Resources Committee.
  - £0.075m into Improvement Reserve to fund future service delivery initiatives.
  - £0.100m into Digital Transformation Reserve to fund further system improvements to our ICT infrastructure.
  - £0.100m into Repairs Fund Reserve to fund additional enhancements to Council assets (on top of the already planned maintenance).
  - £0.193m into a number of smaller Earmarked Reserves to fund already identified specific projects in 2019/20 year.
- The general fund reserve balance at 31<sup>st</sup> March 2019 was £1.161m, which was a level of 9.5% of the Council's net revenue budget.
- He outlined the breakdown on the earmarked reserves, which were detailed on pages 68-69 of the report.
- The Medium Term Financial Strategy (MTFS) monitored the changing financial situation of the Council over the future four financial years for 2019-20 to 2022-23 and was based on a number of assumptions. The major plans currently included within the MTFS to deliver the savings required in the short to medium term were outlined to the Committee. Plans for any future service changes would need to be factored in with the agreement of the Strategy and Resources Committee.
- The Key Performance Indicators (KPIs) for 2017/18 and 2018/19 for each service were outlined on pages 26 to 29 of the report.
- The core financial statements, which were detailed on pages 31 to 37 of the report.

In response to a number of questions, the Head of Corporate and Community Services and Head Resources advised the following:

- In relation to the requirement for external borrowing of £1.2m when there was funding available within the internal reserves. The Head of Resources advised that the majority of borrowing was internally borrowed from within the internal cash reserves. He went on to explain the borrowing process in more detail, providing examples and explanation as to the management of cash flows. He added that there were a number of existing commitments to capital projects within the existing capital programme and with additional schemes committed for future projects there would be a requirement for further borrowing.
- In relation to the reduction in the workforce of around 130 posts since the beginning of the 2010 spending review and whether there was a mechanism to review if there had been a detrimental impact from those vacancies. The Head of Resources advised that in 2010 prior to the spending review the Council had a workforce of around 500 staff. This number had reduced to around 400 employees in the intervening years but had been addressed through a managed process. He added that whilst there had undoubtedly been an impact, the Council was working to address any shortfall via the improvement of the business and its processes. He further added that in terms of the staffing levels required for the delivery the Council's services, the authority was now at the an acceptable level of resources. The Head of Corporate and Community Services added that some services once delivered by the Council had now disappeared altogether and that certain skills and expertise required for a particular project would be sought from external provider, which was still more cost effective than having a particular service in house.
- In relation to the natural wastage of staff and the inherent risks to the remaining employees; the Head of Resources explained that sickness of any frontline staff i.e. a refuse driver was addressed via agency staff to ensure the continued smooth running of the service. There was also a sickness review process in place, which included a return to work interview. The Head of Corporate and Community Services added that there was a sickness management process together with a supporting mechanism in place to support staff.

RECOMMENDED that the draft Statement of Accounts for 2018/19 be approved.

The Committee congratulated the Head of Resources and his team for their hard work.

## **5. INTERNAL AUDIT PROGRESS REPORT 2018/19**

The Committee considered a report by MAZARS Public Sector Internal Audit Limited regarding the Internal Audit progress report for 2018/19 (circulated previously).

The Committee was advised of the following in relation to the Internal Audit Progress Report 2018/19:

- There were still a couple of audits to be completed and these should be done by the next meeting.
- 88% of the plan had now been completed.
- One final report in relation to Main Accounting System and Budgetary Control had been issued, with a substantial assurance rating together with one priority three recommendation in relation to “Procedures should denote the last review date and next date it was due for review to confirm, it was still fit for purpose”.
- Appendix one to the report detailed the progress against the Internal Audit Plan 2018/19.

In response to a question, the Head of Resources advised all previous reports were available on the website should the Committee wish to view them. He added that the Internal Audit opinion would be included as part of the report to meeting in July 2019.

The Chairman added that he welcomed any input from Internal and External Audit to the Committee going forward.

RESOLVED that the Internal Audit Progress report for 2018/19 be noted.

Councillor Henderson left the meeting.

## **6. EXTERNAL AUDIT FEE LETTER 2019/20**

The Committee considered Grant Thornton’s External Audit fee letter for 2019/20 (circulated previously).

The External Auditor outlined the details of the fee letter, the basis for the fee to be charged together with the audit timetable. He advised that the scope of the fee was the same as the prior year and the proposed timetable for 2019/20 was included.

RESOLVED that the External Audit Fee letter for 2019/20 be noted.

## **7. EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The Committee considered a report by Grant Thornton regarding the External Audit Progress report and Sector Update (circulated previously).

The External Auditor advised the following:

- The report was the regular progress report, which outlined the progress at 30<sup>th</sup> May 2019.
- The report reviewed the financial statements, value for money and other areas within the Council.
- The results of the interim audit work.
- Audit deliverables, which detailed planned dates together with the current status.

- The sector update together with various reports for the Committee's information.
- At the previous meeting it was agreed that the initial risk assessment findings be presented to the Committee and this would be presented at the meeting in July 2019.

The Chairman added that the report highlighted the hard work of the employees of the Council and wished to pass on his thanks to the workforce via the Senior Management Team.

The Head of Corporate and Community Services advised that thanks could be relayed to the workforce via Managers Forums and Staff Briefings. The Chairman added that large organisations such as the National Health Service (NHS) regularly publicised thanks to employees on the intranet and added that this platform could also be used by the Council to praise employees.

The Head of Resources advised that Senior Management Team were currently exploring options to improve internal communications with the workforce.

In response to concerns raised by the Committee in relation to employees working under pressure. The External Auditor advised that if that were to be the case the Committee would begin to see evidence of such pressures within the audits and internal controls.

RESOLVED that the External Audit Progress report and Sector update for the year ended 31<sup>st</sup> March 2019 be noted.

Councillor Roome declared a personal interest as an employee of the NHS.

## **8. AUDIT RECOMMENDATION TRACKER**

The Committee considered the Audit Recommendation Tracker report by the Head of Corporate and Community Services in respect of actions taken to address internal and external audit recommendations (circulated previously).

The Committee noted the following updates:

- Table C of the report detailed the outstanding Audit Recommendations where Heads of Service had requested a revision to the due date. He took the Committee through the each of the recommendations, which were as follows:
  - 14 AGS 02 Annual Governance Statement – Requested extension to 31<sup>st</sup> March 2020.
  - 15 DR 05 Disaster Recovery - Requested extension to 31<sup>st</sup> March 2020.
  - 15 DR 06 Disaster Recovery - Requested extension to 31<sup>st</sup> March 2020.
  - 17 CS 02 Cyber Security – Network security - Requested extension to 31<sup>st</sup> March 2020.

- 17 CS 04 Cyber Security – Policy Development and Awareness – Requested extension date until 31<sup>st</sup> November 2019.
- 16 SP 01 Severance Packages – Early Retirement Policy - Requested extension date until 30<sup>th</sup> September 2019.
- 15 AH 04 – Affordable Housing - Requested extension date until 28<sup>th</sup> June 2019.
- 16 BCM 07 Business Continuity Management – Testing Strategy - Requested extension date until 30<sup>th</sup> April 2020.
- 17 SRR 06 Security Review Report – Policies and Procedures - Requested extension date until 31<sup>st</sup> July 2019.
- 17 SRR 08 Security Review Report – Information Sharing – Requested extension date until 31<sup>st</sup> July 2019.

The Chairman explained that the percentage bar within the tables was introduced by the previous Committee as a visual aid for Members to provide assurance that a recommendation was progressing. He added that the Committee could invite Heads of Service to the meetings to explain the reasons for the requested extension times, which would allow the Committee to challenge and provide further reassurance that the actions were on track for completion.

The Head of Corporate and Community Services added that the Committee were welcome to invite any Head of Service to attend a meeting and not just the Heads of Service with outstanding actions.

In response to a number of questions, the Head of Corporate and Community Services and Head of Resources advised the following:

- There were no resource issues with regards to the requested extension times.
- The target dates that were set by the Heads of Service should be realistic and achievable in an effort to avoid the requirement for extension dates.
- The disaster recovery recommendation was a continuous process and a significant amount of work had already been undertaken.

The Committee discussed the processes involved in meeting the specified deadlines and acknowledged that delays were expected following the departure of key officers who were working on specific areas of work. There were also questions raised in relation to refusing some of the requested extensions and whether that would be an appropriate action to take.

RESOLVED:

- (a) that that the extensions to time scales requested in the Audit Recommendation Tracker be approved; and
- (b) that the Audit Recommendation Tracker be noted.

## **9. GOVERNANCE WORK PROGRAMME 2019-2020**

The Committee considered the draft work programme for 2019/20 (circulated previously).



The Head of Resources outlined the work programme. He advised that the update on Governance arrangements would be reviewed after six months together with the 21:21 Phase two report in November 2019. The update in relation to Business Continuity would be presented to the meetings in September 2019 and January 2020 with the Head of Environmental Health and Housing Services and the Business Information Systems Manager in attendance.

The External Auditor advised that the External Audit progress report and Sector update would not be presented at the meeting in July 2019

RESOLVED, that the work programme for 2019/20 be noted.

Chairman

The meeting ended at 7.50 pm

NOTE: These minutes will be confirmed as a correct record at the next meeting of the Committee.