Present: Councillors S Barber, J Cook (Chair), A Leeder (Vice-Chair), D Maguire, E Phillips and R Pope

37. **Apologies for Absence**

Apologies were received from Councillor Powell.

38. **Unconfirmed Minutes of the Meeting held on 30 August 2016**

Resolved:

that the minutes of the meeting held on 30 August 2016, be signed as a true record.

39. **To confirm the dates of the meetings:**

Resolved:

that the dates of the meetings be confirmed as printed on the agenda, with meetings to commence at 6.00pm.

40. **To Confirm or Vary the Order of Business**

Resolved:

that the Order of Business be as printed on the agenda.

41. **Declarations of Interest**

There were no declarations of interest.
Mr Paul Finbow, Pensions Specialist of Suffolk County Council updated on the Pensions Fund performance and explained that the investment, asset allocation had increased from £1.7billion to £2.2billion. The performance of the Investment Managers was discussed and some individual returns were noted.

Suffolk’s performance summary against the markets and benchmark targets, over both 3 and 4 year periods had achieved higher than expected. Suffolk’s performance against other funds showed a relative increase on returns over 3 years. The Suffolk Funding Strategy showed a significant improvement across the 2010 – 2016 period with a 12% increase between 2013 – 2016.

In respect of changes to the overall funding position since March 2014 to date, the deficit had more than halved as the investment returns had been greater than expected. Inflation benefit for pension interest had been low and pay awards had been small. Job constraints e.g. less promotions, no increment increases and low % wage increases, in relation to the forecast of salary growth assumption, had resulted in a significant benefit to the funding position.

Since the pension scheme had changed from the final salary pension in April 2014 to a career average pension, pensionable pay received in that scheme year would now be built up at a rate of 1/49th. Inflation rises would affect the total but changes to salaries would have no impact on the amount set aside. At the moment, 75% would still have accrued some final salary pension as they retired however, future new comers in the career average scheme would allow for better evaluation of the % of contributions paid. Overall the Suffolk County Council pension scheme was in a much better position than 3 years ago.

Councillor Pope asked for clarification of the 91% Suffolk funding level as at March 2016 and Mr Finbow said that at the moment 91% of the required money was in the fund. The contribution rates were made up of two elements, the need to contribute a set rate for employers and the deficit payment between 91% and 100% and the liability would remain for active employees.

The Chair asked about the employees of Ipswich Buses and Mr Finbow said that they had been treated as Ipswich Borough Council employees since 2010.

Councillor Phillips asked whether the latest year allocation of 0.75% per annum would improve and Mr Finbow said that no prediction could be made as markets moved up and down on a daily basis but at the end of September 2016, £230m had been put on to the value of the fund.

In response to a question from the Chair about overseas investment it was confirmed by Mr Finbow that overseas investment would always remain and he gave the example of KKR, an American infrastructure fund which had delivered a 19.9% return last year on a 1.6% share of the fund.
42.9 Mr Hanson asked about the cost of the fund managers and Mr Finbow said that the cost of fees totalled between £10m and £11m and although this appeared high for average fund manager fees, it was about choosing the right managers who knew what to invest in.

42.10 The Chair asked whether the Suffolk Pension fund invested mainly in global funds or were any local to Suffolk and Mr Finbow said that only two investments were made in the UK, which were both in the water industry. Local investment would be for infrastructure as returns were higher than for equities or bonds.

42.11 Mr Hanson asked about the deficit at the last valuation of £468m and Mr Finbow confirmed that this would be for the entire fund however, for IBC in March 2013 there was a £50m deficit which was now down to £22.7m. Suffolk County Council was behind in terms of funding and IBC were the best funded out of all the other Suffolk Districts.

42.12 The Chair thanked Mr Finbow for his presentation on the Suffolk Pension Scheme.

43. **AG/16/22 Review of IBC Corporate Risk Register 2016/17**

43.1 The Audit Partnership Manager presented this report and as the Terms of Reference of the Committee dictated the Committee were asked to review and agree the Corporate Risk Register, which was monitored on a bi-monthly basis by the Corporate Management Team (CMT).

43.2 **CRR-1 – Business Planning & Management**

The standard approach to risks was detailed, with the current risk being 16 (Red) but after mitigation the Target Risk would be 12 (Red). Councillor Pope expressed concern that even after mitigation this risk would still remain ‘red’.

**CRR-3 - Customer/Service Delivery**

With significant changes ahead and increased digital transformation the target risk (after mitigation) was 9 (Amber).

**CRR-5 – Business Planning & Management**

The abbreviation DCN was confirmed to be the District Council Network.

**CRR-7 – People – Recruitment and Retention**

Councillor Leeder expressed concern as the Council were falling behind on delivering the big ticket items. The Head of Resource Management noted that progress on the big ticket items was included in more detail at Item 9 – Budget Monitoring report. The report recognised that some savings had taken longer than expected but the overall target would still be expected to be delivered within the period of the Medium Term Financial Plan.

**CRR-9 – Strategic – Failure to deliver Transformation Programme through lack of capacity and/or skills**
Councillor Leeder asked whether this risk would be required in the future, given the progress made on the Transformation Programme. It was agreed that this would be fed back to CMT for their review.

CRR-10 – Strategic – Failure to deliver access to the right type and quality of housing
Councillor Pope stated that this risk was a significant issue and referred to a report which had been submitted to an earlier meeting. He asked whether this risk had been reviewed before or after the earlier report had been submitted and he requested that previous figures be included in future risk reports to allow for trends to be compared and monitored.

CRR-15 - Governance
Councillor Pope considered that the current risk was high and the Head of Resource Management said that the Council had good governance arrangements for larger projects and that was why the risk impact stood at 2. Ongoing guidance for Officers would ensure smaller projects were appropriately monitored. The Chair asked for an example of a smaller project and the Audit Partnership Manager made reference to Service Provision where the financial impact was graded from 1 (negligible - £0k - £25k) with no effect, to 4 (£2m+) at the other end of the scale.

CRR-14 Strategic – Local Plan being found unsound
The Chair noted that he understood why control measures could reduce the likelihood of a risk but asked how the impact could reduce? As an example he highlighted the local plan which had a current risk impact of 3 which reduced to 2 after mitigation. The Head of Resource Management suggested that this could be the outcome if the mitigation measures addressed the high risk issues but left some residual (low risk) areas outstanding.

43.3 The Audit Partnership Manager said that the Committee could request any other risks thought to require consideration either higher level risks or smaller risks. Councillor Leeder asked whether 20 risks were the appropriate level to focus on and the Officer said that the amount varied from Council to Council.

Resolved:

that the updated Corporate Risk Register, as attached at Appendix 1 to report Ref No: AG/16/22, be agreed.

44. AG/16/23 Treasury Management Performance 2016/17

44.1 The Operations Manager, Finance & Procurement presented the mid-year Treasury Management Performance report for 2016/17. He made reference to the base rate being reduced from 0.50% to 0.25% earlier in the year and that the General Fund and the Housing Revenue Account were both likely to see an underspend and this would help raise the investment income.

44.2 The Officer stated that IBC were lending money on a temporary basis to IB Assets to assist in the building of new office premises and because of the
underspend, this could be done presently without borrowing, providing a better return for IBC.

44.3 Councillor Pope expressed unease about the Capital Programme showing an underspend and linked this with the Corporate Risk Register which linked indicated project management process was not being delivered robustly. Officers stated that as part of Transformation, plans were in place to improve the Capital projects process.

44.4 In response to a reference about Council borrowing from Councillor Phillips, the Chair suggested that he take this matter up with the Portfolio Holder involved.

Resolved:

that the Treasury Management Operations for the period 1 April 2016 to 30 September 2016, be noted.

45. AG/16/24 Financial Management & Control Corporate Budget Monitoring - Second Quarter 2016/17

45.1 The Operations Manager, Finance & Procurement presented this second quarter budget report which, due to the dates of this Audit & Governance meeting had already been considered by Executive. He reported that the anticipated year-end position for the General Fund Service Groups was an underspend of £455k which was a favourable increase of £117k on the previous quarter.

45.2 In response to a question by Mr Hanson about how the current underspend in Culture & Environment was expected to be turned to an underspend by year end, the Officer said that this was largely within Sports and Leisure but were being addressed. Councillor Pope questioned that, if this was mainly in Sport and Leisure, why this was, as consultants had been brought in to look at the situation. The Head of Resource Management reminded the Committee of a report to a previous meeting on Sports, noting that the issues had been addressed. It was also highlighted that bereavement income was currently above the revised target.

45.3 The General Service Reserve movements and how the balances had changed in the last quarter were detailed as well as the predicted underspends of both the Housing Revenue Account (£205k) and the Shared Revenues Partnership (£256k).

45.4 Councillor Leeder asked how he could be assured that the £600k shortfall gap of the ‘Big Ticket’ items could be achieved and the Operations Manager, Finance & Procurement confirmed that all items were being addressed and actively managed or were running ahead of target and it was anticipated that they would deliver within the timescales of the Medium Term Financial Plan.

45.5 Councillor Pope asked whether the one-off savings in Section 5.2 of the report were actually sustainable and why an additional amount had been added for
Ransomes Sports Centre? The Head of Resource Management said that transitional vacancies was the savings accrued while a vacant post was being recruited to however, every vacant post was now considered on a need to recruit basis. The Head of Resources Management reminded the Committee that the report on Sport & Leisure, previously mentioned, had included discussion about Ransome Sports Centre.

45.6 The Chair reminded Councillors that all Executive decisions were subject to ‘call in’ if required.

Resolved:

that the report be noted.

46. **AG/16/25 Internal Audit - Recently Issued Reports**

46.1 **Disabled Facilities Grant (HCS021)**
Advice had been provided for this Internal Audit & Corporate Fraud Services report, in respect of means testing to ensure consistency, to the Head of Service and had also been debated by the Corporate Management Team.

**Housing Rents 2015-16 (HCS008)**
Two recommendations had been raised for a delegations issue and new information had become available regarding debtor addresses. The Audit Partnership Manager confirmed that IBC had a duty to record whether there had been any cash collected at Travellers Sites even though this was now a Suffolk County Council function.

**HRA Financial Sustainability 2015-16**
In relation to the underspend of £215k Councillor Pope asked why some houses were not being upgraded and why the programme of repairs was over a 5 year period? The Audit Partnership Manager explained that the distinction was between revenue being for running repairs and an upgrade being a capital cost. Some tenants might refuse to be upgraded however, if the property was considered dangerous without the work being done then improvements could be enforced under a duty of care to tenants.

Resolved:

that the contents of the Audit reports on the following, be noted and the recommendations within the reports be endorsed.
1. Debtors 2015-16 (RM017)
2. Disabled Facilities Grant (HCS021)
3. Creditors 2015-16 (RM016)
4. Payroll 2015-16 (RM018)
5. NNDR 2015-16 (SRP008)
6. Housing Rents 2015-16 (HCS008)
7. HRA Financial Sustainability (HCS008)
8. Housing Benefits 2015-16 (SRP006)
47. **AG/16/26 Audit & Governance Committee Future Work Programme 2016/17**

47.1 Councillor Pope asked whether project management should be considered further as a whole and the Chair said that the assurance levels in each individual Internal Audit report recognised any findings and raised recommendations where necessary.

**Resolved:**

that the Audit & Governance Future Work Programme 2017, as detailed above, be noted.

48. **AG/16/27 External Audit - Update Report - To follow**

48.1 The External Audit – Update Report was circulated at the meeting and Mr Kevin Suter of Ernst & Young LLP said that it had been intended to submit the completed interim report of the External Auditors to this meeting however, a number of technical issues had arisen. In respect of the technical review ‘Audit Update Report’ tabled, Mr Suter confirmed that the majority of the issues identified in the financial statements had now been dealt with. In response to questions from Committee members, Mr Suter provided clarification on a number of points:

48.2 PYA4 – Enhancement of HRA. Mr Suter said that he was generally happy in principle with the final testing taking place for this item.

48.3 PYA7 – IAS19 split between General Fund and HRA. Mr Suter said that he now agreed with process and principles which related to Ipswich Buses and the Local Government Pension Scheme with Officers and as such, this would not now be considered to be a material difference.

48.4 Mr Suter said that he would now be processing all the amendments by the end of the week or early next week. He suggested that a final report be presented to the next Committee along with the updated Accounts.

48.5 The Head of Resource Management said that colleagues in finance had assured him that the changes required be external audit would not affect the budget or Council Tax. Mr Suter agreed that this was a fair reflection and there would be no impact on Council Tax or the budget. The Chair said no issues of any nature had been found by the previous Auditors and Mr Suter confirmed that Ernst & Young were finding other new clients had similar issues.

48.6 Councillor Leeder asked whether there were plans to deal with the accounts earlier next year and Mr Suter confirmed that this was the case and the external auditors would be in a better position to do testing earlier next year. There had been a significant high level of work before Christmas but he was confident that Ernst & Young could complete all their clients work but it would be a challenge.

48.7 The Chair asked whether Ernst & Young had enough capacity to complete the amount of work bid for as the accounts that were usually reported by the end
September had not yet been submitted and it was now December. Mr Suter said that he was as confident as he could be, changes had been made and robust plans were in place to increase staff resilience.

Resolved:

that the report, the management response and the comments made by the Committee, be noted.

49. **Exclusion of Public**

Resolved:

that the public (including the Press) be excluded from the meeting during consideration of the following items under section 100(A) of the Local Government Act 1972 as it was likely that if members of the public were present during the item there would be disclosure to them of exempt information falling within Paragraphs 3 & 4 of Schedule 12A of the Act.

50. **Unconfirmed Exempt Minutes of the meeting held on 30 August 2016**

51. **AG/16/28 Internal Audit - Status of Recommendations**

52. **AG/16/29 Internal Audit - Recently Issued Exempt Reports**

The meeting closed at 8.05 pm

Chair