DECLARATIONS OF INTEREST - None

19. Minutes

Resolved that the minutes of the meeting held on 22 September 2016 are confirmed as a correct record.

20. Treasury Management Mid Year Review 2016-2017

As part of the CIPFA Code of Practice on Treasury Management adopted by the Council, the Committee carries out a mid year treasury review. This covers treasury management activities and performance and providing scrutiny of treasury management practices.

Treasury Management is about managing the Council’s cash flow, borrowing and cash investments, to support Kingston’s finances, and is an important part of the overall financial management of the Council’s affairs.

The mid year report included:
an economic update for the first six months of 2016/17 – money market rates and bond yields fell to record lows
a summary of debt management activity
a summary of cash management and investment activity – updated to 30 November
Treasury Management Performance and Activity Indicators
the Council’s Treasury Management Practices

The economic outlook changed significantly following the referendum on EU membership and uncertainty over The UK’s future trade relations with the EU and the rest of the world is likely to dampen economic growth in the second half of 2016 and continuing through 2017. However the Q3 preliminary GDP estimate shows year on year growth running at 2.3%. Inflation is expected to rise closer to the Bank of England 2% target over the coming year.

Anticipating that the bank rate would remain very low for the foreseeable future gilt yields fell sharply but had recovered by the end of October. The most noticeable fall in money market rates has been for very short dated periods – overnight to 1 month – where rates are between 0.1% and 0.2%.

The budget estimate for interest income in 2016/17 was £330,000, the fall in interest rates post Brexit indicates a potential shortfall; the anticipated outturn is £236,000.

The Council’s debt management strategy continues to be prudent, whilst maintaining long-term stability of the debt portfolio.

The Council’s internal resources (reserves, balances and cash flow) have been used in lieu of external borrowing, minimising borrowing costs and reducing overall treasury risk by reducing both external debt and cash investments. The Council also has approval to borrow from the Public Works Loan Board (PWLB) at a rate of 0.20% below the PWLB Standard rate if required. No new loans have been drawn in the year to date and the Council’s external long term debt as at 30 September is £233.08m.

The Council’s investment objective, to invest prudently and have regard to the security and liquidity of investments before yield was maintained, by following the Council’s investment policy as set out in its Treasury Management Annual Strategy Report for 2016/17.

The objective set at the beginning of the financial year for the Council’s cash investments was to achieve an overall return on total deposits above the average 7-day notice London Inter-Bank BID Rate (LIBID). From 1 April – to 1 November an average investment balance of £39m has been maintained and earned an average rate of return of 0.65% (£0.151m interest receivable). This is 0.37% above the average 7 day LIBID rate of 0.28%

The credit risk exposures of the investment portfolio as at 30 September, excluding AfC, Chessington Community College and Christ Church Primary School, was £25.1m. A risk of non-recovery applies to all of the Council’s deposits, the credit ratings of all counterparties - banks and financial institutions are assessed by Arlingclose Limited the Council’s treasury management advisors.
Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council’s aim is to diversify into more secure and/or higher yielding asset classes.

The list of approved institutions and investment limits was set out in Annex 1.

All the treasury management activity indicators have been complied with. These are in place to reduce the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council’s overall financial position.

The Treasury Management Practices - Annex 2 - set out the manner in which the Council seeks to achieve its treasury management policies and objectives, and prescribes how activities are managed and controlled. They are drawn up in accordance with CIPFA’s Code of Practice and approved by the Director of Finance.

Questions from the Committee concerned counterparty risks, performance indicators and the diversification of asset classes. It was commented that Treasury management is a specialist area of the Council’s activities which is well run and it is pleasing to note that this continues.

Resolved that the report is noted and the Treasury Management Practices at Annex 2 of the report are endorsed.

21. Corporate Risk Register Summary

The Committee considered the update to the Summary Corporate Risk Register adjusted following review by the Strategic Leadership Team earlier in November.

In response to the request for a report on plans to manage flooding, as part of Contingency Planning, a detailed report on the multi agency approach and responses to different types of flooding was discussed. This is co-ordinated by a group within the Council which collates reports received on flooding and reviews responses.

Plans over the Christmas holiday period to meet a range of possible circumstances were also discussed.

The main changes to the Register since September 2016 have been:

- TECH 2015/03 - unsupported legacy software - the risk score has been reduced from 16 to 12 given the good progress being made with migration to Modern Desktop.
- SEC 2008/10B - Health and Safety - the risk score has been reassessed with the likelihood of the risk lowering from 3 to 2 but the impact increased from 3 to 5 giving a revised score of 10 (9 previously).
- EP 2016/01 - EU Referendum - deleted

The March meeting will receive reports on the risks selected for detailed review:
- Housing Income Reduction
- Reduction in funds available to Adult Social Care
An update on the forecast overspend on Adult Care was given in the context of the Budget Monitoring report to be considered by the Treasury Committee on 7 December. Revised procedures on reassessment of need and new assessments are in place.

**Exclusion of the Press and Public**

It was Resolved to exclude the press and public from the meeting for the discussion on specific risks on the grounds that it was likely that exempt information, as defined in paragraph 3 of Part I of Schedule 12A to the Act, would be disclosed and the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

This paragraph covers information relating to the financial or business affairs of any particular person (including the authority holding that information)

**Resolved** that

1. the updates to the Summary Corporate Risk Register (SCRR) are noted
2. it is noted that the SCRR will continue to be reviewed and updated (where required) and reported at every meeting of the Committee;
3. the report on the Contingency Planning risk (SEC2015/03) set out at Annex 2 is noted; and
4. the update on Adult Care Services is noted.

**22. External Auditor Appointments**

The Local Audit and Accountability Act 2014, has given local authorities, and other public bodies, the freedom to appoint their own external auditors for the 2018/19 audit process onwards. Local Authorities are required to appoint an auditor by 31 December 2017 to carry out the 2018/19 audit and beyond.

The decision on procurement arrangements for external audit is one which is required to be made by the Council.

The Audit, Governance & Standards Committee has considered the options for the external auditor appointment process are

- direct appointment of an auditor either as a single authority or as part of a group of public bodies
- use the Public Sector Audit Appointments (PSAA) to appoint and manage external audit arrangements on their behalf.

The PSAA is a subsidiary of the Local Government Association (LGA) and currently manages audit contracts for public bodies. It is offering to continue this role beyond its current agreement which is due to end with the 2017/18 audit. The PSAA allows
authorities to outline any requirements they would like to be considered as part of the appointment process.

In view of the planned shared finance function with the London Borough of Sutton, the appointment of the same audit firm across both boroughs would create a more efficient audit process, avoiding duplicate activities when auditing shared functions and allowing the new shared finance service to support one audit approach rather than two. The use of the PSAA is being recommended to Sutton Council for its auditor appointment process and Sutton share the view that a consistent auditor appointment across both boroughs would be beneficial.

Taking into account the economies of scale, collective bargaining position and less onerous governance requirements of the PSAA offer, the recommended option is the appointment of the PSAA to manage the external auditor appointment process from 2018/19 onwards.

The PSAA will tender, procure and manage audit contracts on behalf of opted-in authorities. This is expected to generate lower costs through economies of scale and lowering the administrative burden for individual authorities. There is no direct fee for using the PSAA service as their costs will be recovered as part of the audit fees charged to authorities. As a not-for-profit company, any surplus generated will be returned to opted-in authorities.

It was noted that the 5 authorities in the South West London Audit Partnership are being recommended to adopt the PSAA option and this is likely to be common throughout London.

Resolved to Recommend to the Council that Public Sector Audit Appointments (PSAA) Limited be appointed to select the Council’s external auditors and that, as supported by the London Borough of Sutton, request the PSAA to appointed the same auditor for both boroughs

23. 2015/16 Annual Audit Letter - Grant Thornton

Chris Long of Grant Thornton presented the Annual Audit Letter summarising the key findings arising from the work carried out for the year ended 31 March 2016 on:

- Financial statements audit and Whole of Government Accounts submission
- Value for Money conclusions

The detailed findings from the audit work were reported to the September meeting.

The results of the work on the certification of the Housing Benefit subsidy claim on behalf of the Department for Work and Pensions will be reported to the March meeting in the Annual Certification Letter.
On the planning for the 2106/17 audit it was noted that the changes in requirements to account for Highway Net Assets, due to be introduced from April 2016, are likely to be deferred

Resolved that the Annual Audit Letter is noted.

24. Councillor Recall Scheme Review and Code of Conduct

The Committee has overall responsibility for the operation of the local Councillor Recall scheme which was adopted by the Council in July 2015 and considered the first annual report on its operation.

The Recall Scheme reflected the Recall of MPs provisions becoming law and Kingston is the only Council with provision for a Recall. Whilst the Scheme does not have the force of law it has been adopted as a non-statutory protocol, within the Council's Code of Conduct, The intention is to provide residents with a democratic means of holding locally elected politicians to account when they do something that is fundamentally against the principles of behaviour as an elected Member.

Where certain criteria are met the Monitoring Officer, in consultation with the Independent Person appointed by the Council to advise on Code of Conduct matters, will determine whether a petition should be initiated on the Council’s website. This would call for the resignation of the Councillor concerned and could trigger a by-election to fill the resultant vacancy. The petition will be live for 3 months or until the threshold is reached, whichever is the sooner. The threshold for valid signatures is equivalent to at least 33% of the total number of electors registered in the Ward on the first day of the month in which the petition was launched. Based on current Ward electorates a 33% threshold is, on average, 2494 signatures.

It was noted that the Recall scheme has cross party support. To date the Scheme has yet to be tested and the Committee did not consider that any adjustments to its operation should be made.

The Committee had also requested some detail on the operation of the Code of Conduct and the incidence and outcome of any complaints received concerning Councillors. This reflects its role in promoting and maintaining high standards of conduct amongst elected, co-opted, and advisory members of the Authority.

The Code of Conduct dates from July 2012 and is based on a template issued by the Department for Communities and Local Government (DCLG).

The Kingston Code expands on the template with additional requirements on the registration and declaration of pecuniary interests and other personal interests. It also includes the Council’s own longstanding requirement to register offers of Gifts and Hospitality, whether accepted or declined.

The arrangements for dealing with complaints alleging a breach of the Code of Conduct were set out in Annex 2. Since May 2014 three complaints have been received concerning Councillors.
In discussing the procedures associated with the Code of Conduct, the background to the recruitment and appointment of the Independent Person was explained.

Members comments on the Code largely concerned the expansion on the provisions relating to interests and it was considered that it would be beneficial if all members knowledge on the Code was refreshed, this could initially be by way of circulation of the training materials for Audit, Governance and Standards members and the option of a short training session.

Resolved that

1. the report on the annual review of the Councillor Recall Scheme is noted and no amendments are proposed to the Scheme;
2. the operation of the Code of Conduct and arrangements for dealing with complaints is noted
3. to refresh all Members’, elected and non-elected, knowledge of the Code the training materials for Audit, Governance and Standards members are circulated and the option of a short training session is also offered.

25. **Internal Audit Update**

The update on the work carried out by Internal Audit since September was considered.

To date 47% of the Plan has been completed. This compares to 55% at the nearest comparable point for last year (January 2016). The plan is weighted towards the second half of the year with more audits planned in Quarters 3 and 4. The total number of audits completed or in progress is 34, 18 are programmed to start and 2 have been cancelled.

An update was given on progress on the implementation on the Contracts Review recommendations. Signed contracts are in now place for 269, and a further 10 are in progress. A further update will be given at the March meeting.

A question was raised on the weighting of audits to Q’s 3 & 4 as this leads to a number running over into the next financial year. It was noted that organisational changes have made it difficult to finalise some audits and in other instances they have had to be reprogrammed due to vacancies at Head of Service level. This will be monitored closely and efforts made to minimise the level of old year work undertaken in 2017/18.

Members reviewed the audits finalised since the September meeting; 6 significant internal control issues arose from these which were reported as Priority 1 Findings. On the findings concerning Christ Church School issues, concerns were raised regarding School Governor training in general, and the need to have continuing discussions with Heads and Bursars following up on the conclusions from the ‘Lessons Learnt’ meeting.
Resolved that the work undertaken by Internal Audit, the Priority 1 recommendations raised and progress being made to address those issues identified is noted.

Signed…………………………………………………….Date…………………
Chair