# CORPORATE GOVERNANCE AND STANDARDS COMMITTEE

29 July 2021

* Councillor George Potter (Chairman)
* Councillor Deborah Seabrook (Vice-Chairman)

* Councillor David Goodwin
Councillor Nigel Manning
Councillor Susan Parker
* Councillor John Redpath
Councillor James Walsh

| Independent Members: | Parish Members: |
|---|---|
| *Mrs Maria Angel MBE | Ms Julia Osborn |
| Mr Murray Litvak | *Mr Ian Symes |
| | *Mr Tim Wolfenden |

*Present

The Leader of the Council, Councillor Joss Bigmore and Councillor Ramsey Nagaty were also in attendance.

### CGS10 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors Nigel Manning, Susan Parker (for whom Councillor Ramsey Nagaty substituted), James Walsh, and from Murray Litvak and Julia Osborn.

### CGS11 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS

There were no disclosures of interest.

### CGS12 MINUTES

The minutes of the meeting of the Committee held on 17 June 2021 were approved as a correct record. The Chairman signed the minutes.

### CGS13 EXTERNAL AUDIT PLAN AND AUDIT UPDATE 2020-21

The Committee noted that, Paul Cuttle, Grant Thornton's new Engagement Lead for the Council's external audit had unfortunately been unable to attend the meeting. The chairman had therefore agreed to defer this item to the special meeting of the Committee to be held on 26 August 2021.

The Chairman also drew the Committee's attention to the external audit plan and specifically to Grant Thornton's enquiry as to whether members of this Committee

(a) understood various aspects of methods and models used to make the accounting estimates and the risks related to them;
(b) had oversight of management processes for making accounting estimates, and the monitoring activities undertaken by management; and
(c) could evaluate how management made the accounting estimates.

Mindful of the need for appropriate training for committee members in this regard, particularly in respect of having the necessary skills and understanding of the processes leading up to the adoption of our audited statement of accounts, the Chairman referred to the recent invitation sent to all members of this Committee to attend some training in this regard, which would to be held on Monday 13 September 2021 from 6pm.

## CGS14 2020-21 AUDITED STATEMENT OF ACCOUNTS

The Committee noted that this item had been included on the agenda in error. The audited statement of accounts for 2020-21 would be presented to this Committee at its meeting on 23 September (or the fall-back date of 28 September).

## CGS15 CAPITAL AND INVESTMENT OUTTURN REPORT 2020-21

The Committee considered the Capital and Investment Outturn Report for 2020-21, which had included:

- a summary of the economic factors affecting the approved strategy and counterparty update
- a summary of the approved strategy for 2020-21
- a summary of the treasury management activity for 2020-21
- details of compliance with the treasury and prudential indicators
- non-treasury investments
- capital programme
- risks and performance
- Minimum Revenue Provision (MRP)
- details of external service providers
- details of training

The Committee was informed that total expenditure on the General Fund capital programme in 2020-21 had been £29.4 million, against the original budget of £171.5 million, and revised budget of £28.8 million. Details of the revised estimate and actual expenditure in the year for each scheme were set out in Appendix 3 to the report. Although the budget for MRP had been £1.64 million, the outturn had been £1.29 million, due to slippage in the capital programme in 2019-20.

The Committee noted that one of the strands of the Council's savings strategy was to review the projects in the capital programme. Officers had recommended that three capital schemes be removed due to the length of time they had been in the programme, and as such the original proposal was no longer relevant and a new business case would need to be prepared if any of the schemes were to come forward in the future. These were:

- Guildford Gyratory and Approaches - £10.967 million on the provisional capital programme in 2024-25
- Stoke Park Office Accommodation - £665,000 on the provisional programme in 2024-25
- Stoke Park – Home Farm redevelopment - £4 million on the provisional programme in 2024-25

It was also noted that the Council's investment property portfolio stood at £155 million as at 31 March 2021. Rental income had been £8.1 million, and income return was 5.8% against the benchmark of 4.6%.

The Council's cash balances had built up over a number of years, and reflected the strong balance sheet, with considerable revenue and capital reserves. Officers carried out the treasury function within the parameters set by the Council each year in the Capital and Investment Strategy. As at 31 March 2021, the Council held £159.1 million in investments, £310.5 million in long-term borrowing of which £118.5 million is short-term borrowing, and £192 million is long term borrowing (related to HRA) so net debt of £151.4 million.

The report confirmed that the Council had complied with its prudential indicators, treasury management policy statement, and treasury management practices for 2020-21.

The Committee noted that the slippage in the capital programme had resulted in a lower Capital Financing Requirement than estimated. Interest paid on debt had been lower than budget, due to less long-term borrowing taken out on the General Fund because of slippage in the capital programme.

The yield returned on investments had been lower than estimated, but the interest received had been higher due to more cash being available to invest in the year – a direct result of the capital programme slippage.

Officers had been reporting higher interest receivable and payable and a lower charge for MRP during the year as part of the budget monitoring when reported to councillors during the year.

The report had also set out detailed information on the return on investments, and interest paid on external debt.

During the debate, the following comments/queries were raised:

(a) In response to a request for an explanation as to the reasons why the short-term debt at the end of the year had been substantially higher than the end of the previous year, the Deputy Chief Finance Officer confirmed that the Council had substantial internal borrowing for the capital programme, which had been externalised by way of short-term borrowing, which was why borrowing had increased. Officers were also aware that we were going to need to use our reserves for Covid expenditure. The Council had also been required to borrow from the PWLB in the current financial year through the local infrastructure rate funding subsidy which would start the long-term borrowing for capital programme in 2021-22.

(b) Officers clarified that the rental income referred to in the report, which had been the same as the previous year, was rental income due. It was expected that, as most tenants paid their rent promptly and there had been very few repayment plans, the Council would receive a substantial proportion of the rent due.

(c) In response to a question as to the impact of a possible increase in inflation on the capital and investment programme, it was not anticipated that any increase in inflation would have much impact on returns on the Council's investment portfolio.

(d) In response to a question as to the benefits of a strategy of holding £160 million of investments and increasing borrowing, which costs £1.5 million, the Deputy Chief Finance Officer confirmed that the fixed rate debt of £147 million and the variable rate debt of £45 million related to the Housing Revenue Account, the cost of which was charged directly charge to the Housing Revenue Account. For the remainder of the investment portfolio, the Council yielded 1.08% and the temporary borrowing was 0.51% so there was no cost of carry on that short-term borrowing overall.

(e) In response to an enquiry as to the impact on the Council and associated costs of the slippage in the capital programme over the last four or five years, the Committee noted that the main financial impact was the Minimum Revenue Provision, which was the repayment of internal borrowing which impacted on the General Fund and Council Tax. It was also noted that a review of the Council's balance sheet and capital programme had been undertaken approximately four years ago and we identified over the previous three years that although there had been a consistent 64% slippage in the capital programme, it had generally been the same schemes that had been delayed, for example, the Weyside Urban Village scheme. Part of the reason for this was that at the time, the Council did not have some of the delivery mechanisms in place that we have now. This was being addressed and new governance procedures and project management tools had been introduced. The Leader of the Council acknowledged that there had been issues in programme management and that a 64% slippage rate was not acceptable. Whilst a number of the schemes had been particularly complex, the Council was determined to improve performance.

(f) It was confirmed that the rental income from investment property was £3.1 million and expenditure on repairs and maintenance of £600,000, and in relation to industrial estates we had expenditure of £210,000 against £4.7 million income.

The Committee, having noted the various corrections on the Supplementary Information Sheet and that the outturn report would also be considered by the Executive at its meeting on 24 August 2021, and by full Council on 5 October 2021.

RESOLVED: That, subject to the comments referred to above and to the corrections set out on the Supplementary information Sheet, the report be commended to the Executive, and the recommendations therein be endorsed.

Reason:
To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

## CGS16 HOUSING REVENUE ACCOUNT FINAL ACCOUNTS 2020-21

The Committee received a report setting out the final position on the Housing Revenue Account (HRA) for the 2020-21 financial year including the actual level of revenue spending on day-to-day services provided to tenants recorded in the HRA in 2020-21. The HRA recorded all the income and expenditure associated with the provision and management of Council owned residential dwellings in the Borough.

The actual net income of revenue services in 2020-21 had been £1.319 million lower than the budget of £15.810 million. This variation represented 3.97% of the total turnover of £33.20 million. The final outturn (subject to audit) had shown a surplus for the year of £9.95 million compared to a budgeted surplus of £11.6 million. This included the HRA working balance at year-end, which remained at £2.5 million.

The Chief Finance Officer, in consultation with the Leader of the Council and Lead Councillor for Community and Lead Councillor for Resources had used her delegated authority to transfer £2.5 million to the reserve for future capital programmes, with the balance of £7.45 million transferred to the new build reserve. This continued the policy adopted in previous years, whereby the year-end surplus was applied to each of those reserves.

During the debate, officers responded to the various comments as follows:

(a) With the inclusion of the proposed transfer of £2.5 million, the balance in the reserve for future capital programmes was £38 million at the end of the financial year. The Council had not yet spent anything from that reserve. The Leader of the Council reminded the Committee of the current review of the Housing Strategy which included a review of investment levels in the Council's existing stock, particularly in terms of repairs and maintenance to extend the life of the existing stock. Work in respect of bringing void properties back into use had been delayed due to the pandemic, but it was hoped that work could progress more speedily on this moving forward.

(b) The Council had approximately 5,000 HRA properties, which yielded nearly £10m per annum, or £2,000 per property, which was not a huge amount of money to spend on refurbishment per unit.

Having noted that this matter would be considered by the Executive at its meeting on 24 August 2021, the Committee

RESOLVED: That, subject to the comments referred to above, the report be commended to the Executive.

Reason:
To allow the Statutory Statement of Accounts to be finalised and subject to external audit, prior to approval by the Corporate Governance and Standards Committee, on behalf of the Council.

## CGS17 REVENUE OUTTURN REPORT 2020-21

The Committee received a report setting out the final position on the General Fund and the Collection Fund revenue accounts, for the 2020-21 financial year.

Overall, the outturn on the General Fund had been £6,498,122 more than originally budgeted, which reflected the Council's continued efforts to deal with the impact of the Covid pandemic. The report had set out the major reasons for the variance. Reserves would be utilised to maintain balance in line with the information presented in the outline budget 2021-22 to the Executive at its meeting on 24 November 2020.

Net income from interest receipts had been £1.417 million more than estimated and the minimum revenue provision (MRP) for debt repayment had been £351,107 lower than estimated.

The Chief Finance Officer, in consultation with the Leader of the Council and the Lead Councillor for Resources, would use her delegated authority to deal with the overspend and transfer the necessary resources from reserves.

Details of the closing balance on all the Council reserves were set out in the report, together with the ongoing policy for each.

The Committee noted that the Business Rates balance on the Collection Fund was particularly susceptible to movements in the number and value of appeals that businesses had made against their rateable values. The Council had no control over these appeals and had limited information from the Valuation Office to help assess the potential impact.

The Committee was advised that there was an overall deficit on the Collection Fund of £62.394 million, as detailed in the report.

The outturn position would be included in the Statement of Accounts to be signed by the Chief Finance Officer before 31 July 2021, which would be subsequently audited by the Council's external auditor, Grant Thornton. The Committee noted that the audited accounts would be reviewed at its meeting in September 2021.

During the debate, the Committee noted the Council had initially estimated the likely deficit caused by the pandemic to be between £10 million and 15 million, which assumed minimal assistance from central government. However, there were various government schemes through the year that compensated the Council for some losses in revenue and also some grant funding for some of the increased costs. The Council was now exploring a number of initiatives within the savings strategy to address the ongoing deficit.

Having noted that this matter would be considered by the Executive on 24 August 2021, the Committee

RESOLVED: That, subject to the comments referred to above, the report be commended to the Executive.

Reasons:

- To note the final outturn position and delegated decisions taken by the Chief Finance Officer, which have been included within the statutory accounts the Chief Finance Officer will sign at the end of July.

- To facilitate the on-going financial management of the Council.

**CGS18 ANNUAL GOVERNANCE STATEMENT 2020-21**

The Committee considered a report on the Council's Annual Governance Statement for 2020-21, as required by the Accounts and Audit (England) Regulations 2015. The Statement was underpinned by the Annual Opinion Report (April 2020 to March 2021) prepared by KPMG, who were the Council's internal audit managers, which was considered by the Committee at its meeting held on 25 March 2021.

The Statement set out the Council's governance framework and procedures that had operated at the Council during the year, a review of their effectiveness, significant governance issues that had occurred and a statement of assurance.

The Annual Governance Statement, which would be included in the Council's statement of accounts for 2020-21, acknowledged the significant challenges (both financial and organisational) placed on the Council due to the Covid 19 pandemic, which came at a time when the Council was undergoing a major organisational transformation (Future Guildford), and the need to return to the good governance practices and processes that the Council normally prided itself upon. The significant governance issues identified during the year, were reported in Appendix 1 section 6.

Where areas for further improvement had been identified, the necessary action would be taken to implement changes that would further develop our governance framework.

The Committee noted that the report had also been considered by the Executive at its meeting on 20 July 2021. The Executive had commended the Annual Governance Statement to the Committee for adoption, subject to the following comments:

(a) In Part A of the table in Section 3 of the Annual Governance Statement, the Corporate Governance & Standards Committee does not appear to have considered the Email Signature Guidance for Councillors proposed by the Corporate Governance Task Group.

(b) In Part B of the table in Section 3 of the Annual Governance Statement, add the following:
   - "The Council has a petition scheme to enable anyone who lives, works, or studies in the borough to create paper petitions, or use the e-petition facility, to ask the Council to take action in respect of any matter on which we have functions, powers, or duties."

(c) The Corporate Governance and Standards Committee to receive a mid-year update report on significant governance issues that arose in the financial year relating to the AGS.

During the debate, the following points were raised/clarifications made:

- The Leader of the Council commented on the mitigating circumstances around the areas in respect of which performance had not been to the standards the Council expected. Notwithstanding the considerable challenges caused by the pandemic, the Council still maintained and delivered essential services to residents. The Leader indicated that the Council would address the significant issues highlighted and was confident that the new performance management framework would assist in bringing performance back to acceptable levels.

- In relation to the comment in (a) above from the Executive, the Committee noted that it would be necessary to refer the Email Signature Guidance for Councillors back to the Corporate Governance Task Group before the matter was submitted formally to the Committee for consideration.

- The Committee was happy to accept the comment in (b) above from the Executive.

- In relation to the comment in (c) above from the Executive, the Committee did not feel that a further interim report was necessary given that the Committee already had a reporting mechanism in place by way of regular reports back from KPMG in respect of significant governance and audit related matters.

- It was suggested that reference be made in Part A of the table in Section 3 of the Annual Governance Statement (Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law) of the Council's encouragement of parish councils to adopt codes of conduct for councillors similar to that of the Council's own Code of Conduct.

- In response to a comment as to whether the Council might consider including client satisfaction returns into the Annual Governance Statement, it was pointed out that perceptions of stakeholders and client satisfaction, whilst important in themselves, were not part of the consideration of the effectiveness of the Council's governance framework and did not therefore fall within the scope of the Annual Governance Statement. It was noted that the dashboard of Key Performance Indicators recently introduced as part of the new Performance Management Framework, together with the new Customer Relationship Management system, would provide the appropriate means by which customer satisfaction, or dissatisfaction, could be monitored.

Having considered the report and the Annual Governance Statement set out in the Appendix thereto, the Committee

RESOLVED: That, subject to the inclusion of the reference to the petition scheme in Part B of the table in Section 3 as indicated above, the Council's Annual Governance Statement for 2020-21, as set out in Appendix 1 to the report submitted to the Committee, be adopted and published alongside the adopted statement of accounts for 2020-21.

Reason:
To comply with the Accounts and Audit Regulations 2015, the Council must prepare, approve, and publish an Annual Governance Statement.

## CGS19 WORK PROGRAMME

The Committee considered its updated 12 month rolling work programme and noted the items of business to be scheduled in for the special meeting on 26 August, which were set out on the Supplementary Information Sheet.

The Committee noted that the Council was currently carrying out a review of the Corporate Risk Register and Risk Management Strategy and requested that a report on the outcome of the review be included in the work programme.

RESOLVED: That the updated 12 month rolling work programme, as set out in Appendix 1 to the report submitted to the Committee, be approved.

Reason:
To allow the Committee to maintain and update its work programme.

The meeting finished at 8.16 pm

Signed ......................................................................   Date ......................................................

Chairman