

# **SCOTTISH BORDERS COUNCIL**

## **AUDIT AND RISK COMMITTEE**

MINUTE of MEETING of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St. Boswells on 30 June 2015 at 10.20 am.

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Present: - Councillors M Ballantyne (Chairman), S Scott, B White; Mr D Gwyther.  
Apologies:- Councillors W Archibald, J Campbell, A Nicol.  
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Service Director Strategy and Policy, Clerk to the Council, Democratic Services Officer (P Bolson); Mr H Harvie – KPMG.

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### 1. **MINUTE**

- 1.1 There had been circulated copies of the Minute of 11 May 2015.

#### **DECISION**

**APPROVED for signature by the Chairman.**

- 1.2 With reference to the decision at paragraph 9(b) of the Minute of 11 May 2015, it was noted that the letter from the Accounts Commission relating to the governance of Arms-Length Organisations would be included on the Agenda for the next meeting of the Limited Liability Partnership Strategic Governance Group.

#### **DECISION**

**NOTED.**

- 1.3 With reference to the decision at paragraph 12(b) of the Minute of 11 May 2015, the Chief Financial Officer advised that he had met with the Council's financial advisers in relation to the provision of training on Treasury Management/Capital for Elected Members. Following further discussion by Members of the Audit and Risk Committee, it was agreed that an informal briefing on this subject would be presented at the pre-meeting of the Committee in November 2015, with the Committee meeting itself possibly requiring to be moved to the afternoon to accommodate this.

#### **DECISION**

**AGREED that an informal briefing on Treasury Management/Capital for Elected Members be presented at the pre-meeting of the Audit and Risk Committee on 23 November 2015.**

### 2. **HOUSING DEVELOPMENT AND BUILDING PROGRAMME**

- 2.1 With reference to paragraph 2(b) of the Minute of 11 May 2015, there were circulated at the meeting copies of a Briefing Note on the Strategic Housing Investment Plan (SHIP) and Affordable Housing Delivery and a presentation which provided Members with updated information in relation to the Council Led House Building Programme. Ms C Fancy, Group Manager Housing Strategy and Services, explained that it had now been 12 years since the sale of Council housing stock and gave a summary of the progress to date on the development of a National Housing Trust (NHT) and the establishment of Bridge Homes LLP which was almost totally owned by Scottish Borders Council. Work had been ongoing to re-establish processes and review governance and financial arrangements and it was noted that SBC was recognised as having very robust systems for monitoring in place. The presentation went on to identify the work undertaken in association with Registered Social Landlords (RSLs), the methodology for identification of key development sites for social housing and the consultations with developers and site owners in respect of potential "purchase on completion" (turnkey) contracts. The current position in respect of homes built

and in progress as well as sites yet to be developed was detailed in the presentation and Members were advised that Property Management Services for the various developments was now out to tender. In addition, the Council had recently received confirmation from the Scottish Government that this project had been extended until March 2019 and it was envisaged that this would provide more certainty in respect of the project and its delivery.

- 2.2 Discussion followed in respect of previously published housing development figures included in the Ambitious for the Borders document and Members were advised that targets were being met and that 100 homes per year was an average which would be provided over a three year period. Members were further advised that targets were driven by the Housing Needs Survey and that the NHT was one of a number of sources of affordable housing. Ms Fancy confirmed that the properties were being targeted to households whose profile matched the criteria identified in the business case as having a need for mid-market rent. The properties were being let at 100% of the Local Housing Allowance. Discussions with developers had highlighted a resistance by some companies to engage with the turnkey approach during the recent recession. Consideration was now being given to stage payment contracts to encourage developers to engage now rather than "sit it out" and wait for the market to recover completely. It was also important that costs were balanced against the quantity and quality of the housing provided. The Chairman thanked Ms Fancy and Mr Begg for their presentation.

## **DECISION NOTED.**

### **3. CORPORATE RISK REGISTER**

There were circulated at the meeting copies of the current Corporate Risk Register along with the Risk Identification Prompt List and Categories document. The Chief Financial Officer explained that Corporate Management Team (CMT) had been considering the Corporate Risk Register and had now identified a Lead Officer for each of the twenty six risks identified by CMT and currently on the Register. This approach had been developed from the Risk Identification Prompt List and Categories document and from comments previously received from the Audit and Risk Committee. The Register was not exhaustive and Members were advised that there were also other departmental risks which appeared on the departmental Risk Registers. The intention was for CMT to review and monitor the Register on a quarterly basis and for the Audit and Risk Committee to review it at least annually. Discussion followed and Members considered the document to be clear and concise with risks easily identified and it was anticipated that the Register would develop over time in response to the changing risks within the Council. Members agreed with the priorities identified by CMT and were advised that risks currently associated with Contractors were not considered a major strategic risk. These risks were monitored by the Procurement Team and would be included in the Service Risk Registers for 2015/16. A seminar on Procurement had also been arranged for Elected Members. Members were advised that Policy, Business Plan monitoring, Risk Register Monitoring and lessons learned all contributed to the development of a comprehensive Risk Register and that CMT were committed to the process. It was also highlighted that all reports to all Committees included a Risk Commentary and that Members could challenge this Commentary should they consider more information was required. The Chief Financial Officer explained that the basic principles were now in place and that departmental self-evaluation would contribute further to the continual and constant approach now being taken to Risk Management. Mr Harvie suggested that as the Risk Register developed, it would also be prudent to consider the public perception of how the Council tolerated levels of risk. Following discussion on how best to take forward their oversight of risk management, Members agreed that a scheduled call back programme should be put in place and that, in the first instance, the Corporate Transformation and Services Director would be invited to attend Committee to give an overview of the Corporate risks. This would then be followed by attendance at Committee of the risk owners for higher level risks and, when considered appropriate, by other Service Directors.

## **DECISION**

**(a) NOTED the report.**

**(b) AGREED that a scheduled call back programme be developed, commencing with attendance at the Audit and Risk Committee by the Corporate Transformation and Services Director, followed by attendance at Committee by the risk owners for higher level risks and, when considered appropriate, by the Service Directors.**

### **4. COUNTER FRAUD MANAGEMENT REVIEW, REVISED COUNTER FRAUD POLICY STATEMENT AND STRATEGY**

- 4.1 There had been circulated copies of a report by the Chief Officer Audit and Risk providing Members with details of the outcomes from the Counter Fraud Management Review and seeking agreement to recommend the revised Corporate Counter Fraud Policy and Strategy, as attached at Appendices A and B to the Minute, to Council for approval. The report explained that Management was committed to minimising the risk of loss due to fraud, theft or corruption whilst at the same time taking appropriate action against those who attempted to defraud the Council, whether from within or outwith the Authority. Good practice requirements signalled a need to review the Council's arrangements for tackling fraud to ensure a comprehensive and coherent approach to fraud prevention, detection and investigation. The outcomes of the review of the Council's counter fraud arrangements including current policy, strategy, processes, toolkits and resources were detailed in the report which also went on to describe the recommended improvements to refine the Council's approach to tackling fraud to ensure its ongoing effectiveness and that the Council was not left in a vulnerable position against the increasing threat of fraud. The Chairman welcomed Mr Gary Smith who had been appointed to the new post of Corporate Fraud and Compliance Officer. Mr Smith's role would include leading on the implementation of the improvement actions identified in the Review. The report also advised that a more proactive approach would be required in order to respond to the changing service delivery methods adopted by SBC.
- 4.2 Discussion followed and it was acknowledged that communicating the Council's Policy to suppliers and others was important both in raising awareness and in encouraging them to adopt equivalent policies and procedures within their own organisations. The appointment of the Corporate Fraud and Compliance Officer also reiterated that the Council was taking action in its efforts to minimise fraud and corruption. In response to a question about how much fraud had cost the Council in previous years, the amount of money that had been recovered and the effect of having a dedicated resource in place to take the Policy forward, Members were informed that this information would be included in future Annual Reports.
- 4.3 Discussion also took place in respect of the reporting of all incidents to the Police, whether there was a need to allow some discretion to be built into the Policy and also around the inclusion of a statement within the Policy emphasising a "zero tolerance" approach to fraud and corruption by the Council. Members were advised that incidents not reported by the Council to the Police fell outwith the Council's insurance policy and therefore no insurance claim by SBC could be made in such instances. It was noted that organisations outwith the Council were at liberty to report incidents to the Police independently and at their own discretion. In response to a question from Members, the Chief Financial Officer advised that the Counter Fraud Policy and Strategy also covered measures to deal with bribery relating to Council business. The requirements of the Bribery Act 2010 were addressed within the Codes of Conduct for employees and Elected Members. Reference was made to the Audit and Risk Committee role and responsibility in relation to monitoring and review of the counter fraud arrangements which was set out in the Counter Fraud Policy and Strategy documents.. With regard to the Strategy document, reference was made to ". . . regular reports . . ." being submitted to the Audit and Risk Committee and Members requested that a specific timescale be set for the presentation of these reports in order that the Committee could properly fulfil its role and to ensure consistency with the Policy document i.e. annual reports.

## **DECISION**

- (a) **ACKNOWLEDGED** satisfaction with the outcomes of the Counter Fraud Management Review.
- (b) **ENDORSED** the recommendations for improvement to refine the Council's approach to tackling fraud to ensure its ongoing effectiveness.
- (c) **AGREED** that specific timescales for the presentation of reports to Audit and Risk Committee would be included in the Corporate Counter Fraud Strategy to ensure consistency with the Policy.
- \* (d) **AGREED TO RECOMMEND** to Council that the revised Corporate Counter Fraud Policy and Strategy, as attached at Appendices A and B to the Minute, be approved.

## **5. AUDIT AND RISK COMMITTEE ANNUAL REPORT 2014/15 AND ANNUAL SELF EVALUATION**

With reference to paragraphs 13 and 14 of the Minute of 24 June 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of the Audit and Risk Committee Annual Report for 2014/15 which incorporated the annual self-assessment using the CIPFA Audit Committees Guidance. It was important that the Committee fully complied with Best Practice guidance in order to demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance. The Committee had also carried out self-assessments of Compliance using CIPFA's Good Practice Principles Checklist and its Evaluation of Effectiveness Toolkit. The outcome of the self-assessments as detailed in Appendix 2 to the report had shown a high degree of performance against the good practice principles, with some areas being identified for improvement as detailed in Appendix 3 to the report. In terms of attendance at meetings of the Audit and Risk Committee, the Chairman raised a concern that infrequent attendance at meetings i.e. less than 50% attendance could cause members to become disconnected with the work being dealt with by the Committee. The Chairman would discuss this matter with the Leader in advance of the next meeting of the Audit and Risk Committee scheduled for 28 September 2015.

## **DECISION**

- (a) **APPROVED** the Audit and Risk Committee Annual Report 2014/15 which incorporated its self-assessments using the CIPFA Audit Committees Guidance.
- (b) **AGREED** that the Audit and Risk Committee Annual Report 2014/15 be presented to the Council on 27 August 2015 and then published on the Council's website.

## **6. SCOTTISH BORDERS COUNCIL DRAFT REPORTS AND ACCOUNTS 2014/15**

- 6.1 There had been circulated copies of reports by the Chief Financial Officer on the draft Annual Reports and Accounts for Scottish Borders Council, Common Goods Funds, Charitable Trusts and Bridge Homes LLP. Mr Robertson advised that as well as presenting the Accounts for the financial year 2014/15 these Reports had been revised in line with the Local Authority Accounts (Scotland) Regulations 2014 and provided a new management commentary and more performance-related information than had been presented previously. In light of these changes he noted that a substantial amount of additional work had been required by officers across the Council to prepare the unaudited reports in line with the statutory timetable.
- 6.2 A summary presentation of the draft Annual Reports and Accounts was provided at the meeting by the Corporate Finance Manager which gave details of key highlights throughout 2014/15. Work had been ongoing with colleagues within Strategy and Policy Performance

Team to collate information on key performance of the authority for the year which was used to provide context and enhance the financial analysis contained in the Accounts.. Members were advised that 80% efficiency savings had been achieved permanently as per original plan and a further 1% unplanned savings were achieved on a permanent basis with the remaining 19% savings being delivered on a temporary basis through other means. Members were advised that efficiency savings were tracked to ensure that departments were on target and to identify what savings were outstanding at any time. With reference to Significant Trading Operations (STO), it was noted that the cumulative surplus for SBc Contracts over a three year rolling period was £1.358m, made up of £0.837m for internal trading and £0.521m for external trading. External trading included work on the Borders Railway. It was noted that SBc Contracts was operating in a very competitive market which gave rise to profit margins being reduced. An internal review would be undertaken in relation to the pricing mechanism for external work to ensure an effective and robust process and the Trading Operations Sub-Committee would continue to monitor performance. With regard to General Fund Balances, it was noted that they had improved during the year aided by the underspend in the Department Revenue budgets of £0.4m and a write back of £0.9m of Council Tax Bad Debt Provision. The Chief Financial Officer advised that the latter adjustment related to Scottish Water. He noted that the Council acted as an agent of Scottish Water and therefore it was not appropriate under that arrangement for the Council to provide for Scottish Water debt within its own Bad Debt Provision. The balance sheet overview showed that the net assets of the Council excluding Pensions liabilities stood at £172.5m at 31 March 2015 and the figure was (£25.9m) including Pension liabilities. With regard to the Revenue cost of decommissioning landfill sites, a new provision of £4.02m had been created. In respect of Common Good Funds, Members were advised that the total net assets amounted to £13.4m following a significant revaluation of assets undertaken during 2014/15. Information was provided in respect of Charitable Trusts and Bridge Homes LLP.

- 6.3 Officers responded to a number of questions raised by Members. The report had stated that the average rate of interest paid on outstanding external debt was 6.5%. The Chief Financial Officer explained that this was a pooled rate materially influenced by interest rates charged on historic debt and does not reflect the current cost of marginal borrowing. Officers continued to review opportunities for refinancing the older debt but these were limited in the current interest rate environment because early repayment of the debt would incur high financial penalties. Members queried the Borders Railway payments by the Council. It was intended that these be funded by developer contributions. It was confirmed that £800k had already been received into the Capital Fund with a further £8m to be paid over a thirty year period and that the first payment was due when the first train travelled on the line. The Chief Financial Officer advised that he would discuss with KPMG the scope and detail of these repayments and how they should be reflected in the Annual Accounts. The Chairman thanked officers for the comprehensive reports presented to the Audit and Risk Committee.

#### **DECISION**

(a) **NOTED the report.**

(b) **AGREED:**

(i) **that the unaudited Annual Accounts be submitted to the Council's External Auditors; and**

(ii) **to thank all staff across the Council for their work on the Annual Accounts.**

#### **7. SCOTTISH BORDERS COUNCIL PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS 2014/15**

There had been circulated copies of the Unaudited Annual Report and Accounts for Scottish Borders Council Pension Fund for the year to 31 March 2015 to provide Elected Members, Scheme Members, employers and other interested parties with information concerning the administration and performance of the Fund in the financial year 2014/15. The report

highlighted some key areas and achievements for the Pension Fund Committee over the year, such as responding to the changing governance agenda, work to de-risk the Fund's exposure to equity market fluctuations and an increasingly complex pension administration environment within which the Fund had to operate. Members had also continued their commitment to expand their knowledge and understanding of Pension Fund matters by attending national and local training events. The past few years had witnessed a recovery in equity markets and that, along with strong performance from key Fund Managers, had contributed to a growth in the Fund value to £545m net assets, an increase of £59m on the previous financial year. The overall growth performance of the Fund was 11.8% over a three year rolling period, outperforming the benchmark and the Local Authority weighted average return over that period. The triennial 2014/15 valuation demonstrated the continuation of a stable common employer contribution rate of 18% and a funding level of 101% and it was noted that this was the first evaluation that had taken account of the new LGPS Scheme which had come into effect on 1 April 2015. Membership of the Fund was currently 9,797 with 4,410 actively contributing and 3,006 being in receipt of pension benefits, the balance of membership 2,381 representing deferred members. Officers provided clarification on points raised by Members. In terms of the new regulations which allowed Fund members to withdraw pensions earlier, Members were advised that the situation would be monitored and any impact would be reported to the Pension Fund Committee and Board and the Audit and Risk Committee in due course. The Chief Financial Officer advised that it was essential that Pension Fund members sought appropriate financial advice before withdrawing their pension fund investment as the implications for individuals' finances and personal taxation liability could be very significant. Members were further advised that Scottish Borders Council Pension Fund was one of the strongest performing Local Authorities in Scotland. On behalf of the Committee, the Chairman congratulated officers on a very positive report. In response to a question from Members, Mr Harvie of KPMG confirmed that they would continue to produce one report specifically on the Pension Fund and one other report which would include the Annual Accounts in respect of Scottish Borders Council, Common Goods Funds, Charitable Trusts and Bridge Homes LLP.

#### **DECISION**

**(a) NOTED the report.**

**(b) AGREED that the unaudited Annual Accounts be signed by the Chief Financial Officer.**

*The meeting concluded at 1.05 pm*