

**MINUTES OF THE ETHICS, TRANSPARENCY AND AUDIT PANEL (ETAP)
Held on Friday 19 October 2018**

Present:

| ETAP members | Officers |
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| Bob Simpson - (BS) | Jane Heppel - SCO Interim Director of Finance (JH) |
| Adrian Bowen (AB) | Jean Cass - SCO Governance Lead (JC) |
| Sue Westacott (SW) | Victoria Farrar - SCO Head of Gov & Assurance (VF) |
| Emma Christmas (EC) | Gareth Morgan - Chief Constable (GM) |
| Tony Wilmot (TW) | Deb Wilne - Force Governance Lead (DW) |
| Clare Cowley (CC) | John Bloomer - Force Chief Finance Officer (JBL) |
| Alan Edwards (AE) | Justine Kenny - Force Director of People & Resources (JK) |
| Jane King (JK) | |
| Sue Finney (SF) | |
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Also in Attendance:

Jason Burgess Ernst & Young (EY) Assistant Manager (JB), Angela Ward Senior Manager RSM (AW).

Note: this meeting replaced the postponed the ETAP meeting scheduled for the 26 September.

Due to a technically issue the recording for this meeting starts from item 2, Deputy Chair's feedback.

1. Declaration of interests, apologies, minutes & actions of the meeting held on the 25 July 2018

Declarations of Interest - No Declarations of Interest were received.

Apologies ETAP member David Davies (DD), Glynn Dixon (GD) SCO Chief Executive, Hassan Rohimun (HR) EY and Daniel Harris (DH) RSM

Minutes of Previous Meeting

AGREED - That the minutes of the meeting held on the 25 July 2018 to be confirmed as accurate and true record.

Actions

Updates to actions from previous meetings

- Item 1 Updated Treasury Strategy on today's agenda - completed
- Item 2 Recommendations in today's report item 4 - completed
- Item 3 Updated report on today's agenda item 4 - completed

- Item 4 Reserves Strategy on today's agenda - completed

2. Deputy Chair's feedback

i. Chair of the Finance Panel - Alan Edwards (AE)

AE presented his report which covered the Finance Panel meeting in September and he also gave verbal updates from the Finance Panel on the 17 October.

During the October meeting, the panel received the welcoming news that the overspend was reducing with actions of positive movements and news of potential changes that will improve the position for year end.

Risks included, operational risks as well as specific items such as ill health, pay award and complexities with large contracts.

The Panel is hopeful that in 2018/19 the position will not be far from what was envisaged for this period. However, the panel have expressed real concern for 2019/20 and future years; these concerns are highlighted in the Medium Term Financial Strategy update (MTFS) which is on today's agenda.

AE confirmed that there were four underlying issues:-

1. Revaluation of the Pension Scheme including revised contributions;
2. Base budget pressures from this year being brought forward into 2019/20 and subsequent years;
3. The need for savings to be identified from the Transformation plans;
4. 2019/20 planned increases in staffing levels.

Together these four issues produce a relevantly significant funding gap to be found in 2019/20. The financial position is even more challenging as we are entering into a position of low level of reserves plus the borrowing being at the prudential limits.

At the same time, a further area of focus is the need to strengthen the financial management systems. It is critical that the recommendations in the Internal Audit, Financial Management report are addressed. Finance Panel members have asked if the finance system from Fire can be used to resolve current Force's Finance system issues. Panel members have welcomed the news of planned financial management training for the Finance Team and budget holders.

BS thanked AE for his report and asked members if they had any further questions.

Q: TW, this year the budget is being 'shored up' with Capital Receipts, is this a one off stop gap or one that will continue in future years?

A: JH, the use of Capital Receipts was announced in the 2018/19 budget; £1.6m in the year was expected to be used with some additional leeway being used. There are further Capital Receipts are expected, the details of which are included the MTSF update later on in today's agenda.

GM, advised whilst he agreed with AE summary of the issues he thought that this understated the issues.

GM advised that there are three main areas of issues;

In the current year; 2018/19 there are plans in place to address the 'in year' issues and a lot of work is being done to address these including 'a settling' of the budget.

Planned savings; we remain confident that we can delivery against the Change Programme and deliver the planned investments that have been talked about. Plans are also in place with the collaboration with Fire to deliver savings of £3m next year which we do need to see 'in year'.

Challenges to the Pension Fund; GM advised that 3 weeks ago, he learnt that the budget for pensions needed to be recalculated Extra challenges from the pension fund may result in an estimated additional £2.6m needed next year and this would equate to an additional cost of £7m over two years. GM commented than some forces would be to absorb these costs from their Reserves pot; but this is not the case for Staffordshire.

JH advised that the savings from the Fire savings were seen as 'opportunities' we haven't actually 'baked in' £3m of savings for next year. GM thanked JH for the clarification here, but explained that he planned to make these savings anyway and wanted to get on with his plans.

ii. Deputy Chair, Thematic Reviews - David Davies (DD)

BS covered this item in the absence of DD from this meeting.

DD reported that since his previous report to ETAP, two thematic reviews have been completed;

Temporary Promotion Review has been published on the new SCO website, thanks to DD and SW.

The review of Out of Court Disposals was on the website but then was taken off as is awaiting to be re-published. Thanks to DD, AB and TW for this report.

Members asked why was the report published briefly and then taken down from the website.

VF explained that recommendations included in the report needed to be recirculated to the appropriate senior officers and a further meeting will take place over the next two weeks. The report will then be republished.

DW added she will be working with VF to look at reprogramming the thematic review process

Reviews currently being in progress:-

- Female Genital Mutilation (FGM), the first draft is to be completed and sent to the Force for comment.
- Hotel and Travel Expenses, the final draft to be agreed and passed for to the Force for comment.

The review of Commissioned Services will be revisited at a later date with a suggestion that the review is limited to a specific area of commissioning rather than looking at all of the services.

BS advised that he feels that the new style of report has been well received and he is currently looking at future thematic reviews to start in the New Year for the Panel.

3. Feedback from Police, Fire and Crime Panel (PFCP) meeting

SF gave feedback from the last time the PFCP had met on the 3 July. She attended the meeting as an observer and advised that reports from the meetings are available on the Staffordshire County Council Website.

There were three areas that SF thought would be of interest to this meeting:-

- Fire Integration – the panel considered the implications for them of the transfer of Fire Governance to the PFCC. The included approving the draft terms of reference and procedural rules for the panel. The terms of reference now include the requirement to scrutinise the Fire and Rescue Integrated Risk Management plan or equivalent;
- Commissioner's Draft Annual Report for last year which considered progress against the Commissioner's five priorities for 2020; Modern Policing, Early Intervention, Supporting Victims and Witnesses, Managing Offenders and Promoting Public Confidence;
- The provision outturn figures for the Force's financial position for 2018/19 were presented to the panel and a number of questions were asked around the figures when comparing the actuals to the budget variances. The panel expressed their concerns over the turnover of staff in the post of the Chief Financial Officer in the Commissioner's office.

SF confirmed that she will be attending the next PFCP meeting Monday 29 October.

4. Governance Highlight Report

DW presented this highlighted report on behalf of the Chief Constable.

DW confirmed that she had met with BS and SW to agree further details to the actions in the report; these enhancements are included in appendices 1, 2, and 3.

DW talked through the report and highlighted areas of interest:-

1. HMICFRS reports and recommendations;

There has been various actions against various items as detailed in DW's report, see appendices 1 for a full update.

DW confirmed that, since the last ETAP meeting in July, they have signed off an action plan, for the 2016 Crime Data Integrity.

2. Internal Audit Report and recommendations

DW confirmed there has been a lot of activity since ETAP last met as detailed in the report. Five internal audit action plans have been completed, 2016, Budgetary control, 2017 Counter Fraud checks, 2018, Transformation Programme Readiness, Transformation Project Management and Transformation Programme Benefits monitoring of the Resolution Centre.

Full details of the items outstanding which are included in the appendices 2

3. External Audit Reports and Recommendations

DW confirmed that various actions have been completed since the last report to ETAP.

Year ending 31 March 2016

Sixteen actions which have been completed with restructuring of Finance Team ongoing; these are due for completion in January 2019.

Year ending 31 March 2017

Eight actions have been completed to date, one action has been completed since July, this being the sale of former HQ site. There are three actions remaining and these are due for completion since 31 March 2019.

Year ending 31 March 2018

Six recommendations were identified in the Force's action plan, an update will be given at the next ETAP meeting.

4. ETAP Report and Recommendations

Following ETAP publication of the Temporary Promotions, four low level recommendations will be added to the action plan cycle and updates will be provided at the next ETAP meeting.

5. Force Strategy Board – Strategic Risk Issue and Opportunity Management

As per the business cycle, the Force Strategic Board has met a further two times since the last ETAP meeting; the Force now holds three strategic risks, adding an additional IT risk and two issues as listed below.

Risks, Finance Capital, Cultural Change and IT failure

Issues, Weaknesses in the arrangements for planning finances effectively and data quality

DW asked members if they had any questions on the new format report and appendices.

TW expressed his thanks for this new report format and congratulated the Force on the amount of progress against actions seen in between ETAP meetings.

SF commented that the big risk to the organisation is money and we have had to use a substantial amount of money out of Reserves. She asked if there was a way that this could have been flagged earlier as a risk in the Risk Register and in the Governance Report.

A: GM, the Pension issue was not anticipated; we thought that this was a settled position in 2015 and is now a Government matter. The decision to use money from Reserves was made before his appointment.

JK added some elements of the finances have been in the Risk Register as both issue and risks.

JH added that both the Force and the Commissioner hold separate Risk Registers; this was reflected in a review of these arrangements by Internal Auditors, the results are which are included on the agenda today. The financial risks are shared, but the use of reserves and Capital Receipts are included on the Commissioner's Risk Register rather than in the Force Register. JH confirmed that she has written a Reserves Strategy which is also on the agenda today.

Q: BS asked about the savings from the Transformation programme, have these materialized yet?

A: JK, the details of the savings plans are monitored at the Transformation Board and yes the plans are on target.

JB commented that following the news of the pension possible requirements we do need to refresh items in the savings plan.

JK, risks on the Transformation Programme are managed at Directorate level and these have not escalated to the Corporate Risk Register. The savings are not a Corporate Risk at the moment.

SW, asked if we were on target to delivery savings and SF advised that there is an element of savings relating to Transformation of £2m in the current year and further assumptions future years.

JB confirmed that savings of about £1.6m for the first 6 months this year but we do need to get better at tracking savings including contingencies.

NOTED: ETAP members noted the contents of this report and BS thanked DW again for the revisions in the format including the enhancements to actions in appendices 1, 2 and 3.

5. Half year Treasury Management Update Report including Draft Capital Strategy and Minimum Revenue position.

JH confirmed this report covered, the half yearly report on Treasury management; an update on Capital Strategy and the proposal for the Minimum Reserve Policy.

Highlights from the Treasury Management report included:

Page 3, the Borrowing Strategy update shows that since June we have not undertaken any borrowings due to the large capital receipt that was received. The Treasury Strategy is to internal cash borrowings with the ability to raise long term loans following consultation with the Director of Finance.

Page 4, the implementation of this strategy relies on two main factors; the low interest bank rate and the available cash balances meeting the day to day requirements of the Group's activities.

Page 5, included a graph of the PFCC cash balances covering the first half of the year and a forecast for the rest of the year. JH confirmed that although the cash balances have declined from a high in July, the PFCC make any short-term borrowings due to the capital receipt of £12m.

Page 6, the total level of approved investments at 30 September 2018 was £20.792m compared to £3.337m at 30 September 2017.

Page 7, included the forecast for the estimated borrowings in 2018/19 of £10m.

JH concluded due to the rapid movements in the market, the exact nature of borrowings are usually considered at the time they are taken. JH asked that the decision to undertake long term borrowing continues to be delegated to the Director of Finance at the PFCC.

Retrospectively these will be reported to the Strategic Governance Board and the ETAP as per the Treasury Management Strategy.

JH confirmed the highlights from the Capital Strategy report, included, the Governance around the Capital Programme including how the PCC makes his decisions. Page 18 included how business cases should be measured and page 19 include the approach to fund raising including funding opportunities from future section 106 agreements.

JH advised that Minimum Revenue Policy which was in place was reviewed with External Consultants Arling Close and a report was recently presented to the Finance Panel. The policy in place allowed for the repayment of a reducing balance method over the lifetime of the asset.

JH proposed to adopt a simpler process, as mentioned in page 24 of the report, under 8.3 & 8.4.

AE thanked JH for these complex set of papers and asked that these are further considered at the next Finance Panel meeting in November.

BS confirmed that a decision could be deferred and the papers presented to the Finance Panel meeting on the 20 November.

ACTION: JH to present the Half year Treasury Management Update Report, Draft Capital Strategy and Minimum Revenue Policy to the Finance Panel meeting on the 20 November.

6. Medium Term Financial Strategy, (MTFS) update including Reserves Strategy

JH handed out copies of this report which covered an update of the strategy at the half year point of the year. She advised that this report is in draft since the Force have not yet had chance to add comments. The final version will be presented at the next PFCP meeting.

JH advised that this is a difficult paper to read. There are lot of concerns and there are difficult times ahead with lots of challenges both internally including from demand on the service and from external events. However, as well as challenges and risks there are also opportunities contained within pages 7, 8 and 9 of this report.

JH clarified the pension issue, in 2016, the actuarial review of unfunded pension schemes which included the Police Scheme. For 2019/2020 as we understand at the moment the pressure for Polices forces and PCCs is £165m, of which we anticipate our element is £2.6m/£2.7m and there is no promise from the Treasury that this will be funded.

JH highlighted on page 4, the MTFS presented to PCP in Feb 2018, suggested a gap of £13m over the MTFS period before funding options were considered. Based upon current information, this report confirmed that after making some assumptions, including a review of the precept, the projected gap is now expected to be £15m.

JH talked through the gap analysis table on page 8 of the report and she confirmed that there was a challenge to reduce the budget gaps of £9.220m in 2019/20. By reducing the Capital Programme, the savings from the Transformational programme and other savings, there are plans to deliver £4.726m of savings.

In the following year 2020/21 with future costs rises in pensions and capital investment and with a lower planned Council Tax rise, there is even more pressure on the budget of £9.414m, taking the gap to £13.447m

JH talked through opportunities from page 11 onwards through the Fire and Police Governance including the opportunity of joining estates together for both Police and fire for example in Stoke.

BS thanked JH for her reports and asked members if they had any other comments.

JH will present figures to PFCP on the 29 October with a follow up meeting to be arranged in November.

Members welcome the report and asked if there were any lessons learnt on how to better manage the use of reserves in the future.

GM confirmed that the Force are making progress on a number of plans. The Force do have significant feedback on this report; there is a need to understand how this report can replenish the Reserves. GM confirmed he will be writing to the Commissioner with this feedback.

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| ACTION - JH to present the Reserves Strategy at the next ETAP meeting in December. |
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7. Internal Auditors – RSM

BS welcomed AW to her first ETAP Public meeting.

i. Financial Management Audit

AW introduced their first review which covered Financial Management and included internal operational and governance controls. The review also included a questionnaire to budget holders.

The overall opinion is a '**Partial Assurance**' with thirteen actions which have all been accepted by the Force. This opinion recognises the key weakness around training, timeliness and transparency of financial reporting. It is recommended that the Force is implement and embed the proposed Finance Restructure to enhance and significantly improve the control framework. A follow up report has been recommendation for early in the New Year.

AE confirmed that this report had previously been reported to the Finance Panel and members had a good discussion around the contents and recommendations.

JB added some reassurance on this report and the recommendations. He confirmed that the Finance Team had moved on with a lot of the issues which related to historical issues since this was report was written and he welcomed a follow up review planned for early in the New Year.

ii. Risk Management Audit

AW confirmed that RSM have undertaken a review of joint review of both the Forces and the SCO's Strategic Risk Registers. The audit focused on the risk framework, methodology and strategy.

The opinion on the review '**Substantial Assurance**' with one medium action agreed. Good Practice was identified on the consideration of opportunities within the register

EC commented that the audit did not cover contents and she wondered if only three risks on the Force's Risk Register was sufficient and a proper SWOT analysis.

AW also confirmed that she had the same concern and she will suggest that next year's audit will consider the directorate risk registers, which is the level below the Strategic Risk Register.

iii. Progress Report and overall report

AW confirmed that since the last ETAP meeting they have issued two final reports from the 2018/19 Internal Audit Plan as reported.

Financial Management, Partial Assurance opinion, 13 actions; six high, six medium and one low action agreed.

Risk Management (Joint), Substantial Assurance opinion; one medium level action agreed.

AW gave an overview of their current work which included field work for the Governance work in the Commissioner's office and scopes of work had been issued on the Data Quality – Niche Implementation and Cash & Property.

NOTED: ETAP members noted the progress against the Internal Audit Action plan 2018/19
BS thanked RSM for the progress report

8. External Auditors – EY

i. Annual Audit letter 2017/18

JB introduced this letter and confirmed that it is a summary of the significant findings as previously reported to ETAP in July. JB confirmed that they are required by the Public Sector Audit Appointments (PSAA), under ISA260 regulations, to submit both a report and letter of their findings.

Q: AE, what is the approval process for the additional fees as identified on page 24 of the Audit letter. These additional fees related to the work carried out in response to the significant risks associated with the value for money conclusion.

A: JB confirmed that the approval process requires that the increase of fees was first discussed with the both the PFCC and Chief Constable. Following this, the fees are there formally submitted for approval by the PSAA.

Q: BS asked if there was any learning from the additional work.

A: JH, confirmed the updating of the information during the year would be helpful and would make it easier for the audit team to follow

ii. Qtr. 2 Sector Update

JB Introduced this sector update and highlighted 2 areas; new international report standards and gender pay gaps analysis which members may find useful. Page 9 there is a list of key questions members may also find useful.

9. AOB

Q: BS, Collaboration with the Fire service and wondered if there was any update.

A: JK advised, during meetings in both August and September she had been working with Rob Barber, Deputy Chief Fire Officer from FARS.

They had been looking into three specific areas; what should be included in the scope, what should the employment model look like and what the timescales for the phasing of the work should be. They are currently working on a proposal report to be presented at the Strategic Governance Board meeting next week.

The proposal will advise that there are four functions that could be shared and a suggestion of possible timescales for these. Five employment models were considered, these were narrowed down to two and with a final proposal that Staffordshire Police will become the employer.

BS thanked JK for her update.

Meeting closed at 3.40pm & BS confirmed the ETAP Fire meeting would start from 16.00.

Date and time of next meeting Monday 10 December 2018