



Council

Tuesday, 28 June 2016

Dear Councillor

You are advised that the attached documents form part of the main agenda papers for this meeting.

Please ensure you bring them with you to the meeting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Kilie', with a horizontal line underneath.

S Kilie  
Assistant Director (Communities)

**List of documents attached**

- 5e) Minutes of meeting Thursday, 16 June 2016 of Finance and Audit Committee (Pages 3 - 10)

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**Finance and Audit Committee****Thursday, 16 June 2016****7.30 pm****Present:**

Cllr Derek Shelbrooke (Chair)

Cllr Karen Hurdle (Vice-Chair)

Cllrs:           Lesley Boycott  
                   John Burden  
                   Colin Caller  
                   John Knight  
                   William Lambert  
                   Lenny Rolles  
                   Peter Rayner  
                   Brian Sangha

**Note:** Cllr Makhan Singh was also in attendance.

Stuart Bobby	Director (Corporate Services)
Sarah Parfitt	Assistant Director (Corporate Services)
Wale Adetoro	Assistant Director (Housing)
Katey Arrowsmith	Head of Audit & Counter Fraud Shared Services
Alex Jarvis	Principal Accountant (Housing & Exchequer)
Andrew Barnett	Principal Accountant (General Fund)
James Larkin	Audit & Counter Fraud Manager (Shared Service)
Darren Wells	External Auditor, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

**59. Minutes**

The minutes of the meeting on 15 March 2016 were signed by the Chair.

**60. Declarations of Interest**

No declarations of interest were made.

The Chair asked that the Committee have a minute of silence before the meeting commenced as a sign of respect for the Labour MP Joe Cox.

## 61. Annual Treasury Management Review 2015-16

The Principal Accountant (Housing & Exchequer) gave a report to the Committee on the treasury management activity during 2015-16 and the treasury indicators for 2015-16 highlighting the following points:

- Currently the Council has contracted Capita Asset Services Treasury Solutions to act as treasury advisors
- There have been no breaches of the strategy during 2015-16
- As of 31 March 2016 total internally managed investments stood at £35 million
- GBC have exceeded the benchmark for investment income on deposits
- Negative interest rates (which have been introduced in some countries) as outlined in paragraph 2.5 of the report encourage spending rather saving as money effectively devalues

The Principal Accountant (Housing & Exchequer) advised the Committee that there is a detailed payback strategy for all the debt that has amounted from GBC's borrowing. This is fed into a long-term cash-flow model, which outlines the amount of money the authority estimates it will have for investment purposes over the next ten years.

Following a comment from a Member the Principal Accountant (Housing & Exchequer) agreed to circulate the ten year plan to Committee Members.

Members **noted** the content within the report.

## 62. Treasury Management Strategy Update 2016-17

The Assistant Director (Corporate Services) outlined the following points to the Committee:

- The Treasury Management Strategy Statement (TMSS) for 2016-17 was approved by Full Council on 23 February 2016
- Property Funds are included on the list of non-specified investments
- Up to £5 million could be deposited into each property fund with an overall maximum amount of £10 million at any moment in time in such investments

The Property Acquisition Cross Party Working Group met on 20 May 2016 and a report was shown to them detailing the selection process of the funds that officers had undertaken in partnership with Dan Willson (Head of Credit & Investment) from Capita.

The group had agreed to deposit the following amounts of money into the Property Funds and in two cases, officers had been able to purchase secondary units at cheaper rates meaning that more units in each fund had been purchased than originally envisaged:

- Lothbury - £5 million – Bought secondary units resulting in a saving of £224,000
- Hermes - £3 million – Bought secondary units through a broker resulted in a saving of £68,000 (taking the total saving from the Lothbury & Hermes purchases to £292,000)

- CCLA - £2 million – Acquired the property units in May 2016

The Principal Accountant (Housing & Exchequer) advised Members that GBC should see around a 4% return on their investments in these properties based on historical trends, but as outlined at the cross-party working group meeting, the return from the investments could be volatile, and could decrease as well as increase.

Members **agreed** to send a recommendation to Full Council that the Treasury Management Strategy for 2016/17 is updated to reflect that:

- “Property Funds are included on the list of non-specified investments. £10 million can be placed in property funds, with a maximum of up to £5 million per fund, at the time of deposit.”

### 63. Annual Counter Fraud Report 2015-16

The Audit & Counter Fraud Manager (Shared Service) advised that the report details the work of the team from 2015-16 and the performance is similar to the previous years which is very good considering the amount of changes the team has undergone.

The Head of Audit & Counter Fraud Shared Services advised that in future the format will be changed as audit and counter fraud will come under one report and it will include how and why the results were achieved within it as well.

Following questions from Members the Assistant Director (Housing) and the Audit & Counter Fraud Manager (Shared Service) explained that:

- Press releases have been issued before that include details of fraudulent tenants being caught and showcasing that anyone committing fraud will be caught
- Housing have worked closely with the Audit & Counter Fraud team to identify tenants that have been prosecuted and then attempt to acquire another Council House; it depends on every person’s circumstance but tenants who have committed fraud will be barred from obtaining another council property
- With regard to P34, last year there was one team which had a number of similar disciplinarys but the remainder were spread out across the council
- The sanction process has been updated; the reason for the high amount of civil penalties is because warnings weren’t working for people who failed to report income so penalties were given to try and deter them
- GBC would expect to see the amount of administration penalties decrease as DWP have now taken over Housing Benefit Fraud
- Housing used to heavily rely on people informing them of fraudulent tenants but a new tenancy audit process is in place as of four weeks ago which involves carrying out a visit to every single GBC property in the Borough
- Nationally about 4-6% of Council properties are illegally sub-let but it is not a huge issue in Gravesham based on previous exercises that have been carried out.

Members **endorsed** the work undertaken by the investigations team during 2015-16 in developing and maintaining the council’s arrangements to prevent, detect and respond to fraud.

#### 64. Annual Governance Statement 2015-16

The Director (Corporate Services) apologised to the Committee for the sheer volume of paperwork that followed this agenda item but clarified that it is only background evidence for the work shown in the report.

The Director (Corporate Services) specified that this is an annual item which is included within the Statement of Accounts and following a review (as seen in the table on P48) three control issues have been identified:

- Corporate Procurement Strategy
- Constitution
- Records Retention Policy

Following a question from a Member the Director (Corporate Services) clarified that:

- The changes that need to be made in the constitution are of a nature requiring Member approval as well as editing changes to duties/responsibilities
- Some of those changes will require Full Council approval which Members will be made aware of when the time comes

Members considered the findings of the review of the Council's governance arrangements for 2015-16 and **approved** the Annual Governance Statement for the 2015-16 financial year.

#### 65. Letter to Those Charged with Governance

The Head of Audit & Counter Fraud Shared Service explained that the external auditors get assurance annually from the Committee over management processes and arrangements.

Appendix three is the draft response to Grant Thornton from GBC.

Members **agreed** that the response to the letter from Grant Thornton UK LLP is consistent with its understanding of the Council's management processes and arrangements.

#### 66. Provisional Outturn Report 2015-16

The Assistant Director (Corporate Services) outlined the following key points from the report to the Committee:

- The outturn report compliments the financial statement which will be brought to July's F&A Committee
- Para 2.2 shows the original budget for the financial year; the budget shortfall/underspend is £255,150 against that original budget
- Despite low interest rates the interest earned on Interest & Investment Income has exceeded the 2015/16 original budget by £43,000
- GBC has accounted for the payment of a levy amount over to the Kent Business Rates Pool in 2015/16 but any future payments will not be recognized in the Council's accounts until future years due to the way the collection fund works
- A reserve has been created to hold the Business Rates Kent-pool Growth funds, the use of which will need to be approved by KCC

- Section 10 of the report identifies the General Fund items that are carrying forward to 2016/17 which have all been approved by Management Team
- A sum of £447,000 is to be paid to the Collection Fund in 2016/17 in respect of the predicted NDR Collection Fund deficit at the end of 2015/16
- GBC's year end position stands at a net reduction of £30000 in the Genral Fund Working Balances from the start of the year.
- General Fund Capital Programme – Final Outturn for 2015/16 stands at £1,010,015
- Housing Revenue Account (HRA) - The actual outturn for 2015-16 produced a contribution to the Council's HRA Working Balances of £1,574,470
- Actual spend on Housing Capital Schemes for 2015/16 was £9.84 million compared to a full year budget of £11.44 million

Following questions from Members the Director (Corporate Services), Assistant Director (Corporate Services) and Assistant Director (Housing) clarified that:

- Vacant posts were stripped out of the budget for 2016-17 where they were considered to be long term vacancies and a vacancy savings target had been introduced for the HRA
- **IT Services – Enhancement of Data Systems** – There was a £30,000 adverse variance; an email would be circulated to Members regarding how much was originally taken from the IT Reserve to fund this project
- **Litigation Services – Legal Fees** – There was a £86,000 adverse variance; this was high due to the senior lawyer departing resulting in temporary staff costs as well as GBC having to pay for external services to cover the work. A related saving had been recognised in the salaries budget against the senior lawyer post.
- **Market - £57,000 adverse variance** – The costs could not be mitigated as there was a timing issue; the budget was set without knowing if GBC had been successful in securing the funds for refurbishment
- Fire safety works were carried out last year at the Capital Works at Southfield Shaw
- Duly noted that the £2.6 million slippage for Fleet leisure is not mentioned in the Monitoring Sheet; there will be a report going to Cabinet in relation to the scheme
- A report went to Cabinet on Monday 13 June 2016 regarding the shared service for Legal with Medway with this being linked closely to the difficulties experienced in recruiting officers for that service
- Non-HRA properties are private sector housing stock – information is only collected on the Council housing stock using the surveys of HRA properties which take place periodically
- A breakdown of how much was spent on repairs and how much was paid to the water board with regard to the water leak at Gordon Promenade can be circulated separately to Members.

## 67. Audit & Counter Fraud Shared Service Update

The Director (Corporate Services) advised that this is a brief update to bring Members up to speed with the progress of the shared service since the last update on 09 February 2016 and to effectively bring to a close the shared service launch project.

The Director (Corporate Services) outlined the following points to the Committee:

- Paragraph 2.1 of the report details specific updates

- Due to the DWP taking over Housing Benefit Fraud the Housing Benefit Grant to GBC was reduced by £58,000 however with the shared service GBC has saved £66,000, meaning that the net cost to GBC is now lower than it was, and the service is more resilient.
- Medway have made the same proportionate savings – their grant was reduced by £155,000 but they made a saving of £170,000

Members **noted** the content within the report.

## **68. Annual Internal Audit Report 2015-16**

The Head of Audit & Counter Fraud Shared Services highlighted the following points to Members:

- Paragraph 3.1 of the report showcases the many staffing changes that have occurred within the audit team over the last year
- The team completed the fieldwork for 96% of the audit work on the revised plan for the year
- The team compared against seven measures as shown in appendix six
- This is the last time the report will be showing in this format; it will be combined with the Counter Fraud reports and brought to the Committee on a quarterly basis in future

The Assistant Director (Housing) advised that the garages audit is red but the recommendations made are being investigated at this time and decisions are currently being made about all the garages that are vacant in the Borough.

Following a question from a Member the Head of Audit and Counter Fraud Shared Service assured the Committee that by time of the next report all of the reviews that do not yet have audit opinions but say the fieldwork has been completed will have been finalized.

Members **endorsed**

- The work undertaken by the Internal Audit team during 2015/16 in providing an effective internal audit service to the Council
- The opinion on the Council's internal control environment provided by the Head of Audit and Counter Fraud Shared Service.

## **69. Audit Plan 2015-16**

The External Auditor advised the Committee that:

- The Plan recognized the framework and one change that was included was to make GBC aware of what Grant Thornton consider a test
- Another change was the inclusion of a value for money conclusion within the Plan
- A risk assessment has to be carried out compared to the national audit office

The Director (Corporate Services) explained that GBC are one of a handful of Councils in Kent buying properties at the moment.



Following a question from a Member regarding the function of auditing Grant Thornton themselves, the External Auditor assured the Committee that Grant Thornton always challenge their ways of working and Grant Thornton hire their own experts to pass assurance on the work that they do .

Members **noted** the information contained within the report.

#### **70. Audit Fee Letter 2016-17**

The External Auditor advised that the fee is kept at the same level as last year and following a question explained that the five years of the current contract for external audit services will come to an end in 2018/19.

Members **noted** the information contained within the report.

#### **71. Changes to the Arrangements for the Appointment of External Auditors**

The Assistant Director (Corporate Services) explained that the process must be started before the conclusion of the 2017/18 audits so that a new external auditing body can be appointed by 31 December 2017.

Following questions from Members the Director (Corporate Services) and the Assistant Director (Corporate Services) clarified to Members that:

- The option that offers the highest probability for strong resilience is viewed to be the sector led body approach
- The exact detail around the sector led body approach is not known yet but will become available at a later date and will be brought to the committee for consideration.
- The LGA are the only body to put forward a nomination for the sector led body approach – it offers minimal risk and is best suited to GBC based on current knowledge, but other options would continue to be considered
- A substantial amount of work would be required if GBC appoint themselves
- To go with the sector led body approach a recommendation would have to go to Full Council for a decision

The External Auditor offered an alternative; a direct approach could be made to Grant Thornton by GBC without having to go through a separate body and once a quote has been received it could be compared to the quote for the sector led body approach through the LGA.

The Director (Corporate Services) advised this is an option that they would look into.

#### **72. Any other business**

The Chair reminded the Committee that there is a training session coming up:

- **Tuesday 5 July 2016 at 7:30pm** in the **Council Chamber** which all F&A Members are required to attend - Statement of Accounts Training

- **Thursday 14 July 2016 at 7:30pm** in the **Council Chamber** – Council Tax Reduction Scheme

**Close of meeting**

The meeting ended at 9.07 pm