

# Finance & Audit Committee

Tuesday, 12 September 2017

7:30pm

## Present:

Cllr Derek Shelbrooke (Chair)  
Cllr Karen Hurdle (Vice-Chair)

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

David Hughes	Chief Executive
Stuart Bobby	Director (Corporate Services)
Sarah Parfitt	Assistant Director (Corporate Services)
Anita Tysoe	Service Manager (Customer & Theatre Services)
James Larkin	Audit & Counter Fraud Shared Services Manager
Andrew Barnett	Principal Accountant (General Fund)
Alexandra Jarvis	Principal Accountant (Housing & Exchequer)
Darren Wells	External Auditor, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

## 16. Apologies

No apologies of absence were received.

The Chair welcomed Amanda Lukey, the Deputy Principal Accountant to the meeting.

## 17. Minutes

The minutes of the meeting on the Tuesday 10 July 2017 were signed by the Chair.

## 18. Declarations of Interest

No declarations of interest were made.

## 19. Local Government Ombudsman Annual Review Letter

The Service Manager (Customer & Theatre Services) provided the Finance & Audit Committee with a copy of the Local Government Ombudsman's Annual Review Letter for Gravesham.

The Chief Executive informed the Committee the Letter is received annually and provides statistics that are associated with referrals to the Ombudsman office; the office found three faults in cases but it is a slightly more unusual situation here in the fact that the Chief

Executive felt the actions of the Ombudsman were unwarranted due to Gravesham already concluding that they were at fault and providing an appropriate remedy to the problem.

The Service Manager (Customer & Theatre Services) added that she is awaiting a response for the Ombudsman Office regarding the decisions made as at the moment they indicate the three complaints were upheld but they do not recognize that the Council had already settled two of them before their involvement.

The Chief Executive summarised one of the cases to Member's:

- Part of the initial problem was that when the complainant raised the issue they were complaining about the works that were being carried out with the planning permission granted by the Regulatory Board
- The Regulatory Boards mind-set was that the reasons for the objections put forward by the complainant were more to deal with civil ownership matters than planning and should be dealt with through the Party Wall Act
- The complainants escalated the complaint to Stage 2 and added further issues to the initial complaint; these were addressed and it was reiterated to them that a number of the issues were civil matters not planning ones
- They were still not happy and progressed it to stage 3 at which point it landed on the Chief Executives desk and was investigated personally with great detail; it should be noted that several more issues were added to the complaint at that stage
- They introduced an allegation that two Councillors on the Regulatory Board had a very close relationship with the developer in question but the two Councillors were met with and they gave assurances that there was no truth to it and no evidence was found that backed up the allegations
- Again, no fault could be found with the planning permission having been granted and the development moving forward so that was communicated back to the complainants while also advising if they still weren't happy they could progress it to the Ombudsman office, which they did
- The Ombudsman decided after the initial process that there would be an investigation; an investigator was appointed and he decided on the basis of the fact that the complainants had made a reference back to 2008 in which planning permission was first approved that the investigation would start there
- After looking through everything in detail the Ombudsman found out that the complainants had made an objection back in 2008 but could not see their objections as having been taken into consideration within the Planning Officers reasons for granting permission to the original application
- The Ombudsman concluded that those objections had not been given due consideration; the Officer in question is still working for the Council and when questioned advised that he did consider all the objections that were received but did not feel the need to put it on the reasons; it should be noted that the reasons for decisions is now filled out much more stringently than 10 years ago
- It was most likely an error of the investigator to apply contemporary standards to something which occurred nearly ten years ago
- The complaints ignored advice to go through the Party Wall Act again and went through litigation with the developer which GBC were not party to as that was a separate dispute
- The complainants also had a problem with the contracted complaints process but this was down to other duties taking more time for the Chief Executive

- The end result was that GBC were ordered to pay a £300 compensation fine and send a written apology which is a very minor consequence showing that the seriousness of the complaint was very minimal

The Chief Executive added in his own opinion that the fine was minor in part due to the investigator making a mistake; the Ombudsman is supposed to release the draft findings of the investigation to the complainants and the authority in question at the same time. However it emerged from an email to the complainant that they acquired the draft findings first as well as spoke about the draft findings with the Ombudsman prior to GBC even receiving them.

Following Members question the Chief Executive explained that:

- Some of the more serious offences can drive up the cost of compensation into the tens of thousands
- GBC has a published complaints procedure that comprises of three stages of which the complaint progresses through it if it is not dealt with in the first instance:
  - Stage 1 – A complaint is made and is dealt with by the manager of the service
  - Stage 2 – The complaint is then escalated to the Director of the service
  - Stage 3 – The complaint is brought finally to the desk of the Chief Executive

The Chair thanked the Chief Executive for the informative update and shared the sentiment of the Committee that the £300 compensation fee was a very minor consequence and there was some fault with the Ombudsman's handling of the case.

## **20. The Audit Findings for Gravesham Borough Council - Year ended 31 March 2017**

The External Auditor, Grant Thornton informed Members of the findings from the audit of the council's financial statements and arrangements for securing Value for Money for the year ended 31 March 2017.

The External Auditor, Grant Thornton outlined the following points to the Committee:

- The Audit is substantially complete with only a few final elements to conclude which could not be done until the report had been seen at this F&A Committee meeting
- The draft accounts presented for audit were of good quality with the level of amendments to them being minor
- It is anticipated that an unqualified opinion will be provided in respect of the financial statements of the Council for the year 2016/17, alongside a positive Value for Money Conclusion.

**Resolved that:**

- Members noted the information contained within the report.

## **21. Statutory Statement of Accounts 2016/17**

The Assistant Director (Corporate Services) provided Members with the audited Statement of Accounts 2016/17.

The Assistant Director (Corporate Services) advised that:

- The changes made to the accounts as referenced in the previous agenda item had been actioned and listed at Appendix 2 to the report allowing Members to view the changes
- Appendix 3 is the final Statement of Accounts
- Appendix 4 is the letter of representation. If the Committee are happy with the content of the letter of representation and the final audited Statement of Accounts then the Chair will sign the letter of representation at the closure of the meeting

**Resolved** that Members approved:

- The amended Statement of Accounts for 2016/17 as attached at Appendix Three
- The letter of representation at appendix four to the report for signing by the Chair of the Finance & Audit Committee

## **22. Budget Monitoring Report - Q1 2017/18**

The Assistant Director (Corporate Services) provided Members with information on actual performance against the approved Revenue and Capital budgets for 2017/18, including known variances agreed or identified through budgetary control activity as well as updating Members on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan, HRA Business Plan or Financial Statements.

The Principal Accountant (General Fund) and the Principal Accountant (Housing & Exchequer) elaborated further on their respective fields outlined in the executive summary. Key points from the report were outlined to Members as follows:

- At the end of Quarter One there is projected underspend on the General Fund for the year of £183,730
- The most significant variance in the quarter was the acquisition of St John's House which is the Council's third property purchase under the Commercial Property Acquisition Strategy with an anticipated annual income of £160K
- Other variances of note relate to business rates and the associated Section 31 Grants with a £140K variance for the Section 31 Grants and a £70K adverse variance for Business Rates Income
- As a result of effective management of vacant posts combined with natural staff movement around £129K of staffing savings were generated in quarter one
- Total Working Balances brought forward from 2016/17 is £6,162,550 with the Forecast Usable Working Balances Carry Forward at the end of the year (as projected at 30 June 2017) at £3,083,380
- The General Fund Capital Programme for the year is budgeted at £16.1m, with spend to the end of quarter one of 0.5m. The budget includes a further £10m allocated to a second tranche of commercial property acquisitions as agreed by Full Council in June.
- The report includes a new section on Capital Resources that outlines the resources available to fund capitals projects in the future. The balance of total General Fund Capital Resources projected at year-end is £1.7m.

- At the end of Quarter 1, income and expenditure for the year remains balanced within the Housing Revenue Account
- The PV Panels were anticipated to be sold by August but the sale has not gone through yet; an updated projection of the effect of this sale on FIT income expected in 2017-18 will be provided for Quarter 2
- The leftover funds from the grant from Kent Fire & Rescue Service towards expenditure relating to the replacement of a sprinkler system at Carl Ekman House has been rolled forward into this financial year to cover the cost of the capital works
- The staffing budget for 2017/18 incorporates a target of £100K and for the first three months to June 2017 the actual vacancy saving achieved was £91K
- Working balances on the HRA at year end are projected to remain at £3m.
- Spend to the end of quarter one on the Housing Capital Programme was £3.6m.
- The council has had recent communication from Property Funds Managers in response to the Grenfell Fire providing assurances of their arrangements for ensuring fire safety in their portfolio. This information will be shared with the committee outside of the meeting. Kent Fire & Rescue Service have assured GBC that none of its five 'tower blocks' have the same cladding and all are subject to regular Fire Risk Assessments.

Following Members question and comments the three finance officers explained that:

- Information will be sought from colleagues in Housing as to why it took so long for the funds from Kent Fire & Rescue Service to be used at the Hive.
- The Fleet Leisure site is covered by insurance but it is for debris removal only. This would provide cover for clearing the site, removing debris and any demolition that was required to clear the site. GBC are currently seeking quotes from three demolition companies to satisfy the insurer; comments regarding the method adopted to infill the basement area of the site from Members will be relayed to the Property Services Team
- With regard to Shared Services arrangements, the optimum location and employing authority for each shared service arrangement will be determined on a case by case basis. In recent cases, staff have been TUPE transferred due to it being the best option for future delivery of the service.
- As part of the budget there used to be 50k capital allocation to the Young Persons and Older Persons Champions, but the amount has been reduced to a revenue amount of 15k for each annually from 2017-18.

### **23. Audit & Counter Fraud Update**

The Audit & Counter Fraud Shared Services Manager provided Members with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 April 2017 to 31 July 2017.

The Audit & Counter Fraud Shared Services Manager gave a brief overview of the report:

- Section Three shows a reduction in audit days with reasons outlined in the report; the period of time for the report is shorter, two employees are on long term sick leave with another officer resigning soon, extra resources will be needed but they will be funded through salary savings from vacant posts

- All of the fieldwork for audits carried forward from last year has now been completed and the last audit has been finalised since the report was issued. Work on the 2017/18 plan is underway.
- The counter fraud software currently in use has been upgraded and due to technical issues the figures for the number of fraud cases opened and closed are not included in the report. The link between the fraud system and the reporting system is being fixed and figures should be available for the next update.
- The entire service is proportional with both Gravesham and Medway so both authorities have seen a reduction in their productive resources.

**Resolved that:**

- The outputs and performance of the Audit & Counter Fraud Plan for Gravesham for the period 1 April 2017 to 31 July 2017 as detailed at Appendix two be noted

#### **24. Update on appointment of External Auditors from 2018/19**

The Assistant Director (Corporate Services) updated Members on progress in the appointment of a local auditor, effective for the audit of the accounts for 2018/19.

- It was agreed at Full Council to opt for the sector led approach that was offered by the appointment body PSAA. 98% of all eligible local authorities took up the offer for that approach
- The PSAA went out to tender and the procurement process has been hailed as highly successful, delivering an expected reduction of approximately 18% in the scale of fees payable by local bodies
- The PSAA's intention is to appoint Grant Thornton as the council's external audit provider from 2018/19; the council will need to formally respond to the PSAA to confirm acceptance of the appointment unless it wishes to make representations against the appointment on the grounds of there being conflicts of interest or experience of poor service, of which there are not considered to be any.

The Assistant Director (Corporate Services) answered a Members question:

- Should the council accept the offer of appointment, the appointment would be formally made by the PSAA in December, following which the council would seek to engage with Grant Thornton in planning the audit process for 2018-19.

Members agreed with officers in that Grant Thornton had carried out an exceptional job of external auditors in their time working with Gravesham and the appointment from PSAA was very welcome.

**Resolved that:**

- Members endorsed the appointment by PSAA of Grant Thornton (UK) LLP as the auditor for Gravesham Borough Council for a five year period from 1 April 2018.

#### **25. Terms of Reference - Statement of Accounts Glossary of Terms Review**

The Assistant Director (Corporate Services) presented Members with the proposed Terms of Reference for the Member-led Statement of Accounts Glossary review

The Assistant Director (Corporate Services) noted the error at the end of the report for 'Key References for the Corporate Debt Working Group' and would amend accordingly.

Cllr John Burden advised that he agreed the terms of reference and appointed Cllr Peter Rayner and Cllr Colin Caller to the cross party working group.

The Chair advised that he agreed the terms of reference and appointed Cllr Karen Hurdle as the Chair and Cllr Robin Theobald as the Vice-Chair of the cross party working group.

**Resolved that:**

- The Terms of Reference for the Member-led Statement of Accounts Glossary Review be agreed
- The nominations put forward by the Committee as follows:
  - Cllr Karen Hurdle (Chair) (Conservative)
  - Cllr Robin Theobald (Vice-Chair) (Conservative)
  - Cllr Peter Rayner (Labour)
  - Cllr Colin Caller (Labour)

## **26. Alternative Treasury Management Investment Option**

The Director (Corporate Services) informed Members of the findings of initial investigations into alternative treasury management investment options, in particular the use of Diversified Income Funds. The report presented a proposal to progress the use of Diversified Income Funds as an alternative investment option for the council, subject to further due diligence work by officers.

The Director (Corporate Services) apologised for the lateness of the report being released but informed the committee that the Chair, Vice-Chair and Cllr John Burden had been briefed on the matter ahead of the meeting.

The Director (Corporate Services) outlined the following key points:

- On 27 June 2017, Full Council agreed to the Property Acquisition Scheme being extended by recommendation of the Finance & Audit Committee and a further £10m from the investment balances was made available to the scheme
- Since securing the money it has become clear that the commercial property market is in a very different position than it was twelve months ago; there have been fewer properties put up for sale and those that have been are more fiercely bid upon by other parties.
- Three potential acquisitions are being pursued at this moment in time; no bids have been made and none have been considered by the Property Acquisition sub group yet
- Whilst the council is waiting to make these acquisitions, the funds can be invested into more fluid investments types which will achieve a higher return than traditional investments with banks and building societies and allow for increased manoeuvrability of the funds

The Principal Accountant (HRA & Exchequer) advised that GBC are now looking at diversified income funds run by external fund managers which start off with traditional investments in property and equity but also branch out to more unusual assets such as toll roads, surgeries, student accommodation etc. The range of assets provides a wide spread of risk and more liquid funds which means GBC can disinvest in a shorter period of time. The council's cashflow model has been updated which indicates that the council's cashflow position will permit placing funds in these alternative investment vehicles in the short to medium term.

The council will be engaging with its treasury advisors, Capita Asset Services, to seek their advice on potential investment opportunities.

It was proffered by a Member that he supported the proposal but there shouldn't be a restriction against particular investments funds; there are high returns on areas such as military and tobacco investment and GBC should not be overly concerned with who their investments also invest their money in. However other Members of the Committee felt that any unethical investment should be avoided by the Council and if found out to be later on in an investment, GBC should pull out immediately.

The Director (Corporate Services) advised that he would pass the information along to the sub-group to ensure that possible investments are investigated thoroughly to see how they would invest GBC's money and cited that at this time GBC are approaching £2 million income per annum from investments.

**Resolved** that Members:

- Endorse the work to investigate alternative investment options and support further due diligence by officers on Diversified Income Funds
- Recommend to Full Council that the Treasury Management Strategy Statement (TMSS) for 2017-18 is amended to include the use of Diversified Income Funds in the list of non-specified investments at Appendix 1 of the TMSS
- Recommend to Full Council that once the Director (Corporate Services) is satisfied that due diligence on Fund suitability has been undertaken, £10 million of treasury balances are placed in Diversified Income Funds, with a maximum of £5 million placed into each Fund at the time of deposit
- Recommend to Full Council that the Diversified Income Fund governance arrangements mirror those for Property Funds, in that the use of Diversified Income Funds be considered by the Property Acquisitions Cross Party Working Group, enabling Members to be actively involved in the selection process and provide advice to officers.

**Close of meeting**

The meeting ended at 9:05pm.