

# Finance & Audit Committee

Monday, 18 February 2019

7:30pm

## Present:

Cllr Lenny Rolles (Chair)  
Cllr William Lambert (Vice-Chair)

Cllrs:           John Burden  
                  Karen Hurdle  
                  Shane Mochrie-Cox  
                  Peter Rayner  
                  Robin Theobald

Stuart Bobby	Director (Corporate Services)
Sarah Parfitt	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Alexandra Jarvis	Principal Accountant (Housing & Exchequer)
Elizabeth Jackson	External Auditors, Grant Thornton
Alastair Gunn	Jupiter Asset Management
Steven Gardner	Jupiter Asset Management
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

## 88. Apologies for absence

An apology of absence was received from Cllr Leslie Hills.

## 89. Minutes

The minutes of the meeting on Tuesday, 14 November 2018 were signed by the Chair.

## 90. Declarations of Interest

Cllr John Burden declared a non-prejudicial interest for item 11 which mentions Age UK North West as he is the Chair of that body.

## 91. Presentation from Multi-Asset Funds Managers

The Chair welcomed Alastair Gunn and Steven Gardner to the Committee.

The two representatives from Jupiter Asset Management handed out a presentation booklet titled 'Distribution Fund Range' to all Members. They guided Members through the presentation in detail advising them on the strategies Jupiter use to invest the Council's money in multiple assets that are anticipated to return the Council a positive yield over a period of time. A lengthy discussion was also had on the possible impacts of Brexit to the fund; the key point explained was that a soft Brexit would be beneficial for the fund whereas a hard Brexit would be detrimental to it. However the view of the Fund Manager was that the fund would still recover from a hard Brexit, just over a longer period of time as the uncertainty over Brexit would be removed and the UK would be seen as a place that investments could become viable again.

Alastair Gunn fielded questions and comments from Members of the Committee explaining that:

- Government bonds are deemed very low risk and will always have a much lower yield in the region of 1-5% as they are the bonds with the most guaranteed returns. They will only provide a smaller amount of returns but their benefit lies more in the fact that they protect the Council's capital and provide a smoothing effect for the portfolio in times of stress
- The Fund Manager held the view that the consumer industry isn't going as badly as a lot of people think; the companies that Jupiter invest in are researched from bottom to top to check their suitability to turn a significant profit.
- A Member asked about the Fund's ethical stance. The Fund Manager reiterated the due diligence undertaken by the Fund before investment in an entity
- The Committee was assured that the Council's money would never be invested in any entity where the Fund Manager was aware of illegal dealings, moral irresponsibility or management that weren't aligned in thinking with their shareholders
- With regard to council decisions around investments and the downturn in the capital value of this type of fund experienced, Members were informed that the council's cashflow model was used as a starting point to make sure the Council had cash balances available for a number of years to be able to hold that investment. A decision would be made at the point when cash was needed to be made available to the Council again and if the fund decreased during that time then the Council would also review its investment.

The Chair thanked the two representatives from Jupiter Asset Management for a very informative presentation and asked that they be invited again in the future for a more detailed discussion.

## **92. Treasury Management Strategy and Capital Strategy 2019/20**

The Committee considered the Treasury Management Strategy and associated Annual Investment Strategy and the Minimum Revenue Provision Policy for 2019/20 along with the Capital Strategy for 2019/20.

Revised reporting had been required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, a longer-term focus to the capital plans being provided, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

The Principal Accountant (HRA & Exchequer) drew Members attention to key points in the Treasury Management Strategy 2019/20 on pages 19-57 of the report.

- On page 23, section 4 the Capital Prudential Indicators for 2019/20 to 2021/22 were listed and leading down to the table on page 24, Members noted that previously Capital

Expenditure used to report against Non-HRA and HRA. Following the introduction of the new prudential and treasury management code the table now splits across three categories: Non-HRA, HRA and Commercial Activities. In terms of the report the Commercial activities covers expenditure incurred via the property and land acquisition programme and things such as the Brookvale accommodation developments, it doesn't cover the St Georges Centre or other streams like the Woodville's

- The table at paragraph 4.4, showed the net financing need for every year shown in the report; 2017/18 and 2018/19 were fully covered from internal borrowing but from 2019/20 onwards there will be a mix of internal borrowing and new external borrowing undertaken to support the Capital Programme
- Starting on page 27, section 6 of the report refers to the external debt forecast for the Council, in 2018/19 GBC are expecting actual gross debt to be just under 94 million, the debt increases slightly in 2019/20 and backs down again in subsequent years. The drop for 2020/21 will be due to the repayment of the £8 million stock debt
- The Council is projected to as maintain an under borrowed position throughout the report, the actual debt is below the capital financing requirement which demonstrates long term affordability
- A new indicator has been introduced on page 29 to demonstrate the percentage of total external debt related to commercial activity. In 2019/20 £5.9 million is expected to be borrowed to carry out works at Dering Way and to deliver the office accommodation at Brookvale
- On page 33, section 13, the report listed the details of the Affordability Prudential Indicators which were required to assess the affordability of the capital investment plans. For the Capital Programme, an indicator has been added at the top of page 34 to show the level of income from commercial properties purchased through the Property Acquisition Programme in relation to net revenue spend.

The Principal Accountant (HRA & Exchequer) advised that the Capital Strategy was a new requirement and it linked in with the Treasury Management Strategy. Member's attention was directed to section 12 in the Capital Strategy 2019/20 on page 69 of the report which gave Members a more detailed look at the proposed Capital Programme for 2019/20 to 2023/24.

The Director (Corporate Services) added that he was very happy with the Treasury Management Strategy as it reflected the new requirements

Concern was raised by a Member over paragraph 8.2 on page 67 of the report; how did the Council hold onto the funds that were contributed by developers and ensure it was spent on the earmarked item.

The Assistant Director (Corporate Services) advised that the Council holds a schedule of all monies received, what the money had been earmarked for and if it had been spent. That removed the exposure the Council could face from a developer if a request was received to see if the money was spent correctly. Finance and Planning worked together very closely and provided the information that Members saw in the Budget Monitoring report about those balances that were outstanding.

**Resolved** that Members recommend to the Full Council that:

- 1) The Treasury Management Strategy for 2019/20 as set out in Appendix 2 be agreed.
- 2) Delegated authority be given to the Director (Corporate Services), in consultation with the Chair of the Finance and Audit Committee, to amend the prudential and

treasury indicators as necessary as a result of the budget approved by Full Council on 26 February 2019.

- 3) The Minimum Revenue Provision (MRP) calculation on all new capital expenditure as set out in Section 5 of the Treasury Management Strategy Statement be approved for 2019/20 and beyond in accordance with the Authority's Capital Programme.
- 4) The Annual Investment Strategy for 2019/20 as set out in Section 14 of the Treasury Management Strategy Statement be agreed
- 5) The Capital Strategy for 2019/20 as set out in Appendix 3 be agreed.

### **93. Audit & Counter Fraud Update - Q3 2018-19**

Members were provided with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 October 2018 to 31 December 2018.

The Head of Audit & Counter Fraud Shared Services advised that:

- The level of resources available had been affected due to staff sickness, an unexpected vacancy earlier in the year and the fact that one Audit & Counter Fraud Officer took flexible retirement from 01 September 2018. Due to those reasons the forecasted net loss to date was approximately 75 days from the original resource budget of 660 days for Gravesham and an overall service loss of 210 days. It's lower than the projection reported in September as no officers are signed up to any professional qualifications training, so the training allowances were removed from consideration
- There is currently one full time vacancy in the service created by the three part time officers and the plan is to recruit to that post from 1<sup>st</sup> April or very soon after
- The Work Plan had progressed well and is provided in section 4 of the report. There were four reviews finalised during the reporting period
- An update against key performance indicators was provided at section 5 of the report, the outturns provided were as at 31 December 2018. To date, Members were informed of the current position for the key indicators listed in the report:
  - AF&CF10 – 63%
  - AF&CF11 – 37%
  - AF&CF12a – 57%
  - AF&CF12b – 35%
- Section 6 of the report set out the review of the plan to take into account the loss of resources, Members agreed a number of them at the meeting in November but the service requested an additional amendment to address the gap that remains
- Section 7 of the report gave an update on all the recommendations; the two recommendations that were outstanding at the November 2018 meeting relating to Planning and Homeless had both been dealt with by 31 December 2018 as promised by the Director (Housing & Regeneration)

Concern was raised by Members that only 7.3 days had been spent on Business Continuity as opposed to the Market which had 13.9 days spent on it which was almost four days over the budget; it was reflected that the Market is very often empty and Business Continuity was

a major issue which should have been a more significant priority with a higher number of days spent on it.

The Head of Audit and Counter Fraud Shared Services advised that it was hard to pinpoint the exact reasons for that anomaly without looking back and checking who did the work and what information was available at that time. It was agreed that the Head of Audit and Counter Fraud Shared Services would review the previous work and circulate an answer to Members concerns outside of the meeting.

Further concern was raised by a Member regarding an article in the messenger which spoke of alleged audit issues with the commercial group that provides a CCTV service to the partnership that Gravesham is part of. After a brief discussion, the Director (Corporate Services) stated that it was a very sensitive issue which officers had been dealing with privately over the previous 24 hours; Members were advised that they would be given a full update on the issue as soon as it was available.

The Assistant Director (Corporate Services) alerted Members that the Committee is not appropriate for further discussion at that moment in time as not enough information was allowed to be shared yet and the responsibility for that service fell under the Director (Communities). If a serious issue was needed to be dealt with regarding the CCTV service then the Director (Communities) would discuss it with the Portfolio Holder and take it through Cabinet.

**Resolved** that Members:

1. Noted the outputs and performance of the Audit & Counter Fraud Plan for Gravesham for the period 1 October 2018 to 31 December 2018 as detailed at Appendix 2.
2. Approved the amendment to the 2018-19 Audit & Counter Fraud Workplan as outlined in section 6 of the report at Appendix 2.

#### **94. Audit & Counter Fraud Strategy Review**

Members were provided with an update on progress against the Audit & Counter Fraud Strategy 2016-2020 made by the team during 2018-19 to date.

The Finance & Audit Committee approved the Audit & Counter Fraud Strategy 2016-2020 on 22 March 2016. The Strategy was prepared to set out a clear vision and set of objectives for the development of the Shared Service over its first four years.

The Head of Audit and Counter Fraud Shared Services directed Members attention to page 117 of the report which listed in full detail the strategic objectives and progress made in 2017/18.

**Resolved** that Members noted the progress made by the Audit & Counter Fraud Team towards delivering its strategic objectives during the 2018-19 year to date.

#### **95. Audit & Counter Fraud Quality Assurance & Improvement Programme Review**

The Head of the Audit & Counter Fraud Shared Services sought approval for the Audit & Counter Fraud Shared Service Quality Assurance & Improvement Programme.

The Head of the Audit & Counter Fraud Shared Services explained that the Programme was an essential list of performance indicators that were required to be reviewed on an annual basis and listed the changes:

- One minor amendment to the body of the document was the removal of reference to the post 'Audit & Counter Fraud Manager' as the post had been deleted
- A new measure had also been inserted at PM11a 'Number of days spent on SPOC associated duties' (single point of contact). It was previously included in proportion of time spent on counter fraud work but there were inaccuracies when it was a part of that measure. The new measure was added to make it more accurate and reflect the time spent on duties communicating with the DWP and Police on inquiries relating to benefit fraud cases
- A third option was added to PM20 – '*c) Prevented Losses (Savings associated with blocked applications)*'

The Head of Audit & Counter Fraud Shared Services responded to a Members question regarding qualitative and quantitative data; the performance indicators were required as part of the internal auditing standards to have the Programme in place. The amount of time spent on counter fraud work and audit work was to demonstrate that the Council is trying to meet targets in both areas. The % of assignments delivered was a measurement of how much of the Councils plan the service delivers and the quantitative data was in the body of update report and annual update reports showing how much time had been spent on auditing.

**Resolved** that Members approved the QAIP presented at Appendix 2 for use in 2019-20.

## **96. Development of the Corporate Risk Register for 2019-2020**

Members were presented with the outcome of the annual risk identification and analysis exercise that was carried out to assist in the development of Gravesham Borough Council's Corporate Risk Register for 2019-2020.

The report also considered the review of the Corporate Risk Management Strategy which resulted in updates being made to the strategy that reflect recommendations made by Members and Internal Audit.

The Risk Management Strategy was reviewed and the following amendments made:

- The term 'Marginal' used in the Risk Matrix adopted by the council was changed to 'Significant' and the definition of the risk revised as a consequence to clarify terms used, as proposed by a Member of the Finance and Audit Committee in April 2018
- The role of Service Managers in risk management as set out in the table at Appendix III of the Strategy was updated to reflect that those officers will identify both corporate and operational risks. That update was in response to an Internal Audit recommendation

The Assistant Director (Corporate Services) informed the Committee that the amended Risk Management Strategy was attached at appendix 2 and would be presented to Cabinet for approval next Monday (25/02/2019).

The Assistant Director (Corporate Services) advised Members that the existing Corporate Risk Register had seven risks recorded from 2018/19; at appendix 3 an exercise was carried out that analysed these risks to the Council and identified five of the original seven which still posed a significant risk. Those five have been carried forward to the draft 2019/20 Corporate Risk Register.

The two risks that were removed were:

- Business Rates Retention Scheme – The Council considered it prudent to include the risk within Risk 1 '*Ongoing financial viability of the Council*'
- General Data Protection Regulations (GDPR) – The risk was assessed and it has been concluded that the risk is now below the council's risk tolerance level and therefore this should be managed as a service level risk

Two additional risks that were identified by Members at the Finance & Audit Committee meeting in November 2018 for inclusion on the Corporate Risk Register 2019/20 were:

- Withdrawal of the United Kingdom from the European Union
- Cyberattack resulting in data breach or corruption of data

These risks had also been assessed and were considered to be above the council's risk tolerance threshold, and consequently have been included in the draft 2019/20 Corporate Risk Register.

The Assistant Director (Corporate Services) explained that the Risk Management Strategy and Draft Corporate Risk Register would be considered by Cabinet next Monday and the Minute regarding this item from Finance & Audit Committee on Monday, 18 February 2019 would be presented to Members of Cabinet for consideration in their item.

Members voiced their concern over the managed risks within Risk 7 'Withdrawal of the United Kingdom from the European Union'; it was felt that the wrong risks were being managed such as inability to get into the office as the vast majority of staff could walk to work. There were a number of much deeper concerns that Brexit could make than working from home such as managing waste disposal in the Borough if the infrastructure breaks down.

The Chair pointed out that page 185 of the report showcased a table that gave a breakdown of the potential consequences to the road network and waste.

One Member felt that the consequences listed under the risks at appendix 4 should have been included on appendix 3 under 'Analysis of Risks' to make it clearer. The Assistant Director (Corporate Services) advised that the 'Analysis of Risks' was used to create the Corporate Risk Register and the consequences recorded at appendix 4 were required to show what management action was needed to mitigate each risk. It was stated that each department within the Council had renewed their business continuity plans and created an individual Brexit service risk register that they could reference should the necessity arise. The plans identified the service delivery risks to each department as well as setting out arrangements to manage issues around service delivery should they arise.

After a brief discussion on Brexit, the Assistant Director (Corporate Services) explained to Members that the Committee's purpose was to review and shape the entries in the draft

Corporate Risk Register prior to this being presented to Cabinet; anything additional that needed to be added or reflected in the Risk Register could therefore be actioned prior to it being presented to Cabinet approval.

The Chair thanked the officers for including Universal Credit in the Corporate Risk Register 2019/20 as many residents in Gravesham were having issues with the new system.

No changes to the 2019/20 draft Corporate Risk Register were proposed.

**Resolved** that Members:

- Endorsed the changes/updates made to the Corporate Risk Management Strategy, prior to it being presented to Cabinet for approval
- Reviewed the draft version of the Corporate Risk Register that has been developed for 2019-20, prior to it being presented to Cabinet for approval

### **97. Budget Monitoring Report - 2018-19 (Q3)**

The Committee was provided with information on actual performance against the approved Revenue and Capital budgets for 2018/19, including known variances agreed or identified through budgetary control activity.

Members were also updated 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 (HRA & Exchequer) advised that it was the third budget monitoring report of the 2018/19 financial year for the third quarter to 31 December 2018 and directed Members attention to Page 190 of the report. It was a detailed one page executive summary that highlighted and explained the main points from the report regarding:

- General Fund (Revenue)
- General Fund (Capital)
- HRA (Revenue)
- Housing Capital

The Principal Accountant (HRA & Exchequer) further guided Members through the aforementioned fields outlined in the executive summary highlighting key points on pages 191-216 of the report.

The Chair asked that thanks be noted for the officer's hard work during the quarter and in producing the detailed report.

### **98. PSAA Audit Quality Monitoring Arrangements**

Members were informed of updates made by the PSAA to the arrangements to monitor local audit quality for the audit year 2018-19.

The Assistant Director (Corporate Services) informed the Committee that the report was an information only item to make sure Members were kept informed of the arrangements that

Public Sector Audit Appointments had put in place to monitor the quality of the external audit services that councils receive under the current audit contracts.

In December 2018 PSAA updated their quality monitoring arrangements for the audit year 2018-19. A report explaining those updates was attached at Appendix 2 for Member information.

### **Close of meeting**

The meeting ended at 9:44pm.