

Finance & Audit Committee

Tuesday, 21 July 2020

7:30pm

Present:

Cllr Gurbax Singh (Chair)
Cllr Sarah Gow (Vice-Chair)

Cllrs: Derek Ashenden
Ejaz Aslam
Dakota Dibben
Nirmal Khabra
Emma Morley
Elizabeth Mulheran
Tony Rice

Sarah Parfitt	Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Andrew Barnett	Principal Accountant (General Fund)
Donna Riley	Deputy Principal Accountant
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

55. Apologies for absence

No apologies of absence were received.

56. To sign the minutes of the previous meeting.

The minutes of the meeting on Tuesday, 10 March 2020 were signed by the Chair.

57. Declarations of Interest

Cllr Gow and Cllr Rice declared an Other Significant Interest as appointed Directors of Rosherville Limited, the Council's Local Authority Trading Company.

58. General Fund Provisional Outturn Report

The Committee was presented with the 2019/20 provisional General Fund Outturn Report, including movements in the General Fund working balances and earmarked reserves and the 2019/20 provisional General Fund Capital Outturn.

The Principal Accountant (General Fund) advised that the report was labelled as provisional as it was still subject to the external audit process and the receipt of the final audit opinion which will come to the Finance & Audit Committee in due course.

The Principal Accountant (General Fund) directed Members to page 14 of the report which held an Executive Summary of the information in the report pertaining to the:

- General Fund – Revenue
- General Fund – Capital

Members were updated on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan, or Financial Statements.

The Chair thanked the Principal Accountant (General Fund) for the detailed run through of the report and opened up the report to Members questions.

Cllr Ejaz Aslam requested that it be noted that the Conservatives had full confidence in the Finance Team and were proud to work with them to monitor Gravesham Council's finances.

Following questions for clarification, the Principal Accountant (General Fund) elaborated further on several variances within the report:

- **Covid19 Impact – additional bad debt provision: £377k adverse variance** and Increased Sundry Debt bad debt provision £60k adverse variance – It was identified that more current debts which generally did not attract a bad debt provision would be at greater-risk of non-payment than was usually the case. Officers have undertaken various aged debt analysis modelling, and thus in the interests of budgetary prudence and in recognising these unique circumstances, a further bad debt provision of £377k was set aside. However it is just a provision at 31 March 2020; when the Council gets to year end 2020-21 the provision will be reviewed and if the sum was too cautious then it will be released back into the General Fund. The aim of the bad debt provision was to be realistic about certain debts which may not get paid due to the extenuating circumstances stemming from COVID-19
- **Bank Charges: £37k adverse variance** – The Council has been looking at different electronic methods of payment that are convenient for the customer and more efficient for money handling. An increased volume of electronic payments has been seen resulting in additional charges. New rates were negotiated with Worldpay but the contract negotiations were delayed and didn't come into effect until February/March which affected the variance.
- **St Georges' Shopping Centre: £526k favourable variance** – this position has been generated from rental income from the centre, included a rent guarantee sum from Reef and investment income generated from the initial investment balance received.
- **Other Net Variances: £49k adverse variance** – Significant variances of over £10k are reported for each area and highlighted within the report under a favourable or adverse variance. Other variances under £10k are reported as a net position in the report under 'other net variances'. It should be noted that the £49K adverse variance under this heading is not considered significant when compared to the total net £4.9 million budget for Corporate Services
- **Town Centre Improvement Works: £33k adverse variance** –Initial spend was incurred to get projects underway within the Town Centre, as approved by Full Council in February 2020, including the purchasing of new cleaning equipment

The Director (Corporate Services) and the Principal Accountant (General Fund) fielded further questions from the Committee and explained that:

- There was a typographical error at 3.11.1 of the report; it should be a '£74K favourable variance'
- In response to a question around IT equipment and homeworking, it was explained that there had already been a large degree of investment in IT equipment prior to COVID-19 as part of the council's Brexit preparations to improve the ability for the workforce to work remotely due to potential risks around traffic congestion in the county. The lockdown situation accelerated this work further as the majority of staff had to be set up to work from home in a short space of time; currently the majority of the Council work force is still working from home. Moving forward, the council will look to further develop flexible working arrangements through the project to implement Microsoft Office 365, which had commenced prior to COVID-19.
- In response to a question regarding carry forward requests, the Younger and Older Persons Funds were requested to be rolled forward from the 2018-19 budget as funds were allocated but not fully spent by the end of the financial year.
- The total funding received from Central Government to assist the Council with the response to the pandemic had increased over the last week to £1.3 million
- A paper was submitted to Cabinet on 29 June 2020 setting out the initial estimates of the cost to Council from the COVID-19 pandemic and the most significant impacts were expected to be to the council's income streams, for example from reduced Council Tax and Fees and Charges payments. The Council anticipated an impact of £3.75 million for the current financial year which was a significant figure when compared to the Council's £11.4 million net budget for 2019-20; the cumulative impact as presented across the Medium Term Financial Plan from 2020/21 to 2028/29 has been initially estimated at £5.67 million. Due to the continued uncertainty of the future of Local Government funding and the significance of the impact from COVID-19, a follow up report will be submitted to Cabinet in September 2020. Before the budget setting in February 2020, the Leader has requested a paper be brought to Full Council to allow all Members to understand and discuss the impact of COVID-19 on the Council's financial position
- The Council is a member of the Kent Business Rates Pool and as part of that arrangement certain monies that would have been paid to central Government as a levy can be retained by Kent as a whole or by individual local authorities. At year end, one way in which retained funds are held by the council is through the NNDR Growth Fund which is used to support economic development projects in the Borough
- The 2020/21 budget for Planning Services was based on there being a full establishment of officers; in the past there have been difficulties recruiting to the professional posts across the council, not just in Planning Services, but the team have been working towards ensuring the Planning Team are fully resourced

The Principal Accountant (General Fund) agreed to contact the budget holders for the following areas with adverse variances and circulate a document with further information about each of them to the Committee:

- Denton and Southfield Shaw Repairs: £93k adverse variance
- Waste Recycling Support Payment: £90k adverse variance
- Net income deficit within Car Parks: £106k adverse variance

The Director (Corporate Services) advised that a response would be circulated after the meeting regarding the Woodville's auditorium floor and the price difference between

maintaining the floor and fully replacing it as well as the reason it was not regularly maintained.

The Director (Corporate Services) agreed to circulate a document setting out the St Georges Centre financial transaction in August.

The Chair thanked the officers for their detailed responses.

59. Housing Revenue Account Provisional Outturn Report

The Committee was presented with:

- The 2019/20 provisional Housing Revenue Account Revenue Outturn and movements in the Housing Revenue Account working balances and earmarked reserves
- The 2019/20 provisional Housing Revenue Account Capital Outturn

The Principal Accountant (General Fund) advised that the report was labelled as provisional as it was still subject to the external audit process and the receipt of the final audit opinion which will come to the Finance & Audit Committee in due course.

The Principal Accountant (General Fund) directed Members to page 35 of the report which held an Executive Summary of the information in the report pertaining to the:

- HRA (Revenue)
- Housing Capital

Members were updated on other key areas of financial performance that may impact the HRA Business Plan.

Following Members comments and questions, the Director (Corporate Services), the Principal Accountant (General Fund) and the Deputy Principal Accountant explained that:

- **Covid -19: £50k adverse variance** – The Covid-19 pandemic increased the probability of loss of income in respect of housing and sundry debt, and as a result an additional debt impairment provision was made to offset any potential loss directly associated with the pandemic. Once year end is reached, a decision will be made on whether the provision is still required and if not then the monies will be released into the HRA Budget which will result in a positive variance. The report only went up to the 31 March 2020 and the necessary amount of bad debt provision to mitigate the impact of COVID-19 was measured to that timeframe. The initial estimates calculated through a risk assessment advised that there would be a £50K impact on rents and service charges. The figure will continue to be reviewed during the 2020-21 financial year.
- **Warden Salary Recharges: £432k adverse variance** – The recharges of warden's salaries were established a number of years ago. The Warden Service salaries were removed from the budget last year following the introduction of Intensive Housing Management; the adverse variance was attributed to an adjustment made to correct an error which had resulted in the recharges remaining in the budget but no longer being required.

- **Council Tax: £22k adverse variance** – The Housing Revenue Account is responsible for making payment of Council Tax on empty properties which have been void for a period of one month; there were a multitude of reasons as to why a property may be vacant. Usually they were vacant for only a short period of time although some properties remained vacant for longer due to long term repairs that were required or the time taken to reflect taking longer than one month.
- In setting the budget for 2019-20 the Council made a commitment to build new homes with £7,662,300 allocated for that purpose; since the time of setting the budget there had been some slippage in delivery programmes so funds would be rolled over to this financial year to continue the commitment.

The Deputy Principal Accountant agreed to the following:

- **Garage Income: £53k adverse variance** –the Deputy Principal Accountant agreed to obtain further information on the delay in implementing revised charges for council-owned garages and circulate a response to the Committee
- **Disabled Facility Grants** – information will be circulated to the Committee explaining what the grants were, how they benefitted residents and how residents could apply for them

The Chair stated that the response to the Disabled Facility Grants should also be included in the Members Bulletin.

The Chair thanked the officers for their detailed responses.

60. Annual Treasury Management Review 2019-20

The Committee was presented with a report that updated them on treasury management activity during 2019-20 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) revised code on Treasury Management.

The Principal Accountant (General Fund) outlined key points from the report regarding:

- The Councils' Capital Expenditure and Financing
- The Council's Overall Borrowing Need
- The Treasury Position as at 31 March 2020
- The Investment Strategy and Control of Interest Rate Risk for 2019/20
- The Borrowing Strategy and Control of Interest Rate Risk Rates in 2019-20
- The Borrowing Outturn for 2019-20
- The Investment Outturn for 2019/20
- UK Sovereignty

Concern was raised by a Member over the 'authorised spending limit' as in 2019/20 the limit stood at £154 million with the description stating that it was sustainable in the short term but unsustainable in the long term. That figure had increased to nearly £257 million and clarification was sought by the Committee on that statement and at what point the total figure will actually become unsustainable for the Council.

The Director (Corporate Services) advised that it was important to differentiate between 'the authorised limit' and 'the operational boundary'; the latter was the expected borrowing position of the Council during the year. Whereas the former was the affordable borrowing

limit that officers could go up to if there was a cashflow issue and a level of borrowing was necessary to assist in managing short term cash flow issues. The 'operational boundary' was a truer figure of the Council's actual borrowing need and the increase in the expected borrowing limit in 2019-20 was due to the St Georges Centre financial transaction; that decision was approved by Full Council.

Concern was raised by a Member over the Committee's understanding of sustainability and the risk of increasing the Council's gross external debt, using the CIPFA Resilience Index as a reference point.

The Director (Corporate Services) explained that it was problematic directly comparing all English Council's against the CIPFA Resilience Index; some local authorities had Housing Revenue Accounts and some didn't which meant those without a HRA had not been required to borrow money to purchase their housing stock in 2012. It is also important to understand the level and sources of income to support any borrowing undertaken.

It was **resolved** that:

- The Finance and Audit Committee recommended to Full Council that the Treasury Management Strategy Statement 2020/21 was updated to reflect a revised sovereignty rating for the UK as detailed in Section 9 of the report
- The Finance and Audit Committee noted the contents of the report.

61. Annual Governance Statement 2019-20

Member's approval was sought for the Council's Annual Governance Statement for the 2019-20 financial year.

The Director (Corporate Services) outlined the key points from the report regarding the annual review of the Council's governance framework 2019-20 and drew Members attention to the following:

- The AGS for 2019-20 was prepared against the findings of the annual review of governance arrangements. Page 75 of the report presented Members with a copy of the Full Governance Review and its outcomes; the document was reviewed and agreed by the Section 151 Officer, the Monitoring Officer and the Planning and Policy Manager
- A copy of the statement, including a relevant suite of actions for consideration, was attached at Appendix Four to the report.
- Whilst no significant control issues were identified, the review presented some opportunities to further develop and strengthen the Council's governance framework and system of internal control in 2020-21. The plan for activity in the coming year was presented in section 14 of the AGS
- The Annual Governance Statement will be signed by the Chair of the Finance & Audit Committee upon approval by Members

The Chair sought clarification on health and safety arrangements for officers working from home and in different environments from the Civic Centre.

The Director (Corporate Services) confirmed that as part of the home working arrangements that came into effect very quickly due to lockdown, a staff risk assessment was sent to every staff member so that they could assess their work environment. Using this information, Managers had been able to make adjustments where necessary for staff members and other staff members were brought back into the office if their home environment was not suitable for them. The Council supported all staff with health and wellbeing issues during the lockdown and will continue to do so.

The Director (Corporate Services) added that a review of working arrangements will be picked up within the review of the council's response to the COVID-19 crisis.

It was **resolved** that:

- The Finance & Audit Committee noted the findings of the review of the council's governance arrangements for 2019-20
- The Finance & Audit Committee approved and supported the Annual Governance Statement for the 2019-20 financial year.

62. Annual Audit & Counter Fraud Report 2019-20

The Committee was informed of the work completed during 2019-20 and presented with the opinion of the Head of Audit & Counter Fraud Shared Service, as Chief Audit Executive, on the Council's internal control environment.

The Head of Audit & Counter Fraud Shared Service advised that the opinion was listed in full on page 116 of the report, this being that:

'It is therefore my opinion that Gravesham Borough Council's framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient and effective use of resources in achieving the council's objectives.'

The Head of Audit & Counter Fraud Shared Service further guided Members through the report and highlighted key points from the following areas:

- Independence
- Resources
- The Results of Planned Audit & Counter Fraud Work
- 2018-19 Internal Audit Assurance work Finalised in 2019-20
- 2019-20 Internal Audit Assurance work
- Quality Assurance & Improvement Programme
- Follow up of agreed recommendations
- Recommendations outstanding more than six months after scheduled implementation date

Concern was raised by a Member over any delays in putting arrangements in place to monitor sickness and absence during the lockdown.

The Director (Corporate Services) explained that HR had been working on the arrangements prior to COVID and had reinforced the reporting requirements during COVID-19 which was

successful. The Director (Corporate Services) advised that she had received information relating to sickness absence within her directorate every month, which assisted her in managing any issues in Corporate Services.

It was **resolved** that:

- The Finance & Audit Committee endorsed the work undertaken by the Audit & Counter Fraud Shared Service for Gravesham during 2019-20 in providing an effective service to the Council
- The Finance & Audit Committee considered and endorsed the opinion on the Council's internal control environment

63. Draft Audit Plan 2020-21

Approval was sought from the Committee for a Revised Audit & Counter Fraud Plan 2020-21 for Gravesham.

A risk based plan to determine the priorities of the internal audit activity was prepared and presented to the Finance & Audit Committee on 10 March 2020 for approval. However, since that plan was approved there have been significant changes to the way in which the Internal Audit and Counter Fraud resource had been deployed since 1 April caused by the impact of the Covid19 pandemic; this resulted in the need for a revised plan to be created for the period 01 July 2020 to 31 March 2021.

The Head of the Audit & Counter Fraud Shared Service stated that Appendix Two to the report outlined the full Revised Audit & Counter Fraud Plan 2020-21 and appendix three outlined the planned assurance reviews that were no longer on the 2020-21 plan.

It was **resolved** that:

- The Finance & Audit Committee approved the revised Audit & Counter Fraud Plan 2020-21 for Gravesham presented at Appendix 2
- The Finance & Audit Committee approved the proposal for only two progress updates to be provided in year
- The Finance & Audit Committee approved the request for urgent changes to the plan to be agreed by the Chair of the Finance & Audit Committee in consultation with the Head of Internal Audit & Counter Fraud; only in the event that the Committee will not meet in time to agree the changes

64. Fee Scale for the 2020-21 Audit and update on 2019-20 fees

The Committee was presented with the fee scale for the 2020-21 external audit and given an update on 2019-20 audit.

The Director (Corporate Services) explained that:

- The document set out the formal communication from Public Sector Audit Appointments (PSAA) to confirm the scale fee for the 2020-21 financial year
- The scale fee would be remaining at the same level it had been since 2018-19

- The report referenced potential fee variations which the Committee had discussed previously for the 2019-20 financial year; any fee variations conversations will be continued with the PSAA
- A number of reviews of the external audit process were being undertaken and Members were advised that a report on the findings of the Redmond Review is expected to be published in September 2020; once published it will be brought to the Committee for Members consideration

Following a question, the Director (Corporate Services) confirmed that the scale fee was exclusive of VAT and the Council would be able to recover the cost of VAT so the figure shown in the document was the true cost of external audit to the Council.

It was **resolved** that:

- The Finance and Audit Committee noted the information contained within the report.

65. Draft response to Letter to Those Charged with Governance

Members were provided with the opportunity to consider and discuss a number of questions posed by the External Auditors to the Finance & Audit Committee in relation to the Council's arrangements to manage fraud risk and ensure legislative compliance.

As part the audit risk assessment procedures, Grant Thornton UK LLP posed a number of questions directly to the Finance & Audit Committee regarding how the committee oversaw the Council's management processes and arrangements. A copy of the letter sent to the Chair of the Finance & Audit Committee was provided at Appendix Two and the draft responses to the questions were listed at Appendix Three for Members to approve.

It was **resolved** that:

- The Finance & Audit Committee considered and agreed that the response to the letter from Grant Thornton UK LLP, as set out in Appendix Three of this report, was consistent with its understanding of the Council's management processes and arrangements

Close of meeting

The meeting ended at 21:19pm.