

Finance and Audit Committee

Wednesday, 10 November 2021

7.30 pm

Present:

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

Cllrs: Derek Ashenden
 John Caller
 Dakota Dibben
 Samir Jassal
 Nirmal Khabra
 Jordan Meade
 Emma Morley

Lisa Nyon	Assistant Director (Corporate Services)
James Larkin	Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive)
Andrew Barnett	Principal Accountant (General Fund)
Alexandra Jarvis	Principal Accountant (Housing & Exchequer)
Julie Francis-Beard	Committee Services Officer (minutes)

124. Apologies for absence

An apology for absence was received from Cllr Elizabeth Mulheran. Cllr John Caller attended as her substitute.

125. To sign the minutes of the previous meeting.

The minutes of the meeting on Tuesday, 21 September 2021 were agreed and signed by the Chair.

126. To declare any interests members may have in the items contained on this agenda. When declaring an interest a member must state what their interest is.

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

127. Update on 2019/20 external audit / draft statement of accounts 2020/21

The Assistant Director (Corporate Services) gave a verbal update on the 2019/20 external audit and draft statement of accounts for 2020/21 and highlighted the following:

- The external audit for 2019/20 is still ongoing. As reported previously the two main outstanding items to resolve are the accounting treatment of The St George's Shopping Centre transaction and the valuation of HRA dwellings.
- External advice is being sought from CIPFA regarding the St George's Shopping Centre transaction. The finance team are currently working with Grant Thornton with regard to the HRA dwellings valuation.
- Once the 2019/20 accounts are finalised and reviewed by Grant Thornton, the audit of the 2020/21 financial statements would commence.
- Following on from a question, the Assistant Director (Corporate Services) confirmed that at the moment there is no definitive date when the 2019/20 audit will be concluded, however Members will be kept updated on progress.

The Chair thanked the Assistant Director (Corporate Services) and the finance team for all their work to resolve the outstanding issues.

128. General Fund Budget Monitoring Q2

The Principal Accountant (General Fund) updated the Committee with information on actual performance against the approved Revenue and Capital budgets for 2021/22, including projected variances agreed or identified through budgetary control activity. Updated Members on other key areas of financial performance that may have an impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan (MTFP), or Financial Statements and informed Members of a proposed in year addition to the Capital programme.

The Principal Accountant (General Fund) highlighted the following:-

- There is an overall year-end projected favourable variance of around £235k.
- A recurring theme of the report is Covid-19's effect on the Council's finances
- As Central Government Support for business and individuals begin to unwind, there will likely be an impact on the Council's various income streams.
- There is currently a net £250k projected underspend across staffing budgets particularly where turnover has increased this year compared to last year.
- Within the Communities Directorate, there is a projected net deficit with Parking Income of £27k. This is the combined impact of the overall projected income loss compared to the original budget of £222k, partly offset by the Government's Sales, Fees and Charges Compensation Scheme for the period April – June 2021.
- Elsewhere within the Communities Directorate, there are reserve movements relating to Street Lighting, Leisure Services and the Market. In each case, these are a continuation of schemes, which commenced in 2020/21, and are now underway in the current financial year.
- Within the Corporate Services Directorate, there is a favourable variance of £81k. This is due to a combination of a reduced borrowing requirement than initially envisaged carried over from 2020/21, along with continuing low interest rates having a positive impact on the Council's finances.
- The summary position for year-end Working Balances is around £11.93m, which can be broken down into three elements:
 - The Minimum General Fund Working Balance of £2m
 - The General Fund Reserve of £3.25m
 - Usable Working Balances of around some £6.68m

- The table in section 3.10.2 set out movements in General Fund reserves for the year and showed a net movement for the period of £8.6m, with projected year-end earmarked reserves amounting to £10.46m.
- The Medium Term Financial Planning section, sets out the financial environment in which the Council currently operates.
- We are waiting for information on the Local Government Pay Settlement and the Spending Review both of which would impact the Council's finances in due course.
- The General Fund Capital programme is £57.3m, with current expenditure in 2021-22 being just under £8m. Updates on individual schemes were provided in the report.

Following Members comments and questions, the Principal Accountant (General Fund) highlighted the following:

- At Cabinet on Monday 8 November, the addition of the St George's Creative Hub had been approved as an addition to the Capital Programme, funded through a combination of S106 contributions and existing balances.
- Following a question regarding homelessness in section 3.11.3 various grants have been received from Central Government funding for homelessness and homeless prevention. The Council has statutory duties within these services and any additional expenditure over and above grant income levels, would have to be financed from General Fund balances.
- With regard to a question on the property in Wrotham Road, the Principal Accountant (Housing & Exchequer) explained that the property was funded through external borrowing and a lot more work had to be done to secure the property than planned.
- The Chair explained that at an Operational Services Committee meeting he was given assurances that although waste collections had increased these had been maintained.

Resolved that Cabinet to approve the addition of the St Georges Creative Hub to the current year capital programme as set out in sections 4.2 and 4.3 of the report.

129. HRA Budget Monitoring Q2

The Principal Accountant (Housing & Exchequer) provided the Committee with information on actual performance against the approved Revenue and Capital budgets for 2021/22, including known variances agreed or identified through budgetary control activity. Updated 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 (Housing & Exchequer) updated Members on the report and highlighted key points:-

- At the end of Q2 the HRA forecast expected to draw some £417k from the general reserve against an original budget of £297k. A slightly worse position than reported in Q1 and mainly due to a reduction in the forecasted rental income. This has risen as a result of the new build programme delivered at a slightly slower rate than originally assumed.
- The repairs and maintenance budget showed a nil variance. However, the Housing Team are continuing to monitor the effects of a challenging environment with supply chain issues and increasing material costs that have impacted both the in-house

team and contractors. There is sufficient balance within HRA General Reserve to absorb this worsening position. This was shown in section 3.9.1.

- The Housing Capital Programme and capital schemes for housing totalled £24m with general fund housing schemes totalling £2.1m.
- Expenditure and commitments to the end of Q2 is £12.5m, which is a significant improvement on the position we were in this time in the last financial year.
- Regarding the maintenance programme, the capital programme was affected by the same increases in the costs of material and difficulty in sourcing materials, previously mentioned. The Housing Team are carefully monitoring this situation.
- The New Build programme is set out in section 4.5 and the table showed the Committee properties that had been delivered, in various stages, since the scheme started in 2012.
- The HRA Business Plan is found at appendix 2 and 3 and it is being reviewed in conjunction with the Director of Housing.

Resolved that Members noted the information contained within the report.

130. Treasury Management Mid-Year Review

The Principal Accountant (Housing & Exchequer) provided the Committee with a mid-year review update report on treasury management activity undertaken during the period April to September 2021.

The Principal Accountant (Housing & Exchequer) updated Members on the report and highlighted key points:-

- The Treasury Management Strategy Statement was approved by Full Council in February 2021.
- The 2021/22 Capital Programme is just over £73m of which £20m had been spent to date and the current forecast for the year is £45.5m. £18.2m is to be funded from existing resources. External borrowing will be sought with a forecast of £27m. The Capital Finance requirement for the year is approximately £227m.
- If the operational boundary needs to be amended in regards to The St George's Centre transaction, this will be discussed with the Chair and Members of the Finance and Audit Committee and in due course will be required to be approved by Full Council.
- Loans totalling £12.4m had been secured from other Local Authorities. The pre-arranged loans, as at 30 September totalled £6m and were secured at a much more beneficial rate than would be achieved if borrowing were to be secured today.
- Investment total £56.5m is split between those funds that are managed internally and externally.
- With regard to investment performance, the Council has outperformed the benchmark for the last six month by 26 basis points.
- In recent weeks, Gravesham had been able to take advantage of the uncertainty of the potential interest rate rise and had secured an investment at 0.415% for £8m. The Council would only have managed a 0.3% has this been invested today.
- As of 30 September, the Council acted in line with all the prudential limits in the Annual Strategy and no breaches had been incurred.
- The report seeks to extend the term deposits with unrated counterparts: ie. Local Authorities, Police Authorities, Fire Authorities and Housing Associations to extend their maturity profile from 2 years to 50 years. This approval for this increase is

required to be sought from Full Council in order to lend up to £2m for the Elizabeth Huggins Cottage Charity for the development on the site.

- The capital value of the Property Funds have recovered Covid losses and the capital value of Multi Asset funds are continuing to make steady progress in recovering. The total capital value of all externally managed funds is now above the sum initially invested.

Following Members comments and questions, the Principal Accountant (Housing & Exchequer) highlighted the following:

- It was explained that the latest loans are fixed interest rates and fixed duration. There is a policy in the TMSS which states that the Council will not borrow more than, or in advance of its need, purely in order to profit from the investments of the extra sums borrowed. Currently the inter Local Authority market offers a much better rate than the Public Works Loan Board. Loans that had been taken out recently have been secured from other Local Authorities. Where possible the Council looks to pre arrange borrowing as early as possible as this has worked in the Council's favour in the past.
- Regarding the Elizabeth Huggins Cottage Charity some residents had been paid compensation, however this compensation is being facilitated through the trust itself. The Principal Accountant explained that no money has been given to the charity for the construction works. As agreed by Full Council, there is a loan facility in place for up to £2m. The Council and Elizabeth Huggins Cottage Charity has secured monies from Homes England. Loan amounts will only be paid as and when the charity submit a claim along with invoices on behalf of Elizabeth Huggins. Due diligence was carried out on the scheme and it was deemed viable and this will continue to be monitored.

Resolved that the Finance and Audit Committee noted the contents of this report and recommended to Full Council that the amendment to the non-specified investment counterparty criteria as set out in Para 10.5 is agreed.

The Finance and Audit Committee delegated responsibility to the Chair of the Committee to amend the authorised limit and operational boundary as needed in response to the final accounting treatment agreed in respect of the St George's Centre transaction and make any necessary recommendations to Full Council.

131. Corporate Risk Register - Mid Year Review

The Assistant Director (Corporate Services) presented the Committee with mid-year progress information in respect of all risks recorded in the 2021/22 Corporate Risk Register, which were set out in an Appendix to the report:-

The Committee was reminded that the Corporate Risk Register had been approved by Full Council in April 2021 and a mid-year review of this register had been undertaken by officers. The Council will be starting the progress of collating the Corporate Risk Register 2022/23 and Members are invited to make suggestions to the register either for inclusion or removal which will be feed into the Risk Assessment process in due course.

Following Members comments and questions, the Assistant Director (Corporate Services) highlighted the following:

- Management Team had reviewed the organisation capacity / resilience risk and this was updated in appendix 2.
- It was suggested that Risk 4 – “Cyberattack resulting in data breach or corruption of data” included the arrangements in place with our shared services between other Local Authorities. The Assistant Director (Corporate Services) agreed to raise this with the Assistant Director (IT & Transformation).

Resolved that Members noted the progress made, as set out in Appendix III, in managing or mitigating each risk recorded within the 2021/22 Corporate Risk Register.

132. CIPFA Financial Management Code Update

The Assistant Director (Corporate Services) provided the Committee with an update against the report and action plan that was presented to the Committee in March 2021 and highlighted key points:-

- The two self-assessed amber ratings have now been fulfilled and the latest self-assessment concludes that the Council is fully compliance with the code.
- A risk management working group will commence meeting in November.

The Chair and Members thanked the Assistant Director (Corporate Services) and the team for their hard work in completing the action plan.

Resolved that Members noted the completion of the action plan that was presented at this committee on 9 March 2021 and the results of the recent self-assessment as being fully compliant with the Code.

133. Procurement of External Audit (PSAA)

The Assistant Director (Corporate Services) updated the Committee of the options available for the appointment of external auditors from April 2023 and of the invitation to opt into the national scheme for auditor appointments from April 2023.

Following Members comments and questions, the Assistant Director (Corporate Services) highlighted the following:

- Indications at this stage suggest that other Kent Local Authorities will accept the invitation to opt into the scheme of local audit appointments.
- The recommendation made by this Committee is subject to Full Council approval.

Resolved that the Finance & Audit Committee considered the procurement options set out in the report and the invitation to opt into the national scheme for local auditor appointments. The Committee has endorsed a recommendation being made to Full Council on 7 December 2021 to accept the invitation to opt in to the national scheme for auditor appointments from April 2023.

134. Audit and Counter Fraud Update

The Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) provided Members with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 August to 30 September 2021.

The Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) outlined the key points from the report and drew Members attention to the following:

- This was the second of three updates to be produced during 2021/22 detailing the work undertaken by the Audit and Counter Fraud Service between 1 August and 30 September 2021.
- As this reporting period was so short, the number of reviews finalised was limited to just one but Members will see more progress in the next update.
- All matches from the 2019-20 National Fraud Initiative have been dealt with.
- Under section 6 of the Audit and Counter Fraud Update the proportion of agreed assurance assignments that were delivered was 35% and underway was 4%. As at 10 November, assignments delivered was now 39%.
- In relation to recommendations arising from audits with red opinions that were specifically presented to the Committee, the five recommendations that have reached their agreed implementation date have all been implemented.

Following Members comments and questions the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) highlighted the following:

- There were 26 cases that were concluded with no evidence of fraud, 16 cases concluded with the removal of the single person discount, including four which resulted in the issue of civil penalties. A saving of £16k historic liability costs regarding the single person discount and £8k additional liability for future years.
- Gravesham are broadly in-line with other Local Authorities in the use of civil penalties but would have to benchmark to determine whether a similar volume are issued.
- The Management Team had agreed a revised implementation date for one high priority recommendation relating to a homelessness review, which was because of exceptional circumstances that would have been unknown at the time the original implementation date was agreed.

The Chair and Members thanked the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) for the report.

Resolved that Members approved the amendments to the agreed workplan as detailed in section 7 of appendix 2.

Close of meeting

The meeting ended at 8.20 pm