

Finance & Audit Committee

Wednesday, 09 November 2022

7:30pm

Present:

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

Cllrs: Derek Ashenden
 Dakota Dibben
 John Caller
 Gary Harding
 Samir Jassal
 Nirmal Khabra
 Lyn Milner

Lisa Nyon	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Alex Jarvis	Principal Accountant (Housing & Exchequer)
Ben Clarke	Committee Services Officer (Minutes)

20. Apologies for absence

An apology for absence was received from Cllr Emma Morley (Cllr John Caller substituted).

21. Minutes

The minutes of the meeting on Monday, 26 September 2022 were signed by the Chair.

22. Declarations of Interest

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

23. Appointment of External Auditor

The Committee were presented with an update with regard to the appointment of external auditors from 1 April 2023.

The Assistant Director (Corporate Services) advised that the letter from the PSAA was attached at appendix one to the report; Members were advised that given the ongoing challenges with 2019/20 accounts it was prudent to accept the appointment for continuity purposes.

The Committee raised concern at the 150% increase to the scale of fees for 2023/24.

The Assistant Director (Corporate Services) explained that they had been informed of the increase, but the fee wouldn't be as high as the fee stated in the PSAA letter; that was just an example of a fee increase.

The Chair further explained that Grant Thornton had advised that the fee previously charged to the Council was relatively low and the scope of work was much larger now which was the reason for the fee increase.

Resolved that Members endorsed the appointment by the PSAA of Grant Thornton (UK) LLP as the auditor for Gravesham Borough Council for a five-year period from 1 April 2023.

24. General Fund Budget Monitoring Report Q2

The Committee was provided with information on actual performance against the approved Revenue and Capital budgets for 2022/23, including projected variances agreed or identified through budgetary control activity.

The Assistant Director (Corporate Services) directed Members to page 18 which held an executive summary of the report; Members noted that for quarter two there was a projected overspend of £1.9 million. The main reason for the overspend was increases in costs for fuel, energy, staff pay and an overspend on homelessness – temporary accommodation budgets. Members had previously been informed of the impact of increasing costs and inflation in a Financial Pressures report that was presented to Cabinet in October

Members were directed to 4.1 of the report which gave an update on the General Fund Capital Programme; the Assistant Director (Corporate Services) advised that officers were undertaking a exercise to see where costs could be minimised and income maximised to help reduce the forecasted overspend. The Council had faced significant cuts to its budgets over the last 10 years, coupled with the rising costs makes budget setting far more challenging than previously. Further clarity regarding support given to local government maybe announced in the Autumn Statement due in mid November and the Local Government Finance Settlement, due in December.

In response to Members questions, the Assistant Director (Corporate Services) explained that:

- The Councils Management Team was made up of the Chief Executive, all Directors and the Head of Legal Shared Services
- Leisure Services had recorded a £45K adverse variance and as part of the contract, GCLL are entitled to a reduced management fee paid to the Council should the unit cost of utilities rise. The Council were not foreseeing any additional adjustments to the management fee at this stage made, however the situation would continue to be monitored.

Members noted that the report currently listed the Bank of England interest rate as 2.25% when it had recently increased to 3%; the additional interest fees would cause greater strain on the Councils finances.

The Chair recognised Members concerns regarding increasing interest rates and implored Members to support the Council moving forward.

25. HRA Budget Monitoring Report Q2

The Committee was provided with information on actual performance against the approved Revenue and Capital budgets for 2022/23, including known variances agreed or identified through budgetary control activity.

The Principal Accountant (Housing & Exchequer) directed Members to page 38 which held an executive summary of the report; Members noted that at the end of Quarter Two, following full utilisation of the General HRA Reserve there was a forecasted deficit of £117K. As the General HRA Reserve was unable to bridge the gap, the use of the HRA's working balance was required to rectify the position. Use of the working balance would result in the HRA working balance being a projected £2.8m at year-end which was below the assessed minimum level of working balance as determined by the Director (Corporate Services) in her capacity as Section 151 Officer.

The Principal Accountant (Housing & Exchequer) further advised that:

- The largest overspend in the HRA was on void properties; the high number of voids, experienced during 2021/22 had continued and as at the end of Q2, the external contractor budget of £1.147m had been virtually fully spent on such works meaning reliance would be placed on the in-house workforce to undertake all work for the rest of the financial year
- Rental income had decreased due to the increased number of properties being purchased under the Right to Buy scheme over and above the number assumed at budget setting
- Actions to respond the issues were set out at paragraph 3.9.3 of the report and Finance were working with Housing to deliver those actions

In response to Members question, the Principal Accountant (Housing & Exchequer) explained that:

- Non-essential expenditure may be expenditure that was important but could be postponed to the next financial year as well as projects that could be reprofiled
- There were a number of officers who held purchase cards with varying expenditure limits and a review would be undertaken to make sure the appropriate officers had access to the purchase cards, and they were set at a reasonable expenditure level
- Finance were working with Housing to reflect any savings that could be capitalised upon in the next budget setting process and reported in the quarter three budget monitoring report. The effects of those actions would be reported on at the next Finance & Audit Committee meeting

26. Corporate Risk Register Mid-year review

The Committee were presented with mid-year progress information in respect of all risks recorded in the 2022-2023 Corporate Risk Register, which could be found at Appendix Two of the report.

The Assistant Director (Corporate Services) advised that the Corporate Risk Register, approved by Full Council on 12 April 2022, had been reviewed by officers and ensured that the risks listed were reflective of the current situation. The residual risk score for 'Risk 1 – Ongoing Financial Viability of the Council' had been increased from 12 to 16 to reflect the volatile financial environment that the council is now operating in.

A new risk relating to the implementation of the Elections Act 2022, had already been put forward and its current evaluation suggested that it was likely to be included in the 2023-2024 Corporate Risk Register. The initial evaluation of the risk could be found in Appendix Four of the report.

The Assistant Director (Corporate Services) explained that work would begin in December on the compilation of the Corporate Risk Register for 2023/24. All risks would be reviewed and those attracting a high score would be included on the Corporate Risk Register which would be presented to Full Council for approval.

In response to the Chairs request, the Assistant Director (Corporate Services) agreed to include an updated heat map in the reporting of the mid-year position.

In response to a Members question regarding training for the new Elections Act and the risks it posed, the Assistant Director (Corporate Services) explained that a briefing had been scheduled for Tuesday, 15 November at 19:30pm and that this would be held remotely; invites for the meeting had been circulated to all Members.

Members noted the progress set out in appendix three of the report.

27. Treasury Management Mid-year review

The Committee were provided with a mid-year review update report on treasury management activity undertaken during the period April to September 2022.

The Principal Accountant (Housing & Exchequer) guided Members through the report and highlighted key points for noting:

- At section 3.1 of the report an economic performance update had been provided by Link Asset Services – Treasury Solutions as at 7 October 2022
- The Councils estimated capital expenditure for 2022/23 was £97 million and to date, £22 million had been spent. The revised estimate for 2022/23 was £70.5 million and the revised estimated borrowing requirement for 2022/23 was £54 million; the majority of that borrowing need would be sought externally
- The revised estimate total gross debt for 2022/23 was £162 million and the CFR (year-end position) was £173 million
- Changes to the Prudential Indicator for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary were outlined at paragraph 6.6 of the report
- 6.12 of the report listed the amended authorised limit for external debt to reflect the alternative treatment for the St George's transaction
- Due to the risk of the UK's Sovereign Rating falling below A+, in consultation with the Council's Treasury Management consultants, Link, it was recommended to remove the sovereign rating for the UK from the TMSS altogether rather than reduce it further and rely solely on the credit rating and CDS rating of UK institutions
- In relation to borrowing funds for the Charter development, two additional loans totalling £14 million had been secured from other local authorities however interest rates had increased significantly to the levels previously achieved
- Total investment as at 30 September 2022 totalled £55.7 million. Further information could be found at Appendix Two to the report

In response to a Members question, the Principal Accountant (Housing & Exchequer) explained that loans were secured through local authorities as the interest rates were lower than PWLB and some local authorities had significant cash balances. The rates of interest weren't published in the report as they were considered commercially sensitive information; the Principal Accountant (Housing & Exchequer) agreed to circulate the information to Members via email outside of the meeting.

Resolved that Members:

1. Noted the contents of the report
2. Recommended to Full Council that the amendment to the UK sovereignty rates, as set out in Paragraph 5.4 and the amendments to the Operational Boundary and Authorised Limits as set out in Paragraphs 6.8 and 6.12 respectively were agreed

28. Internal Audit update

The Committee were provided with an update on the work, outputs and performance of the Internal Audit Team for the period 1 August 2022 to 30 September 2022.

Members were advised that the report at Appendix 2 was the second of three updates to be produced during 2022-23; detailing the work undertaken by the Internal Audit Team between 01 August and 30 September and the progress made against the Q1-Q2 workplan.

The Head of Internal Audit and Counter Fraud Services advised that due to the short reporting period there were no finalised reviews; the current status of the reviews were listed in page 118 as at 30 September 2022.

The Head of Internal Audit and Counter Fraud Services guided Member to the key performance indicators on page 120 of the report and gave updated figures for the 'Proportion of agreed assurance reviews':

- a) Delivered – 42%
- b) Underway – 16%

The Head of Internal Audit and Counter Fraud Services further added that there were no changes to the agreed Internal Audit Plan and the follow up of agreed actions was listed at section 8 of the report. With regard to the only action outstanding more than six months after scheduled implementation date, Management agreed a revised implementation date of 31 October 2023 due to an a previously unknown urgent development.

The Head of Internal Audit and Counter Fraud Services agreed to fix a typo in the 'Private Housing Enforcement' box on page 122 of the report.

29. Counter Fraud Update

The Committee was provided with an update on the work, outputs and performance of the Counter Fraud Team for the period 1 August 2022 to 30 September 2022.

Members were advised that the report at Appendix 2 was the second of three updates to be produced during 2022-23; detailing the work undertaken by the Counter Fraud Team between 01 August and 30 September 2022 in relation to the agreed workplan.

The Head of Internal Audit and Counter Fraud Services guided Members through the report and gave an update for each section. An executive summary of the reporting period was listed on page 134 of the report.

In response to Member questions, the Head of Internal Audit and Counter Fraud Services explained that:

- Generally, when there was national hardship and increased financial pressures, the risk of fraud increased as the public had increased costs; a common example would be a member of the public having a change in circumstances such as a partner moving in and failing to declare it in order to still gain the single person discount for Council Tax. To address the risk of increased fraud the team would conduct more proactive exercises and targeted work with other Council services to explore where there were spikes in fraudulent activity
- The team had 'a rule of thumb' when they dealt with people for potential prosecution; prosecution would not be sought unless the financial fraud was over a certain threshold. If the fraud was below that threshold, then it was not worth pursuing as the amount of money to pursue prosecution would cost more than the initial fraud. Every case was assessed on its own merits and any underlying issues/social factors such as entitlements, debts, health issues, criminal history and past fraudulent cases were all taken into consideration. The team also helped the public where possible such as when they advised homeowners that they could retain a discount on their Council Tax once their children turned eighteen by applying for a student discount
- The team has finite resources so they have to be used appropriately; when the team were deciding cases to investigate, the reports with the most information are likely to be those that are investigated in order to use resources most effectively. Typically, cases where the fraud value was less than £1000 would not be in the public interest to pursue prosecution.
- However, those offenders who carried out fraudulent behaviour repeatedly would still be pursued even if their fraud value was below £1000 as each of their fraud cases was taken into consideration
- With regards to penalties for those members of the public failing to declare changes, where the team were not pursuing criminal charges, there are civil penalties for negligence that are considered; £70 for the first offence which increased to £280 for the second offence

The Chair thanked the Head of Audit & Counter Fraud Shared Services for his informative update.

30. National Fraud Initiative Annual Progress update

The Committee was provided with a report that outlined the work completed in relation to the data matches received as part of the National Fraud Initiative Exercises 2019-20, 2020-21 and 2021-22.

The Head of Audit & Counter Fraud Shared Services directed Members to section two, three and four of the report and highlighted key points from the National Fraud Initiative Exercises in 2019-20, 2020-21 and 2021-22.

As a result of the three exercises, the Council had reported cumulative savings of £299,257 as of 30 September 2022. Members were advised that some individuals had received cautions as an alternative to prosecution, which were the first sanctions to be applied since the pandemic.

The Head of Audit & Counter Fraud Shared Services advised that data submissions for the 2022/23 exercise would be completed in December 2022.

Close of meeting

The meeting ended at 20:08pm.