

Finance & Audit Committee

Tuesday, 13 June 2017

7:30pm

Present:

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

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

Sarah Parfitt	Assistant Director (Corporate Services)
Katey Arrowsmith	Head of Audit & Counter Fraud Shared Services
James Larkin	Audit and Counter Fraud Shared Service Manager
Alex Jarvis	Principal Accountant (HRA & Exchequer)
Andrew Barnett	Principal Accountant (General Fund)
Darren Wells	Grant Thornton, External Auditor
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

113. Apologies

No apologies for absence were received.

114. Minutes

The minutes of the meeting on the Tuesday 14 March 2017 were signed by the Chair.

115. Declarations of Interest

No declarations of interest were made.

116. Annual Treasury Management Review 2016-17

The Principal Accountant (HRA & Exchequer) reported on treasury management activity during 2016-17 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) revised code on Treasury Management 2009.

The Principal Accountant (HRA & Exchequer) summarised the performance of the economic climate as reported by the treasury advisors to GBC; Capita Assets Services Treasury Solutions.

The Principal Accountant (HRA & Exchequer) outlined GBC's overall treasury position, and informed the committee that no additional borrowing had been undertaken in the year. Internally managed funds had earned an average rate of return of 0.575%, exceeding the benchmark by 0.365%. The council had also placed investments with three Property Funds

during the year and these had generated an average return of 4.27%, in line with the level of return anticipated.

The latest version of the summarised cash flow forecast was provided for Member information at Appendix two to the report. This showed the projected cashflow position as at March 2016 and the current cashflow position.

The Assistant Director (Corporate Services) reminded Members of the activity of the council over the last 12 to 18 months in response to the local government funding settlement issued by Government in December 2016 and the intention for local authorities to become self-sufficient by 2019-20. This had prompted the council to review its longer term cash balances and its investment activity, resulting in the council identifying £10m of medium term cash balances that could be placed in Property Funds, with a further £10m of longer term cash made available for commercial property acquisitions. This activity, coupled with the year-end financial position of the council, early recognition of other Bridging the Gap activity and the capital receipt in relation to the sale of the council PVC Panel stock had effectively meant that the cashflow position of the council had returned to a similar position now as last year when the decision was taken to release cash balances for property acquisition. The financial challenges facing the council had not changed and the committee were therefore being asked to recommend to Full Council the investment of a further £10m in commercial property acquisition.

Following Members questions the Assistant Director (Corporate Services) and the Principal Accountant (HRA & Exchequer) explained that:

- The level of returns generated by Property Funds had been driven by the rental income generated by the Funds;
- In response to a Member question, GBC officers are meeting with representatives from Capita imminently and will seek advice on how ongoing assurances of the stability and performance of Property Funds could be sought. This information will be provided to Members outside of the meeting. All future commercial property acquisitions will follow the process and must meet the criteria set out in the Property Acquisitions Strategy.

Clarity was requested from several Members regarding the average balance during the year of council internally managed funds and it's similarity to the total level of investments (including Property Funds) at the end of the year. The Assistant Director (Corporate Services) advised that the figures are correct but the wording can be looked into to provide clarity on the figures contained within the report..

Resolved that Members:

- Note the contents of the report
- Recommend to Full Council that a further £10m of investment balances be made available for purchases under the council's existing Property Acquisition Strategy
- Recommend to Full Council that the necessary adjustments to the current years capital programme be made in relation to increasing the funds available for property acquisitions.

117. Annual Audit & Counter Fraud Report 2016-17

The Committee was provided with a report informing them of the work completed during 2016-17 and presenting the opinion of the Head of Audit & Counter Fraud Shared Service and Chief Audit Executive on the council's internal control environment.

The Head of Audit & Counter Fraud Shared Services specifically highlighted performance measure 10 on Page 62 of the report as it showed a 97% delivery on fieldwork completed of the proportion of agreed plan.

Following a Member query about the age of some of the findings in the report, the Head of Audit & Counter Fraud agreed to revise future reports to make it clearer when each review was completed.

Following several more questions from Members the Head of Audit & Counter Fraud Shared Services explained that:

- The Head of Audit & Counter Fraud Shared Services advised that the review on Kingdom was carried out before the arrangement with them was terminated; the review focussed on how the Council managed the contract and found that the council and contractor were both meeting the terms of the contract at that point.
- With regard to non-productive audit days, these include time spend on general administration and management such as one to one/team meetings and time recording; the total of all non-productive days across the team is charged proportionately to Medway and Gravesham in line with the shared service agreement to ensure this is fair.
- Follow up reviews are not given an overall opinion on the Red, Amber, Green scale; instead as only the action taken to address the weaknesses identified in the original review is evaluated, an opinion on the adequacy of that action is given – either adequate or inadequate.

The Establishment Management Review examined how the Council controls the addition, amendment and deletion of posts in the staffing establishment. All such amendments are reported to the Council's Management Team, who consider the budgetary impact while ensuring staffing levels are adequate in all areas.

A Member asked whether the Establishment Management Review had considered staff sickness absence issues with recruitment; the Head of Audit & Counter Fraud explained that had not been within the scope of this review.

The Assistant Director – Corporate Services and Cllr Burden explained that the level of staff sickness had increased over the past twelve months as had been reported to Cabinet in June. The Assistant Director – Corporate Services advised the Committee that a report on the performance measure on sickness absence could be considered on a future agenda for the appropriate Cabinet Committee. Cllr Burden indicated that many Cabinet Committee meetings are being cancelled preventing discussion on performance issues. The Assistant Director (Corporate Services) and the Chair stated that they would take this feedback back to the council's Management Team and Leader.

A Member noted that while the results of work completed was colour coded, the follow up work was not; the Head of Audit & Counter Fraud confirmed that the colour coding would be carried through the entirety of future Update Reports.

Resolved that Members:

- Endorse the work undertaken by the Audit & Counter Fraud Shared Service for Gravesham during 2016-17 in providing an effective service to the council
- Consider and endorse the opinion on the council's internal control environment provided by the Head of Audit & Counter Fraud Shared Service

118. Annual Governance Statement: 2016-17

Members were presented with a report seeking approval of the Annual Governance Statement for the 2016-17 financial year.

The Assistant Director (Corporate Services) advising the following points:

- This is an annual statement of compliance with the Council's Code of Corporate Governance.
- The Framework Guidance from CIPFA and SOLACE had been updated during the year, and at Full Council in February 2017 Members had adopted a new code of corporate governance.
- Whilst the Framework had changed, the robust process for gathering evidence to support the statement had remained the same
- Evidence to supporting the statement had been made available to Members a few weeks ago to provide a longer period of time to review the evidence before the committee meeting
- Whilst the review process had identified that there were no significant weaknesses in the council's governance arrangements, Page 81 of the Statement set out four areas where it is considered that the council can build on the current arrangements

Cllr Burden stressed the point that Cabinet Committees should be meeting and discussing issues surrounding the Council's four Strategic Objectives but many Committee meetings are being cancelled.

The Assistant Director (Corporate Services) assured the Committee she would take the comments back to the Management Team and the Leader to make them aware of the concerns raised over Members not having enough opportunities to discuss important issues.

Resolved that Members:

- Note the findings of the review of the council's governance arrangements for 2016-17
- Approve and support the Annual Governance Statement for the 2016-17 financial year.

119. Provisional Outturn Report 2016-17

The Committee was presented with a report showing:

- The 2016/17 provisional General Fund Revenue Outturn and movements in the General Fund working balances and earmarked reserves
- The 2016/17 provisional General Fund Capital Outturn

- The 2016/17 provisional Housing Revenue Account Revenue Outturn and movements in the Housing Revenue Account working balances and earmarked reserves
- The 2016/17 provisional Housing Revenue Account Capital Outturn

The Principal Accountant (General Fund) summarised the General Fund position highlighting the following key points:

- The outturns are only provisional for 2016-17, they are still subject to an external audit process which starts in June 2017
- The provisional underspend against the original budget for the 2016/17 financial year is £737,450, derived from a number of variances against budgeted activity set out in the report. The provisional year-end position on working balances as at 31 March 2017 is £6.16 million; provisional useable working balances carry forward as at 31 March 2017 stand at £2,91m.
- The final outturn spend for 2016-17 against the General Fund Capital programme is £13.4 million.

The Principal Accountant (HRA & Exchequer) summarised the HRA position highlighting the following key points:

- The provisional surplus on the Housing Revenue Account (HRA) at 31 March 2017 was £1.84m compared to the Original Budget surplus of £0.81m resulting in a variance of £1.03m
- The minimum level of working balances of £3 million was maintained. The provisional outturn position on the HRA had enabled the General HRA Reserve level to increase to £4.62m. The final outturn for 2016/17 for the Housing Capital Programme Investment Plans was £8.80m, resulting in an underspend of £3,40m, albeit £338K will be carried over to the next final year

Following Members questions officers explained the following:

- Confirmation was provided that the underspend on Disabled Facilities Grants during the year will be carried forward to 2017/18
- With regard to the reported underspend on the Older and Youth Champions - all of the budget for the year had been allocated but had not been actually spent by the end of the year. Carry forward requests had been made as set out in paragraphs 6.5 and 6.6 of the report. In 2016/17 the Youth and Older Persons Champions budget was a capital budget but from now onwards it will be a revenue budget; the underspend will be rolled forward with the £25K for the new budgeting year for each champion.
- Income from rental income had been affected by a reduction in bad provision for rent and the council reletting properties that become void during the year at higher rents. There will be a focus on the HRA over the coming months to robustly challenge budgets and ensure that these are set as accurately as possible.
- Members will continue to receive information on the projected long term cashflow position as part of the Treasury Management updates, the next of which will be coming to the Committee in November.
- The favourable variance relating to the homelessness service has not been achieved by not housing homeless people, but rather by the fact that the council has decided to allocate a proportion of its own stock in which to place homeless households;

other Local Authorities who do not have a housing stock have had to place households in private rented accommodation or hotels and can spend a considerable amount of money on this. A review of homelessness budgets will be undertaken this year as legislative changes on the level of homeless support council's are required to provide have come into effect this year, along with new grant funding to go towards the anticipated increase in expenditure on homeless services this year

- The issue of Cabinet Committees not having enough information brought to them to enable the discussion of such issues will be relayed to the Management Team and Leader.

120. Letter to those Charged with Governance

Members were presented with an 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.

The Assistant Director (Corporate Services) advised the Committee that the responses drafted to the questions received had been reviewed by the Council's Management Team and the Chair already.

The External Auditor, Grant Thornton amended a point at the bottom of Page 120; it's the internal auditors not the external auditors that provide assurance that regulations are being complied with.

Resolved that:

- Subject to the aforementioned amendment Members agreed that the response to the letter from Grant Thornton UK LLP, as set out in Appendix Three of the report, is consistent with its understanding of the council's management processes and arrangements.

121. Audit Fee Letter 2017-18

Members were informed of the external audit fee set by the PSAA for Gravesham Borough Council for 2017-18.

Members noted the information contained within the report.

122. Any other business which by reason of special circumstances the Chair is of the opinion should be considered as a matter of urgency.

Update on External Auditors

The Assistant Director (Corporate Services) advised that at Full Council last December Members decided to opt in to the sector led approach for the new external auditors; tenders for the works have been issued and 98% of eligible bodies had opted in as well. The tenders are currently in the standstill period which runs until 19 June 2017; the PSAA will then be developing client portfolios during July auditing bodies such as GBC will be consulted on their appointed auditor between 14 August to 22 September.

GBC then have a choice to accept the appointment made or make representations against it; the period of consultation is during a time when there are no F&A Committee meetings scheduled but the Assistant Director (Corporate Services) made a commitment that Members will be kept abreast of the details of who the Councils external auditors will be.

Finance & Audit Committee Date Rescheduling

Following a discussion with Members and officers it was decided that the below meetings would be rescheduled:

- The Finance & Audit Committee meeting on Tuesday 25 July 2017 will be moved to Monday 10 July 2017 and the Statement of Accounts training presentation will be added on to the agenda for that meeting
- The Finance & Audit Committee meeting on Tuesday 26 September 2017 be moved to Tuesday 12 September 2017 and the Business Rates training on the 12th September 2017 be switched to the 26th September 2017.

Close of meeting

The meeting ended at 9:32pm.