

Finance & Audit Committee

Wednesday, 15 November 2017

7:30pm

Present:

Cllr Derek Shelbrooke (Chair)

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

Sarah Parfitt	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Andrew Barnett	Principal Accountant (General Fund)
Alexandra Jarvis	Principal Accountant (Housing & Exchequer)
Emily McKeown	External Audit Manager, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

27. Apologies for absence

An apology of Cllr Karen Hurdle (Vice-Chair) was received.

28. Minutes

The minutes of the meeting on the Tuesday 12 September 2017 were signed by the Chair.

29. Declarations of Interest

No declarations of interest were made.

The Chair welcomed Emily McKeown to the Committee; she will taking over Chris Long's position as Grant Thornton's External Audit Manager for Gravesham Borough Council.

30. Audit & Counter Fraud Update - Q2 2017-18

The Head of Audit & Counter Fraud Shared Services provided Members with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 August 2017 to 30 September 2017.

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

- The report is the second update of the year but only covers a period of two months between 1 August 2017 to 30 September 2017 that resulted in two finalised audit reports issued; Transformation – Change & Project Management (last audit left from the year 2016/17) and Right to Buy

- There was a Fraud Awareness training session that was held for Members in November, of which nine Councillors attended and positive feedback was received.
- Page 25 lists the Performance Indicators but as mentioned in the last update, the figures for performance indicators A&CF15 and A&CF16 are not available as links between the fraud management software and reporting software were impacted by an upgrade to the fraud management software. This had not been resolved by the report deadline but has now been rectified. The figures for 1st April – 30th September 2017, 30 referrals have been received and 24 cases have been closed
- A temporary member of staff has been hired to address the staffing issues within the service and their salary has been met through the vacancy savings
- One audit has been deferred to 2018/19 due to the pending shared HR service
- Within the report there are a number of items in Italics which means that they have been reported at a previous meeting already; they could be removed as Members have already seen them and would mean less paperwork to be read through. If anything new came up regarding an item that had been removed it would be put back in the report for Members to view and consider at the next available Committee meeting

Addressing a Members concern over being kept abreast of the most up-to-date information on audit recommendations, the Head of Audit and Counter Fraud Shared Services advised that he would rectify the situation and at the next meeting give full updates on the recommendations so that Members are fully aware. In the meantime, an email will be compiled of the end of October recommendations and circulated to Members for information.

Resolved that Members:

1. Note the outputs and performance of the Audit & Counter Fraud Plan for Gravesham for the period 1 August 2017 to 30 September 2017 as detailed at Appendix two
2. Agreed that the items in Italics will be removed from the reports in the future unless new information has come to light which Members must consider
3. Approve the amendments to the 2017-18 work plan as detailed in section 6 of the report at Appendix Two

31. Treasury Management 2017-18 - Mid-Year Review

The Principal Accountant (Housing & Exchequer) provided Members with a mid-year review report to Members of the Finance and Audit Committee on treasury management activity undertaken during the period April to September 2017.

The Principal Accountant (Housing & Exchequer) went through the report in detail advising that it had been prepared in compliance with CIPFA's Code of Practice on Treasury Management; the key points for the first six months of the financial year were summarised to Members in the following areas:

- An economic update for the first half of the 2017/18 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2017/18;

- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18

Link Group have acquired Capita Asset Services, which is now known as Link Asset Services; the same staff are in place and at this stage it is just a change in name but any changes over the next few months will be brought to Members attention. They subsequently provided GBC with a revised forecast showing a rise in 2020 and 2021 which will be taken into account for the 2018/19 budget.

In 2016/17, it was agreed to invest up to £10m in Externally Managed Property Funds. Following a selection panel, three funds were selected and investments were placed with CCLA, Lothbury and Hermes. The NAV dropped after the initial investment following the referendum but the value of both Lothbury and Hermes has increased not only to the original investment value but to such a level that it has covered the entry fees as well. As at end October, the value of the CCLA fund had recovered to the initial investment amount.

With regard to the prudential indicator for the financing of the Capital Programme the original borrowing need estimate for Capital Expenditure in 2017/18 was £2.3 million but with the revised estimate for 2017/18 the figure stands at £11.5 million, it was replaced by the need to borrow on the commercial property programme.

Referencing Section 11 of the report the Principal Accountant (Housing & Exchequer) elaborated on the progress of the diversified income funds. Officers held an initial meeting with Capita to understand the fund structures and operations further of Diversified Income Funds. Capita ascertained that there were ten funds where the investment could be classified as revenue. The funds were contacted by Capita informing them of GBC's interest in investing along with a questionnaire to be completed. The deadline for completion of the questionnaires was 10 November 2017. Submissions have been received from all ten funds that were gone out to, the responses will now be analysed and the funds will be short listed with the help of Link Asset Services by 13 December 2017. Following this, a meeting of the Property Acquisitions Cross Party Working Group will be convened to consider investment options.

Members were advised that the EU has now set a deadline of 03 January 2018 for the introduction of regulations under MIFID II which will be the primary focus of the team over the next week. The Authority will be opting up to Professional Client status but in order to achieve Professional status forms will need to be completed for each institution GBC deal with.

Following Members questions and comments the Principal Accountant (Housing & Exchequer) advised that:

- The current bank rate for the interest rate forecast of Link Asset Services is 0.5%; it will be 0.75% by 2019, 1% by 2020 and 1.25% by 2021
- The dashboard deposits are weighted by taking into account the original value of each investment and interest rate of the investment and adding it together
- The consideration of diversified income funds will go through the Member led Property Acquisitions Cross Party Working Group
- GBC is only allowed to place £10 million into the Property Investment Funds as defined in the Treasury Management Strategy; GBC are up to the limit and CCLA

may give good investment return but their capital growth is much lower than the other two funds

Resolved that Members:

1. Note the contents of the report
2. Recommend to Full Council that the revised estimates against the prudential and treasury indicators are endorsed

32. Corporate Risk Register 2017-18 - Mid-Year Review

The Assistant Director (Corporate Services) presented Members with a half-year update of the Corporate Risk Register 2017-18 for consideration and review.

During development of the Corporate Risk Register for 2017-18, nine potential strategic risks were identified and assessed, of which five were considered to be above the Council's risk tolerance threshold. The risks are listed below and have formed the Corporate Risk Register for 2017-18:

- Ongoing financial viability of the council
- Changes in national priorities and legislative change
- Organisational capacity/resilience
- Housing Revenue Account services
- 100% Business Rate Retention Scheme

The Committee had a lengthy debate encompassing what risks would need to be included on the Corporate Risk Register next year and voiced their frustration that Cabinet Committees did not have access to their own risk registers which the Chair advised he would take back to his Cabinet to discuss as a possibility for future Cabinet meetings.

The Assistant Director assured Members that all risks are accounted for and risks that have been assessed as below the Corporate Risk Register tolerance level are still being monitored on a lower level service risk registers by key officers; for example Universal Credit wasn't on the current years register but the Service Manager (Revenues & Benefits) was acutely aware of the upcoming implementation and it is considered likely that this will be included on next year's Corporate Risk Register.

Resolved that Members:

1. Note the progress that has been made so far in managing or mitigating each risk that is recorded within the 2017-18 Corporate Risk Register
2. Recommend that the following be included in the development of the 2018/19 Corporate Risk Register which will be presented at the Committee on Tuesday, 13 February 2018:
 - Leaving the EU (Brexit)
 - Universal Credit
 - Employee Relations

33. Quarter Two Budget Monitoring Report 2017-18 - to end September 2017

The Assistant Director (Corporate Services) provided the Committee with information on actual performance against the approved Revenue and Capital budgets for 2017/18, 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 (General Fund) and the Principal Accountant (Housing & Exchequer) elaborated further on their respective fields outlined in the executive summary on page 72 of the report. Key points from the report were outlined to Members as follows:

- At the end of Quarter Two, there is a projected underspend for the year on the General Fund of £145,860. Main movements affecting the forecast position against the original budget for the year include impacts accruing against staffing budgets and implementation of 'Bridging the Gap' activity.
- In February 2017, the council completed its third acquisition, St John's House in Dartford, which is anticipated to provide an annual rental income stream of £160K
- The establishment of a shared service with Medway Council for legal services from April 2017 has produced a positive effect to the Council's Medium Term Financial Plan (MTFP) of £87K
- Other notable variances are £17K favourable for Civic Centre Rental Income and adverse £50K the Borough Market
- The Vacancy Savings for the second quarter was £213K, if it is continued there will be a sizeable underspend which could be offset against other pressures or put into other working balances
- The level of Working Balances at year end are projected to be £6.3m, constituted of the minimum working balances of £1.25m, the General Fund reserve of £2m and usable Working Balances of £3 million
- The General Fund Capital Programme for the year is budgeted at £13.9m, with spend to the end of Quarter Two of £1.4 million
- GBC are looking to make a contribution of £1.1 million to the HRA General Reserve which is a slight decrease from quarter 1; section 5.2 details similar variances contributed to the underspend. There is a £115K favourable variance for Vacancy Management which is being monitored closely but seems to be increasing at a similar rate
- Another significant item is the PV Panels; they were assumed to be sold in October but the deal hasn't gone through yet, the figures will be revised in quarter 3 as income is still generated until they are sold
- The level of Working Balances at year end are projected to be £3 million, at the minimum level of Working Balances for the HRA. Movements in the year are projected to result in a net increase in the General HRA Reserves of £1.1 million, with the level of reserves being £4.6 million at start of year and projected to be £5.7 million at year end
- The Housing Capital Programme for the year is budgeted at £14.6 million; with spend to the end of Quarter Two of £5.8 million

A point was repeated around some of the Committee that the Vacancy Savings were good from a budgetary point of view but the concern was that it was putting too much pressure on officers and increasing workloads which could lead to stress leave and inefficiency within

departments. After a lengthy discussion the Chair explained that the issue could not be solved at this Committee and the matter would be taken back to Cabinet Members to discuss so that it can be taken to the appropriate Committee. The Chair did advise though that there is already an ongoing Scrutiny Review which is looking into the reduction of staff and increased workloads with its next scheduled meeting on the 04 December 2017.

A number of points were raised by a Member:

- Page 71, 1.2 – The wording needs to be revisited to reflect the Member role in financial decision making
- Page 75 - £20K reserve for a Hand Arm Vibration (HAV) System seems very excessive; the Committee needs an email circulated on clarification of what the system is, its purpose and why it costs £20K
- Page 78 – There is a need to invest in the Planning department; the process is suffering because of it increasing waiting and appeal times which members of the public have commented on; not all of the reason for reduced planning fee income can be apportioned to the establishment of the EDC
- Page 86, 5.3.1 – The wording needs to be revisited as the current policy of rent reductions hasn't been relaxed

In response to a question regarding auditing the management of vacancies the Head of Audit & Counter Fraud Shared Services advised that it would be difficult to audit how long positions take to be filled but it could be checked how long they are held open for and try to build it into next year's work plan.

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

- A 60 day time slot for filling vacancy is very quick and would be difficult to meet but information can be provided to the Committee on the process for recruiting to vacant posts with case studies to demonstrate particular difficulties in recruitment.
- The Borough Market didn't perform as well as expected due to a number of reasons; it wasn't opened when expected, the food stalls were opening later and footfall was not at the level expected. Attempts have been made to increase footfall though with a Go-Trade project secured through EU funding which hopes to provide support to Market Traders which, in turn, will boost the Market offering. A new Market Manager has been recruited who has experience of managing markets in Medway and who is enthusiastic and keen to make the Market a success

The Chair thanked the officers for an informative update.

34. Annual Audit Letter 2017-18

The External Auditor Manager provided Members with a summary of the key findings arising from the work carried out by Grant Thornton LLP at Gravesham Borough Council for the year ended 31 March 2017, as set out in the 2016/17 Audit Fee Letter.

The External Auditor Manager advised that Darren Wells would have attended but had another diary clash unfortunately. However it provided an opportunity for her to meet the committee as the new External Audit Manager for Grant Thornton.

The External Auditor Manager, Grant Thornton directed the Committees attention to the Executive Summary on page 107 of the report which outlined the work undertaken, the responsibilities and the purpose of the Annual Audit Letter. The information in the report has been presented to Members at previous meeting, nothing has changed and the audit for GBC is still very good with only one minor issue raised which was subsequently rectified.

Resolved that Members:

1. Note the findings and conclusions of the audit work undertaken during 2016/17.

Close of meeting

The meeting ended at 9:15pm.