

# Finance & Audit Committee

Monday, 19 February 2018

7:30pm

## Present:

Cllr Karen Hurdle (Chair)  
Cllr Robin Theobald (Vice-Chair)

Cllrs: Lesley Boycott  
John Burden  
Rob Halpin  
Leslie Hills  
William Lambert  
Peter Rayner  
Lenny Rolles

Please note: Cllr Derek Shelbrooke was also in attendance.

Stuart Bobby	Director (Corporate Services)
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)
Gareth Davies	Head of Client Relationship Management, Hermes Investment Management
Darren Wells	External Auditor, Grant Thornton
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

## 1. Apologies

An apology of absence was received from Cllr Colin Caller. Cllr Rob Halpin substituted.

## 2. Minutes

The minutes of the meeting on the Wednesday, 15 November 2017 were signed by the Chair.

## 3. Declarations of Interest

Cllr John Burden declared two interests with regard to the item Budget Monitoring Report 2017/18 – Quarter Three:

- He is the Director, Chair and a trustee of the Northwest Kent Age UK
- He is also a director and trustee of the Gr@nd

## 4. Presentation from Property Fund Managers

Members of the Committee were provided with a presentation that detailed an overview of the Property Fund market and gave them the opportunity to ask questions of one of the Council's Fund Managers, Hermes. (A presentation booklet was handed out to each Committee Member).

The Chair thanked Gareth Davies for his informative presentation.

## **5. Budget Monitoring Report 2017/18 – Quarter Three**

Members were provided 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 12 of the report. Key points from the report were outlined to Members as follows:

### **General Fund**

- At the end of Quarter Three there is projected underspend for the year of £630,850. 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
- The level of Working Balances at year end are projected to be £6.99m, constituted the minimum working balances of £1.25m, the General Fund reserve of £2m and usable Working Balances of £3.74m
- The budget for 2017/18 incorporated a vacancy allowance of £350,000, and the current year-end projection is an underspend of £760,000 against staffing budgets, therefore giving rise to the net favourable variance of £410,000
- As part of 'Bridging the Gap' activity identified within MTFS a number of shared service options are being explored. 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 £104k in 2017/18
- There is an additional projected rental income for 2017/18 of £58K compared to the original budget following refinement of budgetary arrangements
- There is a £44K favourable variance for the CCTV Partnership achieved by reducing staffing costs and funding previously set aside on an annual basis to support the installation of new CCTV cameras/equipment
- £70K adverse variance for the Borough Market
- The Garden Waste Collection Service has a projected surplus income of £50K due to continued growth of the garden waste subscription service
- Government Grant Funding –the projections for Section 31 grants received to compensate the Council for various business rate reliefs granted (within the Government Grant Funding) and business rates income have been updated, giving a net benefit to the MTFP of £155K
- The forecast usable Working Balances as at 31 December 2017 is £3,740,410
- The forecast balance of General Fund Earmarked Reserves as at 31 March 2018 is £7,273,000

- For the General Fund Capital Programme the 2017/18 working budget is £12,635,850, the vast majority of which relates to the Property Acquisition Programme (£10 million). The recent acquisition of the retail building in Sittingbourne high street was completed in January and will bring in an annual rental income stream of £85K
- Section 4.4 shows the level of Capital Resources available to fund General Fund Capital projects

### Housing Revenue Account

- At the end of Quarter Three, income and expenditure for the year remains balanced, albeit there is a movement in the projected transfer to reserves due to adjustment in the funding for the New Build/Acquisition programme. Main movements affecting the forecast position against the original budget for the year include savings against staffing budgets, increases in rental income, the impact of the disposal of the PV Panel stock and savings generated from ongoing activity to improve the efficiency and effectiveness of the repairs and maintenance service to tenants
- The level of Working Balances at year end are projected to be £3.0m, 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 £2.1m, with the level of reserves being £4.6m at start of year and projected to be £6.7m at year end. As with the GF, the significant risk to the HRA's financial position continues to be the lack of clarity regarding funding, in particular changes to funding for supported housing
- The Housing Capital Programme for the year is budgeted at £14.7m, with spend to the end of Quarter Two of £9.5m
- The Housing Strategy Development Manager is working hard to ensure that all the Councils right to buy receipts are correctly used and so far twenty four properties have been purchased with an additional number of offers being accepted
- With regard to the Disabled Facilities Grant the combined total expenditure and committed funds to date is £713,046 and with the anticipated progress on the outstanding cases, the remaining budget of £418,454 is expected to be fully expended/committed by the end of 2017/18

Following Members questions and comments, the finance officers advised that:

- There is £153K forecasted expenditure of the Leisure Centre Reserve; the purpose of this will be checked and brought back to the Committee. In relation to the reserve itself, it was established to secure ongoing delivery of the leisure services in Gravesham
- The reserve was also originally set up to accumulate the payments of the management contributions that would be paid by GCLL to the Council over a period of ten years ending in 2020; it was aimed to make a reserve of £2 million however as a part of an agreement the Council was forced to make the payments for utilities which is why the reserve is much lower
- As Members will be aware, agreement was given to extend the Leisure Centre Management Contract by an additional five years taking them through to 2025; the centres do need major investment to update and refurbish them. The Director (Communities) is arranging trips to other leisure centres to understand how they reenergised their centres as well as reviewing their financial models

- The error on page 32, under Southfield Shaw Capital Works will be rectified and the committee informed of the correct figure
- A sheltered housing review was required and carried out by GBC due to the reduction in funding from KCC, one of the outcomes from that was to remove wardens from being residential and have them as 'floating support'. By changing this, the Council has removed the additional cost of meeting their rent
- Referencing the disabled facilities grant on page 35, Members were advised that additional assurances would be sought from the Assistant Director (Housing) that all of the 88 live cases would be completed or they would have funds committed to them by the end of the financial year
- With regard to the £410k favourable variance for staff vacancies, GBC budgets for a full staffing establishment and has a vacancy allowance of £350K. The favourable variance against staffing budgets has accrued this year due to natural turnover, difficulty in finding staff for professional positions such as planners and accountants and the implementation of Service Review Options. These will not be known when setting the budget, resulting in an in-year variance.
- The saving delivered by the shared CCTV service with Medway is due to the sharing of a desk and resultantly fewer staff being needed, with it understood that one officer was made redundant. GBC were unaware initially that Medway had privatised that service although that had no correlation with the one officer being made redundant
- With regards to the decision to stop the Revs & Bens shared service with TMBC, the two officers that left the service after the announcement were met with to discuss their reasons for leaving. Members can be assured that they left for entirely unrelated reasons to the shared service
- The Queens Statue is being funded solely by external investors but as it is owned by GBC it is classed as an asset and therefore is reflected in the Capital Programme
- The funds put in an earmarked reserve for the Lower Thames Crossing (LTC) were agreed at a meeting of Full Council last year and will remain in the reserve until expended or a decision is taken to release the funds back to working balances.
- The donations towards the statue could not be disclosed at the meeting and officers would need to check the terms of the donation before disclosing information on the donors.

Cllr Halpin wanted it noted that the signage for the new cemetery in Chalk/Higham was very poor and had had numerous complaints of it from his residents. Cllr Hills replied to this that he too had received many complaints from his constituents but that it was down to KCC Highways to erect more signage.

The Chair thanked the officers for an informative update.

## **6. Treasury Management Strategy Statement 2018-19**

Members considered the Treasury Management Strategy 2018/19, the Annual Investment Strategy and the Minimum Revenue Provision Policy.

The Principal Accountant highlighted the following key points from the report:

- Section 6 – The table at 6.4 details the Capital Prudential Indicators up until 2021. In 2017/18 the net financing need for the year is £5 million reflecting the spend on commercial property acquisition from the council's own resources

- Section 8 – The forecast of the level of gross debt as at 31 March 2018 is just over £98 million which gradually reduces over the next three years as debt is repaid to a level of just over £90 million in 2020/21
- For the same period, the actual debt is less than the Capital Finance Requirement which means we have an under borrowed position. You will see that the under borrowing position is increasing, this reflects the internal borrowing that we have undertaken for the Commercial Property Acquisition within the capital
- At 18.3, the report was prepared prior to the Bank of England's most recent guidance on interest rates. As a result Link have also revised their interest rate forecast to the following:
  - 2018/19 0.80%
  - 2019/20 1.25%
  - 2020/21 1.50%
  - 2021/22 1.65%
  - Rates remain the same for years 2022/23 onwards.
- Last year, Link Asset Services took over Capita who previously advised GBC on treasury management
- As with the 2017/18 Treasury Management Strategy we have included two cash flow graphs for Member information which can be found at appendix 7 and 8 of the document.

**Resolved** that Members recommend to Full Council that:

- 1) The Treasury Management Strategy for 2018/19 be agreed
- 2) The Authority's Prudential & Treasury Indicators be determined as set out in the report
- 3) Delegated authority be given to the Director of Corporate Services, in consultation with the Chair of the Finance and Audit Committee, to amend the prudential and treasury indicators as necessary as a result of the budget approved by Full Council on 27<sup>th</sup> February 2018
- 4) The Annual Investment Strategy (AIS) for 2018/19 be agreed
- 5) The application of the Asset Life (Equal Instalments Methodology) for Minimum Revenue Provision (MRP) calculation on all new capital expenditure be approved for 2018/19 and beyond in accordance with the Authority's Capital Programme

## **7. Corporate Risk Register 2018-19**

Members of the Finance and Audit Committee were informed of the outcomes from Gravesham Borough Council's annual risk identification and analysis exercise and were presented with a draft copy of the Corporate Risk Register for 2018-2019. The report confirmed that there were no material changes required to the Corporate Risk Management Strategy.

The Assistant Director (Corporate Services) advised that following assessment of the potential strategic risks identified, those assessed as being above the council's risk tolerance

threshold and therefore proposed for inclusion in the 2018-19 Corporate Risk Register were identified as being:

- Risk 1: Ongoing financial viability of the Council
- 
- Risk 2: Changes in national priorities and legislative change
- 
- Risk 3: Organisational capacity/resilience
- 
- Risk 4: Business Rates Retention Scheme
- 
- Risk 5: Implementation of the Homelessness Reduction Act
- 
- Risk 6: Universal Credit
- 
- Risk 7: General Data Protection Regulations (GDPR)

**Resolved** that Members were in agreement with the inclusion of the above seven risks for the Corporate Risk Register 2018-2019.

## **8. Audit & Counter Fraud Update – Q3 2017-18**

Members were provided with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 October 2017 to 31 December 2017.

The Head of Audit & Counter Fraud Shared Service stated that:

- The report is the final update for 2017-18 ahead of the annual report in June; six audits were finalised during the period of the report with the details showcased in the table at section 4 of the report
- With regard some of the key targets shown in the table on page 174, as of the morning of 19 February 2018, the proportion of agreed plan delivered is at 54% with proportion of agreed plan underway at 34%. Proportion of productive time spent on assurance & consultancy work is 67% and proportion of productive time spent on counter fraud work is 33%.
- There are no additional fraud savings to add at this time but the team are working with the Housing Dept. in relation to the potential recovery of 2-3 properties.
- The contract for the temp that was employed in the shared service ended in February and the staff member who had been off returned to work. The temp was very productive and helped to fill the gap.

Section 6 outlines a formal recommendation to remove one review from the plan and defer a second to 2018-19:

- Waste & recycling project Post Implementation Review – This review has already been undertaken by the Corporate Change Manager and conducted independently of the service, meaning that there is no longer a need for the Audit & Counter Fraud Team to undertake the review
- Repairs & Maintenance Supplies Management – The project to make changes to the system and process is behind schedule, therefore the consultancy planned for Q1

and the review planned for Q4 have not been required. The project will be moving forward in late March and it is therefore proposed to defer these items to 2018-19

**Resolved** that Members:

- 1) Noted the outputs and performance of the Audit & Counter Fraud Plan for Gravesham for the period 1 October 2017 to 31 December 2017 as detailed at Appendix two.
- 2) Approved the amendments to the 2017-18 work plan as detailed in section 6 of the report at Appendix two.

## **9. Audit & Counter Fraud Strategy Review**

The Head of Audit & Counter Fraud Shared Service gave an update on progress against the Audit & Counter Fraud Strategy 2016-2020 made by the team during 2017-18 to date.

A review of the strategy and of action carried out to date against the three objectives listed in pages 183/4 of the report has been carried out. The Strategy is considered to remain appropriate with good progress made as shown by the positive trends in the team's performance reported through the Finance & Audit Committee; there are no changes proposed to the objectives.

**Resolved** that Members noted the progress made by the Audit & Counter Fraud Team towards delivering its strategic objectives during the 2017-18 year to date.

## **10. Audit & Counter Fraud Quality Assurance & Improvement Programme Review**

The Audit & Counter Fraud Shared Service Quality Assurance & Improvement Programme 2018-19 was presented to Members for approval.

The Public Sector Internal Audit Standards (Standards) require that the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

On 14 March 2017, the Finance & Audit Committee approved the Quality Assurance & Improvement Programme (QAIP) prepared to meet this requirement. The main change is the layout of the table containing the performance measures. It is still based on a balanced scorecard approach, however the performance indicators are now grouped under to reflect those that relate to the service as a whole and those that relate to the individual authorities.

The Standards require an external assessment to be carried out at least once every five years by a qualified assessor or assessment team from outside the organisation. Gateway Assure visited both GBC and Medway in January for site visits as part of their assessment, which is now complete in compliance with the deadline set for 31 March 2018. A draft report will be received in the coming weeks with the findings presented at the next Finance & Audit Committee.

**Resolved** that Members approved the revised Audit & Counter Fraud Shared Service Quality Assurance & Improvement Programme 2018-19.

## **11. Audit Plan 2017-18**

Members were informed of the planned work of the external auditor in conducting their audit of the council's Statement of Accounts 2017-18.

The External Auditor, Grant Thornton advised that the report is in a slightly different format than previously but Members will be familiar with the content; on page 211 it snapshots the key elements of the work plan and it confirms the outcome of the risk assessment for value of money, the conclusion being that no VFM significant risks have been identified. The final paragraph of the report explains the independence of the external auditors and their ability to express an objective opinion on the financial statements.

Following a question regarding the risks contained within the Audit Plan and Medway privatising their shared service without GBC knowing, the External Auditor responded that there should be transparent communication between the two authorities and it was unusual, but this was not classified as a significant risk for the type of audit that is carried out.

**Resolved** that Members noted the audit plan for 2017-18.

### **Close of meeting**

The meeting ended at 9:11pm.