

Finance & Audit Committee

Tuesday, 14 November 2018

7:30pm

Present:

Cllr Lenny Rolles (Chair)
Cllr Michael Wenban (Acting Vice-Chair)

Cllrs: John Burden
Karen Hurdle
Leslie Hills
Shane Mochrie-Cox
Peter Rayner
Robin Theobald

Sarah Parfitt	Assistant Director (Corporate Services)
Wale Adetoro	Assistant Director (Housing)
Alexandra Jarvis	Principal Accountant (Housing & Exchequer)
Andrew Barnett	Principal Accountant (General Fund)
Helen Thaqi	Audit & Counter Fraud Shared Service Team Leader
Mark Cayzer	Audit & Counter Fraud Shared Service Team Leader
Ben Clarke	Committee & Scrutiny Assistant (Minutes)

79. Apologies for absence

Apologies of absence were received from Cllr William Lambert (Cllr Michael Wenban subbed), Emily McKeown and Elizabeth Jackson, the two representatives from Grant Thornton.

80. Minutes

The minutes of the meeting on Tuesday, 11 September 2018 were signed by the Chair

81. Declarations of Interest

Cllr John Burden declared a non-pecuniary interest in respect of item 4.1 on page 106 of the report relating to the Older Persons Champion. It refers to Age UK and Cllr Burden is the Chair and Director of Age UK North West Kent.

Cllr John Burden also declared an other interest in respect of item 3.11.6 on page 104 as he is a Director of the Gr@nd.

82. Audit & Counter Fraud Update - Q2 2018-19

Members were provided with an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 1 August 2018 to 30 September 2018.

The Audit & Counter Fraud Shared Service Team Leader stated that the update at Appendix 2 is the second of three updates to be produced during 2018-19; detailing the work

undertaken by the Audit & Counter Fraud Team between 1 August and 30 September 2018 and the progress made against the annual work plan.

The Audit & Counter Fraud Shared Service Team Leader highlighted a number of key points to the Committee:

- Paragraph 3.4 of the update, on page 16, explains that due to staff sickness, an unexpected vacancy created by a promotion within the team and one Audit & Counter Fraud Officer taking flexible retirement from 01 September 2018, the level of resources available has been affected.
- As of 30 September, the net loss from the original resource budget of 660 days for Gravesham, resulting from these issues is approximately 56 days. Overall the team is forecasting a loss of 155 days; the 56 days is Gravesham's proportion of that based on the agreed split of resources and work that has already been completed.
- Despite the resourcing issues the work plan for 2018-19 is progressing well and the table in section 4, which starts on page 18, provides an update on all work completed during the period. During this period four audits were finalised.
- An update against the team's key performance indicators is given in the table at section 5, which starts on page 25.
- The outturns provided are as at 30 September; however as of today (for the year to date):
 - A&CF10 Proportion of productive time spent on assurance and consultancy work is 62%
 - A&CF11 Proportion of productive time spent of counter fraud work is 38%
 - A&CF12a Proportion of agreed assurance assignments delivered is 32%
 - A&CF12b Proportion of agreed assurance assignments underway is 24%
- Section 6, on page 27 of the update, sets out a request to defer the audits of Tenancy Enforcement and Repairs & Maintenance to the 2019-20 plan due to changes in the Services. This will allow for more effective reviews to take place next year.
- There are no further expectations to request changes to the plan at this time; the resource situation is being continually monitored to see if we can recover lost time through other means. Revisions of the plan may become necessary in the future, in which case Members will be provided with a full explanation and approval sought.
- Section 7, which starts on page 28, provides an update on all Audit & Counter Fraud recommendations; including a table on page 34, which lists agreed recommendations that are outstanding more than 6 months past the scheduled implementation date. All of the recommendations in this table were reported to the Committee in September; the Director (Housing & Regeneration) gave assurance at the previous Committee meeting that these recommendations will be implemented by December 2018. Further updates will be provided at the February committee meeting once the revised implementation dates set by the client have passed.

Concern was voiced by a Member over the 'Manual Handling' audit listed on page 21 as it was a health and safety concern rather than an audit issue.

The two Audit & Counter Fraud Shared Service Team Leaders explained that it is an audit concern from the point of view of staff wellbeing and insurance implications. They assured Members that the safety of the workforce is the first priority and the audit will seek assurance

that the right policies are in place that they are being followed and training is given to keep staff safe. The audit will also seek assurances that effective support is available to any staff that may be injured at the workplace. Once the review is completed, the findings will be fed back to Members.

The two Audit & Counter Fraud Shared Service Team Leaders fielded questions from the Committee and explained the following:

- Page 26 – The proportion of available resources spent on productive work (85%) is calculated based on the amount of time spent on core audit assurance, consultancy and counter-fraud work; the 15% non-productive time is calculated based on time associated with things such as IT issues, admin work, 1-1s / appraisals and time spent at team meetings etc. One particular issue during this period was the upgrade to Office 365 which meant there was some IT down time affecting the productive time overall. As of today, the percentage of time spent on productive work has increased to 88%. In terms of contingency in place, all work is now saved electronically, with paper copies securely destroyed. All Officers now have a Surface Pro and in the unlikely event of a power cut or IT problems the Surface Pros can remotely access the Gravesham and Medway networks securely from any Wi-Fi network, at any location.

The Committee was still concerned with the ongoing issue on page 29 on Planning Enforcement which still hasn't been dealt with after four and half years. Members impressed the need for it to be rectified so that arrangements could be improved to monitor planning conditions on applications and checks on developers.

The Assistant Director (Corporate Services) advised that she would pass the comments back to the Assistant Director (Planning) and the Director (Housing & Regeneration). In terms of monitoring, it was agreed at the Committee that senior officers would attend an F&A Committee if a recommendation for their department was outstanding for longer than six months. That agreement has been accepted at Management Team. The Assistant Director (Corporate Services) added that on this basis, if the recommendation has not been rectified in December, then either one of the aforementioned Directors can attend the February meeting of F&A Committee to explain the reason why it hasn't been implemented.

The Committee made a formal request that the Assistant Director (Planning) and/or the Director (Housing & Regeneration) attend the Finance & Audit Committee on Monday, 18 February 2019 if the planning enforcement issue has not been dealt with.

Clarification was sought by a Member on what powers the F&A Committee had to enforce that or whether it had to go through Council or Cabinet.

The Assistant Director (Corporate Services), referencing the Terms of Reference of the committee, explained that the Committee has the ability to monitor and review the effectiveness of management's responses to any recommendations made, and make recommendations on reports to the Council by Internal Audit. It was reiterated that there has been a commitment from Management Team to enforce senior officer's attendance at F&A Committee meetings if their items are outstanding.

The Chair inquired over the red and amber opinions on the Rent Deposit Scheme and Housing Revenue Account Building Management – Compliancy audits, respectively.

The Assistant Director (Housing) explained that he would have to consult with the Director (Environment & Operations) to get answers to the latter opinion but with regard to the Rent Deposit Scheme, the audit itself was actually instigated by the Housing Department over the way the scheme was being operated. However, the Assistant Director (Housing) stated that he was confident that all the recommendations will now be delivered in time due to the new controls in place.

For clarification, the Assistant Director (Housing) explained that the scheme is a tool used to prevent homelessness in cases where people are threatened with becoming homeless. The scheme supports them in acquiring private accommodation by paying the deposit and first month's rent in advance. However, it is a loan so it has conditions; it is only given out to people who can demonstrate to the Council that they can pay it back and it is usually collected over a two year period. Sometimes the money is not always retrieved but it is a far cheaper option available to the Council.

Resolved that Members:

- noted the outputs and performance of the Audit & Counter Fraud Plan for Gravesham for the period 1 August 2018 to 30 September 2018 as detailed at Appendix two
- approved the amendments to the 2018-19 Audit & Counter Fraud work plan as outlined in section 6 of the report at Appendix 2

83. Treasury Management 2018-19 - Mid-Year Review

Members were provided with a mid-year review update report to Members of the Finance and Audit Committee on treasury management activity undertaken during the period April to September 2018.

Section 3 (page 38) includes an economic background update from Link along with an interest rate forecast. Following the Quarterly inflation report and minutes from the MPC meeting, Link is anticipating an interest rate rise in 3rd quarter of 2019, and further rate rises in 2020 and 2021. Those forecasts will form the basis of the investment income forecast when setting the 2019/20 budget.

As at 30th September, the Council's investment balance was £55.3m. That is a significant increase which reflects the investable balances that the Council is holding as a result of the St George's Centre development. The redevelopment of the St George's centre has led to an increase in the Council's capital programme which has resulted in revised estimates for the capital expenditure and financing of the capital programme prudential indicators which can be found in section 6 of the report at pages 41 and 42 of the pack.

Full details of the Council's investments as at 30 September can be found in appendix 2 and 3 of the report.

Of the £55.3m, £34.9m is currently managed internally and £20.4m is managed externally within Property and Multi Asset Funds.

The Principal Accountant (HRA & Exchequer) highlighted an error in the report; in paragraph 7.2 the yield on the internally managed investments is shown as 0.453% against a 3 month LIBID benchmark of 0.21%. Those are the figures for 2017-18. The correct figures should be the average investment return is 0.43% against a 3 month LIBID figure of 0.67%.

In turn that means that GBC were below the benchmark and this is primarily due to the volume of cash GBC hold and having to hold relatively large balances in the Money Market Funds. Whilst the TMSS was amended to increase the total sums that can be invested with each counterparty following the St George's redevelopment, as a result of the EU MIFID2 legislation that came about in January the funds haven't been able to be placed immediately. The next step is to go through an on-boarding process with new counterparties which has been time consuming and therefore as a result GBC have had to hold monies in the Money Market Funds until such time as investments can be placed. However GBC have now been able to place longer term investments, and are now starting to achieve over 1%, therefore the yield should start to rise.

Moving onto the Property Funds and Multi Asset funds the team have continued to see capital growth across all three property funds as can be seen in the table on page 45 of the pack. The capital value of Multi Asset Funds continues to be very volatile and is currently below the opening value. It is important to remember those are long term investments and the value can go up as well as down. The funds will be monitored closely and contact will be ongoing with the Fund Managers. The intention is to invite one of the Multi Asset Funds along to Finance and Audit Committee in February ahead of the TMSS for 2019-20 being presented.

The cashflow model has been updated to reflect the Q2 MTFP and HRA Business plan as well as the cashflow relating to the St Georges development and the latest version can be found in appendix 4 and 5. The changes are having a positive impact on the cash balances.

At section 12 (page 46) IFRS9 is referred to which is a change in accounting standards that came into effect on 1 April 2018. The overarching aim of the accounting standard is to recognise changes in values of investments in the comprehensive I&E as they occur rather than just when they are realised on sale. For GBC, this means that if the value of our property funds and multi asset funds have a net increase in value, the gain will be taken through to the I&E and ultimately taken through to reserves but if a net loss is seen, this is also taken through to the I&E and essentially need funding, even though it hadn't been realised as a result of sale. The Government consulted on the standard and have agreed a temporary override will be applied for 5 years instead of the original 3 years that was proposed, during which time the Council will be able to build a reserve to fund any potential losses or disinvest from the funds. The Government also advised that it will be kept under review.

Referencing page 46 section 12, the Committee agreed that too much technical jargon is used and the paragraph should be written in more plain English so that it could be universally understood. The Chair added that acronyms should be avoided where possible.

Following a question regarding property fund investment returns, the Principal Accountant (HRA & Exchequer) explained that GBC realise income returns and an element of capital growth by holding such investments. The table in the report shows capital growth in addition to the returns from the income stream.

Resolved that Members:

- noted the report
- recommended to Full Council that the revised estimates against the prudential and treasury indicators are endorsed

84. Corporate Risk Register 2018-19 - Mid-Year Review

Members were presented with mid-year progress information in respect of all risks recorded in the 2018-19 Corporate Risk Register which can be found at appendix two of the report.

The 2018-2019 Corporate Risk Register was approved by Council on 17 April 2018 and is attached at appendix two to the report for Member information. Seven strategic risks were identified as being above the Council's risk tolerance threshold and were therefore included in the register. Management action is provided against each of those risks by the officers in charge of them and the quarterly risk assessment for each risk is located on pages 81- 93 of the report.

The Principal Accountant (HRA & Exchequer) welcomed Member input on adding or moving any risks for the 2019/20 register.

The notion was raised by a Member that risk 5 and 6 should be combined for the new register as they link to each other and homelessness can be increased by the rollout of Universal Credit. The amount of Universal Credit given compared to high rent levels is not compatible and makes large swathes of people homeless in a vicious cycle. But the point was stressed that something needed to happen immediately as the nights are growing increasingly colder as winter approaches, action needs to be carried out before the paperwork.

The Assistant Director (Housing) advised that there are synergies between those two risks and there are several lobbying groups nationally that are looking into that correlation. It is a national problem although as of yet no one has linked those two problems together. Measures are in place addressing the risks separately at Gravesham. Over the last four years housing rent arrears have reduced by approximately £800K, however upon roll-out of Universal Credit that rate of reduction rate has slowed down. MT have agreed to the procurement of a particular software which is an analytical tool which helps to better focus the rent recovery work undertaken by staff ; the software will be active from January 2019. The Homelessness Reduction Act that came into effect in April 2018 has directly impacted the figures especially causing an increase in approaches to the council for assistance and also in the numbers placed in temporary accommodation (the figure now stands at 90 as at the end of quarter 2). Some of the temporary accommodation used is in privately rented accommodation, which are charged for at a nightly rate and therefore more expensive. The grant received from Central Government goes towards topping up some of the rents paid for such accommodation where housing benefit doesn't cover the cost of the accommodation.

After a further short discussion on homelessness and Universal Credit, Members agreed that more light should be shone on the difficulties the Housing Team face and it should be made publicly aware that Universal Credit is causing more people to become homeless. Members felt that the public needed to be more aware of the problem people face with claiming for Universal Credit.

Referencing risk 1, concern was raised by a Member and following a detailed overview he asked that the two actions below be incorporated into the Risk Register:

- Making ongoing financial pressures that Local Government are facing more public
- Review the best deals and development opportunities for Local Government as a whole

The Assistant Director (Corporate Services) highlighted the following in response:

- In terms of public reporting there have been double page spreads in the 'Your Borough' magazines talking about 'Bridging the Gap' activity, why the Council is in that position and what is being done to combat the problem. As part of the consultation for the new Corporate Plan, a document has been prepared that sets out the financial position of the Council. Next year GBC will receive the outcome of the Fair Funding Review
- The Council responds to far more consultations than two or three years ago and the Council has become a lot more robust in expressing its views on issues or proposals from Government.
- GBC are very active in relation to the District Council Network, David Hughes is a member of and engages in that group. This Group, as well as the Local Government Association, are both voicing local government views to the Government
- One thing that has changed is about trying to put the case together for a better deal for Local Government overall

The Assistant Director (Corporate Services) advised that she would take all the information back to Management Team for review.

A Member sought clarification on his earlier point of Health and Safety. The Principal Accountant (Housing & Exchequer) advised that the health and safety risks will be managed through each services own departmental risk register. The Corporate Risk Register only deals with overarching risks for the whole Council. A risk that doesn't exceed the risk tolerance threshold will be given back to individual department risk registers and business plans to be reviewed annually.

Resolved that Members:

- noted the progress that has been made so far in managing or mitigating each risk that is recorded within the 2018-2019 Corporate Risk Register
- propose the merger of risk 5 and 6 on the 2017/18 Risk Register in the 2019/20 register as one risk dealing with Homelessness and Universal Credit
- propose that the below two actions be incorporated into the 2019/20 register
 - Making ongoing financial pressures that Local Government are facing more public
 - Review the best deals and development opportunities for Local Government as a whole

85. Quarter Two Budget Monitoring Report 2018-19 - to end September 2018

Members were provided with information on actual performance against the approved Revenue and Capital budgets for 2018/19, 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) advised that it is the second budget report of the 2018/19 financial year for second quarter to 30 September 2018 and directed Members

attention to Page 96 of the report. It was a detailed one page executive summary that highlighted and explained the main points from the report regarding:

- General Fund (Revenue)
- General Fund (Capital)
- HRA (Revenue)
- Housing Capital

The Principal Accountant (General Fund) and the Principal Accountant (Housing & Exchequer) elaborated further on their respective fields outlined in the executive summary, quoting the figures from the report.

General Fund

The Principal Accountant (General Fund) and the Assistant Director (Corporate Services) fielded questions from Members explaining that:

- The statue of the Queen was fully funded by third party contributions but the statue has to be included on the asset register as a council asset and therefore any capital costs incurred against the statue has to be reflected in the General Fund Capital Programme
- Waste Freighter Vehicle Parts £25K adverse variance – GBC bought the vehicles new but they were new models and budgetary provision for replacement parts was not sufficiently made. The Assistant Director (Corporate Services) will liaise with the Operational Services Team to obtain further information on the matter.
- Town Pier Remedial Works – It is unsure if any money has been reimbursed for the works that were carried out at the Town Pier; it will be followed up on and brought back to the Committee. The Assistant Director (Corporate Services) advised that GBC are reviewing our repairs and remedial works requirement for the Civic Centre, all civic buildings and assets; the sea wall by St Andrews Church will be taken into account as a part of that planning.
- The Principal Accountant (General Fund) added that there are working groups which look at assets within the Borough, at what needs to be done with them, when it needs to be carried out by and funding arrangements such as securing external funds from the Heritage Lottery Fund
- A £91k Flexible Homelessness Grant was received in 2017/18 and has been released to fund temporary accommodation costs; the Homelessness Reduction grant varies from year to year and the grant is held until it is required to be drawn upon to fund services the same as other grants are used
- Refuse Collection – KCC contribution: KCC have fully reimbursed the council for the additional tipping-away costs (such as fuel and staffing) incurred due to the fire at the Pepperhill site
- On page 109, Developer Contributions: Whitehill Road is possibly a typo, it should be Whitehill Lane, it will be clarified for the Committee

The Assistant Director (Corporate Services) gave an overview of the Autumn Budget announcement at the behest of the Chair:

- Government announced an extra £45 million funding for Disabled Facilities Grant for 2018/19 however a dialogue will need to be had with KCC as to how any additional

money will be allocated between the two organisations due to the service arrangements under the Better Care Fund

- £675 million of co-funding was announced for a High Street Fund which will be used to rejuvenate high streets and change unused business and commercial property into residential; The Assistant Director (Communities) and his Economic Team are already looking into that fund and how it could be used in Gravesham
- Retails premises with a rateable value of under £51K will have their business rates reduced by a third for the next two years; the Council will receive a Section 31 grant from Central Government to be reimbursed for the impact of this announcement which should result in a neutral variance
- Continuation of discounts to local paper offices as well as 100% relief for public toilets
- A heads up was given a to spending review for 2019 and talked about average real term increases in annual Resource Departmental Expenditure Limit (RDELS) over the next five years of around 1.2% per annum. However when looking into details behind that announcement there is reference to above inflation increases for NHS, so it is currently unclear what this will mean for local government. Local Government will have to wait for the outcome of the 2019 spending review

HRA and Treasury Management

The Principal Accountant (Housing & Exchequer) answered questions and comments from the Committee explaining that:

- There will be a Member training session on the 29 January 2019 given by Link on Treasury Management
- The properties purchased on the open market reference at 6.4.1 tend to be former right to buy properties which are located nearby to other Council properties and have similar maintenance requirements as existing stock. GBC can use right to buy receipts to purchase such properties but they are susceptible to right to buy

The Chair thanked the officers for an informative update.

86. Audit Progress Report and Sector Update

The Committee was informed of the progress to date on the work of external audit and attention was drawn to emerging national issues and developments that may be relevant.

The Assistant Director (Corporate Services) explained to Members that Elizabeth Jackson unfortunately had a situation arise which meant she was unable to attend. She has replaced Darren Wells as the Associate Director representative from Grant Thornton for our external audits. The Directors rotate between different authorities after a certain amount of time in order to maintain their independence and although it was a pleasure working with Darren Wells, the Finance team are looking forward to working with Elizabeth Jackson as she was a previous onsite auditor in 2010.

In terms of the report, at appendix two it provides Members with an update on the delivery of external audit responsibilities against the planned work for 2017/18 and 2018/19, a summary of emerging national issues and a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

The Assistant Director (Corporate Services) added that the 2017/18 Housing Benefit Certification work is due to be completed by the end of this month; officers are working with the auditor to finalise the audit, the outcomes of which will be brought back to the Committee in the future.

One Member raised two questions to be answered or taken back to Grant Thornton:

- Can assurances be given that none of Elizabeth Jacksons team, nor herself, were involved with the financial audit of Patisserie Valerie
- Page 144 – Concerns are raised over the language used in paragraph about setting up the LATc, the downgrading of staff in the terms and conditions and the references to pension rights

The Assistant Director (Corporate Services) advised that she would take those points back to Grant Thornton although with regard to the first point, she anticipated that they were not involved as Grant Thornton operates separate arms of the company for private and public organizations.

Resolved that Members noted the information contained within the report.

87. PSAA Report on the results of auditors' work 2017/18

Members were informed of the PSAA Report on the results of the auditors' work for 2017/18.

The report summarises the results of auditors' work for 2017/18 at 495 public sector bodies including councils, fire and rescue authorities, police bodies and other local government bodies. The report summarises:

- the audit of the financial statements;
- the review of arrangements to secure value for money; and
- any exercise of statutory reporting powers.

The report sets out that for 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and the PSAA are encouraged that 87 per cent of audited bodies received an audit opinion by the new deadline.

The report also highlights that the number of qualified conclusions issued by auditors on the arrangements to secure value for money remains relatively constant at seven per cent (32 councils, one fire and rescue authority, one police body and two other local government bodies) compared to eight per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The Chair thanked the officers for an informative meeting.

Close of meeting

The meeting ended at 9:20pm.