Finance and Audit Committee

Wednesday, 11 November 2020 7.30 pm

Present:

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

Councillors: Derek Ashenden
Ejaz Aslam
Nirmal Khabra
Emma Morley
Elizabeth Mulheran
Tony Rice

Sarah Parfitt	Director (Corporate Services)
Lisa Nyon	Assistant Director (Corporate Services)
James Larkin	Head of Audit & Counter Fraud Shared Services
Andrew Barnett	Principal Accountant (General Fund)
Alexandra Jarvis	Principal Accountant (Housing Revenue Account)
Stewart McDonald	Technical Services Support Officer
Lauren Wallis	Committee Services Officer (Minutes)

74. Assistant Director (Corporate Services)

The Chair welcomed Lisa Nyon to the meeting who commenced her new role as Assistant Director (Corporate Services) on Monday, 9 November 2020.

75. Apologies for absence

No apologies for absence were received.

76. To sign the minutes of the previous meeting.

The minutes of the meeting on Tuesday, 13 October 2020 were signed by the Chair.

77. To declare any interests members may have in the items contained on this agenda. When declaring an interest a member must state what their interest is.

Cllr Sarah Gow, Cllr Tony Rice and the Assistant Director (Corporate Services) declared an Other Significant Interest as an appointed Director of Rosherville Limited, the Council's Local Authority Trading Company.

78. Statutory Statement of Accounts 2019/20

Members were updated on the progress of the annual external audit of the Statement of Accounts. The Committee was advised that it had not been possible to conclude the audit and present the final Statement of Accounts and Audit Findings Report at this meeting. It was therefore requested that delegated authority be given to the Chair of the Committee to sign the audited Statement of Accounts and Letter of Representation outside of the meeting. This would include consideration of the Audit Findings Report from the external auditors Grant Thornton. In addition, it was proposed that both the Statement of Accounts and Audit Findings Report documents would be circulated to the Committee once finalised so that any comments from Members could be taken into account prior to sign off.

The Principal Accountant (General Fund) drew Members' attention to paragraph 2 of the report which set out the reasons why it had not been possible to produce an audited set of the accounts for sign off at this meeting. In particular, he highlighted the accounting arrangements relating to the St George's Centre and the additional requirements placed on the auditors by their own regulatory body. The impact of the pandemic was also noted.

Paul Grady and Liulu Chen from Grant Thornton, the Council's external auditors, were welcomed to the meeting.

The following points were raised during discussion on this item:

- The Director (Corporate Services) confirmed that it was the intention of the Council and the external auditor that the Statement of Accounts to be ready by the end of November. Members were advised that there were no penalties for not meeting the target date for sign off, which was confirmed by the representatives of Grant Thornton.
- It was suggested that rather than circulating the document to Members of the Committee for comment, it might be a better idea to call a special meeting of the Committee. The Chair confirmed that this would depend on the number of comments received and date availability in what was an already busy schedule of meetings.
- Following a question on the deadline for completion of the Statement of Accounts and Audit Findings Report, it was confirmed there was no absolute deadline and some local authorities had audit documents outstanding from 2018. However, the non-completion of these documents could impinge on next year's accounts and that this was best avoided.

Resolved that, following consultation with Members of the Finance & Audit Committee on the Statement of Accounts and Audit Findings Report documents, delegated authority be given to the Chair of the Committee to sign the Statement of Accounts and Letter of Representation.

79. General Fund Budget Monitoring Report - Quarter 2 2020/21

Members were provided with information on actual performance against the approved Revenue and Capital budgets for 2020/21, including projected variances agreed or identified through budgetary control activity for the second quarter to 30 September 2020. The Committee was also updated on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan or Financial Statements.

The Principal Accountant (General Fund) introduced the report and drew Member's attention to the Executive Summary and gave an update on the General Fund that had a year-end projected overspend of around £2.36m. A few items had contributed to the adverse variance with the analysis being heavily dominated by Covid-19 related matters such as the anticipated income deficits within The Woodville and Market services where activities and thus income-generating opportunities, had been limited by the Covid-19 restrictions. However, it was noted that in the case of The Woodville, a sum of £325k was projected to be received back as part of the Government's Sales, Fees & Charges compensation scheme. There were also adverse variances relating to rental income and within parking. Adjustments relating to the closures of Horn Yard and Market Square had also been taken into consideration as The Charter development came forward.

The Committee was advised of some good news within the Housing & Operations Directorate as additional income of £37k and £15k had been realised from the Garden Waste Collection Service and from Recycling credits respectively.

Investment income was another aspect of the Council's finances affected by the Covid-19 pandemic with reduced returns forecast from Property Funds, Multi- Asset Funds and more traditionally-invested cash balances. The results of all the variances were set out in a table on page 20 of the report which also showed the year-end position for Working Balances as being around £8.86m, which could be broken down into three elements:

- The Minimum General Fund Working Balance of £2m
- The General Fund Reserve £3.25m
- Usable Working Balances of around some £3.6m.

The Director (Corporate Services), the Principal Accountant (General Fund) and Principal Accountant (HRA) responded to questions from the Committee as set out below:

- The accuracy of the sales, fees and charges forecast remained subject to actual outturns and refinement of the compensation scheme by government. The scheme would operate on a reimbursement basis which currently stood at £300k at the end of September. The next figure would be produced in January 2021 and then in April 2021 for the end of the financial year.
- Members were advised that it would take approximately 2 to 3 years for the construction of The Charter and a start on site was forecast for early 2021. The Council would borrow for 3 years which would mainly be Public Works Loan Board monies. The Council would then re-assess to suit the project and the best offering in relation to borrowing.
- Paragraph 2.1 of the report set out a projected revenue overspend of £2.36m and it was confirmed that this would be met from Working Balances if other measures such as assistance from the Government were not forthcoming. If this amount was taken from the reserves then this would have a knock on effect on the Council's Medium Term Financial Plan. The Director (Corporate Services) confirmed that by drawing money out of the working balances a new budget gap had appeared which had been caused by the pandemic and officers were basing their assumptions on the best information available at the time. The officers had met with MHCLG colleagues via the Kent Finance Group who continued to lobby the Government for support for the sector.
- Paragraph 2.7 of the report set out a projected capital spend for The Charter development works of £14.2m and Members were advised that this amount was part

of the £82m set aside for this project. An earlier start on site had been hoped for and this would be updated in the quarter 3 monitoring report.

- Following a question on who oversees money received by the Council from the Government to ensure the funding was correctly utilised, Members were advised that the Borough Council had so far received £1.3m to meet expenditure pressures. A separate code had been created in the ledger which was kept under review by the Director (Corporate Services) and the Principal Accountant (General Fund) and in future, by the Assistant Director (Corporate Services). The funding had been used for mobilising the workforce and enabling homeworking, support for vulnerable residents which had included food parcels, befriending services and support for Council partners involved in the Council's Covid-19 response. In addition, funding had also been used for signage to reinforce the Government's safety message, PPE for office based and non-office based staff and screens in the Civic Centre. A series of monthly returns for the Government were also completed which were being used to inform the Government's funding decisions. It was noted that the most recent lockdown had caused new and additional pressures.

Resolved that the report be noted.

80. Housing Revenue Account Budget Monitoring Report - Quarter 2 2020/21

The report provided the Committee with information on actual performance against the approved Revenue and Capital budgets for 2020/21, 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, Housing Revenue Account (HRA) Business Plan or Financial Statements.

The Principal Accountant (HRA) explained that at the end of quarter 2 the HRA was expected to draw some £1.57m from the HRA general reserve at year-end instead of £1.4m as was expected at the time of setting the budget in February. However, this was a slightly improved position to quarter 1. Members noted that the report was to the end of September and so did not take into account any potential further loss of income, additional expenditure etc that may result from the current lockdown. However, officers would be working closely with Housing to identify any further variances in the coming weeks.

Aside from the Vacancy Management variance which was reported as being £331k in quarter 2, it had previously been noted that the majority of other movements had arisen as a result of the Covid-19 pandemic. It was also anticipated in the quarter 1 budget monitoring report that rental income would be down around £300k along with a further void loss of £35k due to the Covid-19 pandemic and this forecast had remained unchanged during quarter 2.

The officer highlighted a number of further variances contained in the report. Members were advised that despite the additional draw on the HRA general reserve the Council expected to maintain the £3m minimum working balance on the HRA as at the end of the financial year.

In addition, the officer explained that the Covid-19 pandemic had a significant affect on all areas of the capital programme during quarter 1 which has continued into quarter 2, both within the capital maintenance and new build programmes. The effect of the current lockdown on the programme would be closely monitored in the coming weeks. Whilst contractors remained on site of the new build schemes, work was scaled back and issues regarding power disconnections had had a significant impact. The programme was being monitored closely to assess the impact on the use of retained right to buy receipts.

The HRA business plan continued to be reviewed on an ongoing basis to reflect the results of the recent stock condition survey and the latest version of the business plan was set out in Appendices 2 and 3 of the report.

Following a question on the net decrease in the General HRA Reserves of £1.5m and the existence of a strategy to show direction of travel, the Committee was advised that some of the HRA General Reserve had been used to support the Capital Programme New Build Scheme and officers were working closely with the Director (Housing & Operations) and the Assistant Director (Housing) on setting a balanced budget in future years. It was noted that the HRA General Reserve had been built up over the last 3 to 4 years for this purpose. The Director (Corporate Services) advised that in 2012 the Council had been obliged to take out a loan to buy back housing stock from the Government on the basis of a long term business plan. Since this time there had been a period of rent reductions applied to social housing rather than the expected rental growth. In addition, changes to the Right to Buy Scheme had seen a bigger discount applied to the sale of council houses which had seen an increase in units sold which, in turn, had reduced the Council's rental income. The Director stated that she did not want to borrow to run the day to day housing services of the Council. However, borrowing to bring forward the new build programme could be considered if financial viability was confirmed as this would generate income enabling the Council to repay any associated loan.

Resolved that the report be noted.

81. Treasury Management Mid-Year Review 2020/21

Members were provided with an update report on treasury management activity undertaken during the period April to September 2020. The report set out both the treasury activity and the impact of the capital expenditure for the year up to end of September, set in the context of the current economic background along with a forecast of interest rates which had been provided by the Council's Treasury Management Consultants, Link.

Members noted that the report was based on the position as at 30 September and therefore did not reflect the fact that England had entered into a second lockdown and the implications this may have, on things such as interest rates, fund valuations and the Authority's ability to fully spend against the capital programme etc.

As things stood at this moment in time, the capital programme for the Council stands at just under £56m, of which £18.8m could be funded from existing resources. This creates a borrowing requirement for the Authority of some £37m. Of this some £7m internal borrowing will be utilised with £30m external borrowing being sought, most likely to be from the Public Works Loan Board.

The capital financing requirement for the year was forecast to be £235.5m and gross debt £199m. The capital financing requirement was the Council's combined historic unfunded capital expenditure which because of the Council's ability to utilise internal borrowing, was above the actual gross debt.

The issue around the St George's transaction and the delay this had caused in signing off the accounts also has implications on treasury. Both the authorised limit and the operational boundaries, the limits set internally on the amount of debt the Authority could take on, include a provision for the treatment of the St George's transaction. Until this was finalised, it could not be forecast whether the revised estimate for both the operational boundary and authorised limit was appropriate. The positive was that if anything, those limits were higher than they may need to be, but there was a possibility they may need to be amended. This would have to be a Full Council decision but in the first instance the matter would be discussed with the Chair of the Finance & Audit Committee.

The Principal Accountant (HRA) advised that in relation to investments, as at 30 September, the Council's investments totalled £40.7m. This was split between internally and externally managed funds. The officer confirmed that as at 30 September 2020, the Council had acted in line with the approved limits in the annual investment strategy and no breaches had occurred.

Members were reminded that the capital values of the Property Funds and the Multi Asset Funds have been hit significantly by Covid-19. Funds have continued to pay dividends, not quite at the same level, but still above the level of return the Council could get on traditional investments. These remained long term investments and therefore no immediate decisions were needed to be made about withdrawing funds. Officers were in contact with the fund managers to see what actions they were taking as a result and would continue to do so over the coming months.

Following a question, the officer clarified that the gross external debt was not changing. However, there was an element of the finance lease in respect of the St George's Centre that may change accounting requirements. The Council might also have to take in account other long term liabilities, however these were more likely to reduce. The Chair noted that this document would be submitted to Members for consideration before being signed off.

In relation to the Treasury restricting borrowing from the Public Works Loans Board, the Council did respond to the consultation on this matter and a reply was awaited.

Resolved that:

(a) the report be noted; and
(b) following consultation with members of the Finance & Audit Committee, authority be delegated to the Chair of the Committee to amend the authorised limit and operational boundary as needed in response to the final accounting treatment agreed in respect of the St George's Centre transaction and to make any necessary recommendations to Full Council.

82. Mid-Year Review of 2020/21 Corporate Risk Register

Members were presented with mid-year progress information in respect of all risks recorded in the 2020/21 Corporate Risk Register, which were set out in Appendix 2 of the report.

The Committee was reminded that the current Corporate Risk Register had been approved by Full Council in May 2020 and this report enabled the actions taken by the Council in the first half of the year to be reviewed and drew Members attention to the new and emerging risks.

Following a question on inherent, residual and target risks, the Director (Corporate Services) explained that inherent was the raw risk that the Council was trying to manage. Residual took into account the arrangements in place to mitigate the risk and target was based on what happened if all management actions were to be implemented.

The following suggestions were made in relation to the 2021/22 Risk Register:

- That the investment strategy focused on the property portfolio and the risk needed to be expanded to cover the totality of dependency.
- Local Plan – it was recognised that there was a huge amount riding on this policy and its impact on the Borough, its and its economy. It was suggested that the Local Plan should be listed as a risk on its own.

The Director (Corporate Services) noted the suggestions and undertook build them into the assessment process.

Resolved that:

(a) progress, as set out in Appendix 3, in managing or mitigating each risk recorded within the 2020/21 Corporate Risk Register be noted; and

(b) the preparation for the development of the 2021-22 Corporate Risk Register be commenced, taking into account the two suggestions made by the Committee.

83. National Fraud Initiative Progress Report

The report provided an update on the work completed in relation to the data matches received as part of the National Fraud Initiative Exercises 2018/19 and 2019/20.

The Head of Audit & Counter Fraud Shared Service explained that the report had been broken down into the various areas of the Council and good progress had been made overall.

Resolved that the report be noted.

Close of meeting

The meeting ended at 8.36 pm