

# MAIDSTONE BOROUGH COUNCIL

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

### MINUTES OF THE MEETING HELD ON 16 JANUARY 2023

#### Present:

<b>Committee Members:</b>	<b>Councillor Bartlett (Chairman) and Councillors Coulling (Parish Representative), Cox, Jeffery, Khadka, Knatchbull, Titchener (Parish Representative), Trzebinski and D Wilkinson</b>
<b>External Attendee:</b>	<b>Mr Paul Dossett (Grant Thornton – External Auditor)</b>

#### 59. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Forecast.

#### 60. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

#### 61. URGENT ITEMS

The Chairman said that he had agreed to take the External Auditor's Progress Report and Sector Update as an urgent item as it was not available when the agenda was published.

#### 62. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

#### 63. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members and Officers.

#### 64. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

#### 65. EXEMPT ITEMS

**RESOLVED:** That the items on the agenda be taken in public as proposed.

#### 66. MINUTES OF THE MEETING HELD ON 14 NOVEMBER 2022

**RESOLVED:** That the Minutes of the meeting held on 14 November 2022 be approved as a correct record and signed.

67. QUESTION AND ANSWER SESSION FOR LOCAL RESIDENTS

There were no questions from local residents.

68. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

69. COMMITTEE WORK PROGRAMME 2022/23

The Chairman took the opportunity to welcome Katherine Woodward, the new Head of Audit Partnership, to her first meeting of the Committee.

The Committee considered its work programme for the remainder of the 2022/23 Municipal Year.

**RESOLVED:** That the Committee work programme for the remainder of the 2022/23 Municipal Year be noted.

70. VERBAL UPDATE ON KENT MODEL CODE OF CONDUCT

The Team Leader, Contentious and Corporate Governance, advised the Committee that its comments on the draft Kent Model Codes of Conduct which had been produced by the Kent Secretaries Group as alternatives to the LGA Model Code of Conduct had been reported back to the Group. The Group had agreed that it would be appropriate to make amendments to the documents in response to these comments. However, the Working Group which would make these amendments had not yet met, so no further progress had been made.

In response to a question, the Team Leader, Contentious and Corporate Governance, confirmed that he would share the revised draft documents with the Committee before they were put forward for adoption.

**RESOLVED:** That the report be noted.

71. ANNUAL GOVERNANCE STATEMENT - MID-YEAR UPDATE

The Director of Strategy, Insight and Governance presented her report providing an update on the progress made against the Action Plan for 2022/23 contained in the Annual Governance Statement for 2021/22 which was approved by the Committee in July 2022. It was noted that progress had been made across all areas identified for action, including embedding the new process for Part II items and reviewing the Constitution and decision making. The Committee had already received an update on progress against the Data Protection Action Plan as part of the Information Governance Report.

In response to questions:

The Director of Strategy, Insight and Governance advised the Committee that:

- The Chief Executive had identified governance failings at other local authorities. These failings were considered at meetings of Officers with governance responsibilities to determine whether anything needed to be done differently at Maidstone. There was also an internal governance group that

she managed, and reports would be submitted to that group on what was happening nationally to identify any lessons.

- The Council had secured £565k investment from the Safer Streets Fund for community safety in the town centre. She would circulate details of how it would be spent to all Members of the Committee.
- Actions taken to mitigate the risk of general and localised economic pressure leading to contraction in the retail sector were reported to the Policy Advisory Committees and the Executive and details could be circulated to Members of the Committee. For example, work had started on the development and delivery of a Town Centre Strategy to guide the reallocation of land uses within the Town Centre (including retail) following the appointment of a contractor.

The Head of Finance advised the Committee that:

- The implementation of Social Value and Sustainability procurement policies should not impact current projects. There might be some cost going forward, but it was only a small marginal assessment of the procurement process. The idea was to encourage Maidstone businesses and add local value.

**RESOLVED:** That the update on progress against the Annual Governance Statement Action Plan 2022/23, as set out in Appendix A to the report of the Director of Strategy, Insight and Governance, be noted.

## 72. TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

The Finance Manager introduced his report setting out the activities of the Treasury Management function for the first six months of the 2022/23 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- The 2022/23 Treasury Management Strategy was approved by Council on 23 February 2022 and the key aims were to:  
Use cash balances to finance the Capital Programme in the short term and to review borrowing options during the year for longer term financing;  
Diversify the current portfolio as much as possible to reduce counterparty risk; and  
Keep investments short so that they can be called upon for liquidity purposes.
- Investments at the start of the year amounted to £38.75m and balances had peaked at £47m during the first part of the year. The Council had £22.75m invested on 30 September 2022, all in short-term instruments.
- Investment income to 30 September 2022 totalled £150k against a budget of £50k and, due to the increase in interest rates, it was expected that the Council would receive around £400k over the course of the year.
- Total loan debt was currently £5m made up of PWLB long-term borrowing. All short-term funding had been repaid during the first part of the year.
- Due to rising interest rates and the need for future borrowing to fund the Capital Programme, the Council had entered into an agreement with Aviva Life

and Pensions UK Ltd to forward borrow £80m to bring some certainty into borrowing rates. The funds would be available during 2023/24 (£40m), 2024/25 (£20m) and 2025/26 (£20m) and the rate had been agreed at 2.89% over a 50-year term. 50-year rates with the PWLB were currently 4.66%.

- All Prudential and Treasury Indicators had been complied with throughout the year.

In response to questions, the Officers explained that:

- The Council's investment priorities were, in order, Security of Capital, Liquidity and Yield. However, the Council had now started to consider ESG investing as part of the financial analysis and the rates were quite competitive.
- The Link Group was the Council's treasury management adviser. Treasury management was Link's core business, and the Officers found their advice very useful. Details of the firm's fees and scope of work would be reported to the next meeting of the Committee.
- The capital budget process was rigorous taking into account two key tests: deliverability and desirability in terms of achieving outcomes and supporting corporate objectives. These assessments were kept under review.
- In terms of slippage, the Capital Programme was much more realistic this year. The measures in place and prudential indicators provided assurance that the Council was borrowing sensibly and had a reasonable Capital Programme with potential to achieve strategic objectives.

#### **RESOLVED:**

1. That the position regarding the Treasury Management Strategy as at 30 September 2022 be noted.
2. That no amendments to the current procedures are necessary as a result of the review of activities in 2022/23.

#### 73. TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2023/24

The Finance Manager introduced his report setting out the draft Treasury Management and Capital Strategies for 2023/24. It was noted that:

- CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. CIPFA had stated that Local Authorities were expected to fully implement the required reporting changes within their Treasury Management Strategy Statements from 2023/24. The reason for the changes was to tighten up the regulations around local authorities financing capital expenditure on investments in commercial projects for yield where access to PWLB borrowing had been closed on such schemes.
- The fundamentals of the Treasury Management Strategy Statement 2023/24, which had not changed significantly from the previous year, were to:

Utilise cash balances rather than loan debt to finance the Capital Programme in the short term due to increasing interest rates;

Further diversify the Council's portfolio as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered; and

Keep investments short term to meet the demands of liabilities when due.

- The Council's investments as at 31 December 2022 totalled £28.13m. It was expected that investment balances would start to fall throughout 2023/24 and it might be necessary for the Council to take on short-term borrowing to cover the liabilities of the Capital Programme and day-to-day cashflow.
- The Council had long-term borrowing of £5m through the PWLB and, at the beginning of 2022/23, had entered into an agreement with Aviva Life and Pensions UK Ltd to forward borrow £80m due to increasing interest rates. The first tranche of £40m would be received in 2024 with £20m in 2025 and £20m in 2026.
- The Capital Programme was expected to total £365m over the next ten years and a prudential borrowing figure of £298m would be required so further borrowing would be procured from a combination of the PWLB, corporate markets or other local authorities. The capital financing requirement was expected to reach £354m. Statutory guidance was that debt should remain below the capital financing requirement, except in the short-term, and the Council expected to comply with this.
- CIPFA had introduced a new Prudential Indicator, the Liability Benchmark, as a means of managing debt risks, and this was included within the Treasury Management Strategy Statement.

In response to questions by Members, the Officers explained that:

- In terms of funding the Capital Programme, it would be necessary to borrow more than the £80m which would be drawn down between 2024 and 2026. The Officers would monitor the markets and the Council would borrow when the opportunity arose. All capital expenditure had to be financed either from external sources, the Council's own resources or debt. The schemes included in the proposed Capital Programme together with the planned funding arrangements represented a realistic plan for delivery.
- In terms of the ratio of financing costs to the net revenue stream and associated risks, one of the purposes of the Prudential Indicators was to make sure the amount of interest paid was proportionate to net revenue expenditure. It was a requirement to report this on a regular basis to assist Members' overview and confirm capital expenditure plans. There were no hard and fast rules about the level of debt that a Council could take on. However, the general rule was that it should be sustainable meaning that the Council should have plans to service and repay any debt taken on. With any investment, it was necessary to ensure that it returned at least the interest paid and the provision was made for its repayment. This was looked at in terms of individual schemes and programme wide.
- One of the key features of the revised Prudential Code was additional reporting of the Treasury Management requirements of the Treasury and Prudential Indicators to Members on a quarterly basis to give greater oversight and ensure a prudent position.

- In terms of restructuring debt profiles, it was quite expensive to pay back PWLB borrowing early. It was a legal requirement to safeguard the Council's position by making provision in the accounts for a minimum revenue payment every year against eventual repayment of loan debt. It was unlikely that the Council would have to take emergency measures to restructure debt profiles at any point. Generally speaking, the longer the term of the debt, the lower the cost, so given the type of assets being acquired, it was appropriate to borrow for the long term.
- It was not part of the role of the Committee to approve the Capital Programme. This Committee was concerned with how it was financed.

**RESOLVED:**

1. That the Treasury Management Strategy for 2023/24, attached as Appendix A to the report of the Finance Manager, be agreed and recommended to the Council for adoption subject to any amendments arising from consideration of the Capital Programme by the Executive at its meeting on 25 January 2023.
2. That the Capital Strategy for 2023/24, attached as Appendix B to the report of the Finance Manager, be agreed and recommended to the Council for adoption.

74. EXTERNAL AUDITOR'S ANNUAL REPORT 2020/21

The Head of Finance introduced the report setting out the External Auditor's Annual Report 2020/21, the purpose of which was to conclude the annual audit process for 2020/21.

Mr Paul Dossett of Grant Thornton, the External Auditor, advised the Committee that the accounts had been signed off on 18 November 2022, including finalisation of the External Auditor's Report. The responses of Management to the Improvement recommendations were now included in the document.

In response to questions:

- Mr Dossett explained that, in terms of the recommendation that consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to Members and published on the website, it was the National Audit Office which set out the framework for the Value for Money work and one of its challenge questions related to the distinction between the two. Potentially, there was scope for savings in all services, so when discussing budgets and savings it would be helpful to be clear about the distinction between services. However, that was not to say that a service was out of the scope for savings and efficiencies.
- The Director of Finance, Resources and Business Improvement advised the Committee that the Council's Key Performance Indicators (KPIs) were reviewed every year to ensure that they continued to be relevant. Benchmarking the Council's performance against comparable authorities was done informally and the information could be shared with Members to show how the Council compared.

During the discussion, Members thanked Mr Dossett for the report.

**RESOLVED:** That the External Auditor's Annual Report, attached at Appendix 1 to the report of the Senior Finance Manager (Client), be noted.

75. EXTERNAL AUDITOR'S PROGRESS REPORT AND SECTOR UPDATE

Mr Paul Dossett of Grant Thornton presented the External Auditor's report providing an update on progress with the audit of the 2021/22 Statement of Accounts and a summary of emerging national issues and developments of relevance to the local government sector.

It was noted that various accounting issues had held up the completion of the 2020/21 audit; for example, the appropriate accounting treatment for construction costs relating to the Brunswick Street and Union Street housing developments. Amendments had been made to the accounts as a result of this work and these would need to be worked through into the 2021/22 accounts. The process had been reversed for the 2021/22 audit so that the technical accounting issues are addressed up front. It was hoped that the work would be completed by March, and the External Auditor was working with the Council to achieve that.

In response to a question about the stability of the workforce, Mr Dossett explained that there were still major recruitment and retention challenges. The audit profession was heavily regulated, and it was difficult to recruit people from within this country. Grant Thornton was recruiting a lot of people from abroad, but it was a slow process and the market was not yet stable in terms of audit being a sought after, long-term profession.

**RESOLVED:** That the External Auditor's progress report and sector update, attached as an Appendix to the report of the Senior Finance Manager (Client), be noted.

76. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Director of Finance, Resources and Business Improvement introduced his report highlighting the risks faced by the Council in delivering the budget. The Director of Finance, Resources and Business Improvement advised the Committee that:

- Current projections indicated that the Council would remain within budget for the current financial year.
- Having developed savings proposals amounting to £1.1 million for 2023/24 and having factored in information about the funding context for 2023/24 from the Chancellor's Autumn Statement and the Provisional Local Government Finance Settlement, it was expected that proposals for a balanced budget could be submitted to the Council in February 2023. Looking forward, the position remained challenging, given uncertainty about the future path of inflation and local government funding.

In response to questions, the Director of Finance, Resources and Business Improvement advised the Committee that:

- If funding for the Capital Programme was not available, some prioritisation of schemes would be required. It was difficult at present to pinpoint schemes and say which if any might drop out or slip within the Programme.
- The bar chart quantifying budget risks was useful because, when setting budgets, consideration was given to the level of reserves held by the Council and its ability to cover those risks.
- As part of the budget setting process, he was required to submit a Section 25 report to Members drawing their attention to all the issues they needed to consider including the budget risks and the adequacy of the proposed financial reserves.

**RESOLVED:** That the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance, Resources and Business Improvement, be noted.

77. DURATION OF MEETING

6.30 p.m. to 7.55 p.m.