

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 14 JANUARY 2019

Present: Councillor McLoughlin (Chairman) and Councillors Bartlett, Coulling (Parish Representative), Cuming, Harvey, Perry, Titchener (Parish Representative) and Webb

Also Present: Ms Elizabeth Jackson, External Auditor, Grant Thornton

65. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Cox, Daley and Purle.

66. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Cuming was substituting for Councillor Purle.

67. COUNCILLOR PETER TITCHENER

The Chairman welcomed Councillor Peter Titchener to his first meeting of the Committee as a non-voting Parish Council representative.

68. URGENT ITEMS

There were no urgent items.

69. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

70. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

71. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

72. EXEMPT ITEMS

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

73. MINUTES OF THE MEETING HELD ON 19 NOVEMBER 2018

RESOLVED: That the Minutes of the meeting held on 19 November 2018 be approved as a correct record and signed.

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

- Following the Committee's suggestion, the Officers had now put a generic privacy notice for Councillors on the Council's website which they could refer to in the footer of their emails/letters etc. rather than having a whole privacy notice on their emails and other documents when they were collecting and processing personal data. Details had been circulated to Members earlier that day.
- Now that the vision, priorities and outcomes for the new Strategic Plan had been agreed by the Council, reports would be presented to Service Committees in January/February with specific actions and indicators relating to the different elements of the Plan.

74. QUESTIONS AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

75. COMMITTEE WORK PROGRAMME 2018/19

The Committee considered its work programme and whether any changes were required. The Head of Audit Partnership advised Members that the report relating to the risk management process would be presented to the meeting of the Committee scheduled to be held on 18 March 2019.

In response to a question by a Member, the Director of Finance and Business Improvement undertook to submit an update report on contract management to the meeting of the Committee scheduled to be held on 18 March 2019.

76. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

Mrs Estelle Culligan, Principal Solicitor – Contentious and Corporate Governance, presented her report providing an update on complaints received under the Members' Code of Conduct for the period 1 September 2018 to date.

It was noted that:

- Since the report to the Committee on 17 September 2018, there had been three new complaints from one complainant against three Parish Councillors relating to similar issues. These complaints had been concluded and the Monitoring Officer had found that there was no evidence of breaches of the Code of Conduct.

- There had also been three separate complaints against one Borough Councillor. Again, these complaints related to similar issues. Only one of these complaints was taken forward as the other two complainants did not respond to requests for further information. The investigation into the remaining complaint was still ongoing.

Mrs Culligan advised the Committee that:

- There seemed to have been an increase in the number of complaints from people about Parish Councillors generally and the Legal Services team had started to roll out some training in the hope that it might resolve some of the issues that arise. A member of the team had delivered training at Staplehurst and Tovil, and it had been fairly well received. It was the intention to continue to roll out the training to all Parish Councils.
- The training delivered so far had been based on issues to do with bullying and respect. Consideration was now being given to widening the training to talk more generally about the Code of Conduct; how it operates and what it covers.
- Training had been delivered at scheduled Parish Council meetings and a member of the team could attend a meeting of the Maidstone Area Committee of the Kent Association of Local Councils to talk in general terms about the type of complaints received and the reasons why they had or had not been progressed.
- It was the Monitoring Officer's responsibility, and that of her team working on corporate governance matters, to deal with Code of Conduct issues, and that could take any form. The outcome of the investigation of a complaint could be that the Monitoring Officer recommends and provides training, so it was decided to pre-empt that with a programme of training starting with those Parish Councils which had experienced Code of Conduct issues recently.

RESOLVED: That the report be noted.

77. HOUSING BENEFIT GRANT CLAIM

Mrs Liz Norris, Business Support Manager, introduced her report summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefit Grant Claim submitted by the Council for the financial year 2017/18.

It was noted that:

- In terms of context the Revenues and Benefits Service carried out 63,000 housing benefit assessments during 2017/18 and the total value of the claim was £45.4m.
- When the initial testing was carried out 4 errors were identified which resulted in a requirement for further testing to be undertaken. The

additional work identified 7 more errors and, as a consequence, a qualification letter was issued by the External Auditor.

- The total value of the errors identified was £823 which, when extrapolated across the population of the claim, resulted in a total adjustment of £34,024 (0.07% of the total grant claim). Since this figure was considerably below the error threshold set by the DWP (0.48% of total expenditure), the Council had continued to receive 100% subsidy for this amount. Even after the adjustment, the total level of error in processing was 0.17% which was well below the threshold.
- New procedures and training had been put in place to reduce the instances of such errors occurring. The service also had a Quality Assurance process which enabled it to target these types of assessments and to correct any errors that did occur before they impacted on the customer or future grant claims.

In response to a comment by the Chairman that to achieve this level of accuracy given the complexity of the calculations was quite astounding, Mrs Norris confirmed that the rules governing Housing Benefits were very complex with different sets of rules depending on the circumstances of the claimant and the type of property involved.

RESOLVED: That the findings of the Housing Benefit Grant Claim audit undertaken by Grant Thornton and the actions taken and planned by the Revenues and Benefits Service in response be noted.

78. INTERNAL AUDIT CHARTER

Mr Rich Clarke, the Head of Audit Partnership, introduced his report setting out a refreshed Internal Audit Charter for 2019 onwards.

It was noted that:

- An Internal Audit Charter was a requirement of the Public Sector Internal Audit Standards. It was a foundational document setting out the purpose, authority and responsibility of the Internal Audit Service. The Committee approved the existing Charter in March 2016.
- It was generally considered good practice to review the document from time to time as Standards changed. Aside from some simplification of wording, removal of audit jargon and re-ordering of some sections to make the document more readable, the principal changes were:

The addition of a glossary of terms to clarify how particular terms in the Standards applied in a Maidstone Borough Council context;
The inclusion of more detail on the International Standards and principles that applied to Internal Audit;

Clarification of the role of the Audit, Governance and Standards Committee as a key consultee before commissioning an external quality assessment; and
The inclusion of reference to the need for an annual review.

In response to questions, Mr Clarke explained that:

- The Internal Audit Partnership recognised and aspired to achieve the mission of Internal Auditing provided by the Institute of Internal Auditors, but the reference to “organisational value” very much encompassed principles such as integrity, probity and ethics.
- An external quality assessment had to take place at least once every five years by a qualified, independent assessor from outside the organisation. The Audit Partnership’s most recent such assessment was by the Institute of Internal Auditors in the spring of 2015. The Committee would be a consultee in the process of commissioning the next assessment which was due in just over a year’s time.

RESOLVED: That the Internal Audit Charter, attached as Appendix 1 to the report of the Head of Audit Partnership, be approved.

79. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2019/20

Mr John Owen, Finance Manager, introduced his report setting out the draft Treasury Management, Investment and Capital Strategies for 2019/20. Mr Owen explained that:

- The Council had adopted the Treasury Management in Public Services: Code of Practice 2011 Edition (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- CIPFA had revised the 2011 edition of the Code in 2017 to ensure that local authorities also take into account the risks involved with non-treasury investments. The revised Code which would take effect in 2019/20 required local authorities to develop and approve an Investment Strategy and a Capital Strategy setting out the Council’s risk appetite and specific policies and arrangements for non-treasury investments.
- Treasury Management was concerned with keeping sufficient cash for the authority’s day to day running whilst the other Strategies focused on non-treasury investments and the Capital Programme with regard to the risks and funding. The Treasury Management Strategy had not changed from the previous year; the approach was to utilise cash balances rather than loan debt to finance the Capital Programme until such time that borrowing was required due to low investment returns and high counterparty risk in the current economic climate. The Capital Programme would be presented to the Policy and Resources Committee on 23 January 2019, and might be subject to amendments that would, in turn, change the funding profile.

- The Investment Strategy focused on how the authority assessed risks in relation to non-treasury investments including service loans to support local services and commercial investments (property investment to generate a profit).
- The Capital Strategy was a high level document linking the Medium Term Financial Strategy, the Treasury Management Strategy and the Investment Strategy together. It set out the long term context in which capital expenditure and investment decisions were made and considered risk, reward and impact on the achievement of the Council's priority outcomes identified within the Strategic Plan.

In response to questions, the Officers explained that:

- The figures set out in the report for capital expenditure were based on the latest bids for capital funding. As described in the Capital Strategy, a process had been followed over the last few months which had resulted in the previous five year Capital Programme being updated.
- To summarise, Service Managers submitted proposals in October to include projects in the Capital Programme. Bids were collated by the Corporate Finance Team which calculated the financing cost. Each Service Committee then appraised the proposals based on a comparison of corporate priorities. The Policy and Resources Committee would then consider and recommend the Capital Programme to the Council in February.
- Oversight of the Capital Programme was through the Policy and Resources Committee, and a report would be submitted to that Committee the following week developing the outline of the Capital Programme set out in the Medium Term Financial Strategy agreed by the Council in December 2018, reconfirming the principles behind the Council's Capital Strategy, explaining how the Capital Programme would be funded and describing the individual projects included in the Programme.
- The report would say that Capital Programme proposals had been developed reflecting the strategic priorities agreed by the Council and would show how they would be financed, whether from external sources, the Council's own resources or debt.
- Each investment was looked at individually to assess its affordability and the level of risk. In most cases capital investments had to pay for themselves and it was necessary to be satisfied that the investment would generate a sufficient return or there were sufficient revenue resources in place to justify the borrowing.
- Generally speaking, the larger capital investments like the developments under way at Brunswick Street and Union Street would pay for themselves in terms of expected sales or generating rent. However, there were some exceptions such as works required for

health and safety reasons where there would be no financial return such as the Mote Park Dam works. In these circumstances, it was necessary to be satisfied that there was sufficient capacity in the revenue budget to pay for that investment. Having looked at each element of the Capital Programme in this light, it was necessary to look at the overall size of the Capital Programme. Last year a Capital Programme of just over £75m over five years was agreed which was considered to be reasonable and appropriate given what the Council was trying to achieve.

- There were strong internal controls in place to make sure that the risk of money being spent outside budgetary controls was very low.
- Capital expenditure did tend to slip, and the Council would not borrow money that was not needed because of the Capital Programme slipping. Budget monitoring reports were submitted to the Policy and Resources Committee on a quarterly basis and spending plans were updated regularly so that if the Capital Programme was slipping, the Council would not embark on borrowing unnecessarily; instead, implementation of the Treasury Management Strategy would be adjusted accordingly.
- The operational boundary was the limit which external debt was not normally expected to exceed. The operational limit did not take into account temporary cash flow borrowing during the year. The authorised limit for external debt represented the limit beyond which external debt was prohibited and was no higher than the Capital Financing Requirement which was the most the Council would borrow at any one point in time if necessary.
- In terms of the funding of the Capital Programme, it was fairly straightforward to organise funding through the Public Works Loan Board (PWLB). The current 50 year PWLB rate was in the order of 3% which was quite reasonable.
- It was considered that, so long as there was no risk of interest rates rising quickly, the Council should not borrow until it needed to as the cost of borrowing was more than the cash would be earning and there were counterparty risks as well. The situation would be kept under review having regard to advice and guidance from the Council's Treasury Management Advisers, but it was unlikely that interest rates would rise in the short term.
- The Council had some limited discretion on what counted as capital expenditure; for example, assets costing below £10k were not capitalised and were charged to revenue in year. It made sense to have a de minimis figure, and this was kept under review.

During the discussion, the Director of Finance and Business Improvement confirmed that when this report was presented to the Committee in future, consideration would be given to including a summary and

explanation of terms to assist Members in their understanding of the documentation.

RESOLVED to RECOMMEND to COUNCIL: That subject to any potential amendments arising from the Policy and Resources Committee's consideration of the Capital Programme at its meeting on 23 January 2019, the Treasury Management Strategy for 2019/20, the Investment Strategy for 2019/20 and the Capital Strategy for 2019/20, attached as Appendices A, B and C respectively to the report of the Director of Finance and Business Improvement, be adopted.

80. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, the Director of Finance and Business Improvement, presented his report providing an update on the budget risks facing the Council.

Mr Green explained that:

- The two key risks highlighted in the report were continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly Brexit.
- The government had now published two consultation papers on the post 2020/21 funding regime. In summary, the early indications were that the trend for Maidstone (along with many other District Councils) towards dependence entirely on Council Tax and self-generated income from fees and charges etc. would continue, with no support from central government, and with minimal benefits from the business rates retention regime. Whilst there might be benefits from greater self-reliance, it also meant that the Council was more exposed to volatility in the wider economy. The risk arising from changes in local government funding was, therefore, considered to remain high.
- The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term, disruption to transport would have major implications for service delivery with staff not being able to travel to work and congestion hampering services like refuse collection. Contingency planning was underway to address these risks, but there would be additional costs. The Council would look to recoup these costs from central government and Kent County Council was co-ordinating a bid for Kent.
- In addition there might be adverse longer term effects on the economy with a knock-on impact for local authorities. A no-deal Brexit could lead to a recession which would affect the Council in a number of ways, including a fall in business rates, increasing pressure on homelessness budgets and cuts in central government funding if tax receipts fell.

Arising from the discussion, Mr Green undertook to look again at Councillor Coulling's suggestion that a different methodology be used to

present the information clearly showing the three key risks and the probable monetary impact.

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

81. DURATION OF MEETING

6.30 p.m. to 7.40 p.m.