

# **MAIDSTONE BOROUGH COUNCIL**

## **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

### **MINUTES OF THE MEETING HELD ON 26 JULY 2022**

#### **Present:**

<b>Committee Members:</b>	<b>Councillor Bartlett (Chairman) and Councillors Brindle, Coulling (Parish Representative), English, Mrs Gooch, Hinder, Jeffery, Knatchbull, Trzebinski and D Wilkinson</b>
<b>Lead Members:</b>	<b>Councillor Perry (Lead Member for Corporate Services)</b>
<b>Visiting Members:</b>	<b>Councillor Cleator</b>

#### 1. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Bryant, Cox, Forecast, Khadka and Titchener (Parish Representative).

#### 2. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:

Councillor Brindle for Councillor Bryant  
Councillor English for Councillor Khadka  
Councillor Mrs Gooch for Councillor Cox  
Councillor Hinder for Councillor Forecast

#### 3. ELECTION OF CHAIRMAN

**RESOLVED:** That Councillor Bartlett be elected as Chairman of the Committee for the remainder of the Municipal Year 2022/23.

#### 4. ELECTION OF VICE-CHAIRMAN

**RESOLVED:** That Councillor Cox be elected as Vice-Chairman of the Committee for the remainder of the Municipal Year 2022/23.

#### 5. URGENT ITEMS

The Chairman said that he had agreed to take the update report to agenda item 20 (Draft Annual Accounts 2021/22) as an urgent item as the updated Narrative Report replaced the original version.

#### 6. NOTIFICATION OF VISITING MEMBERS

Councillor Cleator indicated her possible wish to speak on agenda item 20 (Draft Annual Accounts 2021/22).

Councillor Perry, Lead Member for Corporate Services, was also in attendance.

7. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

8. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

9. EXEMPT ITEMS

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

10. MINUTES OF THE MEETING HELD ON 14 MARCH 2022

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

11. ANY QUESTIONS ON NOTICE FROM LOCAL RESIDENTS

There were no questions from local residents.

12. ANY QUESTIONS ON NOTICE FROM MEMBERS

There were no questions from Members.

13. COMMITTEE WORK PROGRAMME 2022/23

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

In response to a question, the Head of Policy, Communications and Governance confirmed that the Annual Complaints Report 2021/22 would include the Local Government and Social Care Ombudsman's Annual Review Letter 2021/22.

**RESOLVED:** That the Committee work programme 2022/23 be noted.

14. CHANGE TO THE ORDER OF BUSINESS

The Chairman said that he intended to change the order of business to take agenda item 23 (Annual Internal Audit Report and Opinion 2021/22) before agenda item 14 (Annual Governance Statement 2021/22 and Local Code of Corporate Governance Update 2022) as the Interim Head of Audit Partnership's opinion in the Annual Internal Audit Report was a key element of the Annual Governance Statement.

15. ANNUAL INTERNAL AUDIT REPORT AND OPINION 2021/22

The Interim Head of Audit Partnership introduced the Annual Internal Audit Report and Opinion 2021/22. In accordance with the Public Sector Internal Audit Standards (the Standards), the report included:

- The annual opinion of the Interim Head of Audit Partnership on the overall adequacy and effectiveness of the Council's internal controls, corporate governance framework and risk management arrangements;
- A summary of the work completed by Mid-Kent Audit that supported the opinion; and
- A statement on conformance with the Standards.

It was noted that:

- The planned programme of work delivered by the Internal Audit team had been constrained by the impact of the COVID-19 pandemic restrictions and significant staffing changes within the team. The results of the reduced level of internal audit work concluded during the year required the Interim Head of Audit Partnership to seek additional assurances to form his opinion (including the work of the Mid-Kent Services Benefits Fraud team and other corporate monitoring teams and the outcomes of an external review of the Council's ICT cyber security arrangements). Utilising all these forms of assurance, the Interim Head of Audit Partnership was able to draw a positive conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. In his opinion, the Council had adequate and effective management, control and governance processes in place to manage the achievement of its objectives.
- The Interim Head of Audit Partnership had reached his conclusions independently and without any undue pressure from Officers or Members.

In response to questions, the Officers explained that:

- Details of audit findings were reported back to the Committee. However, at this stage, that information was not ready. The Interim Head of Audit Partnership's opinion was such that he was still able to give a clean bill of health and Members were still in a position to agree that the opinion could be relied upon.
- The Standards required audit planning to start with a risk assessment considering internal and external risks. Based on the risk assessment and consultations with management and to ensure the Plan remained flexible and responsive to emerging and changing risks throughout the year, a priority rating was allocated to each of the audit projects included in the Plan. Local Plan Budget and Spending had been allocated a medium priority rating. The aim had been to focus on the delivery of all high priority rated projects and some medium priority rated projects during the year. It was the intention to focus on high priority rated projects in future.
- Work on the audit review of IT Development was ongoing. It was being undertaken by specialist contractors.

During the discussion, the Internal Audit team was thanked for its efforts.

**RESOLVED:**

1. That the annual opinion of the Interim Head of Audit Partnership on the overall adequacy and effectiveness of the Council's internal controls, corporate governance framework and risk management arrangements be noted.
2. That the work underlying the opinion and the Interim Head of Audit Partnership's assurance of its independent completion in conformance with proper Standards be noted.

16. ANNUAL GOVERNANCE STATEMENT 2021/22 AND LOCAL CODE OF CORPORATE GOVERNANCE UPDATE 2022

The Head of Policy, Communications and Governance introduced her report setting out the Annual Governance Statement for 2021/22 and a refreshed Local Code of Corporate Governance with minor amendments. It was noted that:

- The Annual Governance Statement was a review of the Council's governance arrangements for the last financial year. The purpose of the Annual Governance Statement was to provide assurance that the Council's governance arrangements were adequate and operating effectively and to identify actions which were planned to ensure effective governance in the future.
- Overall, the Officers could confirm that the Council had the appropriate systems and processes in place and progress had been made against last year's action plan. The most significant governance issues related to the change from a Committee to an Executive system in May 2022 with actions focused on ensuring an effective decision-making process and a workable Constitution. There were also actions to ensure compliance with the Financial Management Code and to address corporate risks.
- Amendments had been made to the Local Code of Corporate Governance. These were principally required to reflect the recent change to the Council's governance arrangements from a Committee to an Executive system.

In response to questions, the Head of Policy, Communications and Governance advised the Committee that:

- In terms of the length of the report and the need for an executive summary, there was a very short executive summary at the beginning of the covering report and the actual Annual Governance Statement also contained a short executive summary which she would look at expanding upon next year. In the meantime, she would give feed-back to report authors about the need to provide executive summaries.
- During 2021/22, the Policy and Information team had carried out 23 consultations. The information gathered through these surveys was used to support decision making and shape policy/strategy development going forward. She would circulate details to all Members of the Committee.
- Further information would be provided in the Annual Governance Statement next year about the various methods used to consult and engage with people

and to ensure inclusivity (focus groups, digital tools, social media and face-to-face etc.).

Councillor Mrs Gooch wished to place on record her thanks to the staff involved with the preparation of the Annual Governance Statement and the refreshed Local Code of Corporate Governance having regard to the additional work required as a result of the change from a Committee to an Executive system.

**RESOLVED:** That subject to the points raised in the discussion,

1. The Annual Governance Statement 2021/22, attached at Appendix A to the report of the Head of Policy, Communications and Governance, be approved and signed off by the Leader of the Council; and
- 2 The refreshed Local Code of Corporate Governance, attached at Appendix B to the report of the Head of Policy, Communications and Governance, be approved.

#### 17. UPDATE ON THE GOVERNMENT'S RESPONSE TO THE CSPL REPORT

The Team Leader, Contentious and Corporate Governance, introduced the report setting out the Government's response to the recommendations of the Committee on Standards in Public Life (CSPL) arising from its review of local government ethical standards. It was noted that:

- The Government's response was that no legislative changes were required, which meant that there was limited scope for amendment of the Local Authority Standards regime. As an example, there could be no sanctions of a punitive nature such as suspension of a Councillor for breach of the Code of Conduct.
- The Government had taken the view that it was for local authorities to determine their own Code of Conduct and ethical standards based on the Nolan Principles.

During the discussion, Members expressed disappointment with the Government's response to the CSPL's recommendations given the work involved in undertaking the review. It was also suggested that re-ordering of the Officers' report would have helped Members in their consideration of the contents.

**RESOLVED:** That the Government's response to the recommendations of the Committee on Standards in Public Life (CSPL) arising from its review of local government ethical standards be noted.

#### 18. MODEL CODE OF CONDUCT

The Team Leader, Contentious and Corporate Governance, introduced the report providing an update on the production of a new Kent Code of Conduct for Members. It was noted that:

- The Kent Secretaries group had produced draft model templates for a new Kent Code for Members of Principal Authorities and a new Kent Code for Members of Town and Parish Councils. In addition, a new model procedure for handling Code of Conduct complaints had been produced. The draft

documents had been seen by KCC Members, who had requested further amendments, and shared with the Kent Association of Local Councils (KALC). Ultimately, the aim was to provide a Code that could be used by all Councils to provide a county-wide consistency of approach. The model Kent version would first need to be adopted by the County Council for consistency, but each Principal Authority and each Parish Council would make the final adoption decision themselves.

During the discussion, it was pointed out that the Maidstone Area Committee of KALC had now considered the draft documents and was of the view that it was in everyone's interest to settle upon a Code that all Parish Councils would feel comfortable to adopt. Maidstone Parish Councils had been given the opportunity to submit comments by the middle of August to feed into the meeting of the Kent Secretaries group in September.

In response to questions/comments, the Team Leader, Contentious and Corporate Governance, advised the Committee that:

- There was no provision in current legislation for a sanction to suspend a Councillor found to have breached the Code of Conduct so it would be unlawful to include such a sanction in the new Code of Conduct.
- Once the documentation had been finalised, the options for the Borough Council would be to continue with the existing Code of Conduct, adopt the Local Government Association's draft Model Code of Conduct, adopt the new Kent Code of Conduct or adopt its own bespoke Code of Conduct. The timescale was potentially late Autumn.
- He would review the draft new Kent Code for Members of Town and Parish Councils to ensure that references to Town/Parish Councils are consistent and to delete interests that do not relate to functions of those Authorities.

**RESOLVED:** That subject to the points raised in the discussion, the report be noted.

19. HOUSING BENEFIT SUBSIDY CLAIM 2020-21

The Interim Head of Mid-Kent Revenues and Benefits Partnership introduced her report setting out the findings of the audit undertaken by Grant Thornton, the External Auditor, to certify the Council's Housing Benefit Subsidy Claim for 2020/21. It was noted that whilst the audit identified six errors for which an adjustment had to be made, the original claim as presented by the Council was held to be 99.99% accurate.

Members congratulated the Revenues and Benefits team on the accuracy of its work.

**RESOLVED:** That the findings of the audit undertaken by Grant Thornton, the External Auditor, to certify the Council's Housing Benefit Subsidy Claim for 2020/21 be noted.

20. FRAUD AND COMPLIANCE TEAM UPDATE 2020-21 AND 2021-22

The Interim Head of Mid-Kent Revenues and Benefits Partnership introduced her report providing an update on the work undertaken by the Fraud and Compliance team within the Mid-Kent Revenues and Benefits Partnership during the financial years 2020/21 and 2021/22. It was noted that:

- Due to the COVID-19 pandemic, it had been necessary to use part of the team to help with applications for Business Rates Grants and Test and Trace payments. This meant that performance was reduced over the two years.
- The team had now recommenced its reviews of discounts and was about to commence a review of all long-term empty properties. This would help the New Homes Bonus claim and bring empty properties back into use. Despite the reduction in the work carried out, the team had managed to meet the targets set.

**RESOLVED:** That the work undertaken by the Revenues and Benefits Fraud and Compliance team for the years 2020/21 and 2021/22 be noted and that the Revenues and Benefits team be thanked for its work.

21. EXTERNAL AUDIT 2020/21

The Director of Finance and Business Improvement introduced his report providing an update on progress with the audit of the 2020/21 financial statements. It was noted that although Grant Thornton, the External Auditor, had consistently stated that there were no issues that would prevent them issuing an unqualified opinion, the audit was still not complete. Grant Thornton had indicated that they had further queries that they needed to discuss with the Finance team. The Council was content to accept Grant Thornton's position on what seemed to be the key issue which was around the accounting treatment for the Brunswick Street and Union Street housing projects, so there was no argument between the Council and Grant Thornton. The Officers would continue to work with Grant Thornton to try and resolve the issues and hoped that it would be possible to bring a signed audit report to the September meeting of the Committee.

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

- He did think that the 2020/21 accounts would be signed off in time for the September meeting of the Committee. Mr Paul Dossett of Grant Thornton would be invited to attend the meeting to provide an explanation if an audit opinion had not been issued by then. The Council would make sure that Grant Thornton had the information available to undertake the 2021/22 audit. Members of their team were scheduled to work on the audit in August so in principle they should be ready to sign off the audit in time.
- He thought that the issue for the delay was that Grant Thornton did not address all the questions that they should have done at the time of the original audit (for example in relation to the accounting treatment for the Brunswick Street and Union Street housing projects). If the work had been done on time, it would have been less time consuming for everyone.

- The Council did not appoint the External Auditor directly having opted into an outsourced procurement arrangement with Public Sector Audit Appointments, a subsidiary of the Local Government Association.
- Delays in signing off local authority audits was a common problem. As of April 2022, 40% of English local authorities had not had their 2020/21 accounts signed off. The Council could not be penalised for the delay, but it did bring the whole external audit process into disrepute. A set of accounts that was over a year late had much less credibility.
- Part of the issue had been that for the current series of audits, firms like Grant Thornton had underbid for the work and were struggling to provide the resource to deliver the audits. 2022/23 was the final year of the existing external audit contract and it was likely that bids for future years would be much more than quoted last time around. Audit firms were struggling to recruit staff across the sector as a whole.
- The Kent Finance Officers (S151 Officers at the Kent Authorities) were very concerned about the situation regarding the auditing of local authority accounts and had written to the PSAA. A response was awaited, and he would follow this up.

During the discussion, it was suggested and agreed that the Council should lobby the Local Government Association to seek a solution to the delays being experienced in relation to the delivery of local authority audits.

**RESOLVED:**

1. That the report be noted.
2. That the Council should lobby the Local Government Association to seek a solution to the delays being experienced in relation to the delivery of local authority audits.

22. DRAFT ANNUAL ACCOUNTS 2021/22

The Senior Finance Manager (Client) introduced his report setting out the unaudited Statement of Accounts for 2021/22 and the External Auditor's risk assessment document. It was noted that:

- The Statement would be subject to external audit, scheduled to commence in August, and it was the intention to bring a final version back to the Committee for approval at its September meeting.
- An updated Narrative Report had been circulated correcting/updating the information contained within the original version.
- The headline messages from the Statement of Accounts could be summarised as follows:

Long-Term assets had increased in value by £22.667m, primarily due to asset acquisitions and expenditure, and revaluation adjustments. The major acquisitions included Maidstone House and the buy-out of Kent County Council's share of the Former Royal Mail Sorting Office. Other major items of

expenditure included the Innovation Centre, housing developments at Springfield Mill and the construction of the new Mote Park Visitor Centre. Cash and Cash Equivalents had increased by £22.689m, which reflected an increased level of short-term deposits held for cashflow purposes as at the balance sheet date.

The increase in Short-Term Creditors of £25.963m was largely a consequence of grant and energy rebate monies still being held from the Covid-19 pandemic and yet to be paid out.

The first Long-Term borrowing (£5.0m) to fund the capital programme was now in place.

The net pension liability had reduced by £4.421m.

In response to questions:

- The Director of Finance and Business Improvement explained that the Council was continuing to add to the portfolio of Maidstone Property Holdings Limited and at some point, it would be necessary to produce consolidated financial statements.
- The Director of Finance and Business Improvement also explained the difference between financial and management accounting and undertook to provide clarification within the Narrative Report that the Council had moved from a Committee to an Executive system of governance in May 2022.

#### **RESOLVED:**

1. That, subject to the points raised in the discussion, the unaudited Statement of Accounts for 2021/22, attached as Appendix 2 to the report of the Senior Finance Manager (Client), and the Updated Narrative Report, circulated separately, be noted.
2. That the External Auditor's risk assessment document, attached as Appendix 3 to the report of the Senior Finance Manager (Client), be noted.

#### 23. TREASURY MANAGEMENT ANNUAL REVIEW 2021/22

The Finance Manager introduced his report setting out details of the activities of the Treasury Management function for the 2021/22 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities and in the context of the economic environment over the past 12 months. It was noted that:

- The Treasury Management Strategy Statement was approved by the Council on 24 February 2021, and the key elements were to:
  - Utilise cash balances rather than loan debt 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.
- During 2021/22, the Council's investment balances had ranged between £14.37m and £70.2m. The average investment balance for the year was

£44.5m. The Council held investments totalling £38.75m as at 31 March 2022 which was an increase on the previous year due to slippage within the capital programme and the influx of Government grant funding.

- Investment income for the year totalled £71.8k against a budget of £100k. Investment rates had improved throughout the year as bank rate started to rise, but investments had been kept short term for liquidity purposes.
- Total loan debt at the end of the year was £9m due to £2m being repaid. £5m was transferred to long-term borrowing with the PWLB due to rates being advantageous at the time and to mitigate refinancing and interest rate risk.
- Due to rising interest rates and the need for future borrowing to fund the existing 5-year 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 3.57%.
- All Prudential and Treasury Indicators had been complied with throughout the year.

In response to questions:

- The Finance Manager confirmed that the 21/22 Prudential Code included guidance on ethical investments and would be considered in due course.
- The Director of Finance and Business Improvement explained how the forward borrowing arrangements were accounted for in the financial statements.

**RESOLVED:**

1. That the review of the financial year 2021/22 in accordance with CIPFA's Code of Practice on Treasury Management and the Prudential and Treasury Indicators be noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2021/22.

24. **BUDGET STRATEGY - RISK ASSESSMENT UPDATE**

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council. It was noted that:

- The Council had delivered a modest revenue budget surplus in 2021/22. A balanced budget had been agreed for 2022/23 based on a Council Tax increase of 2%. Additional provision of £1.3m had been made within the 2022/23 budget for the expected impact of higher inflation on the Council's input costs. At this early stage in the financial year, it was expected that, with this provision, the Council would remain within budget for the year. The future budget position of the Council was heavily dependent on Government policy in relation to the Council Tax referendum limit and its ability to deliver budget savings. Council Tax increases in future years might continue to be

capped at less than the rate of inflation which could result in additional savings being required due to a reduced budget.

- There were two main risks associated with the capital programme: the availability of funding and the impact of inflation and supply blockages.
- Currently, funding for the capital programme was readily available: in the short-term through the market in borrowing and lending between local authorities and over the longer-term through the Public Works Loan Board (PWLB). There was no indication that the Government would withdraw this facility for local authorities so long as the lending was not for purely commercial investment purposes. However, to mitigate the risk of dependency on the PWLB, and in anticipation of higher interest rates, the Council had committed to forward borrowing of £80m from a private sector lender, allowing it to lock in interest rates as at March 2022 for a portion of its debt.
- Over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council was likely to see severe budget pressures in the short-term at the level of individual capital projects, requiring additional funding to be transferred within the overall capital budget envelope and reducing the overall amount of funding available. These risks were likely to be exacerbated by Russia's invasion of the Ukraine and the consequent impact on energy prices.

During the discussion, it was suggested that risk P relating to the financial impact of a resurgence of COVID-19 should be qualified on the basis that the Government might not be prepared to mitigate that impact in future.

**RESOLVED:** That subject to the point raised in the discussion, 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.

## 25. DURATION OF MEETING

6.35 p.m. to 8.45 p.m.

Note: The Committee adjourned from 6.45 p.m. to 6.55 p.m. for technical reasons.