

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 18 JANUARY 2016

Present: Councillor McLoughlin (Chairman) and Councillors Butler, Cuming, Daley, Mrs Gooch, Perry, Mrs Riden (Parish Representative), Ross and Mrs Wilson

Also Present: Councillors Ash and Sargeant
Matt Dean and Darren Wells of Grant Thornton (External Auditor)

48. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative), Garland and Vizzard.

49. **NOTIFICATION OF SUBSTITUTE MEMBERS**

The following Substitute Members were noted:

Councillor Cuming for Councillor Garland
Councillor Mrs Wilson for Councillor Vizzard

50. **NOTIFICATION OF VISITING MEMBERS**

Councillors Ash and Sargeant attended the meeting as observers.

51. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

52. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

53. **EXEMPT ITEMS**

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

54. **MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2015**

RESOLVED: That the Minutes of the meeting held on 23 November 2015 be approved as a correct record and signed.

55. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2015

MINUTE 43 – MID-KENT AUDIT INTERIM INTERNAL AUDIT REPORT 2015/16

A Member sought reassurance that action was being taken to address the conclusion of an internal audit review that there were weak controls over the Council's safeguarding arrangements. The Deputy Head of Audit Partnership explained that the recommendations arising from the review did not fall due for follow-up until March 2016 and then later in the year. However, he had spoken to the Head of Service who had confirmed that a revised policy on safeguarding was now in draft form and that it contained proposals to provide resilience and manage the risks associated with there being just one Local Authority Designated Officer. The new policy, which should be in place by April this year, would inform the development of systems and procedures to improve controls.

In response to a question by a Member about performance across the partnership, the Head of Audit Partnership explained that the % of projects completed within the budgeted number of days was currently 57% against a year-end target of 60%. It was his expectation that this would increase to 80% in 2016/17 and 90% probably the year after that. The outturn in respect of this measure of performance was unlikely to reach 100% as inevitably projects would overrun and require more attention than anticipated. It was noted that the team's ability to more accurately scope the work to a specific number of days would contribute to achieving performance targets.

56. GRANT CLAIM CERTIFICATION

The Committee considered the report of the Head of Revenues and Benefits summarising the outcome of the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefits subsidy claim submitted by the Council for the financial year 2014/15. It was noted that:

- The claim related to expenditure of £46.6m.
- This year's testing had identified errors in respect of the classification of overpayments relating to non-Housing Revenue Account rent rebates. In a number of cases, where the Council had paid rent in advance and the claimant had moved out, the overpayment was erroneously classified as eligible (which attracts subsidy) rather than technical (which does not). The Officers had reviewed all cases of this type and the External Auditor had retested a sample of their work. It was concluded that the majority of overpayments were misclassified, resulting in a reduction to subsidy payable of £22,552. The Officers had undertaken to review all overpayments relating to such properties raised during 2015/16 to ensure that they are correctly classified before completing that year's subsidy claim. Revised procedures had been put in place to mitigate the risk of the error re-occurring.

- Whilst the work had given rise to minor amendments (99.96% accuracy), the overall assurance provided through the certification work confirmed that the Council continued to have good systems in place to ensure the accuracy of its grant claim.

RESOLVED: That the assurance provided by Grant Thornton that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns be noted, and that the Officers be congratulated on the outcome of the certification work.

57. AUDIT COMMITTEE UPDATE JANUARY 2016

The Committee considered the report of the External Auditor on the progress to date against the 2015/16 Audit Plan. The report also included a summary of emerging national issues and developments that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

In response to questions/comments by Members, Mr Wells of Grant Thornton, the External Auditor, said that:

- Whilst the Government had announced that local government would be allowed to retain 100% of local taxes and business rates to spend on local government services, the likelihood of this remained to be seen.
- The report had been prepared before the announcement that the Council would not receive Revenue Support Grant from central Government after 2016/17.
- He would ensure that future reports were proof-read to avoid punctuation and grammatical errors.

RESOLVED: That the External Auditor's update report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

58. TREASURY MANAGEMENT STRATEGY 2016/17

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the report of the Head of Finance and Resources setting out the draft Treasury Management Strategy for 2016/17, including the Treasury and Prudential Indicators. It was noted that:

- The Strategy for 2016/17 was consistent with the requirements of CIPFA and the Department for Communities and Local Government, and it had been developed in line with currently endorsed spending and financing proposals.
- In 2012, the Council approved in principle expenditure of up to £6m through prudential borrowing for the acquisition of commercial property, the acquisition of property to alleviate homelessness and action to enable stalled development to progress.

- To date, the Council had not borrowed to finance the Capital Programme as the value of borrowing was outweighed by the benefit of using the Council's own resources due to the variance between borrowing and lending rates of interest.
- The Policy and Resources Committee, at its meeting scheduled to be held on 27 January 2016, would consider a Capital Programme for the period 2016/17 to 2020/21. This Programme proposed a significant increase in prudential borrowing to support the regeneration and commercial objectives of the Council. The prudential borrowing proposed over the life of the Programme amounted to £38,950,000 which, if approved, would necessitate amendments to the prudential borrowing limits set out in the draft Strategy and the Prudential Indicators.

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

- If the Council was to borrow to fund the Capital Programme, the affordability of the Programme would need to include an assessment of the cost of borrowing compared with the return on investments.
- Other funding streams proposed in the development of the future Capital Programme included the use of New Homes Bonus grant.
- The proposed Strategy allowed maximum investments with certain single institutions of £8m. This related to secured banks and the UK Government. Investment in other banks was limited to £3m per institution.

In considering the draft Treasury Management Strategy for 2016/17, the Committee expressed concern about the risks associated with prudential borrowing of the magnitude proposed including:

- a) The potential interest rates for long term borrowing in the future;
- b) The initial cost of borrowing during the period leading up to the receipt of a return on the scheme as this would not be financed by the scheme at the time it required payment;
- c) The scheduling of the demand for prudential borrowing over the period of the Capital Programme as the indicative figures showed a significant increase in the early years of the Programme.

The Head of Finance and Resources advised the Committee that mitigation would be considered on a scheme by scheme basis and individual business cases should address these risks in line with the principles set out in the Medium Term Financial Strategy for capital.

The Head of Finance and Resources also explained that it was normally the case that the Committee would consider the Medium Term Financial Strategy in January. The Committee's remit was with regard to risk management and it would consider the operational risk assessment of the

budget that was produced by the Finance Team as part of its service planning work each year. This year, due to the late and significant change in the Strategy brought about by the Local Government Finance Settlement, the operational risk assessment was not complete in time for it to be included on the agenda for this meeting. The risk assessment would be reported to the March meeting of the Committee to enable Members to take a view on the completeness of the assessment and the soundness of the proposed mitigations.

During the discussion, Members asked that the ratio of capital financing costs to the net revenue stream (revenue budget) be quantified in the Treasury Management Strategy and Indicators.

RESOLVED:

1. **To RECOMMEND to the COUNCIL:** That subject to typographical amendments identified during the discussion, the Treasury Management Strategy for 2016/17, including the Treasury Management and Prudential Indicators attached as Appendices A and C to the report of the Head of Finance and Resources, amended as appropriate to reflect (a) the decision of the Policy and Resources Committee in relation to the schemes to be included in and the funding of the Capital Programme and (b) the quantification of the ratio of capital financing costs to the net revenue stream (revenue budget), be adopted.
2. That details of the schemes included in the proposed Capital Programme 2016/17 onwards be circulated to all Members of the Committee.

59. **WHISTLEBLOWING REVIEW**

Following a request by the Chairman, the Head of Audit Partnership submitted a report reviewing the effectiveness of the Council's arrangements for raising concerns at work. It was noted that:

- All organisations were encouraged by the Public Interest Disclosure Act 1998 to create and maintain procedures to facilitate their staff raising concerns and to protect them from detrimental treatment. The Council's procedures were set out in a Whistleblowing Charter, but the arrangements had not been reviewed for some considerable time and, in particular, did not reflect changes in the Council's structure or developments in regulations and best practice around whistleblowing.
- The opportunity had been taken to expand the scope of the work to include comparative information from Ashford and Tunbridge Wells Borough Councils.
- It was the overall recommendation of the review that the Corporate Governance Working Group be requested to bring forward detailed recommendations for the implementation of a new approach to raising concerns at work.

- The Corporate Governance Working Group had met earlier that day and hoped to be in a position to report back to the Committee in March. The Group had been of the view that it would be appropriate for the Head of Audit Partnership to take overall responsibility for whistleblowing at Officer level.

In response to a question by a Member about anonymity, the Head of Audit Partnership explained that the Public Interest Disclosure Act 1998 fundamentally related to protecting people from harassment, but in terms of anonymity, it was not possible to protect a person if their identity was not known. However, action could be taken to protect a person's identity by not disseminating information beyond the need to know.

RESOLVED: That the Corporate Governance Working Group be requested to bring forward detailed recommendations for the implementation of a new approach to raising concerns at work having regard to the following actions to improve the Council's arrangements identified by the review:

- Clearly establish overall responsibility for whistleblowing at an Officer level, including amending the Constitution and/or Audit Charter where necessary.
- Revise and refresh the Whistleblowing Charter with reference to Public Concern At Work's identified best practice.
- The revised Charter should in particular give staff clear expectations on the Council's response including investigation approaches and timescales.
- Undertake relevant training and awareness raising periodically among staff and Members.
- Report monitoring information to Members on progress towards raising awareness of whistleblowing, quantitative information on concerns raised and headline narrative on what the Council has learned from matters brought to its attention through whistleblowing (this to be done on a regular basis to maintain whistleblowing awareness).

60. DURATION OF MEETING

6.30 p.m. to 7.30 p.m.