

## **MAIDSTONE BOROUGH COUNCIL**

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

#### **MINUTES OF THE MEETING HELD ON 16 JANUARY 2017**

**Present:** Councillor McLoughlin (Chairman) and Councillors Adkinson, Boughton, Coulling (Parish Representative), Daley, English, Harvey, Perry and Revell

49. APOLOGIES FOR ABSENCE

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

50. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:

Councillor Boughton for Councillor Garland  
Councillor Harvey for Councillor Vizzard

51. URGENT ITEMS

The Chairman said that he had agreed to take the revised report of the Director of Finance and Business Improvement relating to the Treasury Management Strategy 2017/18 as an urgent item as the relevant figures for the Capital Programme and prudential borrowing had been updated as appropriate to align with the Capital Programme proposals that were being reported to the Policy and Resources Committee on 18 January 2017.

The Chairman said that he had also agreed to take a revised letter from Grant Thornton, the External Auditor, relating to Housing Benefits Subsidy Claim certification work undertaken for the Council for the year ended 31 March 2016 as an urgent item because the letter circulated with the agenda was not the final version.

52. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

53. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

54. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

55. EXEMPT ITEMS

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

56. MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016

**RESOLVED:** That the Minutes of the meeting held on 21 November 2016 be approved as a correct record and signed.

57. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2016

Minute 44 – Interim Internal Audit and Assurance Report

In response to questions, the Head of Audit Partnership confirmed that the information relating to Section 106 agreements and audit work undertaken in respect of contract management, which had been sent to the Chairman and Vice-Chairman earlier that day, would be circulated to all Members of the Committee and to the Parish Council representatives.

58. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Committee considered the report of the Interim Head of Legal Partnership on complaints received under the Members' Code of Conduct during the period 1 September 2016 to 31 December 2016. It was noted that:

- Since the last report to the Committee on 19 September 2016, there had been three new complaints. Of the three complaints received, two related to Borough Councillors and one related to a Parish Councillor.
- As at 5 January 2017, one complaint was at the initial assessment stage, one had not been progressed as it failed the legal jurisdiction test and one was not progressed as it failed the local assessment criteria.
- At the time of the last report to the Committee, two complaints were awaiting initial assessment. Of these, one had been concluded with a finding that there was no breach of the Code of Conduct and one was not progressed as it failed the local assessment criteria.

In response to questions, the Interim Deputy Head of Legal Partnership explained that the complaint at the initial assessment stage related to a Parish Councillor. Details of all complaints received under the Members' Code of Conduct were reported to the Audit, Governance and Standards Committee.

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

59. HOUSING BENEFIT GRANT CLAIM

The Committee considered the report of the Interim 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 2015/16.

It was noted that:

- The claim related to expenditure of £47.3m.
- An issue was identified in the prior year around the classification of Non-HRA Overpayments which resulted in the Council performing additional work and making an amendment to the final 2014/15 Claim Form. The Council had implemented new procedures and had also undertaken a review ahead of the submission of the 2015/16 Claim Form and made amendments where required. Grant Thornton had reviewed this work and agreed with the Council's findings, which enabled them to certify the Claim Form without the need for any amendments or a Qualification Letter.

Members recognised that the certification of the Claim Form without the need for any amendments or a Qualification Letter was a significant achievement.

**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.

60. BUDGET STRATEGY - RISK ASSESSMENT

The Committee considered the report of the Director of Finance and Business Improvement setting out the risk analysis produced by the Finance Service for the Budget Strategy 2017/18 onwards. It was noted that:

- A Medium Term Financial Strategy and Efficiency Plan had been approved by the Council in September 2016. The Officers had subsequently developed detailed budget proposals for 2017/18 and the remaining four years of the Medium Term Financial Strategy. To manage the overall risk of non-delivery of savings a blended approach had been adopted incorporating efficiency savings, income generation, transformation and business improvement and service reductions. Service reductions had been included within the budget proposals, but remained a last resort.
- Cumulative savings of £3.2m had been identified compared with a budget gap over the same period of £4m. However, the savings, if adopted, would allow a balanced budget to be set in 2017/18 since the budget gap of £1.5m was covered by proposed savings of £1.5m. Further work would be required to identify means of closing the budget

gap over the five year period of the Medium Term Financial Strategy as a whole.

- The budget risks were described in the form of a risk register and it should be recognised that risks were not usually discrete. There were inter-relationships between the risks such that, for example, inaccurate inflation projections could impact the overall risk of failing to deliver a balanced budget.
- The biggest risks were those associated with the delivery of planned savings/increased income.
- The process of risk identification provided the opportunity to take steps to mitigate the risks.

During the ensuing discussion, reference was made to the following issues:

- The risk register was well researched and balanced, but some of the risks which had been identified such as changes in government economic strategy were out of the Council's control, and the impact was difficult to assess.
- The section of the risk register relating to funding the Capital Programme should be amended to include the Community Infrastructure Levy as a source of funding.
- The commercialisation agenda should focus on costs as well as income.
- The risk matrix and register should be updated and reported to each meeting of the Committee taking into account the changing economic environment.

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

- Provision had been made in the strategic revenue projections to mitigate the impact of changes in government economic strategy post 2019/20.
- The risks identified were residual risks having taken a high level overview of the Medium Term Financial Strategy. Detailed consideration had been given to individual budget items. Taking a different approach to the Medium Term Financial Strategy could increase the level of risk.
- The commercialisation agenda was now focused on housing and regeneration having regard to lessons learned and appropriate mitigation.
- Information could be provided in future reports to quantify risks.

- There was a risk that other members of the Business Rates Pool might require support from the Council as membership of the pool precluded access to the central government safety net. The risks associated with other members of the pool being reliant on a particular business for income from business rates would be examined.

**RESOLVED:** That subject to the points raised in the discussion, the risk assessment of the budget strategy provided at Appendix A to the report of the Director of Finance and Business Improvement be noted, but the risk matrix and register should be updated and reported to each meeting of the Committee for consideration due to the changing economic environment etc.

#### 61. TREASURY MANAGEMENT STRATEGY 2017/18

In accordance with CIPFA's Code of Practice on Treasury Management, the Committee considered the revised report of the Director of Finance and Business Improvement setting out the draft Treasury Management Strategy for 2017/18, including the Treasury Management and Prudential Indicators.

The Finance Manager explained that:

- The Strategy was based upon a revised Capital Programme for 2017/18 to 2020/21 which would be discussed by the Policy and Resources Committee on 18 January 2017, and might be subject to amendments. In line with advice received from Arlingclose, the Council's Treasury Management advisers, the Council would continue to run down balances to fund the Capital Programme until such time that prudential borrowing was needed. The Council currently had sufficient reserves to fund the Capital Programme during 2017/18, but borrowing might be required during 2018/19 if the Programme ran to plan.
- The maximum principal sums to be invested for a period exceeding 364 days had been reduced from £8m to £5m. This was consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the Capital Programme in the short term due to low investment returns and high counterparty risk in the current economic climate.
- The Council would endeavour to further diversify its portfolio, as far as it was operationally feasible, ensuring that a combination of secured and unsecured investments was considered.
- The expected level of investment income had been revised downwards in light of the current economic outlook and interest rate forecasts. This was reflected in the revenue budget proposals being reported to Service Committees.
- Upon the advice of the Council's Treasury Management advisers, the table for Maturity Structure of Borrowing set out in the Treasury Management Strategy Statement would be amended to reflect the availability of cheaper borrowing in the shorter term.

In response to questions, the Officers confirmed that:

- In an earlier presentation, the Council's Treasury Management advisers had introduced a potentially different approach to treasury management and raised the issue of the risks associated with lending to banks on an unsecured basis. It was envisaged that there was sufficient flexibility within the Treasury Management Strategy to work with Arlingclose on their recommendations.
- The ratio of financing costs to net revenue stream showed the proportion of the net revenue stream (revenue budget) that was attributable to the financing costs of capital expenditure. Negative figures indicated more investment interest than prudential borrowing interest (2016/17 – 2018/19). Positive figures indicated the opposite (2019/20 – 2020/21).
- In terms of the ratio of financing costs to the net revenue stream, 2.6% of £18.9m (£491k) in 2020/21 was a relatively low figure. This sum would be used to fund prudential borrowing to pay for projects that would generate a return for the Council.
- 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 and appropriate provision would need to be built in to the Medium Term Financial Strategy to cover the cost.
- Having regard to financing costs and counterparty risks etc., the Council would only borrow as and when required.
- Other funding streams proposed in the development of the future Capital Programme included the New Homes Bonus grant.

Having considered the responses to its questions, the Committee:

**RESOLVED to RECOMMEND to the COUNCIL:** That subject to (a) any potential amendments arising from the Policy and Resources Committee's consideration of the Capital Programme and (b) the amendment of the table for Maturity Structure of Borrowing, the Treasury Management Strategy for 2017/18, including the Treasury Management and Prudential Indicators, attached as Appendices A and C to the report of the Director of Finance and Business Improvement, be adopted.

62. COMMITTEE WORK PROGRAMME 2016/17

The Committee considered its work programme for the remainder of the Municipal Year 2016/17.

**RESOLVED:**

1. That the Audit, Governance and Standards Committee work programme for the remainder of the Municipal Year 2016/17 be noted.
2. That when circulating the information relating to Section 106 agreements referred to in Minute 57 above, the Head of Audit Partnership be requested to endeavour to include details of Section 106 contributions returned to developers unused.
3. That when reporting back on audit work in respect of contract management as part of the Internal Audit and Assurance Plan 2017/18, the Head of Audit Partnership be requested to make specific reference to routine monitoring and reviews.

63. DURATION OF MEETING

6.30 p.m. to 8.00 p.m.