

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 15 JANUARY 2018

Present: Councillor McLoughlin (Chairman) and Councillors Adkinson, Butler, Coulling (Parish Representative), English, Field, Fissenden, Mrs Gooch, Harvey and Perry

Also Present: Mr Matt Dean of Grant Thornton – External Auditor

61. APOLOGIES FOR ABSENCE

There were no apologies for absence.

62. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

63. URGENT ITEMS

There were no urgent items.

64. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

65. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

66. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

67. EXEMPT ITEMS

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

68. MINUTES OF THE MEETING HELD ON 20 NOVEMBER 2017

RESOLVED: That the Minutes of the meeting held on 20 November 2017 be approved as a correct record and signed.

Minute 56 – Internal Audit and Assurance Report

In response to a question, the Head of Audit Partnership reminded the Committee that at the last meeting, concern had been expressed that whilst the audit review of the Accounts Payable system had found appropriate separation of duties between departments raising orders and the payment of invoices by the Finance Team, the current responsibilities and processes over the payment run meant that an Officer (within Finance) could set up a supplier and make a payment without the details being checked. The Officers had undertaken to provide further details to allay concerns about the risks seemingly posed by this finding.

In summary, the audit review had found that although a reasonable control existed, its success relied on communications within the Finance Team. Specifically, the Officer making the change had to tell a colleague to check the details, rather than that prompt happening automatically. This meant that the review could potentially be missed or manipulated.

The Finance Team had undertaken to enhance its controls to eliminate the risks, and now undertook a separate control routine involving production and sign off of a report relating to changes in supplier details. The Internal Audit Team was of the view that the risks had been addressed by this separation of duties, and would not feature in the Risk Register going forward.

69. PRESENTATION OF PETITIONS

There were no petitions.

70. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

71. COMMITTEE WORK PROGRAMME

RESOLVED: That the Audit, Governance and Standards Committee Work Programme for the remainder of the 2017/18 Municipal Year be noted.

72. 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 2016/17. It was noted that:

- The claim related to expenditure of £46.7m.
- The External Auditor had undertaken a sample check of 60 Housing Benefit claims across the main areas of expenditure and identified 3 errors. As a result of the errors identified, a further sample of 120 cases was checked, and 3 more errors were identified. The total value of the errors identified was £611. As a result of the errors identified,

the claim was amended and qualified. With the value of the errors extrapolated across the subsidy claim, a total adjustment of £25,004 was made with the net effect being an increase of £17,280 in the subsidy paid to the Council.

- It was not unusual for Housing Benefit Grant Claims to be qualified and the Council had been the exception in not being qualified in previous years. The level of adjustment as a result of the audit represented 0.05% of the total grant claim.
- Procedures and training had been put in place to eradicate the types of errors found, supported by robust quality assurance measures. An increased level of checking would be undertaken in advance of submission of the 2017/18 grant claim. The service was actively looking at automation to avoid transposition of figures.

In response to questions, the Officers/representative of the External Auditor explained that:

- In terms of the errors found and checking in advance of submitting the 2017/18 grant claim, a 100% check would be undertaken in respect of one of the areas where errors had been identified. With regard to the other areas, the quality assurance product would be used to target the particular elements that had caused problems.
- Extrapolation was where a % error rate found when testing a sample of claims for that error was applied to the total amount which might be affected by the error to estimate the potential value.
- Staff worked in accordance with the Housing Benefit Regulations, and errors identified were errors made by staff when carrying out assessments.

Members were mindful that the extrapolated financial impact of the errors on the Council's claim were relatively insignificant to the total subsidy receivable.

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

73. ANNUAL GOVERNANCE STATEMENT UPDATE

Mrs Angela Woodhouse, the Head of Policy, Communications and Governance, introduced her report updating progress against the Annual Governance Statement Action Plan for 2017/18. Mrs Woodhouse advised the Committee that the four Councillor Briefings on the General Data Protection Regulation scheduled to be held prior to Service Committee meetings during January would commence at 5.00 p.m.

It was noted that the Action Plan was produced and published with the Annual Governance Statement for 2016/17. It focused on areas identified

in the Annual Governance Statement as requiring additional action and assurance including engaging with local people; Member and Officer relationships; risk management; decision making; information management; contract management; and internal audit reviews with weak assurance ratings. Action had been taken in all areas as set out in Appendix A to the report.

In response to questions, the Officers explained that:

- The internal audit review of the Hazlitt Theatre had found weak controls to be in place. Only one recommendation, relating to a low priority issue, was outstanding, and the service was now rated as sound.
- The internal audit review of Park and Ride had found weak controls to be in place. Only one recommendation relating to contract monitoring procedures remained outstanding, but since contract monitoring was a high priority area, the assessment remained as weak.

Arising from the discussion, Mrs Woodhouse undertook to liaise with the Corporate Health and Safety Adviser and to circulate details of when fire drills last took place at Maidstone House, The Link and Terrace and the Town Hall. She also undertook to provide an update on progress against the action plan which had been created following the Member/Officer Leadership Team Away Day, including timescales.

RESOLVED: That the Annual Governance Statement Action Plan 2017/18 update be noted.

74. COUNTER FRAUD & CORRUPTION POLICY

Mr Rich Clarke, Head of Audit Partnership, introduced his report proposing a refreshed policy setting out how the Council aimed to identify and mitigate the risks of fraud, corruption and wider economic crime and how the Council would deal with incidents.

Mr Clarke explained that:

- The Council's present counter fraud policy dated from 2009. Whilst the document remained fundamentally sound in setting out a robust counter fraud message and how the Council would deal with incidents as they arose, there were some areas that needed re-examination.
- There had been changes to legislation, including the Bribery Act 2010, and updates to best practice (CIPFA's Counter Fraud Code of Practice) that should feature within the Council's policy making. The Code included a recommendation that Councils should seek to orientate their policies as to how they would identify and address the risk of fraud and to what they would do if it occurred. The policy aimed to fulfil these requirements by going into more detail about how the Council would seek to investigate and address instances that arise, the types of instances the Council would be looking to identify and the

actions the Council would seek to take to mitigate the risk, including e-learning, workshops and designing new systems.

- A lot of the detail would come forward in the Internal Audit and Governance Plan 2018/19 which would set out some of the proactive work the Internal Audit Team intended to undertake in high risk areas to provide assurance that the Council's arrangements were sufficiently robust to address the risk of fraud arising as well as having strong arrangements for dealing with it should it occur.
- It was a function of the Audit, Governance and Standards Committee to recommend and monitor the effectiveness of the Council's Counter Fraud and Corruption Policy. Approval of the Policy was delegated to the Policy and Resources Committee.

RESOLVED to RECOMMEND to the POLICY AND RESOURCES

COMMITTEE: That the Counter Fraud and Corruption Policy, attached as Appendix 1 to the report of the Head of Audit Partnership, be approved subject to the following amendments:

Paragraph 16 – Amend the first sentence to read:

Officers shall be alert to the possibility of economic crime and report any suspicious activity.

Paragraph 17 – Amend the first sentence to read:

Officers shall comply with the Code of Conduct and all relevant Council policy and procedures.

Paragraph 33 – Amend to confirm that data will be handled in accordance with the Data Protection Regulations.

Paragraph 38 – Amend the first sentence to read:

The culture and tone of the Council must be one of honesty with zero tolerance towards fraud, bribery and corruption.

Paragraph 40 – Amend the first sentence to read:

Criminal prosecutions deter potential offenders and reinforce our zero tolerance towards economic crime.

APPENDICES

Whilst the Committee understood the reasons for not including details of all of the Appendices to the policy, it was considered that, as appropriate, a summary should be included to provide assurance to people raising issues that investigations will be undertaken with due professionalism and independence.

Note: Councillor English left the meeting at the start of this item (7.00 p.m.).

75. TREASURY MANAGEMENT STRATEGY 2018/19

Mr John Owen, Finance Manager, introduced his report setting out the draft Treasury Management Strategy for 2018/19, including the Treasury Management and Prudential Indicators.

Mr Owen explained that:

- The Strategy was based upon a proposed Capital Programme for 2018/19 to 2022/23 which would be discussed by the Policy and Resources Committee on 24 January 2018, and might be subject to amendments.
- The Council had not changed its stance from 2017/18 and would continue to run down balances to fund the Capital Programme until such time that prudential borrowing was needed. On the assumption that the Capital Programme would be fully spent, the Council might be in a borrowing position by the end of 2018/19.
- Most investments would be short term (less than a year), but there was a provision for longer term investments (£5m) if rates were appealing.
- Upon the advice of Arlingclose, the Council's Treasury Management advisers, he wished to make the following amendments to the Treasury Management Strategy Statement (Appendix A) and the Prudential Indicators (Appendix C):

Appendix A – Pages 15-16 – Table showing Non-Specified Investment Limits – Amend second line to read:

Total investments without credit ratings or rated below A- *except UK Government and Local Authorities* - £5m

Appendix A – Page 16 – Table showing Investment Limits – Increase the cash limit in respect of negotiable instruments held in a broker's nominee account from £5m to £10m per broker. Arlingclose felt that this restricted the Authority when using different financial instruments these provide.

Appendix C – Amend to include reference to the Gross Debt and the Capital Finance Requirement Indicator. The purpose of this indicator was to ensure that borrowing required was only used for the Capital Programme and not for revenue purposes. The Gross Debt should not exceed the Capital Financing Requirement.

- CIPFA had revised the Prudential Code which took into account non-treasury investments and had changed the wording of Treasury

Management Practices which would require an amended Strategy to be reported to the Committee probably mid 2018/19.

During the ensuing discussion, Members drew attention to the following typographical errors in the Treasury Management Strategy Statement:

Page 10 – Amend the figure in the first line of the second paragraph to read £5.547m.

Page 10 – Amend the second word of the second line of the penultimate paragraph to read “forgone”.

In response to questions, the Officers explained that:

- The capital expenditure prudential indicator was a summary of the Council’s capital expenditure plans that were known about at this stage. The capital expenditure forecast of £5.025m as at 2021/22 would increase nearer that time.
- The interest rate forecasts provided by Arlingclose did have upside and downside risks. The assumption was that interest rates would remain constant for a period of time, but they could go up. The Council was currently maintaining an under-borrowed position. This meant that the Capital Financing Requirement had been funded using cash supporting the Council’s reserves, balances and cash flow as a temporary measure rather than through loan debt. This strategy was prudent as currently borrowing rates were higher than investment returns.
- Local authorities were not allowed to borrow in foreign currencies.
- In terms of limits to borrowing activity, the operational boundary was the limit which external debt was not normally expected to exceed. In most cases it would be a similar figure to the Capital Financing Requirement which was a measure of the Council’s borrowing need to fund the proposed Capital Programme. A negative amount showed the Council had more funding than capital expenditure. The authorised limit for external debt represented a control on the maximum level of borrowing in any particular year.
- The ratio of financing costs to net revenue stream indicator showed the proportion of the revenue budget that was attributable to the financing costs of capital expenditure. The estimated 2.9% in 2021/22 was a very low figure compared to commercial bodies.
- The Medium Term Financial Strategy assumed that the Council would be able to borrow from the PWLB at competitive rates, but there was a risk that this might be subject to restrictions in future. However, recent Government consultations and announcements did not indicate a direct impact for the Council’s spending plans.

- 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.
- The Medium Term Financial Strategy inflation projections were based on the Government's 2% target, but this could be higher.
- Other funding streams proposed in the development of the Capital Programme included the New Homes Bonus Grant (revenue funding). No major capital receipts were envisaged.

During the discussion Members expressed concern about the risks associated with unexpected changes in interest rates, exchange rates and inflation. The Director of Finance and Business Improvement undertook to keep Members up to date with developments in these areas.

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; (b) the amendments to the Treasury Management Strategy Statement (Appendix A) and the Prudential Indicators (Appendix C) made by the Finance Manager at the meeting; and (c) the correction of the typographical errors identified at the meeting, the Treasury Management Strategy for 2018/19, 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.

76. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

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

It was noted that:

- The funding context had now been clarified by a Government announcement in December 2017 regarding the 2018/19 local government finance settlement. This confirmed that the settlement for next year would be in line with the previously announced four year settlement 2016/17 – 2019/20. The Secretary of State had also said that the Government would be looking at options for dealing with negative Revenue Support Grant (RSG), and since the Council was facing £1.6m of negative RSG in 2019/20, this was very welcome.
- In the light of higher than anticipated inflation, the Government was giving Councils the ability to increase Council Tax by an additional 1% without a local referendum. The Policy and Resources Committee would consider whether the Council should take advantage of this as part of the budget setting process for 2018/19.

- There had been indications that restrictions might be introduced on local authority borrowing following adverse publicity regarding substantial borrowing undertaken by a small minority of Councils. Recent Government consultations and announcements did not indicate a direct impact for the Council's spending and prudential borrowing plans.

In response to questions by Members, Mr Green explained that:

- It had been announced that Kent and Medway would be a 100% Business Rates pilot area in 2018/19. This would provide a one-off additional amount of business rates income for the Council in 2018/19, provisionally estimated to be £640,000. The Policy and Resources Committee would consider proposals regarding the budget allocation of this amount at its next meeting. It was hoped that the benefits of pilot membership would continue in future years.

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.

77. DURATION OF MEETING

6.30 p.m. to 8.15 p.m.