

## **MAIDSTONE BOROUGH COUNCIL**

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

#### **MINUTES OF THE MEETING HELD ON 17 JANUARY 2022**

**Present:** Councillor Perry (Chairman) and Councillors Bartlett, Brindle, Coulling (Parish Representative), Cuming, Fissenden, J Sams, Trzebinski and Titchener (Parish Representative)

**Also Present:** Mr Trevor Greenlee – Grant Thornton (External Auditor)

59. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Daley and de Wiggondene-Sheppard.

Councillor J Sams left the meeting at the conclusion of this item (6.35 p.m.).

60. MR ANDREW TOWNSEND

The Chairman welcomed Mr Andrew Townsend, the Interim Head of Internal Audit Partnership, to his first meeting of the Committee.

61. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

62. URGENT ITEMS

There were no urgent items.

63. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

64. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

65. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

66. EXEMPT ITEMS

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

67. MINUTES OF THE MEETING HELD ON 15 NOVEMBER 2021

**RESOLVED:** That the Minutes of the meeting held on 15 November 2021 be approved as a correct record and signed.

68. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

69. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

70. COMMITTEE WORK PROGRAMME 2021/22

The Committee considered its work programme for the remainder of the Municipal Year 2021/22.

**RESOLVED:** That the Committee work programme for the remainder of the Municipal Year 2021/22 be noted.

71. EXTERNAL AUDITOR'S PROGRESS REPORT AND SECTOR UPDATE

Mr Trevor Greenlee of Grant Thornton presented the External Auditor's report providing an update on progress with the audit of the 2020/21 financial statements and a summary of emerging national issues and developments of relevance to the local government sector.

Mr Greenlee advised the Committee that:

- Grant Thornton's Audit Findings Report was presented to the Committee at its meeting on 15 November 2021. At that time, it was explained that although substantial progress had been made in most areas, changes were required because of a historic issue involving a prior period adjustment in the financial statements. The Council provided a revised set of accounts including that adjustment in December 2021 and a further version the previous week. The External Auditor was currently reviewing the most recent and the earlier versions of the revised accounts and the accompanying working papers and would engage with the Finance Team if there were further issues in relation to those amendments.
- As a result of the review process, the External Auditor had identified some areas where further information was required and would work with the Finance Team to progress that as quickly as possible.

- Subject to progress regarding outstanding queries, the External Auditor was aiming to issue the audit opinion on the 2020/21 financial statements by 31 January 2022.
- The External Auditor's review of the Council's 2020/21 Housing Benefit Subsidy claim was also currently in progress.

In response to a question, Mr Greenlee explained that although it was the External Auditor's aim to complete the audit by 31 January 2022, that would depend upon progress with the outstanding issues over the next few weeks.

The Chairman expressed disappointment and concern that the audit was taking so long and that the accounts had still not been formally signed off. He sought assurance that the audit would be completed by 31 January 2022 and with a satisfactory outcome.

Mr Greenlee said that he fully understood the wish to complete the audit as quickly as possible and it was the External Auditor's aim to do so by 31 January 2022. However, that would depend on progress with the outstanding review queries, and he could not give a commitment that the audit would be completed by 31 January 2022.

Arising from a request for more information about the reasons for the delay, Mr Greenlee explained that until the External Auditor had got to the point of reviewing all work, it was difficult to provide a definitive list of queries. In terms of the actual outstanding queries, he did not think any were of a fundamental or particularly complex nature which would start a whole chain of events.

The Chairman said that he had every confidence in the Council's Finance Team and hoped that the External Auditor would work to conclude the audit as a top priority as it was a matter of importance to the Council.

**RESOLVED:** That subject to the concerns expressed during the discussion about the delay in concluding the 2020/21 audit, the External Auditor's progress report and sector update, attached as Appendix 1 to the report of the Head of Finance, be noted.

## 72. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2022/23

The Finance Manager introduced his report setting out the draft Treasury Management, Investment and Capital Strategies for 2022/23. It was noted that:

- The Strategies were based upon the proposed Capital Programme which totalled £233m over the next five years and would be discussed at the meeting of the Policy and Resources Committee on 19 January 2022.

- The proposal for next year was to utilise balances as far as possible and to increase short-term and long-term borrowing to support the Capital Programme.
- The Capital Programme was escalating, and potential external borrowing would increase over the next five years to approximately £216m with a capital financing requirement of £274m. It was anticipated that next year's borrowing would increase by £20m and the operational and authorised limits for external debt were set at £57m and £67m respectively. The Council was also looking into forward borrowing options due to low interest rates in the borrowing markets.
- Treasury investments were likely to fluctuate between £10m and £55m next year.
- Investments would be short-term, but there was provision in the strategy to invest £2m for over a year if rates became favourable and the funding was available at the time.
- There would be a balance of £1.2m at the end of 2022/23 in respect of service loans, including provision of £1m for Maidstone Property Holdings Limited to undertake refurbishments to various properties it currently leased from the Council.
- In response to a question at the last meeting, it was considered that using the Government's Debt Management Office (DMO) in place of money market funds would be more of an administrative burden for no extra financial gain. The DMO did not offer accounts which would allow the Council to recall funds daily to meet its cash flow liabilities. Fixed term deposits were required. Rates were around 0% while money market funds were gradually increasing. Money market funds were AAA rated funds whilst the DMO was currently AA-.

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

- He would be happy to meet with Members to discuss the Strategies in more detail. The length of the report reflected the additional requirements put on Councils regarding the reporting of treasury management following the Icelandic banking crash. However, he would look at how the information might be summarised in an easily digestible form in future. Table 2 on page 111 of the agenda showed how it was planned to fund capital expenditure in each year as projected from 2022/23 onwards, including the use of the Council's own resources and external borrowing. The Council was obliged to ensure that any borrowing was sustainable so, for example, in the case of the affordable housing programme, which was the biggest component, the Officers would be putting a business case to Members showing how the borrowing could be supported through the revenue generated from that housing.

- There were no plans to show as separate figures the self-financing elements of capital projects. The risk associated with the deliverability of the Capital Programme was acknowledged and it was now given a higher rating in the risk assessment of the Budget Strategy. The Officers were looking at measures to mitigate the risk.
- The difficulty associated with the main source of borrowing (the Public Works Loan Board) was that it was only available at the point that it would be delivered and there was a stipulation about not borrowing in advance of need. However, there were alternatives in the market, such as pension funds, which were being actively explored; types of entity that would be interested in fixing the rate today without the Council having to draw down the funds until some point in the future. This would also provide the opportunity to lock into current interest rates.
- Rather than placing money with just one counterparty, it was safer to spread the risk across several counterparties. He did not consider this to be a time-consuming exercise for the Officers.
- When preparing budget projections for the Medium-Term Financial Strategy, the Officers did test different scenarios, including one addressing the risk of continuing high inflation.
- Whilst the further investment at Lockmeadow did generate a financial return, it was intended to boost the economy of the Borough in line with the Council's strategic objective of making Maidstone a thriving place.
- The minimum revenue provision was the minimum amount the Council must charge to its revenue budget each year for repaying external borrowing. It was treated like depreciation in the preparation of the accounts but from the perspective of debt repayment.
- In terms of the implications of the revised CIPFA Treasury Management and Prudential Codes, there were implications such as ESG issues within the Capital Strategy which needed to be addressed, but most requirements/amendments were covered already.
- It was for the Council to set its counterparty limits having regard to the advice of its Treasury Management advisors and credit ratings did provide a good starting point for the assessment of financial risk.
- When drawing up the Capital Programme, the Officers made provision for possible future spending but decisions about individual schemes would be made by Members.
- The Council was borrowing more than it needed in order to keep a cash float for liquidity purposes. The proportion of financing costs to the net revenue stream was set out in table 9 on page 17 of the Capital Strategy, rising to 18.5% in 2026/27. 20% was probably the maximum in terms of gearing.

Arising from the discussion, the Finance Manager undertook to:

- Amend the table set out in section 3.1 of the Treasury Management Strategy summarising the Council's forward projections for borrowing to include an extra line to cover the minimum revenue provision; and
- Amend table 1 set out on page 3 of the Investment Strategy relating to loans for service purposes to update the approved limit for local charities in 2022/23.

**RESOLVED:**

1. That subject to the minor amendment arising from the discussion, the Treasury Management Strategy for 2022/23, attached as Appendix A to the report of the Finance Manager, be agreed and recommended to the Council for adoption subject to any amendments arising from consideration of the Capital Programme by the Policy and Resources Committee at its meeting on 19 January 2022.
2. That subject to the minor amendment arising from the discussion, the Investment Strategy for 2022/23, attached as Appendix B to the report of the Finance Manager, be agreed and recommended to the Council for adoption.
3. That the Capital Strategy for 2022/23, attached as Appendix C to the report of the Finance Manager, be agreed and recommended to the Council for adoption.

73. **EXTERNAL AUDIT PROCUREMENT**

The Director of Finance and Business Improvement introduced his report setting out the options for the procurement of External Auditors for the financial years 2023/24 to 2027/28.

The Director of Finance and Business Improvement advised the Committee that:

- 2022/23 was the final year of the existing External Audit contract and it was now necessary for the Council to decide on the arrangements for 2023/24 and subsequent years. The options were to procure independently (or in conjunction with other authorities) or to accept an invitation from Public Sector Audit Appointments Ltd (PSAA) to opt into an outsourced procurement.
- In July 2016 the Secretary of State specified PSAA, a subsidiary of the Local Government Association, as an appointing person responsible for appointing an auditor and setting scale fees for relevant principal authorities that had chosen to opt into its national scheme.
- The recommendation was that the Council accept the invitation from PSAA to become an opted-in authority for the following reasons:

The administration of procurement would be outsourced, leading to a significant saving in Council time and resources;

Management of the audit contract would be outsourced, again leading to a significant saving in Council effort;

PSAA was better placed than the Council to achieve good value for money from the procurement, owing to its dominant position in the market place;

Outsourcing external audit procurement to PSAA provided assurance that the Council's statutory obligation to have an external audit would be met;

PSAA had published a Procurement Strategy which reflected lessons learned from the operation of the initial five-year outsourced contracts, for example by placing greater emphasis on quality versus cost when making appointments; and

Whilst there had been serious issues about the delivery of audits over the past four years such as late opinions, lack of skilled and experienced audit staff, increasing demand on Officer time to service audits, low fees but frequent supplements, it was considered that a sector-wide approach to addressing these, led by PSAA, was more likely to improve standards.

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

- It was the responsibility of PSAA to allocate auditors to individual authorities.
- In terms of an audit supplier having a pre-existing relationship with an opted-in body which prevented it from accepting an audit appointment, he did not think auditing the pension fund which was a separate entity was an example of something which would rule the auditor out.
- To comply with the legislation, it was necessary for the Council to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

**RESOLVED to RECOMMEND to COUNCIL:** That an invitation from Public Sector Audit Appointments to become an opted-in authority, in accordance with the decision-making requirements of the Local Audit (Appointing Person) Regulations 2015, be accepted.

#### 74. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement providing an update on the budget risks facing the Council. It was noted that current monitoring indicated that in-year

financial performance in 2021/22 remained in line with budget. Budget proposals for 2022/23 currently being presented to Service Committees would, if agreed, also allow a balanced budget to be achieved for next year. However, future years' performance remained subject to a range of risks, including continued high inflation, the impact on third party income from further pandemic outbreaks, and challenges in delivering the Capital Programme when materials and labour are scarce.

During the discussion, reference was made to the risks associated with higher levels of inflation, particularly in relation to the funding of the Capital Programme and the implications for specific projects. It was also 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.

In response to a question, the Director of Finance and Business Improvement said that consideration would be given to including long term liabilities in relation to the pension fund in the risk register going forward.

**RESOLVED:** That subject to the points 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.

75. MS ELLIE DUNNET

The Chairman said that Ellie Dunnet, Head of Finance, would be leaving the Council later that week to take up a new position elsewhere. On behalf of the Committee, the Chairman thanked Ms Dunnet for her work and support over the years and wished her all the very best for the future.

76. DURATION OF MEETING

6.30 p.m. to 7.55 p.m.