

Meeting of the Governance and Audit Committee



SOUTH
KESTEVEN
DISTRICT
COUNCIL

Wednesday, 12 July 2023, 2.00 pm

Committee Members present

Councillor Tim Harrison (Chairman)
Councillor Paul Wood (Vice-Chairman)

Councillor Patsy Ellis
Councillor Bridget Ley
Councillor Charmaine Morgan
Councillor Ian Stokes
Councillor Mark Whittington
Councillor Sue Woolley

Cabinet Members present

Councillor Richard Cleaver (Leader of the Council)
Councillor Ashley Baxter (Deputy Leader of the Council)
Councillor Phil Dilks (Cabinet Member for Housing and Planning)
Councillor Philip Knowles (Corporate Governance and Licensing)
Councillor Rhea Rayside (Cabinet Member for People and Communities)

Other Members present

Councillor Virginia Moran
Councillor Ian Selby

Officers present

Richard Wyles, Chief Finance Officer and Deputy Chief Executive (Section 151 Officer)
Alison Hall-Wright, Assistant Director of Finance (Deputy Section 151 Officer)
Tracey Elliott, Governance and Risk Officer
Debbie Roberts, Head of Corporate Projects, Policy and Performance
James Welbourn, Democratic Services Manager
Matt Waller, Assurance Lincolnshire

17. Apologies for absence

Apologies for absence were received from Councillors Rob Shorrock and Peter Stephens.

Councillor Mark Whittington substituted for Councillor Stephens.

18. Disclosure of interests

No interests were disclosed.

19. Minutes of the meeting held on 14 June 2023

The minutes of the meeting held on 14 June 2023 were proposed, seconded and **AGREED** as a correct record.

20. Updates from previous meeting

The Chairman informed the Committee that a supplement had been circulated to Members prior to the meeting which confirmed any updates following the meeting of 14 June 2023.

The Chairman invited questions, however, there were none.

21. Internal Audit Progress Report

The purpose of this report was to provide details of the audit work during the period 1 March to 30 June 2023, advise on progress of the 2022/23 plan and raise any other matters relevant to the Audit Committee role.

The report was presented by Assurance Lincolnshire Auditors. Since the last update report presented to the Governance & Audit Committee in March 2023, the following work has been completed:

- Combined Assurance/ Service Assurance (Consultancy)

Work was completed with the Senior Leadership Team to produce a service assurance report. This process involved discussion across the Council and provided management with an overview of the Council's assurance across critical activities, key projects, key partnerships and key risks. A report had been provided to Corporate Management Team (CMT) and the work used to support the annual opinion and audit planning.

There was one audit remaining from the 2022/23 plan, Debtors, which was at draft report stage awaiting a closure meeting and management agreement. The Capital Programme and Creditors reports were being finalised at the time of issuing this report. Details would be included in the next progress report to the committee. It was confirmed the audit opinion was substantial assurance for both these areas.

Following agreement of the 2023/24 Audit Plan at Committee in June auditors were now in the process of liaising with managers to schedule the audits. They would

also be carrying out a review of the audit plan and the remaining time available to provide a revised plan.

The actions made by Assurance Lincolnshire had been tracked since starting with the Council in 2022/23. Progress in implementing the recommendations made to date had been obtained from the responsible officers and recommendations had been closed off where advised. All but eight of the actions due by 31st May had been actioned, the eight have had their due date extended.

Members raised the following points during discussion:

- Why had some audit completions been delayed? Progress had been disappointing.
- What assurance or guarantee could be given that the planned workload for the coming year could be completed within the required timeframe?
- Prioritising the most important work was essential.
- Were the required meetings with senior management officers scheduled into the calendar and reports expected at the September Committee still within the agreed timeframe?

The Auditor informed Members that staff resources had been limited and the closing down process had taken longer than planned. An updated plan on the schedule of audits was being prepared and was to be reviewed during the year according to risk assessments carried out. The Auditor was unable to confirm that the full annual plan would be completed by March 2024 however, meetings with senior management were to be scheduled and discussions to take place prior to confirming a timescale for audits to take place.

The Chief Finance Officer confirmed that the plan had only been approved by the Governance and Audit Committee less than one month ago. The purdah period and subsequent election had contributed to a delay which would not have been seen in the previous year when no all-out elections had taken place. The Draft Plan had been compiled from a risk analysis profile of the Authority and consideration of the resources available. Prioritisation had to be considered within the context of the audit. If additions were to be made, delays would be inevitable in other areas as resources were not infinite. As an example, payroll had become an in-house service from 1 April 2023 and the audit was to be scheduled once the service had operated for a period of time to ensure the risk framework was where it needed to be. The Audit Plan for the forthcoming financial year was approved by the Governance and Audit Committee, and officers would not want to commence audits that the Committee had not considered or approved. The Audit Plan was not considered by the Committee until June 2023 causing the first quarter of the year to be lost. While a progress report was expected to be heard at the September meeting of the Governance & Audit Committee, the Draft Plan would not be completed until later in the year.

The Governance and Audit Committee requested that Housing Repairs be considered as an addition to the Audit Plan.

The progress report from Assurance Lincolnshire was noted by the Committee.

22. Provisional Outturn Position Report 2022-2023

The Deputy Leader of the Council introduced the report.

2022/23 was a turbulent financial year which required the Council on 24 November 2022 to approve a series of amendments to the budget framework in order to respond to significant volatility to the budgets resulting from the pressures on utilities, fuel, pay and inflation. Following this, budgets were amended accordingly and the variances in this report were in relation to those amended budgets.

The report ensured that the final account figures could be reconciled back to the budget set by the Council.

Due to timing differences in grants and budgets being approved, it was proposed to carry a number of budgets forward into 2023/24 to fund specific and previously approved projects.

The amended budget set by Council on 24 November 2022 was £22.148m. Budgets have been amended as projects have commenced and these changes increased the 2022/23 budget to £22.209m. For the purposes of the outturn variance analysis, the budget carry forwards had been removed from this which reduces the budget for comparative purposes to £20.249m.

The forecast outturn position as at Quarter 3 was reported to the Finance, Economic Development and Corporate Services Overview and Scrutiny Committee on 21 February 2023. At this time, a reduction in the forecasted spend, additional projected investment interest and Minimum Revenue Provision (MRP) reduction resulted in a forecasted balanced position.

The budget set by Council on 3 March 2022 for the 2022/23 General Fund Capital programme was £19.608m.

As at 31 March 2023, there was an underspend of £13.008m which included underspends of £308k on the Disabled Facilities Grant, £224k on the Vehicle Replacement Programme, a deferral of works to the re-surfacing of Welham Street car park at £127k and £793k underspend on the Sustainable Warmth Grant which the Council received to assist with the upgrade of energy efficient homes for low income households.

Discretionary Reserves of £10.873m have been established to financially support the delivery of the Council's Corporate Plan ambitions including both revenue and

capital projects as well as to prepare for unforeseen financial pressures, such as an impending staff pay award. It was within the role of the Governance and Audit Committee to consider the movement of funds within the Reserves.

The Deputy Leader informed Members that the Climate Change Reserve was used to fund one-off climate initiatives. There were sufficient funds to create a Lighting Reserve for the upgrade of street-lighting to LED lighting within the district, as discussed at the Environment Overview and Scrutiny Committee held on 11 July 2023.

Governance Reserves of £8.071m were maintained to mitigate risk, satisfy statutory and grant awarding bodies' requirements and support prudent financial management.

The Chief Finance Officer informed Members that the last year had seen significant increases in investment income compared to budgets due to 13 increases in the base rate.

The Housing Revenue Account (HRA) capital fund was approximately £10 million underspent at this time. The General Fund was in a similar position due to the Deepings Leisure Centre refurbishment programme not being taken forward by the Council.

During discussion, Members raised the following points:

- A Member requested that more assurance be provided on the 'earmarked' reserves. For example, £300,000 was allocated to the Climate Change Reserve. What was the money specifically to be spent on?
- What scrutiny was to take place on the prioritisation of funds, particularly on the Climate Change Reserve?
- How was the £300,000 reserve movement for Climate Change decided and did it represent a reduction in ambition? It was considered that the Climate Change Reserve was unique in its required use.
- It was important that assurance was provided to the public that great consideration was given to how the Climate Change Reserve funds were allocated.
- Were there sufficient funds within the Staff Pay Award Reserve to cover any potential rise in pay?
- It was welcomed that proactive action was to be taken against Climate Change.

The Chief Finance Officer informed Members that reserve movement recommendations were a key part of the report. Reserve movements referred to

replenishing funds within a reserve heading to be used subject to the normal processes of delegation, authority to spend and procurement. The report provided a detailed list within paragraph 5 as to what each reserve covered. The Climate Change Reserve, as an example, was a request to put monies aside to fund the declared emergency the Council has placed in respect of 30% reduction by 2030. Where the monies were to be spent would be subject to policies and frameworks established by the Financial Conduct Authority. The recommendations within the report had been taken with due care and diligence to enable the Council to carry out its statutory obligations. The Chief Finance Officer informed Members that the £500,000 allocated to the Pay Award Reserve was to support funds already put aside.

The Deputy Leader confirmed that whether small financial spends were taken to Overview and Scrutiny Committees for decision was determined by the financial regulations and it was appropriate that Officers make decisions as defined within the Scheme of Delegation and the Financial Procedure Rules. The Property Maintenance Reserve was essential to assist in the maintenance of the Council's properties as there was a need to be prepared for unexpected expenditure. The Deputy Leader continued that it was important that the ICT Reserve was replenished to keep IT equipment up to date due to the constant threat of possible cyber-attacks. Future Climate Change initiatives would include the promotion of behavioural change across the district such as sustainable transport, composting and household recycling and embedding climate change resilience into future property projects.

The Leader of the Council added that it was the remit of any Committee to scrutinise anything within its subject area that it wished and the Leader would encourage this to happen.

It was confirmed that at the Environment Overview and Scrutiny Committee of 11 July 2023, the work programme was discussed and it was agreed that the climate change action plan, supplementary to the Climate Change Strategy had been added. This was expected to contain ideas, proposals and business cases for validating the spend against that Reserve.

The Cabinet Member for Housing and Planning informed the Committee that there was no reduction in ambition with Climate Change, however, the administration was relatively new and required time to make progress. In reference to the Housing Maintenance Programme, the Cabinet Member confirmed that the Council's housing stock of 6,000 made South Kesteven the largest Local Authority Housing provider in the East Midlands. The maintenance carried out on the housing stock had not been as robust as perhaps desired in recent years. Almost 1 in 2 void properties were found to be in need of major works such as new bathrooms or electrical rewiring and this was quite a challenge to reduce while raising the standard of the homes provided. The Council's residents deserved a good standard of housing and it made sound economic sense to protect those assets.

The Chief Finance Officer highlighted that the Committee was able to approve the movement of reserves, and that there were other processes in place to scrutinise

individual spends that utilised funding from these reserves – moving reserves was not an authority to spend that money. The Chief Finance Officer had given his professional opinion to identify where spend pressures would arise over the next 12 months, and which reserves could alleviate these pressures. For example, the Climate Change Reserve had increased but the funding for this had largely come from the Business Rate Volatility Reserve, which now had no need to exist as it was set up to alleviate the pressures on Business Rates created by Covid-19.

It was proposed, seconded **and AGREED, following a Chairman's casting vote that the:**

Governance & Audit Committee:

- 1. Reviewed and approved the provisional Revenue and Capital Outturn position and associated appendices for the financial year 2022/23.**
- 2. Noted the budget carry forwards (appendices D and H).**
- 3. Reviewed and approved the following reserve movements in respect of the General Fund:**
 - a) £1.5m of the Business Rates Volatility reserve to be transferred to the:**
 - ICT Reserve increase by £0.150m**
 - Property Maintenance Reserve increase by £0.400m**
 - Invest To Save Reserve increase by £0.150m**
 - Climate Change Reserve increase by £0.300m**
 - Creation of a Pay Award Reserve of £0.500m**
 - b) The balance of the Inflation Reserve of £0.500m to be transferred to the:**
 - Budget Stabilisation reserve increase by £0.250m**
 - Street Scene reserve increase by £0.250m**

23. 2021/22 and 2022/23 Statement of Accounts Update

The report was presented by the Assistant Director of Finance.

The draft 2021/22 Statement of Accounts were reviewed by the Governance and Audit Committee on 20 July 2022 and subsequently published on 29 July 2022. Updated Statement of Accounts were presented to the Governance and Audit Committee on 30 November 2022 which reflected the changes that had been identified by the Finance Team and those agreed with the external auditors, Grant Thornton. In accordance with the Accounts and Audit (Amendment) Regulations 2022, the target date for completing the 2021/22 audit and publishing the final accounts was 30 November 2022 which the Council did not meet due to delays beyond its control.

Since the last update to the Governance & Committee in November 2022, significant progress had been made with the external auditing of the accounts. With respect to Property, Plant and Equipment (PPE) external audit had requested additional information from the Council and the external valuers to enable them to audit the property valuations included in the accounts. This information had now been provided to the audit team in order for them to finalise the audit of this important area of the Council's accounts.

Following the completion of the triennial review of the pension fund in 2022/23 external audit requested an updated 2021/22 IAS 19 Pension Valuation Report to enable them to establish whether the review has had a material impact on the pension information included in the accounts. This information has been provided to the audit team for review. The Assistant Director of Finance informed Members the Finance Team were confident in having the accounts signed off by mid-August 2023. In respect of the 2022/23 accounts, a notice of the delay was published on the Council's website.

Draft 2022/23 accounts would be brought before the Governance and Audit Committee in September 2023, however Grant Thornton Auditors have indicated they were unlikely to meet the deadline of 30 September 2023. An update was to be provided at Committee at a future meeting.

The following points were raised in discussion:

- Members were concerned about the unfortunate delay by external auditors in signing off the 2021-2022 Statement of Accounts and the impact on the 2022-2023 accounts.

The Deputy Leader acknowledged the concerns and confirmed that the shortage in supply of external auditors was a nationwide issue which was beyond the control of the Council.

The Assistant Director of Finance informed Members that KPMG had returned to the external audit market for Local Government which enables more audit firms to be for local government work. Conversations were taking place with Grant Thornton Auditors and KPMG to ensure a smooth handover and establish when the audit would be completed. Any changes on the value of assets would impact both the balance sheet and the income and expenditure statements for 2021-2022. However, these would be 'reversed out' as they were accounting adjustments, not actual monetary adjustments. On the 2022-2023 accounts, the Council had been able to process all year-end adjustments, except for depreciation and the revaluation, gains and losses associated with land and buildings. It was expected, therefore, that the depreciation cost would increase against service areas.

The Chief Finance Officer confirmed that only 35% of councils have had their 2021-2022 accounts signed off.

It was proposed, seconded and **AGREED that the Governance and Audit Committee:**

- a) Noted the progress of the audit of the 2021/22 Statement of Accounts**
- b) Delegated authority to the Chief Finance Officer to make any final wording changes and accounting adjustments to the 2021/22 Statement of Accounts following the conclusion of any outstanding audit queries.**
- c) Delegated approval of the audited 2021/22 Statement of Accounts and the Letter of Representation to the Chairman on behalf of the Governance and Audit Committee in consultation with the Chief Finance Officer following the completion of the audit.**

24. 2023/24 Quarter 1 Treasury Management Activity

The Deputy Leader introduced the report, pointing out the position of the global economy and the difficulties faced in finances. There was a balance required between investing funds and utilising funds on public services to benefit the district's residents.

Treasury Management was the term used to cover the Council's borrowing and investment strategies. In line with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management the Council had adopted a treasury management policy statement that required regular reports on treasury and debt management operations during the financial year. Additionally, under part 1 of the Local Government Act 2003, the Council was required to have regard to the Prudential Code for capital finance including the setting of Prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2023/24 approved by Council on 1 March 2023.

This report provided a review of treasury management for the period ended 30 June 2023 and reviewed current developments. The following elements were covered by the report:

- A review of debt management operations
- A review of investment operations
- An update on the treasury management Prudential Code Indicators

No additional borrowing was required during the first quarter of 2023/24. All current Council borrowing was with the Public Works Loan Board (PWLB) and the average rate of interest paid on the debt portfolio was 2.47%.

As at 30 June 2023, the Council had short-term borrowing, which was defined as borrowing due to be repaid within 365 days, of £3.221m. This would be repaid in instalments of £1.611m on 28 September 2023 and 28 March 2024. The average annual rate of interest on these loan repayments was 3.03%.

The average size of the investment portfolio for the 3-month period was £68.611m compared to an average portfolio size of £90.996m during the same period in 2022/23. The decrease in the portfolio was due to the repayment of COVID-19 business grants following the reconciliation of the schemes and the payment of the Council Tax Rebate grant to eligible households during 2022/23.

As at 30 June 2023 the Council held short term investments of £77.891m (specified investments) and £3m (non-specified investments). The Treasury Management Strategy stipulated that the Council should not ordinarily hold more than 35% of investments as non-specified and this was adhered to during the first quarter of 2023/24.

In the period ended 30 June 2023, £34.0m of short-term fixed deposits were placed; £25.0m of investments matured within this same period. In the period ended 30 June 2023, there were no long-term fixed deposits placed and no long-term fixed deposits matured.

Prudential Code indicators for 2023/24, 2024/25 and 2025/26 were approved by Council on 1 March 2023 as part of the Treasury Management Strategy 2023/24.

Members raised the following points during discussion:

- What mitigation was available to the Council to counteract the reduction in value of investments due to high inflation?
- A Member thanked the Officers for their work in unenviable circumstances and acknowledged that the effort must continue to save money and reduce ongoing costs.

The Assistant Director of Finance informed Members that when investments were placed, the best rates available were secured whilst ensuring we meet our cashflow requirements. Investments were placed in accordance with advice provided by Council advisors Link Group and meet the security, liquidity and yield requirement. Interest rates were no better if secured over a longer term. Forecast interest rate information provided by our advisors is also considered when making decisions regarding the duration of investments.

It was proposed, seconded, and **AGREED that the Committee noted and approved the content of the Quarter 1 review of treasury management activity for 2023/24.**

25. Work Programme 2023 - 2024

The Committee noted the Work Programme 2023 – 2024.

The Assistant Director of Finance had confirmed that the Statement of Accounts update would be scheduled for the September Committee and the Democratic

Services Manager informed Members that this was to be added to the Work Programme.

It was confirmed that the questionnaire sent out to all members on the subject of Full Council meeting timings had also asked for views on the timing of all committee meetings.

The Chief Finance Officer, whilst acknowledging that the proposed agenda for September's meeting was lengthy, confirmed that some agenda items were annual reports and if it was the will of the Committee, those items could be deferred to the November meeting.

Following the meeting, it was agreed that the following items were to be deferred to the November meeting:

- Strategic Risk Register
- Risk Management Annual Report
- Risk Management Framework

ACTION:

Statement of Accounts update to be scheduled as an agenda item at the Governance and Audit Committee meeting on 26 September 2023.

- 26. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.**

There were no other items of business.

- 27. Close of Meeting**

The Chairman closed the meeting at 16:00.