

# Meeting of the Governance and Audit Committee

Wednesday, 29 November 2023, 2.00 pm



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL

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## Committee Members present

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

Councillor Patsy Ellis  
Councillor Graham Jeal  
Councillor Bridget Ley  
Councillor Charmaine Morgan  
Councillor Rob Shorrocks  
Councillor Peter Stephens  
Councillor Sue Woolley

## Cabinet Members present

Councillor Ashley Baxter (Deputy Leader of the Council)  
Councillor Rhea Rayside (Cabinet Member for People and Communities)  
Councillor Paul Stokes (Cabinet Member for Culture and Leisure)

## Officers present

Richard Wyles (Deputy Chief Executive and S151 Officer)  
Graham Watts (Assistant Director, Governance and Public Protection, and Monitoring Officer)  
Alison Hall-Wright (Deputy Director of Finance and Deputy S151 Officer)  
Claire Moses (Head of Revenues, Benefits, Customer and Community)  
Tracey Elliot (Governance and Risk Officer)  
Sarah Downs (Democratic Services Officer)

Robert Barnett (RSM Auditor)  
Aaron Macdonald (RSM Auditor)

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## 44. Apologies for absence

An apology for absence was received from Councillor Ian Stokes.

Councillor Graham Jeal substituted for Councillor Stokes.

The Monitoring Officer added that Councillor Philip Knowles, the Cabinet Member for Corporate Governance and Licensing sent apologies.

The Deputy Leader confirmed apologies were received from the Leader.

#### **45. Disclosure of interests**

Councillor Charmaine Morgan stated that as a Director of LeisureSK Ltd she may be required to leave the Chamber during agenda item 11 – the Appointment of Director for Council-Owned Company, LeisureSK Ltd. She therefore declared an Other Registerable Interest.

There were no other interests disclosed.

#### **46. Minutes of the meeting held on 26 September 2023**

The minutes of the meeting held on 26 September 2023 were proposed, seconded and **AGREED** as a correct record.

#### **47. Updates from previous meeting**

All actions from the previous meeting were complete. No further comments were made.

The Chairman clarified that agenda items 5, 6 and 7 were to be deferred to the next meeting on 24 January 2024. These items were:

- External Auditing Findings 2022-2023
- Value for Money Opinion 2021-2022 and 2022-2023
- Statement of Accounts update 2022-2023

#### **48. Internal Audit Progress Report**

The Internal Auditor from RSM UK presented the report to update Members on the current position of the 2023/2024 Internal Audit Plan.

Audit dates for the 2023/2024 Internal Audit Plan had been agreed with management and scoping meeting dates had also been agreed. All audits had been sufficiently resourced and were booked into the internal audit schedules. The Auditors were on track to deliver all audits during the current financial year to be able to provide a Head of Internal Audit Opinion. One audit was complete and was able to be brought before a future Committee meeting. Two audit areas were to be confirmed with management; however, resources were held in the internal audit scheduling software between January – March 2024 to be able to deliver these when agreed.

A Progress report was to be heard at each future Governance and Audit Committee meeting and it was fully expected that the full audit programme was to be delivered as expected, with the support of officers, through regular communication.

During discussion, Members raised the following points:

- The extensive work to be undertaken was acknowledged alongside the reliance on officers within the Finance Team. Had the most essential audits been prioritised?
- When would the information be provided so as to ensure completion of the final two audit assignments?
- Which audit items had been held back? It had been previously requested that an audit be conducted on the Housing Process and the delays within the repairs system.
- If a new audit requirement emerged, was there flexibility and resilience to undertake it? An extra meeting may be required to hear all audits by the end of the year.

The Deputy Chief Executive acknowledged the comments about workload and added that all officers were focused on supporting the delivery of the Plan. There was enough resilience within the Finance Team to ensure that happened. It was for the Governance and Audit Committee and the Senior Team to collectively agree where the audit time would be best spent. It had been recognised that a request had been made for an audit on the Housing Repairs process, however, this had not been formally proposed, seconded and agreed as a decision by Members.

A Member **proposed** that the Housing Responsive Repairs process and delivery be added to the Internal Audit Plan. This was **seconded** and **AGREED**.

It was considered that the Housing Planning process could be considered in future Audit Plans.

The Deputy Leader informed Members that nationally there were limited numbers of Internal Auditors for Local Government and this had impacted costings and workload.

The Deputy Chief Executive confirmed a published decision that clarified the financial implications of the use of Internal Auditors on an interim basis. The Officer confirmed a link to this publication could be circulated to Members if they requested it.

The Auditor confirmed that any suggested changes or additions would be looked at and the rationale for making those changes or swapping for a different audit within the Plan would be brought before the Committee.

## **ACTION:**

**The link to the publication to be circulated to Members of the Governance and Audit Committee.**

### **49. Treasury Update Report (Qtr 2) 2023-2024**

The report was presented by the Deputy Director of Finance and Deputy S151 Officer.

Treasury Management was the term used to cover the Council's borrowing and investment strategies. The Council had formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. In line with the Code the Council had adopted a Treasury Management Policy Statement that required regular quarterly 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 was submitted in accordance with these requirements and provided a review of treasury management for the period ended 30 September 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
- An economic update

No additional borrowing was required during the first half 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 2.46%. Regular reviews were undertaken to consider redemption costs of natural maturity against new borrowing to settle the outstanding debt early. Short-term borrowing was defined as borrowing due to be repaid within 365 days. As at 30 September 2023, the council had short-term borrowing of £3.221m. This would be repaid in instalments of £1.611m on 28 March 2024 and 28 September 2024. The average annual rate of interest on these loan repayments was 3.03%.

The average size of the investment portfolio for the 6-month period was £76.440m compared to an average portfolio size of £90.729m 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.

The Council operated a diverse portfolio and used a number of methods to invest its reserves which include direct deposit, certificates of deposit, notice accounts and money market funds. As at 30 September 2023 the Council held short term investments of £76.440m (specified investments) and £3m (non-specified investments).

In the period ended 30 September 2023, £58.0m of short-term fixed deposits were placed; £49.0m of investments matured within this same period. In the period ended 30 September 2023, there were no long-term fixed deposits placed and no long-term fixed deposits matured.

Prudential Code indicators specific to treasury management were designed to ensure that treasury management was carried out in accordance with professional practice. 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. All investment activity had been maintained within the indicator limits.

An economic update from Link (the Council's Treasury Advisors) confirmed the following:

- Base rate increased to 5.25% during the first half of 2023/24, this rate was expected to remain the same until the second half of 2024
- CPI inflation declined from 8.7% in April to 6.7% in September which was the lowest rate since February 2022
- RPI inflation declined from 11.4 in April 2023 to 8.9% in September 2023 which was also the lowest rate since February 2022

The following points were raised during discussion:

- Was the Council not able to invest any cash deposits over a longer-term to reduce any shortfall?
- Was 3.7% an average figure, referencing the local authority section of the maturity analysis? How many local authorities were included?
- How was the £14 million calculated for the grant funds that were returned and were the Council able to retain the interest that accumulated?
- A review of investment processes used by local authorities would be useful, particularly development investment within towns.
- A Member acknowledged the use of expert treasury advisors who had to adhere to a code of practice.

- A Member suggested that the Council look into the possibility of investing in houses if this was possible. It was acknowledged that there may be a limit on how many properties the Council were permitted to purchase.
- It was essential that all short-term investments met the recently approved ethical and fair tax investment motion agreed at the last Council meeting. The Council should avoid funds that don't fit the ethical demands of that motion. How will the Treasury Management process respond to that policy?

The Deputy Director of Finance and Deputy S151 Officer confirmed that any shortfalls between income and expenditure would be funded by reserves and not cash. The reduction in investments of over £14 million was due to the holding of grant balances that were required to be repaid to central government. The Council was only able to invest longer-term for up to six months as per recommendation from treasury advisors. The Officer confirmed that a list of local authorities included within the maturity analysis would be circulated to Members.

#### **ACTION:**

**A list of Local authorities included within the maturity analysis would be circulated to Members.**

It was not possible to confirm how the Government calculated their figures in reference to Business Rates but would have been based on the assumption that possible businesses applied or were eligible. National businesses, for example, Specsavers, would have been eligible for a £25,000 grant within one of those schemes, but taking state aid into consideration they would only have been able to receive a very small amount of that grant funding. Grant schemes frequently had an application process of very limited time and funding was received quickly. There was an assumption that information was obtained from the Valuation Office who held all relevant information for each local authority. It was confirmed that the Council was able to retain the interest received while holding grant funds.

The Officer informed Members that the priorities of the treasury management process were ultimately security, followed by liquidity and then yield. The Council must always invest in safe institutions in accordance with the advice received from the treasury advisors to endure security. The Financial Conduct Authority were looking in regulations around ethical, social and governance (ESG) as it was a very complex matter. It was possible to invest in an ethical institution but to not be wholly aware of where that institution was placing their funds. It was confirmed that the Housing Revenue Account (HRA) was able to acquire houses to then rent out to tenants but there was a cap on how many purchases were allowed to be made.

The Deputy Chief Executive added that it was important to be able to access funds in the short-term rather than require additional borrowing which would carry a further cost to the Council. The officer also informed Members that security, liquidity and yield were the primary code requirements within the treasury

management process. These rode precedent over any other ethical requirements. It was clarified that the word 'investment' was not included within the motion agreed at Full Council meeting on 24 November 2023. The Council had a duty of care to the taxpayers on their money being invested in financial institutions that were underpinned by the rating agencies such as CIPFA (Chartered Institute of Public Finance and Accountancy) and the treasury advisors that were employed to keep the Council's funds safe. This was ultimately to enable the Council's services to be delivered.

The Deputy Director of Finance and Deputy S151 Officer informed Members that the Council had to comply not only with the CIPFA Code but also with the Local Government Act and the Prudential Code which set out how investments had to be placed.

**ACTION:**

**The information from the Members' Treasury Management training was to be circulated to those who were unable to attend training.**

The Deputy Leader of the Council acknowledged that during the Covid Pandemic, Government was having to make decisions very quickly due to the urgent needs within each community. It was acknowledged that the recent approval of the Fair Tax declaration for treasury management was welcome, however it was noted the motion was agreed only days ago on 24 November 2023. The Cabinet Member informed Members they all had a responsibility to look at treasury management processes at other local authorities and learn from them.

The Deputy Chief Executive confirmed that as the proposal, put forward at Full Council, did not refer specifically to investments of this authority but referred to fair tax and governance, and on that understanding he was happy to endorse it. The Officer clarified that he was happy that the ethical statement within the Treasury Strategy that was approved in March 2023 had enough parameters and governance within it as it had its own ethical requirements as per CIPFA. It was essential that the Council kept a broad portfolio of investors to protect funds and reduce risk.

It was **proposed and seconded and AGREED**, in view of the motion agreed at Full Council that the Governance and Audit Committee request that Link, the Council's Treasury Advisors, review the Council's investment portfolio due to concerns raised and officers return their findings to a future meeting.

**It was proposed, seconded and AGREED that the Committee noted and approved the contents of the quarter 2 review of treasury management activity for 2023/24.**

**50. Strategic Risk Register**

The Deputy Chief Executive presented the report.

One of the key areas for Governance and Audit Committee, as part of its terms of reference, was to monitor and review the risk management arrangements in place and the activities that are being undertaken to mitigate those risks. The Strategic Risk Register was last reviewed at the 15 March 2023 meeting of the Governance and Audit Committee.

Earlier this year, the Governance and Audit Committee discussed that the risks within the Strategic Risk Register should be reviewed to reflect the current external and internal operating environment. To achieve this, the RSM Risk Management Partner was asked to facilitate a review of the Council's strategic risks to ensure that they were current and to identify any new/emerging risks that the local government sector is facing. The RSM Risk Management Partner had facilitated previous risk workshops and was instrumental in shaping the previous register and so their knowledge of the Authority and the journey it was on was invaluable in achieving a successful outcome.

A workshop was held in July 2023 with Assistant Directors and Directors. They were asked to consider a list of 35 local authority risks to ascertain whether they were a risk at the Council and what the causes and effects would be. Based on the discussions a draft risk register of 17 risks was developed. A follow-up workshop was held in September, with the same participants, to collectively agree the scoring of the risks – all participants had scored the risks independently ahead of the workshop.

Given the strategic risks had been thoroughly reviewed, and the risk management framework was also due for review, it was an opportune time to also review the risk scoring matrix. If the proposed non-multiplier risk matrix was used, the Council would be able to easily differentiate between risks with the same end score and will be able to identify more easily the most important risks which was where the focus needed to be. This was an ever-changing process as priorities changed constantly. The non-multiplier matrix, although still based on impact and likelihood, would avoid the duplicate scoring of risks with risks being reflected by relative importance.

Members raised the following points during discussion:

- The updated scoring of risks was welcomed.
- An explanation of the scoring of risk of staff turnover was requested.
- A Member asked why homelessness was not considered a reputational high-risk area and a top priority to be focused on. There was a lot of work still to be done within the area of Housing.
- The lack of Economic Development Strategy potentially led to business criticism and could be considered a risk in the way the Council was failing the local economy.

- Was the Strategic Risk Register sufficiently informative? Another column on the scoring matrix could reflect controls on how each risk was managed.
- It was acknowledged that the scoring matrix had been established by qualified professionals and that Members were mostly not qualified to over-ride the risk likelihood scores.

The Deputy Chief Executive informed Members that staff turnover was generally very low currently and employment rates were therefore very high. The Register was a strategic risk register not an operational risk register and provided a snapshot of the risks that the Council was currently facing, for example, cyber-security which was considered a potential severe risk. A robust policy had been approved and put in place to combat the level of risk. Today's meeting was to establish the risks that Members wanted to see on the register and the controls would then be established accordingly. This would produce a gross score and a residual score.

It was **proposed** that the Governance and Audit Committee accept the additional risk areas – Housing, the Economic Development Strategy and Grant Funding within the Strategic Risk Register.

The Member also **proposed** an amendment to the risk scoring matrix. It was recommended that Item 5 in appendix A (page 3) – 'unable to build and maintain quality and consistency in service provision by the Council' be scored at '3' rather than '2'.

The Monitoring Officer offered guidance on the type of matrix that was used to determine the scoring. The scores were based on an assessment being made from '1 – 4' on the likelihood that anything would happen:

- Up to 20% (unlikely)
- 21-50% (fairly likely)
- 51 – 80% (more likely to occur than not)

The Monitoring Officer also confirmed that the Draft Economic Development Strategy was listed for consideration at the February 2024 meeting of the Finance and Economic Development Committee.

The Internal Auditor informed Members that the scoring was residual. The process started with a gross risk and controls were then put in place, giving a residual score. Without knowing what specific controls were in place, it was not possible to question the scoring.

Members decided a review of the scoring was to be considered in six months' time.

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

- 1. The revised Strategic Risk Register, with the additional risk of ‘failure of the Council to have relevant strategies in place.’**
- 2. The adoption of a new risk scoring matrix on the basis that it was reviewed in six months.**

#### **51. Appointment of Director of Council-Owned Company - LeisureSK Limited**

*(Councillor Charmain Morgan declared an Other Registerable Interest and left the meeting)*

The report was introduced by the Deputy Leader of the Council.

A vacancy had arisen on the Board of the Council-owned company, LeisureSK Limited. The Governance and Audit Committee was requested to consider making an appointment to fill this vacancy.

Following the recent resignation of Craig Spence from LeisureSK Limited, the Board currently consisted of Councillor James Denniston, Councillor Charmaine Morgan, Nicola McCoy-Brown (Director of Growth and Culture at South Kesteven District Council) and David Monkhouse (Non-Executive Director) who continued to oversee the operational and financial performance of the company. This resignation had left an officer vacancy on the Board of Directors for the company, with the understanding that appointments from the Council onto the Board would reflect two officer and three elected Member positions.

Deborah Roberts, Head of Corporate Projects, Performance and Climate Change, was nominated to fill the officer vacancy. She had 15 years of local government project management experience, which included leading on a complex leisure contract re-tendering process at another local authority, generating a financial return to the Council. At South Kesteven District Council Debbie was involved in the transfer of leisure services from 1Life to LeisureSK Limited, so had an operational understanding of the facilities and she believed she could offer experience in a range of areas and provide guidance to the Board in decision-making around these. Deborah Roberts had indicated that she would be willing to act as Director of LeisureSK Limited should her nomination be approved.

A vacancy for a Councillor from the South Kesteven Coalition Group was still in place. The Leader of the South Kesteven Coalition Group had delegated authority to appoint a Councillor to this position at any time.

The following points were raised by Members during discussion:

- It was acknowledged that the vacancy within the South Kesteven Coalition Group was likely to remain open currently and a time limit was suggested.

**It was proposed, seconded and AGREED that a time limit on filling the vacancy within the South Kesteven Coalition Group was confirmed as two weeks from 29 November 2023.**

**It was proposed, seconded and AGREED that the Governance and Audit Committee approved the appointment of Deborah Roberts as a Director of LeisureSK Limited with immediate effect.**

## **52. Risk Management Annual Report 2022-2023**

*(Councillor Morgan rejoined the meeting)*

The Deputy Chief Executive presented the report.

The current Risk Management Framework 2021/23 was revised and approved by Governance and Audit Committee at its meeting on 9 June 2021. The Framework provided details of the risk environment the Council operated within, and the controls and mechanisms that were in place, to ensure risk is sufficiently managed by officers and Members. Throughout the period of 2022/2023, risk management activities had been undertaken in accordance with the Framework. During the financial year the Framework had been responsive and adaptive to respond to the reflect the ever-changing operating framework.

Pending approval of the draft Strategic Risk Register, and the proposal to move to a new risk scoring matrix, the framework will be updated accordingly and presented to Governance and Audit Committee in March 2024.

Risk Management Group had been a quarterly agenda item at Senior Leadership Team. At those meetings agenda items included risk management, internal audit, insurance, counter fraud, and corporate governance. During the 2022/2023 financial year the Council's insurers, Zurich undertook a Motor Fleet Risk Assessment.

The Motor Fleet Risk Assessment actions had been a standing agenda item for Risk Management Group and progress against the actions identified were monitored by the Group. In particular, significant work had been undertaken at the request of the insurers, in respect of the use of telemetry and speeding which culminated in a 'Driving at a Safe Speed Policy' (Appendix to Operational Driving Policy) which was approved at Employment Committee on 29 June 2023 and implemented on 1 August 2023. Training workshops with key officers and grey fleet drivers as well as operatives who drive every day were undertaken to support increased awareness by staff that are representing the Council around the district.

During discussion, the following points were raised by Members:

- The report was welcomed.

- Checks on telemetry and speeding were welcomed as ways to educate and increase awareness of employees who drive as part of their roles.

**It was proposed, seconded and AGREED that The Governance and Audit Committee approved the Risk Management Annual Report 2022/23.**

### **53. Work Programme 2023 - 2024**

The Committee noted the Work Programme 2023-2024.

It was **AGREED** that the following items from today's agenda would be deferred to the meeting on 24 January 2024:

- External Audit Findings 2022-2023
  - Value for Money Opinion 2021/22 and 2022/23
  - Statement of Accounts 2022-2023 Update

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

The Chairman confirmed that Duncan and Toplis were considering the whistleblowing incident.

A Member asked about recent amendments to the Constitution in relation to the procedure for dealing with complaints against Councillors. It was suggested that any such amendments should be brought before the Governance and Audit Committee.

The Monitoring Officer informed Members that the Standards Committee had the authority to make the decision in relation to the new procedure. The recommendation was to Full Council to include the new procedure within the Constitution. The Officer confirmed that he would double-check the wording and provide clarification to the Councillor who raised the concern.

### **55. Close of meeting**

The Chairman closed the meeting at 16:05.