

# **AUDIT AND MEMBER STANDARDS COMMITTEE**

**6 FEBRUARY 2019**

**PRESENT:**

Councillors Tittley (Chairman), Hoult (Vice-Chair), Mrs Boyle, Marshall, Rayner, Strachan and Mrs Tranter

Observer: Councillor Spruce (Cabinet Member for Finance & Democratic Services)

Officers In Attendance: Miss W Johnson, Ms B Nahal, Mr A Thomas and Mrs A Struthers

Also Present: Ms Laurelin Griffiths (Grant Thornton UK LLP) (External Auditor)

**23 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Mrs Woodward.

**24 DECLARATIONS OF INTEREST**

There were no Declarations of Interests.

**25 MINUTES OF THE PREVIOUS MEETING**

The Minutes of the Meeting held on 14 November 2018, as printed and previously circulated, were taken as read and approved as a correct record.

**26 TREASURY MANAGEMENT STATEMENT AND PRUDENTIAL INDICATORS**

The Committee received a report on the Treasury Management Strategy Statement (TMSS) 2019/20 from Mr Anthony Thomas (Head of Finance & Procurement) and he delivered a Presentation to explain in more detail the Capital Strategy and the Capital Programme, the minimum revenue provision statement 2019/20, the balance sheet projections, interest rate projections, cash flow forecast for 2019/20, treasury management strategy and the annual investment strategy, the prudential and local indicators and the CIPFA resilience index. Mr Thomas explained that the authority were expected to approve a treasury management strategy before the start of the financial year and this report fulfilled the authority's legal obligation. Mr Thomas explained that the capital strategy was a new requirement which brings together existing areas of capital and treasury activities in one document. The Capital Programme approved by Council on 20 February 2018 was compared to the draft Capital Programme that will be recommended to Council on 19 February 2019. It was noted that the most significant change was due to capital expenditure related to the Property Investment Strategy. This was to ensure there was sufficient capacity, appropriate expertise and firm governance arrangements in place to ensure sufficient due diligence is undertaken prior to any acquisition. The extra investment was highlighted i.e. disabled grants, ICT projects and the short term site works at Birmingham Road site had been included in the draft MTFs – Capital Programme – see Appendix B.

The projected capital receipts included in the Medium Term Financial Strategy were shown illustrating share of housing sales from Bromford and asset sales which were also highlighted. The borrowing need was summarised as it starts relatively small and increases from 2020 because of the £45m investment in commercial property already agreed. The projected

change in the balance sheet 2018/19 to 2022/23 was summarised as they are significant in assessing the Council's Treasury Management position in terms of borrowing requirement, investment levels and our Investment Strategy. (As assets are acquired under the Property Investment Strategy the borrowing liabilities also increase to fund these acquisitions. The element of property assets funded by external borrowing (the Loan to Value) and was compared to an indicative private sector level of 45%. In the private sector a Loan to Value limit would be set to manage the risk that the loans outstanding are unable to adapt to changing asset strategy or property value. This will be evident in a recession where typically property values reduce and loans therefore can exceed property value (known as negative equity). A negative equity scenario can make it difficult to rebalance the portfolio through disposals due to the existing loan repayments that will still need to be paid whilst income is no longer received.

Mr Thomas said there could be an opportunity to borrow some of the required funds internally and this was something to be considered and, in his opinion, it would be a lower cost option, reduce investment risk because there would be lower investment levels and would allow in the event of "windfall" income early repayments without penalties. However, a second opinion would be sought from the Treasury Management Advisors - Arlingclose.

Mr Thomas explained the cash flow forecast which takes account of the income the Council receives including housing benefits grants, council tax and business rate income and expenditure such as payments to precepting bodies, employee costs and housing benefit payments as well as the expected movement in interest rates which the council's assumption had been interest rates remain at the current level (because of the BREXIT uncertainty). Mr Thomas explained he had taken this view as it exposes us to least risks but no one knows what impact the form of exit from the EU will have on monetary policy.

Mr Thomas explained that Appendix E was the new Investment Strategy Report for 2019/20 which was to meet the requirements of the statutory guidance issued by the government in January 2018. It focused on how the Authority invests its money to support local public services and earns investment income from commercial investments.

Our investments and their limits were shown and the proposed changes for 2019/20 to provide additional options in the event there are issues with existing Money Market Funds domiciled in Luxembourg and Ireland were highlighted as:-

A new category of UK Domiciled Pooled Funds has been created with a limit of £5m per fund (there are currently two and the council has accounts with both);

A new category of Corporates (excluding the Council Company) has been created with a limit of £250,000 per company. Loans to unrated companies will only be considered following an external credit assessment;

A new investment limit for Real Estate Investment Trusts of £5m.

The lessons learnt in relation to Northamptonshire County Council had resulted in CIPFA recently consulting on the provision of a Financial Resilience Index to which we responded on 15 August 2018 with the outcome published on 4 December 2018. CIPFA are looking to produce a range of measures to enable each Council to understand its position relative to other similar Councils in terms of the level and use of reserves, exposure to specific funding streams and the External Auditor's value for money assessment. A beta version has been received and CIPFA plan to openly publish an updated version later this year.

Members voiced their concern about the undeveloped site at Birmingham Road although very much in its infancy and it was queried if we have included any budget for long term development of the site - Mr Thomas confirmed that the short term use budget included in the draft Capital Programme was for a period of 3 to 5 years including essential works to the bus station. However, the budget also included a budget for "master" planning and the council was currently looking at options for the whole of the city centre development as well as the site at Birmingham Road and until we know the options available and the delivery options a budget

for long-term development could not be accurately assessed and therefore no budgetary provision was currently included in the draft MTFS.

The cash flow forecast was questioned as to why it is lower and then going higher and Mr Thomas agreed to check this and report back to the committee via email.

Members welcomed Mr Thomas's stoicism because of all the uncertainty at the moment and supported the internally borrowing rather than external borrowing because of this uncertainty.

**RESOLVED:-** That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:-

- (1) The Capital Strategy and Capital Programme, in Appendices A & B;
- (2) The Minimum Revenue Provision Statement 2019/20 at Appendix C which sets out the Council's policy of using the asset life method as the basis for making prudent provision for debt redemption;
- (3) Treasury Management Strategy Statement for 2019/20 including proposed limits (Appendix D);
- (4) The Investment Strategy Report (Appendix E) including the proposed limits for 2019/20;
- (5) The Capital and Treasury Prudential Indicators for 2018-23 in the financial implications section;
- (6) The Authorised Limit Prudential Indicator shown within the financial implications section.

## 27 INTERNAL AUDIT PROGRESS REPORT

Mrs Struthers (Audit Manager) presented the Internal Audit Progress Report September 2018 to December 2018 to the committee and explained that the Internal Audit Service aims to complete at least 90% of the applicable planned audits by the end of the financial year and although there has been staffing issues throughout the last year, this had now been resolved and a Trainee Internal Audit Assistant was now in post and working well so 90% of the audit plan is expected to be achieved by the end of the financial year.

Mrs Struthers confirmed that five audits had been postponed at management's request due to system changes and have been moved to the next financial year but four audits had been added to the current financial year's plan. Mrs Struthers confirmed that Internal Audit has started/completed 65% of the planned audits and a total of 33 recommendations were made with 32 (97%) of the recommendations being accepted by the management. The one recommendation not accepted related to project management governance procedures and the lack of consistency over the arrangements to support the monitoring of projects. However, it was felt that this was not required as they are described in the Project Initiation Document.

Overall the Internal Audit opinion highlighted only one limited assurance which was to be discussed in private and confidential later in the meeting.

**RESOLVED:** That the Committee considered the Internal Audit Progress Report September 2018 to December 2018 and no issues were raised.

## 28 RISK MANAGEMENT UPDATE

Mrs Struthers introduced the Risk Management Update which updated the committee on the management of the Corporate Risk Register. It was highlighted that the Property Investment Strategy was now included in the Corporate Risk – Financial Sustainability of the Council and the end of the ICT support contract which has previously been a project risk had been removed.

Concern was raised about there being no reference to the Birmingham Road site as a risk as it was our land and seen as an asset of the council. The Chief Executive, Ms Diane Tilley was in attendance and said in corporate risk identification, with all things considered, it was not felt to be a high risk and there was no risk on delivery of this project.

A query was received about the “failure to respond to changing demographics” risk and it was asked how do we envisage this and why is it impacting on the Council. Mr Thomas responded that this was failure to adapt service provision to reflect changing demographics such as an increased number of older people who were obviously more reliant upon our services and therefore the budget for disabled grants may need to increase, the ability to use digital services, and consequent impacts on benefits and Council Tax discount schemes would all be encompassed under this risk.

The “failure to manage a major incident” risk was queried. It was confirmed that as a local authority we have to support the Civil Contingencies Unit if there is a major incident. We include an allowance in the minimum level of reserves for a civil contingency and we are able to claim an element of funding from the Bellwin scheme. However, as a District Council we could only resource to a certain level and it would be the need to respond to the incident and recovery from the incident which was felt to be a corporate risk.

Risk COR4 was discussed – Capacity to deliver all of the outcomes required in the Council’s Strategic Plan with the particular workforce and organisational development challenges we currently face – due to three Heads of Service resignations having been received. A query was raised regarding the impact on capacity and the ability to deliver. Ms Tilley replied and said we had got contingencies in place and were reviewing our priorities once again and there would be a full review of the Leadership Team. It was asked if there were any trends in staff absences/staff sickness because of these changes and Ms Tims, Head of Corporate Services said none had been identified as yet.

**RESOLVED:-** Members noted the work being undertaken to ensure the Risk Management Policy is adhered to and the actions taking place to manage the Council’s most significant risks.

## **29 ANNUAL REPORT ON EXCEPTIONS AND EXEMPTIONS TO PROCEDURE RULES**

Members received a report from Ms Bal Nahal, (Head of Legal, Property & Democratic Services) on the Annual Report on Exceptions and Exemptions (Waivers) to Procedure Rules which is part of the Contract Procedure Rules and applicable from the 2017/18 financial year. The level of exceptions and exemptions (waivers) granted during 2017/18 and the previous two financial years is shown in summary in the financial implications section of the report and in detail at Appendix A of the report and she said because the key decision limit had now been increased to £75,000 it could be seen that we were performing quite well now.

Members just asked one query relating to the non-recurring waiver in 2017/2018 – Visit Lichfield Website Replacement and Support – why was this put through as a waiver?

Ms Nahal said she would look at this and report back to members.

**RESOLVED:-** The Committee noted the Exceptions (Waivers) set out within Appendix A.

**30 CERTIFICATION WORK FOR LICHFIELD DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2018**

Ms Laurelin Griffiths from Grant Thornton introduced the Certification letter regarding the Housing Benefit subsidy claim submitted by Lichfield District Council which takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding. The good news was that there was only an amendment value of £7 to the housing benefits subsidy claim and an extrapolation of the errors found showed a potential overpayment of approximately £1,700 on an £18m grant claim. The Chairman welcomed this letter and wanted the Head of Service – Pat Leybourne and her team to be congratulated as this was a fantastic success.

**RESOLVED:-** The Committee noted the Certification work letter from Grant Thornton UK LLP.

**31 INFORMING THE AUDIT RISK ASSESSMENT - LICHFIELD DISTRICT COUNCIL**

Ms Laurelin Griffiths from Grant Thornton presented a report - Informing the audit risk assessment Lichfield District Council 2018/19 which was a series of questions on particular areas e.g. fraud/laws and regulations/going concern/related parties/accounting estimates and the responses received from the Council's management. The Committee was asked to consider whether these responses were consistent with its understanding and whether there are any further comments it wishes to make.

Discussions took place around the question on page 106 – How does the Council communicate and encourage ethical behaviour of its staff and contractors?

It was asked if the management response could include “leadership by example/integrity” as it was felt to go beyond the induction point as some members of staff have been at LDC a very long time and their induction would have been a long time ago. Ms Griffiths agreed to add this in to the response.

Considerations were given to the whistleblowing reference and members hoped employees who did whistleblow weren't ostracised. Ms Nahal confirmed that all LDC staff were protected if they were to whistle blow and support is offered by the Leadership Team and the Whistleblowing policy.

(At Appendix 1 pg 120 – “provision for liabilities” – there was a formatting issue in the second column as it began in a middle of a sentence. Ms Griffiths to amend and email to all the amended Appendix 1).

**RESOLVED:-** The Committee noted the Informing the audit risk assessment report for Lichfield District Council 2018/19.

**32 AUDIT PLAN FOR LICHFIELD DISTRICT COUNCIL 2018/19**

Ms Laurelin Griffiths from Grant Thornton presented the External Audit Plan year ending 31 March 2019 report which provided an overview of the planned scope and timing of the statutory audit of Lichfield District Council for those charged with governance. The significant risks have been identified which were broadly the same as last year and the value for money arrangements covered the last financial year so did highlight the Friarsgate development as a risk. Ms Griffiths said the council did successfully achieve early close in 2017/18 and an interim audit was taking place now and the team would be back on site again in June. It was recognised there may be some uncertainties, however, in the near future because of the potential impact of Brexit.

**RESOLVED:-** The Committee noted the External Audit Plan year ending 31

March 2019.

**33 WORK PROGRAMME**

A revised Work Programme was circulated and the Chairman asked for any additions/alterations to the programme – there were none. Only two meetings left for this municipal year.

**34 EXCLUSION OF PUBLIC AND PRESS**

**RESOLVED:** That, as publicity would be prejudicial to public interest by reason of the confidential nature of the business to be transacted, the public and press be excluded from the meeting for the following item of business which would involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

**IN PRIVATE**

**35 INTERNAL AUDIT REPORT - CYBER SECURITY 17/18**

Minutes for this item are recorded separately as it includes exempt information.

(The Meeting closed at 7.01 pm)

CHAIRMAN