

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

**MINUTES OF THE REMOTE MEETING HELD ON 18 JANUARY 2021**

**Present:** Councillor Harvey (Chairman) and Councillors Adkinson, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden, Garten, Perry, Round and Titchener (Parish Representative)

**Also Present:** Mr Paul Dossett and Ms Tina James of Grant Thornton (External Auditor)

152. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Brindle.

153. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Garten was substituting for Councillor Brindle.

154. URGENT ITEMS

The Chairman said that she had agreed to take the update report of the Director of Finance and Business Improvement relating to an unavoidable breach of the current counterparty limits as an urgent item as the situation arose after the agenda for the meeting was published, it was relevant to the Committee's discussions regarding the Treasury Management Strategy at agenda item 14 and to keep Members informed.

155. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

156. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

157. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

158. EXEMPT ITEMS

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

159. MINUTES OF THE MEETING HELD ON 16 NOVEMBER 2020

**RESOLVED:** That the Minutes of the meeting held on 16 November 2020 be approved as a correct record and signed.

Councillor Daley joined the meeting during consideration of the Minutes of the meeting held on 16 November 2020 (6.37 p.m.). Councillor Daley said that he had no disclosures of interest or lobbying.

160. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

161. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

162. COMMITTEE WORK PROGRAMME

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

In response to a question, the Head of Audit Partnership advised Members that the Internal Audit team was undertaking a routine review of the waste management contract and the findings would be included in the annual report to the Committee in July. If the findings of the review were concerning, then a separate report could be submitted to the Committee.

The Head of Audit Partnership took the opportunity to update Members on the Government's response to the Redmond Review into the effectiveness of the local authority audit regime. It was noted that in terms of the three recommendations that were highlighted as having the most impact:

- The Government had accepted the recommendation that the deadline for publication of audited local authority accounts should be moved back from the end of July to the end of September for at least the next two years.
- The Government was in favour of the recommendation that local authorities should accompany their accounts with a separate statement that aimed to be more transparent and easier to read for members of the public and had indicated that it would work with CIPFA or ask CIPFA to develop a format for the document.
- The Government was not persuaded regarding the recommendation that a separate new overarching regulatory body be established to assign and oversee the quality of audit work and had indicated that it would respond in more detail in the Spring of 2021.

**RESOLVED:** That the Committee work programme and the update on the Government's response to the Redmond Review into the effectiveness of the local authority audit regime be noted.

163. ANNUAL COMPLAINTS REPORT 2019/20

The Equalities and Corporate Policy Officer introduced this report providing an overview of (a) how the Council had performed in responding to complaints in 2019/20 and (b) the Local Government and Social Care Ombudsman's (LGSCO) Annual Review Letter 2019/20. The Equalities and Corporate Policy Officer advised the Committee that:

- The Council received 720 stage 1 complaints in 2019/20 compared to 568 in 2018/19, an increase of 26.8%. Of the 720 stage 1 complaints received in 2019/20, 110 were escalated to the second stage of the Council's complaints process. This was an escalation rate of 15.3% compared to 19.2% in 2018/19.
- The report also described a new assessment undertaken as part of the Council's complaints process as a means of documenting the enquiries made prior to a complaint being taken forward for a stage 2 investigation in line with the LGSCO guidance. The assessment stage helped to transparently identify whether a stage 2 investigation could add anything of value to the original stage 1 investigation and response and helped prevent complaints being investigated at stage 2 that could not provide any further remedy or outcome. The process also encouraged positive engagement with the complainant and better managed expectations in terms of outcome.
- The LGSCO had reviewed 49 complaints and made decisions on 43 complaints in 2019/20. 7 complaints had been upheld in 2019/20 compared to 3 in 2018/19. All recommendations made by the LGSCO had been complied with by the Council.
- The Council received 47 written compliments during 2019/20.
- The Policy and Information team would be reviewing some areas to impact positively on performance. Areas of focus would include those services with complaints upheld at stage 2 and those with an increased number of complaints referred to the LGSCO.

In response to questions, the Equalities and Corporate Policy Officer advised the Committee that:

- 64% of the complaints investigated by the LGSCO were upheld compared to an average of 45% in similar authorities. The review of performance would look in detail at those complaints and the service areas.
- The Council had a two stage complaints process. The purpose of the assessment referred to in the report was to document and help determine whether a stage 2 investigation could add value to the stage 1 complaint response in terms of outcome for the complainant. The third stage of the complaints process was to contact the LGSCO as set out in the Council's Complaints Policy. This was the recognised standard. The report would be amended in future to avoid ambiguity

about the stages of the complaints process. A copy of the Council's Complaints Policy would be circulated to all Members of the Committee for information.

- This was an annual report and Appendix 1 showing the number of stage 1 complaints by service and the number of those complaints responded to late could be amended in future to show a year-by-year comparison.
- 41% of the stage 1 complaints in 2019/20 related to waste and the situation was being kept under review by the Communities, Housing and Environment Committee through the regular performance monitoring reports. The Policy and Information team was working closely with the Waste Management team to ensure that action being taken to address operational problems is communicated to customers.

During the discussion, it was suggested that clarification was required going forward as to how it was decided whether a customer contact was a complaint or, for example, an enquiry.

**RESOLVED:** That the Council's performance on complaint management in 2019/20 and the information contained in the Local Government and Social Care Ombudsman's Annual Review Letter 2019/20 be noted.

#### 164. INTERNAL AUDIT INTERIM REPORT 2020/21

The Head of Audit Partnership introduced his report summarising the progress made so far in delivering the revised 2020/21 Internal Audit and Assurance Plan approved by the Committee in September 2020 and providing an update on the approach to completing the Plan culminating in a Head of Audit Opinion in July 2021.

In introducing the report, the Head of Audit Partnership advised the Committee that:

- The Internal Audit team had continued to work with sufficient independence and objectivity and had not been subject to undue pressure from Members or Officers. No instances had been identified where it was considered that management had responded inappropriately to risk. He was satisfied that there were sufficient resources available to deliver the 2020/21 Internal Audit and Assurance Plan and to provide a robust Audit Opinion.
- Reference was made in the Plan to agreed additional resources to provide backfill capacity where members of the Internal Audit team were redeployed to support COVID-19 related service delivery. In this connection, contract auditor support had been procured through a well-established framework arrangement with more than 20 Councils as co-signatories. Some of the audit work would be completed by employees of Mazars, the contract supplier, who, for family reasons, were living overseas during the COVID-19 pandemic. Having discussed the matter with Data Protection Officers within the Partner

Authorities, he was satisfied that there were no increased material data protection risks arising from these arrangements.

- When the Annual Internal Audit Report and Opinion 2019/20 was considered by the Committee in July 2020, the audit review of Members' Allowances had not reached draft report stage. The final report was issued in November 2020. Three errors had been found during the audit. In two of those cases Members had claimed for print cartridges. The rules had been clarified and print cartridges were a reclaimable expense. The third error related to a train journey where the receipt had not been provided or it had been misfiled. However, the Internal Audit team had been able to verify that the journey did take place and that the claim was in line with what the cost of the journey would be. Actions had been agreed with the Democratic Services team, one of which was to remind Members about the process for making claims.
- Progress was being made on the 2020/21 Internal Audit and Assurance Plan with the expectation that all of the projects would be concluded by the end of April 2021. Satisfactory progress was being made on the implementation of agreed actions from previous audit projects.
- The report also included details of the professional qualifications gained by members of the Internal Audit Team.

On behalf of the Committee, the Chairman congratulated Jen Warrillow, Maidstone's Audit Manager, on her success at the final stage of the Chartered Internal Auditor qualification.

In response to questions, the Head of Audit Partnership advised the Committee that:

- If it became necessary to use overseas contractors again, a brief written explanation would be provided in reports to the Committee.
- The outcome of the review of the assurance rating structure would be reported to the Committee as part of the 2021/22 Internal Audit and Assurance Plan in the Spring of 2021.
- In terms of high priority actions carried forward past their deadline, progress was being made, but the Internal Audit team was not able to sign them off yet. If the actions were being ignored or falling seriously behind schedule, there would be an accompanying narrative. However, that was not the situation at present.

Members thanked the Internal Audit team for their work in difficult circumstances.

**RESOLVED:**

1. That the progress so far on completing the 2020/21 Internal Audit and Assurance Plan be noted.
2. That the Head of Audit Partnership's view that he currently holds sufficient resources to complete the Plan and that he will inform the Chairman of the Committee promptly should that situation change be noted.

165. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2021/22

The Finance Manager presented his report setting out the draft Treasury Management, Investment and Capital Strategies for 2021/22. The Finance Manager explained that:

- The focus next year was on running cash balances down to the point at which further borrowing was required. Currently, the Council had short-term borrowing of £9m with other local authorities to fund its Capital Programme. The Council would be looking for a mix of short and long-term borrowing going forward due to interest rates being low and to spread the risk of refinancing debt.
- The investment balance as at 31 December 2020 was £24.19m.
- The Council had made third party loans to Kent Savers and the Cobtree Manor Estate Charity. A loan might also be offered to Maidstone Property Holdings Limited in relation to the refurbishment of rental properties.

The Finance Manager then drew the Committee's attention to the urgent update which had been circulated earlier that day relating to the Treasury Management counterparty limits. It was noted that:

- As part of the report increases were proposed to some of the counterparty limits within the current Treasury Management Strategy. The rationale behind this was that over the past financial year the Council's cash balances had, at certain intervals, been significantly higher than anticipated prior to the onset of the COVID-19 pandemic and associated Government interventions. The key reasons for this were the up-front payments received for Section 31 grants (to compensate for reductions in Business Rates income payable by ratepayers) and COVID-19 Business Grants which, although only held by the Council for a short time before being paid out to businesses, were significant in terms of value.
- If agreed by the Audit, Governance and Standards Committee and the Council on 24 February, the increased limits would come into effect from 1 April 2021.

- In advance of the proposed increases in counterparty limits, the Council had unavoidably breached some of the limits within the existing Strategy. The breach had arisen from receipt at short notice of the latest tranche of COVID-19 Business Grants funding (£12.4m was received from the Government on Friday 15 January). This would shortly be paid over to businesses, but in the meantime the surplus cash had been allocated to counterparties in accordance with the limits proposed within the new Strategy, and with reference to existing principles on managing credit and counterparty risk. All investments were held with highly rated institutions and money market funds, with most of the cash being held in instant access accounts.
- It was anticipated that cash balances would reduce after payments relating to COVID-19 Business Grants, Housing Benefit and the Kent Business Rates Pool left the Council's bank account on Monday 18 and Tuesday 19 January. Balances held with the counterparties would return to within the current limits on Tuesday 19 January, other than one which was subject to 35 days' notice.
- There was a possibility that limits might be breached again between 15 and 22 February following receipt of Housing Benefit subsidy and further Section 31 grant payments.

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

- As to whether the breach of the counterparty limits was unavoidable, the grant received was a significant amount. The funding would be paid over to businesses shortly, so it would not have made sense to use it to pay other suppliers in advance. However, the funds had to be held securely until the time they were due for payment. As other local authorities would have received similar allocations, the scope for short term lending to other Councils was extremely limited. Alternative options were to either retain the cash in the Council's current account with Lloyds or to allocate it to lower rated counterparties. These options were rejected to avoid the over concentration of risk in one area or compromising on the security of the Council's cash deposits. There had been a breach of the counterparty limits, but with a very low risk.
- Increased counterparty limits were proposed in the Treasury Management Strategy for 2021/22 in anticipation of this type of situation arising in the future.
- Link Asset Services had been appointed as the Council's Treasury Adviser and provided valuable professional advice on treasury management issues and a useful sounding board.
- It was made clear in the papers that the information set out in Appendix 5.3 to the Treasury Management Strategy (Economic

Background) was a report provided by the Council's Treasury Advisers as at 1 December 2020.

- Reference was made in the Investment Strategy to the Council lending money to its employees. These loans would be for a specific purpose such as the purchase of a car if one were needed by the employee to carry out their job.
- The Five-Year Capital Programme 2021/22 – 2025/26, included within the Capital Strategy would be checked and any rounding errors corrected.

**RESOLVED:**

1. That the Treasury Management Strategy for 2021/22, attached as Appendix A to the report of the Finance Manager, be agreed and recommended to Council for adoption together with the increased counterparty limits, subject to any amendments arising from consideration of the Capital Programme by the Policy and Resources Committee at its meeting on 20 January 2021.
2. That the Investment Strategy for 2021/22, attached as Appendix B to the report, be agreed and recommended to Council for adoption.
3. That the Capital Strategy for 2021/22, attached as Appendix C to the report, be agreed and recommended to Council for adoption.
4. That the situation regarding the unavoidable breach of existing counterparty limits, as set out in the urgent update, be noted.

166. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

Ms Tina James of Grant Thornton, the External Auditor, presented the Annual Audit Letter summarising the main findings from the work undertaken by the External Auditor for the year ending 31 March 2020 and an updated version of the Audit Findings Report detailing the External Auditor's key findings and conclusions in relation to the 2019/20 audit.

Ms James explained that the audit work was completed and an unqualified audit opinion was issued by the deadline of 30 November. In terms of the Audit Findings Report, additional detail in relation to the valuation of the Pension Fund net liability had been included in response to questions asked at the last meeting.

In response to questions,

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

- It was the role of the External Auditors to look at the actuary's report, not to comment on the investment and monitoring strategy of the Pension Fund. This was a matter for the Kent Superannuation Fund



Committee. There was a district representative on the Kent Superannuation Fund Committee who was supposed to look after the Council's interests, it was not within the remit of this Committee. However, it was right that Members should have some understanding of the actuary's report and the time to look at that was when consideration was given to the Council's annual accounts which included the results of the Pension Fund and the actuary's report in one document.

Ms James explained that:

- The proposed increase in the fee for the 2019/20 external audit reflected the additional time it takes to conduct an audit remotely during the COVID-19 pandemic. It was not specific to Maidstone and remained subject to further discussion and the agreement of Public Sector Audit Appointments Limited. Future fees would be discussed with management and the Committee as part of the planning for the 2020/2021 audit.
- A typographical error in the External Auditor's Audit Findings Report identified in the discussion would be corrected.
- The External Auditor would follow up on prior year recommendations (for example in relation to the collection of related party transaction returns from Members) as part of the reporting for next year.

During the discussion, Members recognised the significant risks associated with the valuation of the Pension Fund net liability but acknowledged that this was a very specialist area with internal controls in place.

**RESOLVED:**

1. That the External Auditor's Annual Audit Letter for the year ended 31 March 2020, attached as Appendix 1 to the report of the Head of Finance, be noted.
2. That the updated Audit Findings Report from the External Auditor, attached as Appendix 2 to the report of the Head of Finance, be noted.

Note: During the discussion, Councillor Daley said that as a Member of the Kent Superannuation Fund Committee, he was aware of its investment strategy and auditing arrangements.

167. EXTERNAL AUDIT - PROGRESS REPORT AND SECTOR UPDATE

Ms Tina James of Grant Thornton, the External Auditor, presented the progress report of the External Auditor which included a summary of emerging national issues and developments of relevance to the local government sector. It was noted that:

- Work on the certification of the Housing Benefit Subsidy claim was continuing and a report would be submitted to the next meeting of the Committee.
- Work had not started yet on the 2020/21 audit, but the External Auditor would be in contact with the Finance team very soon regarding the Audit Plan.
- The sector update included details of changes to the Code of Audit Practice for 2020/21, the most significant of which related to the way in which the value for money work was reported. There had also been some revisions to accounting standards which meant that the External Auditor would be doing additional work in relation to accounting estimates.

**RESOLVED:** That the External Auditor's progress report and Sector Update, attached as Appendix 1 to the report of the Head of Finance, be noted.

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

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council.

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

- The impact of COVID-19 would be long-lasting, and the initial projections indicated that, under a neutral scenario, the Council would face a £3m budget gap in 2021/22. This budget gap had now reduced due to the Government announcing more support for local authorities in the Chancellor's Spending Review and in the provisional Local Government Finance Settlement for 2021/22. There was still a substantial budget gap next year and reports would be submitted to Service Committees this month outlining how it was proposed to address that.
- The Chancellor's Spending Review signalled a willingness to support local authority capital investment, particularly for housing and regeneration, by reducing the cost of borrowing from the Public Works Loan Board by 1%. This had reduced the risk of the Council not being able to fund its Capital Programme.
- In terms of external factors, the resurgence of the COVID-19 pandemic had a direct impact on the budget through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from parking and commercial activities. The risk of adverse financial consequences from a disorderly Brexit had been substantially mitigated through the negotiation of a trade deal with the EU, but there remained risks associated with traffic disruption and the longer-term economic impact.

- The Budget Risk register had been amended to reflect the changes in the risks associated with the funding of the Capital Programme and a disorderly Brexit.

During the discussion, it was suggested that the risks around (a) Brexit (particularly from 1 July 2021 when full import customs clearance formalities would apply) and (b) inflation rate predictions and the implications for the funding of the Capital Programme should be kept under review.

**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.

169. DURATION OF MEETING

6.30 p.m. to 8.20 p.m.