AUDIT COMMITTEE
8TH NOVEMBER 2022

PRESENT: The Chair (Ms Jane Nellist)
The Vice Chair (Councillor Parsons)
Councillors Baines, S. Bradshaw, A. Gray, Hadji-Nikolaou and Snartt

Director of Finance, Governance and Contracts
Director of Housing and Wellbeing
Head of Governance and Human Resources
Head of Financial Services
Head of Transformation, Strategy and Performance
Audit Manager
Democratic Services Officer (EB)

APOLOGIES: Councillor Boldrin

The Chair stated that the meeting would be recorded and the sound recording subsequently made available via the Council's website. She also advised that, under the Openness of Local Government Bodies Regulations 2014, other people may film, record, tweet or blog from this meeting, and the use of any such images or sound recordings was not under the Council's control.

16. MINUTES FROM THE PREVIOUS MEETING

The minutes of the meeting of the Committee held on 12th July 2022 were confirmed as a correct record and signed.

17. DISCLOSURES OF PECUNIARY INTERESTS, AND OTHER REGISTRABLE AND NON-REGISTRABLE INTERESTS

No disclosures were made.

18. QUESTIONS UNDER OTHER COMMITTEE PROCEDURES 12.8

No questions had been submitted.

19. COUNCIL'S USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA)

A report of the Director of Finance, Governance and Contracts was submitted providing the Committee with a summary of the Council's use of RIPA powers. (Item 5 on the agenda filed with these minutes).

The Head of Governance and Human Resources attended the meeting to assist the Committee with the consideration of this item.

In response to a query over whether the Council should be making more use of RIPA powers, the Head of Governance and Human Resources informed the Committee that the use of RIPA powers needed to concern an offence that would result in a custodial sentence of six months or more and such cases were few and far between.

RESOLVED that the Committee note that there has been no use of RIPA powers by the Council for the period from 1 July 2022 to 30 September 2022.

Reason

To enable the Committee to comply with the request from Cabinet that the Audit Committee assumes responsibility for receiving a quarterly report on the use of RIPA, and to report to Cabinet any concerns arising from those reports that may indicate that the use of RIPA is not consistent with the Policy or that the Policy may not be fit for purpose.

20. TREASURY MANAGEMENT UPDATE - MID-YEAR REVIEW FOR THE SIX MONTHS APRIL-SEPTEMBER 2022

The Head of Financial Services submitted a report reviewing the Treasury Management Strategy and the Annual Investment Strategy, plus the various Prudential Borrowing and Treasury Indicators for the first six months of 2022/23. (Item 6 on the agenda filed with these minutes).

The Director of Finance, Governance and Contracts attended the meeting remotely to assist with the consideration of this item.

The Director of Housing and Wellbeing attended the meeting remotely to assist with the consideration of this item.

The Head of Financial Services attended the meeting remotely to assist the Committee with the consideration of this item and informed them as follows:

- The report would go to Cabinet on 17th November and Council on 23rd January.
- The General Fund budget was set at £41m which was a high figure. This included £28m of the Enterprise Zone and Regeneration budget which was a place marker in the plan and as such the report was not completely monitoring against this number.
- The spend was very low at £2m which left an underspend of £11million.
- The budget figure included the slippage of the last Capital Plan.
- Of the approximately £12m in the Housing Revenue Account (HRA) budget, approximately £700k had been spent. This showed a large underspend.
- Regarding the Capital Plan, new contracts were being procured and put in place.
- Underspends from the HRA would go back into the HRA Financing Fund.
- The current Capital Programme was fully funded. There was internal borrowing which had held up and continued to support capital borrowing.
- The internal Investment Balance was £54m. The Council had been able to invest this money and obtain a good rate of return.
- The budget had outperformed at the half-year stage.

- There had been a net return of 1.4% on the External property Funds of £5m.
- The Total interest earned was £402k. This was up on the budget and Treasury Management interest rates going forward into the 2023/24 as interest rates were favourable.

Summary of Discussion:

- Regarding the HRA underspend, a review was carried out at the end of the financial year and advice was sought from the director of service. Money not spent could be moved forward, however, it was preferable to perform on budgets rather than move them forward.
- The Director of Housing and Wellbeing added that in terms of delivery on the HRA budget, a contract had been entered into with J. Tomlinson on Kitchens and Bathrooms. The full programme was not deliverable in a single quarter. It was necessary to set an achievable amount of work for the contractor over the course of the year.
- The Director of Finance, Governance and Contracts stated that whilst inflation was a concern, the increase in interest rates was good news for the Council due to the amount of cash the Council had. However whilst revenues would increase, costs would also increase. Such increasing costs included payroll with the 2022/23 pay increase and the Environmental Services Contract which had increased based on the RPI index. He added that whilst increasing costs would initially be mitigated by rising interest rates, the rise would eventually taper off resulting in a reduction in revenue. It was not yet known what government funding the Council would receive.
- In terms of priorities in the event of potential cuts to services, an ‘Options for Change’ exercise had been completed and as such it was known which services were mandatory and which were discretionary. Decisions would be difficult, however, there were reserves as a contingency.
- Modelling was looked at in terms of cashflow and opportunities were sought to chase yields. The importance of satisfying debts was highlighted as Council Tax also went to services such as the Police and Fire Service.
- Regarding the investment portfolio, there was a strategy that set out what was done, what the limits were and how much could be put into certain categories. A list provided a snapshot of a point in time, much of this was very short term. The Stirling Overnight Indexation Rate (SONIA) trailed the base rate. SONIA was the target and historically the Council had achieved above this rate. Individual investments were placed well against SONIA. The importance of investments was increasing and more focus was needed on this area.
- Link Asset Services had provided training for the Audit team. A risk model had been provided which the Council followed. The Treasury Management Strategy was set each year and guided he Council. Changes could be made, but it was a format that was monitored against and Link Asset Services provided reports on whether the Council were within monitoring ranges. The Treasury Management Officer monitored this week-on-week and daily updates were received if cash was needed from a counterparty to invest elsewhere. There were relatively limited areas of investments that were used and security was prioritised in terms of placement of funds. Link Asset Services were worked with closely on this.

- Regarding the counterparty portfolio the Council had good investments. In terms of investing outside the UK Link Asset Services had suggested considering investing in Germany. It was not yet known if better rates could be offered from Germany.
- The Council were fortunate to have large balances, for example, in the HRA fund. The spend had been fairly slow as money from areas such as Section 106 and Precepts were not yet spent.
- Rates were being outperformed without taking big risks. The Treasury Management Strategy for next year was being considered and more advice would be given from Link Asset Services.
- The Council had a Commercial Property Portfolio of £25m the generated gross rents of approximately £1.2m per year. Reserves were built up as a contingency against uncertainties regarding lease events. Due to the prudential code, property could not be bought if the Council were going to borrow and assets could not be bought purely for yield. Assets within the borough where there was a regeneration aspect were considered reasonable. Treasury Balances were considered in terms of how best to maximise the return in terms of security, liquidity and yield. With substantial ongoing commitments such as payroll and payments to Parish Councils it was important to ensure there was sufficient liquidity. Inter-authority lending was a route that could be explored.
- In terms of the ratio between what was authorised to be spent and what was actually spent, there was nothing in the Capital Plan on the Commercial Property Portfolio. Money that had been borrowed was earmarked. In the Capital Plan there was £28m for two schemes. Firstly, the Enterprise Zone, whereby a grant was made to the Leicester and Leicestershire Local Enterprise Partnership (LLEP) who would then make a grant to the site sponsor. This money was then recovered as if it were a loan by not having to pay business rates to the LLEP. £5m more would be asked for Enterprise Zone funding in the coming weeks. Secondly, there was a £15m placemarker against regeneration opportunities and it was necessary to decide how to spend this. It was suggested that this could be used to acquire sites on an opportunistic basis around Loughborough as properties became available and if the price was attractive and the purchase appropriate. This would be financed out of borrowing rather than reserves. Due to high interest rates, the Council could finance less than they previously did. It was necessary for the Council to think about whether they needed to be more proactive with investments.
- In terms of how the Council compared to other councils in terms of investment performance, the Council had previously belonged to a benchmarking group and it was suggested that the Treasury Management Officer be asked to consider this again. It was further suggested that CIPFA may have information on whether or not it was possible to benchmark against similar size authorities. The Director of Finance, Governance and Contracts added that cash balances may be different in different councils and as such it was better to compare authorities with similar cash balances rather than similar size. He suggested that SONIA was a good indicator on this and Link Asset Services could also be consulted. The Chair added that the external auditors could also be consulted on this.
- There had been no political or executive decision on a policy to deliberately underspend on the Capital Programme or the HRA in order to accrue more

interest. The HRA was due some of the interest earned and there was a Capital Plan which was spent against.

- Changes in contracts and issues in recruiting personnel had been an issue.
- The MRP was increasing over 40 years on an annuity life basis. Rents would increase over time. The amount of repayments would stay constant and more capital would be paid throughout the year.
- In terms of risk surrounding underspend, the money received from DFGs had been an allocation to the Council. More resources were being put into place in the Housing Team dedicated to this area. In terms of the capital spend the underspend was something that the Senior Leadership Team (SLT) Capital Board were aware of as an issue and could look to address going forward. DFGs and the spend profile were regularly discussed by the group. If money was not spent in DFGs it could only be spent for specific purposes and needed to be stringently audited. The Director for Housing and Wellbeing added that there was benchmarking information available around DFGs with some variances across districts in Leicestershire. Charnwood Borough Council appeared to be within the broad parameters in comparison with other districts. Northwest Leicestershire District Council and Melton Borough Council had spent less than Charnwood Borough Council and Blaby District Council had spent more. There was a mixed picture across the boroughs.

  The Chair suggested that the Audit Manager add benchmarking information as part of the Audit Programme.

  The Director of Finance, Governance and Contracts added that it was important to monitor spending and that if something was suggested to be added to the Capital Plan it would need to go through Cabinet and Council.

  The Chair suggested the issue of underspend on the Capital Programme be considered by the Scrutiny Commission.

  The Director of Finance, Governance and Contracts added that money was put into the budget for this year so it was available if needed. If it was not needed it went into the budget for next year and created an underspend in the current year. It was recognised that historically there had been project management issues and changes in personnel.
- Link Asset Services were paid to monitor the individual counterparties that the Council used. They monitored credit ratings and gave a level of risk on investments on a weekly basis.
- The issue of rising interest rates and the current economic situation would be reflected in the Capital Strategy. Interest rates could also be noted in the investment portfolio in future reports.
- With regard to issues surrounding inflation and investment yields it was unknow as to whether action needed to be taken. More would be known then the Autumn statement was received. A ‘holding budget’ was being created to cover up to the next financial year, after which it was hoped to make plans based on more certainty. More information would come through the Budget Scrutiny Panel.

RESOLVED that the Committee note the mid-year review of the Treasury Management Strategy Statement, Prudential Borrowing and Treasury Indicators plus the Annual Investment Strategy.

Reason

To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the Revised CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement, that funding of capital expenditure is taken within the totality of the Council's financial position, and that borrowing and Investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

21. INTERNAL AUDIT PROGRESS REPORT Q2 2022-23

A Report of the Director of Finance, Governance and Contracts was submitted summarising the progress against the 2022/23 Audit Plan, outlining key findings from final reports and any outstanding recommendations. (Item 7 on the agenda filed with these minutes).

The Director of Housing and Wellbeing attended the meeting remotely to assist the Committee with the consideration of this item.

The Audit Manager attended the meeting remotely to assist the Committee with the consideration of this item and informed them as follows:

- There had been good progress in the second quarter of the financial year and two final reports had been issued.
- Housing repairs had limited assurance.
- DFG and Defra grants had been reviewed and signed off.
- Benefits subsidy work had been completed.
- The 2022/23 plan was progressing well and key financial audits were in progress.
- No recommendations were overdue.
- Only minor amendments had been made to the Internal Audit Charter. These concerned changes in job titles.

The Committee were advised in response to questions that:

- Housing repairs processes were driven through the system. Procedures were in place but needed updating. The system was linear and when a repair was logged it went into the system and was categorised and allocated. The Repairs and Investments Manager had had been asked to update the system, however this would be on a long timescale due to existing commitments.
- Some items from the 2017 audit were still present. Repairs completed were tracked and performance was reported on. Repairs not completed were being considered in more depth. Some issues, such as procurement of windows, were known and being worked on.

- Previously when repairs audits had been carried out they had been minimal, this one was more detailed as it looked at the whole process rather than solely the financial side. As such there would be more recommendations.
- The housing repairs team had a significant part of the budget (£1.9m) and issues on assurance had been identified, however, this did not mean that action was not being taken.
- Risks around financial loss were associated with disrepair claims. There were also risks surrounding duplicate payments to contractors. It was recognised that some issues did not have a material financial loss. Costs were benchmarked so there were measures of efficiency and checks.
- Regarding the schedule of rates being incorrect it was noted that this was an issue with the system rather than something with financial implications to the Council.
- The Director of Housing and Wellbeing noted that he recognised that there were improvements to make and that they would be made. He also noted that whilst there was potential for material loss, this had not been identified during this audit report, although there were losses present in respect of disrepair claims.
- Controls across the whole area were looked at and the audits were split across quarters so that they could be considered in more depth. The next audit would include responsive repairs and voids. If controls were not in place then financial losses were possible. As such the team were ensuring that controls were in place.
- Any losses identified would be included in the audit report which the committee receives a copy of.
- Audit testing was done on a sample and it was highlighted where there were control issues identified, recommendations were made accordingly. Disrepair claims had been looked at and issues identified in this area would be included in the next Responsive Repairs report.
- Recommendations from October 2022 had been implemented.
- Key financial systems were noted in the report as actual days being half a day this was due to the audits only just being in the planning stage. Key audits were not planned to be carried out until the third quarter of the financial year. The National Fraud Initiative, which is carried out every two years was noted as one actual day as the information upload had only just been completed (Q3) and the data matching wasn't due until later in the year, this will then be when the actual days would increase.
- There was one recommendation against the open spaces contract and against the responsive repairs audit. Where recommendations were marked as not applicable this was because it was certifications work and not an audit. Where there were no recommendations on an audit it was because the audit had not yet been completed.
- The audit had a formal process. The draft stage showed where information was being pulled together and recommendations were not made until this process had finished.
- The appendix would show the stages of the audit in the next report.
- Client satisfaction information was sent to the relevant manager after completion. Responses could not be enforced on satisfaction surveys. There

was a desire to assess performance and effectiveness. The Chair clarified that an in-depth assessment of audit services was done on a rolling programme.

- The scope of the Capital Programme audit had not yet been agreed. It had been pushed back to the third quarter of the financial year due to other work commitments. As soon as it was agreed it would be shared with the Committee.
- A flow chart of who was who within the audit team in terms of reporting lines would be distributed to the Committee.
- The Audit Manager was the Chief Audit Executive.

The Chair noted with reference to Paragraph 11.1 that CIMA was part of CCAB and it should be CGMA if it were to be referred to so CIMA could be deleted. The Chair also suggested it would be good to mention IIA.

The Vice-Chair noted that he was not reassured that there was no chance of material loss.

RESOLVED that the Committee note the report.

Reason

To ensure the Committee is kept informed of progress against the Internal Audit plan and work of Internal Audit.

22. RISK MANAGEMENT (RISK REGISTER) UPDATE

A report of the Head of Transformation, Strategy and Performance was submitted providing the Committee with details of the Strategic Risk Register produced for the period to 2022/23. (Item 8 on the agenda filed with these minutes).

Head of Transformation, Strategy and Performance attended the meeting to assist the Committee with the consideration of this item and informed them as follows:

- The register was managed by officers in SLT and the Corporate Leadership Team (CLT). The group had met on 21st September and this report reflected changes made at that meeting.
- As had been requested at the last meeting of the Audit Committee, the current report outlined where changes had been made so that changes were easy to identify.
- Strategic Risk 3 – Financial Resources had increased its score as it was recognised that the financial situation was volatile. Particular risks had been identified concerning revenue from the Town Hall and Car Parks.
- Strategic Risk 7 – Data Security had decreased due to more robust treatments and controls. Additionally, the post of Data Protection Officer had now been filled.
- Regarding Strategic Risk 11, there was a new risk regarding housing demand. It was recognised that there was a demand on properties for a number of reasons including surrounding refugees and asylum seekers (including those resulting from the war in Ukraine). The situation would be monitored.

- Risks were being monitored through the Pentana program which showed the direction of travel of risks.

The Committee were advised in response to questions that:

- Following a query on SR 7 appearing to change from 6 to 6. The Head of Transformation, Strategy and Performance stated that she would check this and clarify.
- The risk of cyber-attacks had been discussed by the risk management group. The Council had cybersecurity insurance and awareness of the issue was being raised. The risk of cyber-attacks on elections was not discussed specifically and it was not seen as a major risk. Such a risk to elections would more likely come via influences in social media. The risk of criminal attacks (e.g. via ransomware) was recognised.
- The report was annotated and updated after each meeting. The direction of travel of risks did not appear to change significantly.
- The Head of Transformation, Strategy and Performance would make the action plan for re-let of HRA property available to the Committee.

RESOLVED that the Committee note the report.

Reason

To ensure the Committee is kept informed of progress against the Strategic Risks. Noting that should they occur they would cause the Council to be unable to operate and/or provide key services leading to a significant effect on public wellbeing.

23. WORK PROGRAMME

A report of the Head of Strategic Support was submitted to enable the Committee to consider its work programme. (Item 9 on the agenda filed with these minutes).

It was noted that a national procurement for external auditors had taken place and that Azets would become the new external auditors once Mazars had completed their work.

RESOLVED

1. that the Committee proceeds on the basis of the work programme attached to the agenda.
2. that the issue of Capital Programme performance and underspend be considered by the Scrutiny Committee.

NOTES:

1. The following officers listed as present attended this meeting virtually: Director of Housing and Wellbeing, Head of Financial Services, Head of Governance and HR, Audit Manager. The remaining officers listed as present attended in person.

2. No reference may be made to these minutes at the next Full Council Meeting unless notice to that effect is given to the Democratic Services Manager by five members of the Council by noon on the fifth working day following publication of these minutes.

3. These minutes are subject to confirmation as a correct record at the next meeting of the Audit Committee.