

Medway Council
Meeting of Audit Committee
Tuesday, 5 January 2021
7.00pm to 8.51pm

Record of the meeting

Subject to approval as an accurate record at the next meeting of this committee

Present: Councillors: Browne, Gulvin, Hackwell, Osborne and Tranter
(Chairman)

In Attendance: Katey Durkin, Head of Finance Strategy
Wayne Hemingway, Interim Head of Democratic Services
Perry Holmes, Chief Legal Officer/Monitoring Officer
James Larkin, Head of Audit and Counter Fraud
Jonathan Lloyd, Finance Business Partner - Corporate Services

578 Apologies for absence

There were none.

579 Record of meeting

The record of the meeting held on 19 November 2020 was agreed and signed by the Chairman as accurate.

580 Urgent matters by reason of special circumstances

The Chairman confirmed that he had accepted one report as urgent. Agenda Item 9 (Risk Strategy Review) had been circulated separately to the agenda and was accepted as urgent to enable the Committee to consider the report prior to consideration by the Business Support Overview and Scrutiny Committee (28 January 2021) and the Cabinet (2 February 2021).

581 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

Councillor Gulvin declared an OSI in agenda item 5 (Treasury Management Strategy 2021/22) because he is a Director of Medway Development Company

Audit Committee, 5 January 2021

Ltd and he relied on a dispensation granted by the Councillor Conduct Committee to enable him to take part in the discussion and vote on this item.

Other interests

Councillor Gulvin declared an interest in agenda items 6 (Audit and Counter Fraud Update), 7 (Audit and Counter Fraud Charter) and 8 (Review of Audit and Counter Fraud Quality Assurance and Improvement Programme) in relation to the consideration of any matters in his portfolio.

582 Treasury Management Strategy 2021/22

Discussion:

This report provided details of the Council's Treasury Management Strategy for the 2021/22 financial year. The Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and the Minimum Revenue Provision Policy.

The Finance Business Partner – Corporate Services advised the Committee of the key issues in the report, highlighting the overall aim of the Strategy which was to keep borrowing as low as possible, therefore cash balances would also be relatively low, limiting the scope for long term treasury investments i.e. investments of cash balances rather than capital expenditure in pursuit of council objectives. He referred to Table 1 in paragraph 3.7.2 of the Strategy which showed the capital programme and funding up to 2023/24 as currently approved.

He provided a detailed explanation of the Capital Financing Requirement (CFR) and the Minimum Revenue Provision (MRP). He also made reference to the schedule of debt repayments highlighting the spike in 2022/23 which had been caused in the main by the Public Work Loans Board (PWLB) hike in interest rates in 2019 and the Covid 19 pandemic which had led to some short term borrowing.

Members then raised a number of questions and comments which included:

Member priorities – in response to a question, the Head of Finance Strategy confirmed that there was one scheme currently being undertaken (St Mary's Amateur Boxing Club - £40,000) within this element of the Capital Programme.

Borrowing – in response to questions on borrowing, the Finance Business Partner – Corporate Services confirmed that the Council would use its own sources of funding (for example, reserves) for borrowing rather than borrow funds externally, when this was possible. He explained that the Council had borrowed some funds at the beginning of the Covid 19 pandemic for cash flow purposes given the uncertainty at the time regarding how the Government might provide financial support to local authorities.

Audit Committee, 5 January 2021

He also explained that with regards to long term borrowing, the Council would no longer take out any more LOBO loans (unless this became an attractive option), such loans would now be sought, in the main, from the PWLB. He referred to the split between long term and short term loans, stating that the aim was to keep a short term cash flow of £10m with £25m available in borrowing and he also explained that the purchase of the Pentagon Centre had been financed by a number of long term loans.

In response to a question as to whether the Council had needed to borrow £45m at the beginning of the Covid 19 pandemic, and the implications arising from this decision, the Head of Finance Strategy advised that this figure related to two sums of funding which had been conflated back in March 2020 when the Council had acted to ensure businesses and local residents could be supported and cited examples of suppliers being paid on immediate terms and care places being provided to facilitate the transfer of patients from hospital in accordance with the Government's announcements to provide assistance but before any Government funding was provided, which had necessitated an increase in cashflow. The Chief Finance Officer had made this decision in accordance with the Covid 19 governance framework. She further advised the governance framework for decisions taken as part of the emergency response had been reported to the Cabinet and she would provide this information to the Committee.

In response to a question seeking confirmation on the LOBO rates, it was confirmed that these had not changed.

In response to a question regarding funding to cover Covid and HIF, the Head of Finance Strategy confirmed how funding for these matters had been provided, in particular the Council would initially incur costs regarding spend on the HIF programme and claim the costs back from Government.

Property funds – in response to a question, the Finance Business Partner – Corporate Services explained that dividends had held up quite well and one of the funds had increased its capital value in the last quarter, but overall, the investments had reduced in value. The Head of Finance Strategy advised the Committee that these were long term investments and that property was still a safe asset over the long term. It was clarified that the purchase of the Pentagon Centre was capital expenditure and did not represent a treasury investment.

The Finance Business Partner – Corporate Services provided details of the Government's short term dispensation which benefitted the Council's by allowing any dividends to be paid into the Council's revenue account whilst any capital fluctuations (currently negative) could be treated in reserves. This dispensation was due to end in 2023/24 but could be extended by the Government.

Local Government reorganisation debt – in response to a question regarding the average cost of debt, the Finance Business Partner – Corporate Services explained that the figure of 4.579% was provided to him by Kent County Council and the Council had no control over this particular matter.

Audit Committee, 5 January 2021

Negative interest rates – in response to a question, the Finance Business Partner – Corporate Services explained that any long term borrowing would still be determined by the market's view on borrowing across the overall period. He advised that the current position meant that the Council would earn very little on cash investments.

Capital Financing Requirement (CFR) – in response to a question regarding debt repayments during 2021/22 and 2022/23, the Finance Business Partner – Corporate Services explained that the £45m repayment due in 2021/22 will be refinanced during that year as a consequence of the rates imposed by the PWLB to discourage commercial investments by Local Authorities. He explained that the expected change in debt in 2021/22 (£104,683m) was a function of the capital expenditure it was expected to borrow.

He referred the Committee to table 4.1.5 in the Strategy and explained the reasons for the spike in 2021/22.

Loans provided to wholly owned subsidiaries – in response to a question as to how safe the Council's loans were to the Council's wholly owned subsidiaries, the Finance Business Partner – Corporate Services confirmed that a loan agreement was currently being drawn up with Medway Development Company Ltd (MDC) to ensure the Council's security over the assets. The Head of Finance Strategy advised that MDC was being loaned money to enable MDC to carry out the various tasks to deliver property and that whilst the risks sat with MDC they would also provide substantial assets. She also advised that the Cabinet received frequent reports from the subsidiaries, therefore, the Council was being informed of outputs and performance.

In response to a question regarding the value and the level of risk of these companies, the Chief Legal Officer advised that the Council had sought specialist legal advice in 2017 when the Council had decided to establish MDC, it had sought further specialist tax advice and was currently obtaining further specialist legal advice on the loan agreement to protect the Council's position. The Chief Legal Officer referred to the level of risk which would increase over time given the activities of MDC, however, the closer to the selling of the asset, the level of risk would start to decrease. Reports would continue to be submitted to the Cabinet and, as appropriate, to this Committee. He assured the Committee that the legal, tax and governance frameworks were in place to ensure that the risks would be mitigated as best as possible.

The Chief Legal Officer also provided details of the current investment which had been committed by the Council (£120m) for the first five projects with Mountbatten House scheduled as the next project subject to planning permission. He confirmed that the Cabinet had been informed of the spend so far, noting that spend would increase significantly given the works which were about to be undertaken, and the Committee would be apprised as developments were progressed.

Audit Committee, 5 January 2021

During discussion, it was stated that the Committee should receive reports on a regular basis which set out the value and risk associated with the developments being undertaken by MDC.

In response to a question regarding how the debt was being underwritten, the Chief Legal Officer confirmed that the loan arrangement between the Council and MDC would include reference to the asset and the right for the Council to get its money back if necessary. The Council was treating MDC as if it had a short trading history and this was reflected in the loan rate.

Decision:

The Committee considered the report, noted its contents and passed the comments set out above to Cabinet.

583 Audit and Counter Fraud Update

Discussion:

This report provided details of an update on the work, outputs and performance of the Audit and Counter Fraud Team for the period 1 September to 30 November 2020.

The Head of Audit and Counter Fraud Shared Service referred to the loss of 111 days resource owing to over running reviews, sickness and the need to redeploy team members to assist with the administration of Covid 19 grant schemes. This had necessitated changes to the agreed Plan. He advised that the final outstanding review from 2019 had now been finalised. He referred to the key performance indicators for the team which reflected steady progress. He also advised on a number of matters relating to the work of the team, including counter fraud activity in association with the Cabinet Office and an update on outstanding recommendations noting that the two recommendations set out on page 130 of the agenda had been implemented subject to evidence verifying this.

Parkwood Schools Federation – in response to a question relating to the outcome of this audit review, The Head of Audit and Counter Fraud Shared Service advised that whilst the full report was not available in the public domain, this report was shared with the Assistant Director, Education and relevant Service Managers and they would share any feedback and points of learning with schools.

Shared Service – in response to a question regarding the Gravesham Borough Council element of the Shared Service, the Head of Audit and Counter Fraud Shared Service explained that the agreement stated that 64% of the resource was available to Medway and 36% to Gravesham. Any reduction in resource, such as sickness, would be shared between the two Councils proportionately. In this instance, 60 days have been agreed within Medway's resource to be provided to help respond to the pandemic. He confirmed that planning for

Audit Committee, 5 January 2021

2021/22 was ongoing. It was clarified that 51 days had been lost to sickness and over running reviews.

Outstanding recommendations (over 6 months) – in response to a question the Head of Audit and Counter Fraud Shared Service explained that any outstanding recommendations were chased on a monthly basis and an update report was considered by the Corporate Management Team on a quarterly basis, where the relevant service areas would be held to account.

Normal service – in response to a question the Head of Audit and Counter Fraud Shared Service explained that the Service was carrying out normal activities, however, 60 days of resource had been provided to the Economic Development team to assist with processing applications for discretionary grants and within that provision there would be peaks and troughs which allowed the Service to carry out audit work when possible. However, the Service would continue to provide assistance in response to the pandemic.

Decision:

- a) The Committee noted the outputs and performance of the Audit & Counter Fraud Service for Medway for the period 1 September to 30 November 2020 as detailed at Appendix 1 to the report.
- b) The Committee noted the amendments to the 2020-21 workplan as detailed in section 7 of Appendix 1 to the report.

584 Audit & Counter Fraud Charter

Discussion:

This report provided details of the Audit and Counter Fraud Charter as required by the Public Sector Internal Audit Standards.

Decision:

The Committee approved the Charter as set out at Appendix 1 to the report.

585 Review of Audit & Counter Fraud Quality Assurance & Improvement Programme

Discussion:

This report provided details of a review of the Quality Assurance and Improvement Programme.

The Head of Audit and Counter Fraud Shared Service explained the rationale for changing the target for performance measure PM9 from 90% to 85% in the context of providing a more realistic target.

Decision:

The Committee approved the amended Quality Assurance and Improvement Programme, as set out at Appendix 1 to the report.

586 Risk Strategy Review

Discussion:

This report provided details of the Council's Risk Management Strategy which the Committee was required to review annually.

The Head of Finance Strategy advised the Committee of the internal review process for this Strategy.

Members then raised a number of questions and comments which included:

Service responsibility – in response to a question, the Head of Finance Strategy confirmed that responsibility for the Strategy sat with the Chief Finance Officer.

Presentation – in response to a question regarding some of the presentational aspects of the Strategy, the Head of Finance Strategy confirmed she would take steps to improve the presentation and accessibility of the document.

Risk matrix – in response to a question as to how decisions had been made on the risk ratings within the risk matrix (page 12 of Supplementary Agenda No.1), the Head of Finance Strategy confirmed that this could be revisited next year and that there were many different ways to develop a risk matrix. She undertook to ensure that Member would be involved in such discussions.

Decision:

The Committee noted the 2021/22 Risk Management Strategy at Appendix 1 to the report as setting out the Council's approach to risk management.

Chairman

Date:

Wayne Hemingway, Interim Head of Democratic Services

Telephone: 01634 332509

Email: democratic.services@medway.gov.uk