

Medway Council
Meeting of Audit Committee
Thursday, 23 September 2021
7.00pm to 7.55pm

Record of the meeting

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

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

In Attendance: Bhupinder Gill, Assistant Director, Legal and Governance
James Larkin, Head of Audit and Counter Fraud
Jonathan Lloyd, Finance Business Partner - Corporate Services
Teri Reynolds, Democratic Services Officer
Phil Watts, Chief Finance Officer

317 Apologies for absence

There were none.

318 Record of meeting

The record of the meeting held on 28 July 2021 was agreed and signed by the Chairman as a correct record.

319 Urgent matters by reason of special circumstances

There were none.

320 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

Other interests

Councillor Gulvin declared an interest in agenda item 6 (Audit and Counter Fraud Update 01 April to 31 August 2021), in so far as the references to the

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Pentagon Centre in Appendix 1 to the report included references to his portfolio.

321 Treasury Management Strategy Mid-Year Review Report 2021/22

Discussion:

This report provided an overview of treasury management activity since 1 April 2021 and presented a review of the Treasury Management Strategy approved by Council on 18 February 2021. The Finance Business Partner – Corporate Services advised the Committee of the key issues in the report, including an explanation of the table at in the summary of the report which showed that the Council remained under borrowed compared with the Capital Financing Requirement (CFR) and that this would be expected to remain the case in the coming years. He stated that for the current year this level of under borrowing would be higher than expected owing to changes in the Capital Programme.

The Finance Business Partner – Corporate Services stated that he did not anticipate any large increases in interest rates, therefore, this had led to continued borrowing from other local authorities for short durations, and the risk of refinancing these borrowings was considered low. He explained that the repayment dates for borrowings, including LOBO loans, were reasonably spread. He also referred to liquid investments required for day to day requirements.

He referred to property investments and their performance as set out in paragraphs 5.3 and 5.4 of the report. The tables indicated that the dividends received exceeded the loss on property values by over £3M. He also referred to the Council's performance which no longer out performed its peers, however, performance was within the expected range for the level risk taken. He concluded by stating that no debt rescheduling had taken place during the first six months of the year and that the Council had complied with the treasury and prudential limits.

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

Short term borrowing from other local authorities – in response to a question regarding short term borrowing including other local authorities, the Finance Business Partner – Corporate Services stated that some other local authorities had larger cash balances than Medway, therefore, they would be able to invest cash for longer terms. In Medway's case, the position was to keep cash levels low to avoid borrowing more than necessary.

Liquid investments – in response to a question regarding alternatives to liquid investments, the Finance Business Partner – Corporate Services did refer to the money markets as an alternative, however, the fees involved sometimes meant it was not worthwhile to do so.

Performance – in response to a question regarding the level of performance as shown in the graph set out in paragraph 5.7.1 of the report, the Finance

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Business Partner – Corporate Services stated that he hoped performance would not worsen, however, the Council's position on the graph was, in part, as a consequence of the Council having lower cash balances than some of its comparators. In response to a further question on the issue of performance, the Chief Finance Officer explained the rationale for holding low cash balances and that these needed to be held in low risk, liquid investments, principally bank deposits.

Property investments – in response to a question on the returns from property investments from Medway Development Company, the Finance Business Partner – Corporate Services stated that these returns would be included in the interest and financing element of the income and expenditure account.

Benchmarking – in response to a question around other types of investments which could be made and the risks associated with such investments, the Finance Business Partner – Corporate Services stated that beyond bank deposits and gilts, investments were inherently risky, including renewables. He also advised that the Government took a dim view of local authorities making investments outside of its own geographical area. Although the Council held some investment in properties located outside Medway, the amounts were modest especially in comparison to some other local authorities.

Under borrowing – in response to a question on the issue of the impact of under borrowing including whether this meant that capital investments could be accelerated and whether work on the capital programme was behind schedule, the Chief Finance Officer explained that the amount of borrowing had been less than was needed, which resulted in under borrowing. The Finance Business Partner – Corporate Services stated that sometimes capital schemes did not have accurate profiling, the effect of which was to front load the borrowing requirement. During discussion, reference was made to the process in place for the demolition of Splashes.

Risk – In response to a question referring to the levels of risk and return as set out in paragraph 5.7.4 of the report, and whether additional contextual information could be provided in future versions of the report, including how cash rich other local authorities were, the Finance Business Partner – Corporate Services stated that he would see what he could do. The Chief Finance Officer stated that information on cash levels would be set out on the balance sheets of all local authorities. He explained how the Council funded its investments referring to grants, capital receipts and S106 funding, none of which had an impact on the CFR. However, if the Council borrowed the funding, there would be an impact on the CFR and in turn revenue provision would have to be made to repay the borrowing. In these cases, cash reserves would be built up and could be used to fund internal borrowing. The effect of this would be that overall borrowing would not increase in line with increases in the CFR, leading to a position of under borrowing. He also referred to other local authorities who may choose to use cash balances to undertake riskier investments, for example, solar farms.

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Decision:

The Committee considered this report, noted its contents and noted that the report will also be referred to Cabinet and Full Council.

322 Audit and Counter Fraud Update 01 April to 31 August 2021

Discussion:

This report provided an update on the work, outputs and performance of the Audit & Counter Fraud Team for the period 01 April to 31 August 2021. The Head of Audit and Counter Fraud Shared Service advised the Committee of the key issues in the report including the level of staff resources available during the period, and he referred to progress of work being undertaken as set out in section 5 of Appendix 1 to the report. He referred to two reviews from last year which had yet to be finalised, one of these had now been finalised and he was hopeful that the other review would be finalised by next week. He also referred to counter fraud activity and key performance indicators and that PM13a now stood at 21% and PM13b now stood at 24%. He also referred to outstanding recommendations including the review of write offs (Revenue and Benefits), the impact of the pandemic and the inability to recruit to vacant posts meaning the Head of Service had requested that the implementation dates be revised.

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

Operational management of the team – in response to a question on being on target to deliver the Plan, the Head of Audit and Counter Fraud Shared Service stated that the team was on a steady course and that he had a full complement of Auditors, however, the loss of a team leader had resulted in a delay in reviews being finalised. He also advised that there had been no requests for redeployment within the team.

Pentagon Centre – in response to a question regarding the issue of deferrals in respect of the Pentagon Centre and how they would be repaid to the Council, the Head of Audit and Counter Fraud Shared Service stated that he was unable to answer this question and he undertook to ask the relevant service outside the meeting.

Recovered sums – it was commented on that it was good that the Service had recovered £250,000 as indicated in the report.

Training – in response to a question on the reduction in time spent on training, the Head of Audit and Counter Fraud Shared Service stated that this was normally included in the bi-monthly team meetings, however, the loss of a team leader and other factors such as redeployment had impacted on training. He was hopeful that this would improve once the team was back up to a full complement.

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Fraud – it was commented that the lack of evidence of fraud being found in reviews indicated that the systems in place were working, which should reassure residents and customers.

Cashable savings – in response to a question regarding the recovery of monies, the Head of Audit and Counter Fraud Shared Service stated that these were sums which would be repaid to the Council. In some cases, some recoveries would be classified as non-cashable savings.

Decision:

- a) The Committee noted the outputs and performance of the Audit & Counter Fraud Plan for Medway for the period 1 April to 31 August 2021 as detailed at Appendix 1 to the report.
- b) The Committee approved the revised implementation dates for overdue recommendations as detailed in section eight of Appendix 1 to the report.

323 Speak Up, Anti-Bribery and Anti-Money Laundering Policies: Report on Instances September 2020 - September 2021

Discussion:

This report provided an annual update on the number and nature of concerns raised, between September 2020 and September 2021, under the Council's Speak Up, Anti- Bribery and Anti-Money Laundering Policies. The Assistant Director, Legal and Governance, advised Members that the Speak Up Policy was approved in January 2021 and he referred to one matter raised under the Speak Up Policy. There were no matters raised under the other two policies.

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

Ongoing investigations – in response to a question regarding an ongoing high profile investigation, the Assistant Director, Legal and Governance advised the Committee that he was reporting on the matters set out in the report. The Chief Finance Officer referred that the period in question related to the last 12 months. The Head of Audit and Counter Fraud Shared Service referred to other ways in which investigations could be triggered. The Assistant Director, Legal and Governance, undertook to look into whether the report could include some information relating to ongoing cases and the outcome of investigations.

Process for speaking up – in response to a question regarding the process in place for someone to speak up, the Assistant Director, Legal and Governance advised that the revised Policy was accessible on the intranet and website, that the Policy set a low threshold to enable someone to raise concerns with the briefest of details which would be referred to the relevant senior officer to take forward. He referred to a digital training guide on the process which was available to officers and that he would look into this being made available via the website outside the meeting.

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Covid – In response to a question about the level of reporting in the context of home working and the impact on any other policies, the Assistant Director, Legal and Governance advised that he was aware that HR were considering the approach on hybrid working arrangements and that as this work progressed other policies would also be reviewed accordingly.

Decision:

The Committee noted the contents of this report.

Chairman

Date:

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