

Medway Council
Meeting of Audit Committee
Tuesday, 4 January 2022
7.00pm to 8.26pm

Record of the meeting

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

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

In Attendance: Wayne Hemingway, Head of Democratic Services
James Larkin, Head of Audit and Counter Fraud
Anna Marie Lawrence, Corporate Head of Performance and Business Intelligence
Jonathan Lloyd, Finance Business Partner - Corporate Services

566 Apologies for absence

There were none.

567 Record of meeting

The record of the meeting held on 11 November 2021 was agreed by the Committee and signed by the Chairman as a correct record.

568 Urgent matters by reason of special circumstances

There were none.

569 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 2022/23) to which there were references to funding of Council owned companies because he is a Director of Medway Development Company Ltd (MDC) and he relied on a dispensation granted by the Councillor Conduct Committee to take part and vote in any discussions.

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Other interests

Councillor Tejan declared an interest in agenda item 7 (Internal Audit and Counter Fraud Update) in so far as he is a Director of company which has a virtual office at the Medway Innovation Centre.

570 Treasury Management Strategy 2022/23

Discussion:

This report provided details of the Council's Treasury Management Strategy for the 2022/23 financial year. The Treasury Management Strategy incorporated within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy.

The Finance Business Partner – Corporate Services advised the Committee that the overall aim of the Strategy was to keep borrowing and cash balances as low as possible, thereby limiting long term treasury investment in cash. He also advised the Committee that the Strategy had been produced in accordance with the CIPFA 2017 Prudential and Treasury Management Codes, however at the time of writing CIPFA had just issued revised 2021 Treasury Management and Prudential Codes and future versions of the Strategy would be based on these.

He highlighted a number of issues within the Strategy including the capital programme, the capital financing requirement (CFR), minimum revenue position (MRP) policy, long term and short term borrowing, the operational boundary, debt rescheduling and treasury management practices.

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

Capital finance requirement (CFR) – in response to a question on how the CFR was set given it was increasing every year, the Finance Business Partner – Corporate Services advised that the CFR was a function of the Capital Programme, which was approved by Members. He made reference to the Ratio of Financing Cost to Net Revenue Stream indicator shown in Appendix 3 as a demonstration that the programme is affordable. There was a wider discussion on the size of the Council's Capital Programme to which it was stated that this was a matter for Members, when making decisions.

Short term borrowing – in response to a question in relation to increases in interest rates and whether short term borrowing would remain sensible, the Finance Business Partner – Corporate Services advised that whilst it was not expected for interest rates to increase significantly, he would take advice from Link (the Council's external advisors) and the Chief Finance Officer as required.

Money markets – in response to a question on investment in the money markets, the Finance Business Partner – Corporate Services advised that the Council would have very little money to invest in this area and would not make significant yields.

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Direct financing – in response to a question on whether the Council could enter the money markets direct, the Finance Business Partner – Corporate Services advised that the reason for anyone entering the market directly would likely be to borrow a significant amount of funding, e.g. in excess of £50m. In Medway's case, he advised that long term borrowing would be sought from the PWLB (Public Works Loan Board) or other local authorities for short term borrowing. He advised to enter the money markets would require the Council to have a credit rating and to borrow a significant amount of money.

Quantitative easing (QE) – in response to a question on the potential impact of QE, the Finance Business Partner – Corporate Services advised that where the Bank of England had been buying gilts, this would lead to an increase in the price of gilts and therefore, a reduction in the yield. As QE was reduced, the reverse could be expected, creating an upward pressure on rates. These types of factors would be included in Link's advice to the Council. He also advised that it was a matter of judgement as to when to decide to consider long term borrowing and cited the historical LOBO borrowing, which when taken out, it had not been anticipated that interest rates would have subsequently fallen.

Member training – in response to a question relating to Member training, the Finance Business Partner – Corporate Services advised that he would take this up with the Chief Finance Officer and Head of Finance Strategy.

Officer attendance – a Member expressed concern that it was not possible for the officer to attend this meeting remotely.

Use of borrowing in lieu – in response to a question where concern was expressed about borrowing in lieu of future monies, for example, business rates, capital receipts and S106 (table 1 in the Strategy), the Finance Business Partner – Corporate Services advised that table 1 had been split out to reflect prudential borrowing (long term borrowing) and he referred to other borrowing such as in lieu of capital receipts, giving the example of the flats being built at Chatham Waterfront, which would yield capital receipts once sold, for which MRP would not be provided. He explained that borrowing in lieu of future business rates was revenue funding, therefore, MRP would be provided whilst S106 (developer contributions) would not require MRP as the contributions would be used to provide for debt repayment.

Concern was also expressed about such matters like business rates where there might be changes to this regime in the next 5 years and the impact that this could have on Council borrowing and the risks associated with this.

Member priorities – in response to a question, the Finance Business Partner – Corporate Services advised that Member priorities were a relatively small part of the Capital Programme funded by capital receipts.

Investment in property funds – in response to a question around commercial property and the possible impacts of Covid, the Finance Business Partner – Corporate Services advised that investment in property was riskier than putting

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money in the bank, however, these returns had been doing quite well recently despite Covid. He advised that risk was taken account of as part of the diversification of the Council's investments.

Kent County Council reorganisation debt – in response to a question regarding the Kent County Council (KCC) reorganisation debt, and what the penalty would be to settle this debt, the Finance Business Partner – Corporate Services advised that whilst this had been looked at in the past, it would not be cost effective as KCC would demand a premium to settle the debt.

Decision:

The Committee considered this report, noted its contents and passed its comments on to Cabinet.

571 Risk Strategy Annual Review

Discussion:

This report provided details of the annual review of the Risk Strategy, in accordance with the Council's Risk Management Strategy.

The Chairman advised the Committee that this was Head of Corporate Insight, Performance and Information Governance's (Anna Marie Lawrence) last meeting before she left the Council to take up a position at Golding Homes. On behalf of the Committee, he recorded Members' thanks for her dedication and support over the years and he wished her the very best in her future endeavours.

The Head of Corporate Insight, Performance and Information Governance advised the Committee that there were no proposed changes to the Risk Strategy and she thanked Members who attended a meeting on 16 September 2021 to discuss the risk framework, risk definitions and risk tolerance levels and the feedback would be taken account of along with the Corporate Business Intelligence review in development of the Council Plan refresh for 2023/2027 and the next edition of the Risk Strategy.

In response to a question about specific risks, the Head of Corporate Insight, Performance and Information Governance advised that such matters would be addressed in the Strategic Risk Register which would be presented as part of quarter 3 monitoring reports.

Decision:

The Committee noted the 2022/23 Risk Strategy at Appendix 1 setting out the Council's approach to risk management.

572 Internal Audit and Counter Fraud Update

Discussion:

This report provided details of an update on the work, outputs and performance of the Internal Audit & Counter Fraud Service for the period 1 September to 30 November 2021.

The Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) advised the Committee that offers of employment had now been made in respect of the remaining vacancies within the team and the impact that would have on planned resources. He also referred to the activities undertaken during the reporting period and noted that all 2020/21 work had now been finalised. He advised the Committee that it had not been possible to provide the usual level of detail on investigations as a consequence of new ICT kit, incompatibility and licensing issues with existing software which would hopefully be resolved before the next report to Committee. With regards to PM13 (proportion of agreed assurance assignments), these now stood at 47% (completed) and 12% (underway). He also referred to sections 7 and 8 of the report which related to proposed amendments to the workplan and outstanding recommendations.

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

Headcount – in response to a question on the impact of covid on the team's work and whether there had been any requests to redeploy team members, the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) advised that there had been no current discussions around redeployment.

Outstanding actions – Members expressed concern in relation to the number of actions which were still outstanding after 6 months, it was suggested that a RAG system should be employed to improve performance. A Member expressed particular concern for the lack of action on the outstanding whistleblowing (speak up) actions. In response, the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) referred to the process in place for ensuring actions were implemented including seeking monthly updates as well as submitting reports to CMT on a regular basis.

Software – in response to a question relating to the software issues, the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) advised that Medway was the host authority and held the contracts, to which Gravesham Borough Council paid an element as part of the shared service agreement. Regarding information on cashable savings, he advised that this information was maintained separately, therefore, it had been possible to provide it within the report.

PM22 (customer satisfaction) – in response to a question as to when the survey would be undertaken, the Head of Internal Audit and Counter Fraud

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Shared Service (Chief Audit Executive) advised that this would be undertaken soon and he would be meeting with his team shortly on this.

Training – in response to a question on training within the team, the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) advised that 26 days (out of 70 for the year overall) training had been provided during the reporting period and he gave examples of the types of training undertaken thus far, as well as an update on apprenticeships.

Medway Norse – A Member expressed concern that the contract between the Council and Medway Norse had still not been signed (reference 27 in Appendix 1 to the report).

Information requests – A Member expressed concern regarding only 40% of employees currently named as having a role in responding to FO/EIR requests completed the training.

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 2021 as detailed at Appendix 1 to the report.
- b) The Committee approved the amendments to the 2021-22 workplan as detailed in section 7 of the report at Appendix 1 to the report.
- c) The Committee agreed for direct action through a RAG system for any outstanding actions over six months.

573 Internal Audit Charter

Discussion:

This report provided details of the Internal Audit Charter for approval. The Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) advised the Committee that this represented a complete refresh of the Charter. The format was based on an example provided by the Institute of Internal Auditors and a review of other Charters had also been undertaken. Some visuals had been included within the Charter to make it more user friendly. As part of the review, he also explained that officers within Internal Audit and Counter Fraud had now moved to designated roles and there was no formal requirement for the activity of the counter fraud team to be included in the Charter.

In response to a question on how the Charter would be implemented within the Council, the Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) explained that he would be responsible for this and this would include being published on the Intranet. The Head of Corporate Insight, Performance and Information Governance also advised that this would be

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taken back to ICT as it was possible to ensure that employees were required to read and sign that they had read policies via meta compliance.

Decision:

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

574 Internal Audit and Counter Fraud Strategy 2020-24 - Review of Progress 2021-22

Discussion:

This report provided an update on progress against the Internal Audit & Counter Fraud Strategy 2020-2024 made by the team during 2021-22 to date. The Head of Internal Audit and Counter Fraud Shared Service (Chief Audit Executive) gave a brief overview of the report.

Decision:

The Committee noted the progress made against the objectives set out in the Internal Audit & Counter Fraud Strategy 2020-24 and approved the changes outlined as part of the 2021 refresh.

Chairman

Date:

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