

Medway Council
Meeting of Audit Committee
Tuesday, 1 August 2023
6.30pm to 7.26pm

Record of the meeting

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

- Present:** Councillors: Browne (Chairperson), Bowen (Vice-Chairperson) and Gulvin
- Substitutes:** Councillors:
McDonald (Substitute for Nestorov)
Tejan (Substitute for Hackwell)
- In Attendance:** Steve Dickens, Democratic Services Officer
Jonathan Lloyd, Finance Business Partner - Technical Accounting
Andy McNally-Johnson, Head of Corporate Accounts
Phil Watts, Chief Operating Officer
Darren Wells, Audit Director, Grant Thornton

141 Apologies for absence

Apologies were received from Councillors Hackwell and Nestorov.

142 Record of meeting

The record of the meeting held on 29 June 2023 was agreed and signed by the Chairperson as correct.

143 Urgent matters by reason of special circumstances

There were none.

144 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

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Other interests

There were none.

145 Treasury Management Outturn 2022-2023

Members considered the report which provided an overview of treasury management activity during 2022-2023 and compliance with legislative and regulatory requirements.

The Finance Business Partner – Technical Accounting highlighted the Council's borrowing did not exceed the Capital Finance Requirement (CFR). The CFR represented the value of long-term assets not funded by from grants, contributions, revenue funding or capital receipts. This demonstrated the Council had only borrowed to fund capital expenditure. In addition, the maximum outstanding borrowing during 2022-23 was £430.7m, well below the authorised borrowing limit of £690.6m.

He advised Members that for a short period at the end of March 2023, the treasury strategy limit of £100m of debt repayable within 12 months was exceeded by £600,000 due an error which had omitted £1.1m of historic debt to Kent County Council. From April 2023, the short-term borrowing limit had increased to £150m.

The Council primarily used short-term borrowing, which was more financially beneficial than using longer term borrowing, however, the potential for interest rates rises was a known risk. Rates had risen faster than expected but were now thought to be near their peak. The Council would continue to borrow on a short-term basis in the expectation that debt maturing would be replaced with loans at a lower interest rate.

The Finance Business Partner – Technical Accounting added that return on investment had been in line with expectations, the approach outlined in the treasury strategy was to keep borrowing at a minimum which limited opportunities for treasury investment.

The value of property fund investments had fallen from £25m to £23m in the year due to a fall in value of commercial property. Whilst the value of the capital funds had fallen, the fund currently generated income of around £800,000 a year.

Members then raised comments and questions which included the following:

Financing Costs – In response to a request for further information regarding financing costs as a proportion of net revenue stream (HRA), the Finance Business Partner – Technical Accounting explained the figure was an affordability ratio and showed the Council's interest costs were a low percentage of the total income of the Council for the year.

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Income from loans to subsidiaries – A Member commented that the return of £850,000 income from Kyndi and Medway Development Company (MDC) was positive and requested a breakdown of income from the two companies. The Finance Business Partner – Technical Accounting undertook to provide a briefing note which detailed income received from loans provided to Kyndi and MDC.

Cost of Carrying Loans – In response to a question whether carrying loans and holding a balance in the bank represented a significant cost to the Council, the Finance Business Partner – Technical Accounting explained that his aim was to keep any balance to a minimum, the Council had little other than day to day cash and this reduced the cost of carry which was the difference between borrowing costs and the income from deposits.

Minimum Revenue Provision (MRP) – It was noted that most of the surplus in the interest and finance budget related to an adjustment recommended by Link Services and it was queried what would be the effect of the end of this arrangement. The Finance Business Partner – Technical Accounting stated that further MRP adjustments would not be required in future years and an annual MRP level of £5m – £6m would be expected in the future.

Authorised Borrowing Limit - In response to a question whether the £420m borrowed would be considered high in relation to the authorised limit of £690m, the Finance Business Partner – Technical Accounting explained the affordability of the borrowing was a matter for budget decisions and the role of the CFR was to ensure the Council was borrowing for capital purposes rather than the revenue account.

Regulatory requirements – In response to a question whether the Council was meeting its regulatory requirements. The Finance Business Partner – Technical Accounting confirmed that the Council was meeting its regulatory requirements.

Economic Climate - In response to a question regarding the risk the current economic climate posed to the Council, the Chief Operating Officer stated the report showed that the Council had only borrowed for investment. The investment decisions made, were at the time prudent however, the global economic environment had changed, and interest rates and the cost of materials had risen. For some schemes such as MDC the value of rents and house prices had also risen, so the business case for those schemes could still be made. For other schemes such as the redevelopment of Splashes, the Council would need to consider whether an increase in income would also be generated in light of the increased costs. The Chief Operating Officer also noted the Council's finances were under regular review as part of the risk register.

Decision

- a) The Committee noted the treasury management outturn annual report.

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- b) The Committee requested a briefing note which detailed income received from the Kyndi and MDC.

146 Interim Auditor's Annual Report on Medway Council 2021-22

The Chief Operating Officer introduced the report and informed Members that the external audit of the Council's financial statements 2021-22 had not yet been undertaken. However, there were significant delays nationally in completing external audits and the government was consulting on proposals to remedy the delay.

The Engagement Lead, Grant Thornton reported that the work related to the Council's 2020-21 financial statement was almost complete and would be finalised in the new few weeks.

He explained that this was the second year of reporting under the current arrangements and the conclusion had identified two significant weakness recommendations. In 2019-20 The audit highlighted a significant weakness in Children's Services due to the results of the inspection by the regulator. The report noted the progress made in 2021-22 and the Children's Services improvement journey but not all of those weaknesses had been addressed and the significant weakness reported in 2019-20 remained in 2021-22.

The second identified significant weakness was in governance caused by the delay in production and auditing of the Council's annual accounts. External auditors were completing their work for 2020-21, however, there was an expectation that the Statement of Accounts would be completed within statutory timescales. This had not been possible, so it was a significant weakness.

The report also set out some improvement recommendations which had been made and accepted by management.

Members then raised comments and questions which included the following:

Delay in publishing accounts – In response to a query why the Council's accounts had been delayed, the Head of Corporate Accounts advised 2021-22 accounts were nearing completion, however, production of group accounts created an added new workload for the team which had not previously had experience of group accounts. He added the delay in completing 2021-22 had a knock-on effect for the 2022-23 financial accounts.

The Chief Operating Officer advised there had been issues within the team which included staff sickness and turnover at a critical period. In addition, the balance from the previous year's accounts had to be brought forward to the following year, so the delay to the previous year's accounts had a knock on effect for the completion of 2021-22.

He explained the Council had a plan to complete the outstanding work. However, this had been superseded by the ongoing consultation the government was undertaking.

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The Engagement Lead Grant Thornton provided an update on the ongoing consultation stating the government was considering imposing a deadline for completion of each year of accounts to clear the backlog. Under the proposals if enough work on the statement of accounts had been completed then the auditor could give an unqualified opinion, or if the auditor had not completed their work they could provide a qualified opinion. If work had not progressed to a satisfactory position, an extreme disclaimer opinion would be provided by the auditor. Dates had not yet been finalised, however, a deadline of March 2024 to complete accounts for the financial year 2022-23 was under consideration, with further dates for completion of the 2022-23 and 2023-24 accounts also to be decided.

In response to a question whether additional staff would solve the issue, the Chief Operating Officer told the Committee that a restructure took place last year which provided additional resources to that part of the finance team. The Council had planned to complete parallel accounts to reduce the delay and if this was required further resources would be put in place. However, if the result of the current consultation was as proposed this would no longer be required and the 2024-25 financial statements would be completed on time.

Children's Services – In response to a question regarding Children's Services, the Chief Operating Officer explained the improvement journey continued into 2022-23 so the significant weakness recommendation in relation to Children's Services would be reported in 2021-22 and 2022-23 Statement of Accounts.

NHS Audit - The cause of delay to the completion of the 2020-21 audit prior to the external auditor pausing work to undertake the NHS Audit was queried. In response the Engagement Lead, Grant Thornton explained that there had been an attempt to complete the audit prior to the end of April when the auditor had to focus on the NHS audit. All parties were aware of the deadline, however, it had not been possible to complete the required work. The NHS audit had now been completed and the auditors would be in a position to complete the 2020-21 audit shortly.

Timescales for audit – In response to a request for clarification on completion of the 2020-21 audit and start of work for the 2021-22 audit, the Engagement Lead, Grant Thornton undertook to complete the 2020-21 audit within the following two weeks and work on the 2021-22 was scheduled to begin in November.

2021-22 Audit – In response to a question whether a commitment could be made to completing the 2021-22 Audit by March 2024, the Engagement Lead, Grant Thornton told the Committee he could not provide a guarantee. The work was scheduled to begin in November and completion in four months was feasible but challenging.

It was queried whether the start date could be brought forward to ensure the March 2024 date was met as this was the proposed date for completion of 2021-22 accounts. The Chief Operating Officer undertook to finalise a

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commitment to specific dates for the start and completion of the 2021-22 Statement of Accounts with the external auditor and inform the Committee outside of the meeting.

Pictures – It was commented that the pictures used in the report were generic or not engaging to the reader. The Head of Corporate Accounts noted the comments.

Housing Infrastructure Fund (HIF) – In response to a question whether any recommendations could have been made to reduce the risk of loss to the Council in relation to HIF, the external auditor stated that it was clear at the time the Council was aware of the risk associated with the decisions made at the time.

The Chief Operating Officer added that HIF had ceased, and funding withdrawn. The risk was that the Council would be liable for costs incurred however, an agreement had been reached with Homes England that it would honour the costs incurred up to a maximum of £3.2m which was in line with Council estimated costs.

Decision:

- a) The Committee noted the draft Interim Auditor's report at Appendix 1.
- b) The Chief Operating Officer will agree dates for the start and completion of the 2021-22 Audit and inform the Committee.
- c) The external auditor to complete the 2020-21 Audit by 15 August.

Chairperson

Date:

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