

Medway Council
Meeting of Audit Committee
Wednesday, 29 November 2023
7.00pm to 8.20pm

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),
Gulvin, Hackwell and Nestorov

In Attendance: Steve Dickens, Democratic Services Officer
Wayne Hemingway, Head of Democratic Services
Andy McNally-Johnson, Head of Corporate Accounts
Phil Watts, Chief Operating Officer
Darren Wells, Engagement Lead, Grant Thornton

393 Apologies for absence

There were none.

394 Record of meeting

The record of the meeting held on 28 September 2023 was agreed and signed by the Chairman as correct.

395 Urgent matters by reason of special circumstances

There were none.

396 Disclosable Pecuniary Interests and Other Significant Interests

Disclosable pecuniary interests

There were none.

Other significant interests (OSIs)

There were none.

Other interests

There were none.

397 Interim Auditor's Annual Report 2022/23

The Head of Corporate Accounts introduced the report and highlighted that Councils across the country had experienced significant delays in completing audits within statutory timescales. In response the Government had proposed a deadline for all outstanding audits to be completed by March 2024.

In Medway the position was that the Statement of Accounts and Audit findings report for 2020-21 had been completed in October 2023. The draft Statement of Accounts for 2021-22 had been published and it was planned to publish the draft statement for 2022-23 by February 2024.

The Head of Corporate Accounts informed the Committee that it would not be possible for the external auditors and Medway Council to complete the audits for 2021-22 and 2022-23 by the March 2024 deadline set by government within the available resources. As a consequence, it had been decided that the audits for those two years would not take place, however this value for money audit had been published. This would enable the Council and external auditors to undertake the work required for the 2023-24 audit and complete it within the statutory timescales.

The Engagement Lead, Grant Thornton reported on progress related to the 2022-23 value for money audit. The interim audit identified a significant weakness in the Council's arrangements to ensure financial stability due to the overspend against the budget in 2022-23, forecast overspend in current financial year and the identified budget gap in the Council's medium term financial plan of £38m in 2024-25 rising to £71million in 2027-28. The audit noted the positive steps the Council had taken in response and the financial difficulties faced by Councils nationally. The report made two key recommendations in relation to the identified weakness:

1. The Council to urgently address the current year forecast overspend and secure a pathway to medium term financial stability and;
2. The Council should introduce monitoring of savings proposals and scenario testing for medium term financial planning.

In relation to governance the audit recognised the actions that have taken place in relation to Shareholder Boards and membership of the Audit Committee. The decision not to produce statement of accounts for 2021-22 and 2022-23 was a significant weakness in the Council's arrangements and made a key recommendation to the Council to publish draft accounts for 2022-23 by February 2024.

In relation to economy, efficiency and effectiveness, there had previously been a significant weakness in related to the performance of Children Services. The audit recognised the improvements made as evidenced by the recent Ofsted inspection and concluded there was no significant weakness in relation to economy, efficiency and effectiveness.

The following issues were discussed:

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Non-Completion of audits for 2021-22 and 2022-23 - in response to a question whether there were any practical implications to not completing an audit of the statement of accounts for two years including potential issues regarding credit worthiness, the Chief Operating Officer informed the committee there would be unlikely to be any impact on the Council's access to credit since this issue was faced by many councils across the country. He added that it had been a pragmatic decision not to complete audits for 2021-22 and 2022-23. It would not have been possible to meet the deadlines provided by the government and to continue would have meant the Council and Grant Thornton would have used their limited resources to undertake work which would not have been completed.

The Chief Operating Officer added that because the audits for the previous two years would not be completed there would be significant additional work in the opening of the 2023-24 Statement of Accounts to ensure that the balance carried forward from the previous year was correct.

The Engagement Lead, Grant Thornton agreed this was a pragmatic decision which was also being considered by a number of other authorities across the country including elsewhere in Kent.

It was asked whether officers had authority to make the decision to not complete the two audits. The Chief Operating Officer stated that he had considered this and taken advice from the Monitoring Officer whether the decision should be made by Council. It was, however, a decision in contravention of statutory guidelines, and in the opinion of the Chief Operating Officer not right for him to recommend Members to make such a decision, therefore he had taken the decision.

In response to a question whether there was a timetable in place for the audit for 2023-24 the Engagement Lead, Grant Thornton stated not completing audits for two years would provide a reset which would allow work on the 2023-24 audit to proceed as previously envisioned. Planning work would be undertaken in March 2024 and considered by this committee shortly after. Work on the audit would then begin in July and be completed by the end of September.

Audit Fees - it was asked whether not completing the 2021-22 and 2022-23 audits would affect the fees payable to the external auditor. The Chief Operating Officer explained that fees were set for three years, therefore, the Council would look for a refund of some of those fees paid, however, it also recognised the additional workload that would be required by the external auditor to complete the 2023-24 audit.

2023-2024 Financial position - it was commented that the Council was in a worse financial position at the corresponding stage last year, so had previous experience of managing a projected overspend on the revenue budget. The Chief Operating Officer acknowledged this was correct however, despite the work that went into savings, the Council was overspent by £6m in 2022-23 and now had £10m in reserves. The current financial position was, in his view, unsustainable.

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In response to a question on what were the current level of reserves, the Chief Operating Officer explained that at the end of the last financial year the Council had non-earmarked reserves of £10m which was down from £26m the previous year. In addition, the Council had earmarked reserves set aside for future spending such as the Safety Vale programme, maintenance fund and Medway Norse. These funds could be declassified for use; however, this would only cause additional problems in future years.

Medium Term Financial Outlook - concerned was expressed at the identified finance gap of £38m for the 2024-25 year rising to £72m by the end of 2027-28. The Chief Operating Officer noted a gap during the draft budget stage was not unusual, however, it would be for the Council make decisions to bridge that gap. The Council had sought external advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) to assist in this process. A number of Members commented that they had met with CIPFA and were reassured by the thoroughness of the review which was being undertaken.

Decision

The audit Committee noted the Interim Auditor's Report at Appendix 1.

398 Appointment of an Independent Member(s)

The Head of Democratic Services introduced the report and highlighted the Committee had previously considered the issue in June 2021 and decided not to recommend an Independent Member be appointed to the Committee. Subsequently CIPFA had published a position statement in 2022 which advised Audit Committee's should include an independent member in its membership.

Members then debated whether to recommend to Council the appointment of an Independent Member to the Audit Committee.

It was the view of some Members that it was not clear what benefit an independent member would bring to the Committee in addition to the advice they received from officers and external auditors.

A Member expressed concern that an Independent Member would undermine the democratic mandate of the Committee. The Chief Operating Officer commented that CIPFA's view was that an Independent Member would bring an additional skill set to the Committee.

The engagement lead, Grant Thornton explained CIPFA's reasoning for their position was that the Independent Member would supplement the knowledge and experience of the Committee, they should provide continuity outside of the political cycle and have a non-political focus.

Members supported the view that the role of an independent member would be to provide advice and if one were appointed, they would not have voting rights on the Committee.

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A Member noted that whilst it would be matter for Council to consider the potential cost of an Independent Member, they were reassured that the report noted the cost to other authorities was low.

Decision

1. The Committee recommended to Council an Independent Member be appointed to serve on the Committee on a fully non-voting basis.
2. The Committee recommended Council to ask the Independent Remuneration Panel to consider whether payment of an allowance to an Independent Member would be appropriate and if so, at what level and to make recommendations back to the Council on this matter.
3. The Committee agreed that a further report on the recruitment process for an Independent Member be submitted to the next meeting, once Council has approved the principle of appointing an Independent Member to the Committee.

399 Treasury Management Strategy Mid-Year Review Report 2023/24

The Head of Corporate Accounts introduced the report and highlighted the Council was forecast to under borrow by £6.8m which was an improvement on the position at quarter one. This was due to borrowing not being required as quickly as previously forecast. The Council continued to only borrow for the purposes of capital investment.

Investment had continued to grow in line with expectations, however property funds were excluded from this. Property funds had not performed well in the period though had previously performed well in the past.

The following issues were discussed:

Lothbury property fund - concern was raised relating to the position of Lothbury Property fund and potential exposure to a £1.5m cost were the scheme to close. The Chief Operating Officer confirmed that if the cost was realised it would be an additional budgetary pressure. The fund remained hopeful of securing a merger and the Council recently voted to defer the closure of the fund for that purpose.

Debt Maturity Profile – A Member noted there was a large amount of debt scheduled to mature in the next year and whether a review of the best course of action in relation to the debt maturity profile was required in light of the current high interest rates. The Head of Corporate Accounts agreed, all options would be considered but the Council did not want to lock into longer term borrowing currently when advice was that interest rates may well be lower in two years. This would form part of the Treasury Management Strategy.

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The Chief Operating Officer added that the Council retained the ambition to smooth debt maturity profile and projections were for interest rates to drop significantly over the next two to three years.

Members commented that the Council continued to favour a mixed and cautious approach.

Decision

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

Chairperson

Date:

Steve Dickens, Democratic Services Officer

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