

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES,
LETCWORTH GARDEN CITY
ON WEDNESDAY, 15TH JUNE, 2022 AT 7.30 PM

MINUTES

Present: *Councillors: Councillor Terry Tyler (Chair), Councillor Clare Billing (Vice-Chair), George Davies, Phil Weeder, Sean Nolan and Terry Hone*

In Attendance: *Ian Couper (Service Director – Resources), Chris Wood (Head of Assurance – SIAS), Debbie Hanson (Ernst & Young), Ghulam Hussain (Ernst & Young), William Edwards (Committee, Member and Scrutiny Officer)*

Also Present: *At the start of the meeting there were no members of the public present.*

29 APOLOGIES FOR ABSENCE

Audio recording – 1:49

At the start of the meeting Councillors Morgan Derbyshire and Phil Weeder were absent.

30 MINUTES - 17 JANUARY 2022, 16 MARCH 2022

Audio Recording – 2:09

RESOLVED: That the Minutes of the Meeting of the Committee held on 17 January 2022 and 16 March 2022 be approved as a true record of the proceedings and be signed by the Chair.

31 NOTIFICATION OF OTHER BUSINESS

Audio recording – 3:19

There was no other business notified.

32 CHAIR'S ANNOUNCEMENTS

Audio recording – 3:20

- (1) The Chair welcomed those present at the meeting, especially new members of the Committee and those who had attended to deliver a presentation;
- (2) The Chair drew attention to the item on the agenda front pages regarding Declarations of Interest and reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

33 PUBLIC PARTICIPATION

Audio recording – 4:00

There was no public participation at this meeting.

34 AUDIT RESULTS REPORT 2020/21

Audio Recording – 4:19

Debbie Hanson, Ernst & Young, presented the Audit Results Report 2020/21 and highlighted points including:

- This report provided is a bridging document between the provisional audit results report brought to the committee on 16 March and provided an update on those areas that were not fully complete at that point;
- The audit was in its final stages and EY were preparing to issue their final opinion in the coming week pending the receipt of final documents including financial statements, subsequent letters of representation and a response from the Hertfordshire Pension Fund Actuary in relation to the calculation of a particular figure;
- EY would not be able to issue an audit certificate at the same time as their final opinion as the National Audit Office had not yet issued instructions;
- It was anticipated that North Herts would fall below the threshold to be included in a whole-of-government accounts submission but until the NAO confirmed its instructions EY would not be able to issue a final certificate;
- All local authorities were in the same situation until the NAO issued its instructions;
- No issues to report were identified related to the risk of misstatements due to fraud and error;
- No issues to report were identified related to the risk of incorrect capitalization of revenue;
- No issues to report were identified related to the risk of revaluation of investment properties and EY was satisfied that of the sample examined all valuations were supportable;
- Regarding 'specialised assets' where there isn't a readily available market and which therefore were valued at depreciated replacement cost EY took the view that values for land proposed by the Council's valuers were significantly lower than expected;
- The overall valuations of land and buildings combined were within the expected range due to different assessments to the impact of building;
- EY estimated the maximum potential impact of that range could be a £1.33 million under valuation of the council's land; offset by the higher valuation of the buildings than EY would use in their estimates;
- Overall EY was satisfied this posed no material impact on the Council's accounts;
- In the area of pension liability valuation and disclosures EY was satisfied there was no general issue but had been made aware of an error on the ICE-19 provided by the actuary in relation to the incorrect treatment of assets related to Hertfordshire Building Control; the error had been identified this year and the actuary had calculated an impact on North Herts at around £454,000 for 2021, and slightly less than that for 2020;
- EY was conducting work to assess the accuracy of that figure and would confirm by the end of the week;
- There were no issues with Going Concern Disclosures;
- There were no issues in account for new COVID-19 grants;
- There were two unadjusted variances with the audit relating to pension liability and land valuation as previously mentioned, and while EY did not consider them material they did require a letter of representation from the Council to account for the fact they were unadjusted;
- EY found the accounts to be well prepared and thanked Officers for their assistance throughout the Audit process.

The following Members asked questions:

- Councillor Terry Hone

In response to questions the Service Director – Resources advised he was happy with the content and presentation of the audit report and with EY’s conduct throughout the audit.

It was:

RESOLVED: That the Audit Results Report 2020/21 presented by Ernst & Young be noted.

N.B Councillor Phil Weeder joined the meeting during this item.

35 STATEMENT OF ACCOUNTS 2020/21

Audio Recording – 15:37

The Service Director – Resources presented the Statement of Accounts 2020/21 along with Appendix A and highlighted points including:

- There had been changes to the Committee since the last iteration of this report that meant it was better to seek approval from the Committee rather than to rely on the delegation previously granted to the Service Director – Resources to sign the statement of accounts;
- Changes to the report were also made on the basis that the previous version referred to events in the future that had now occurred;
- Other amendments related to the matters already raised by Ernst & Young including the pensions valuation which was not considered material as it related to a value that was huge and subject to significant uncertainty and so not subject to alteration;
- There was a similar situation with PPE valuations but as the figure reached was not material it was not felt necessary to adjust in the accounts; had it been material a re-valuation would have been necessary, or a justification for the figure given;
- The report included a draft letter of representation that had been agreed with EY and that, with the approval of the Committee, would form the basis of the submission to EY regarding the variances already discussed;
- Resourcing audits was difficult at present and EY were thanked for their work and assistance.

The following Members asked questions:

- Councillor Terry Hone

In response to questions the Service Director – Resources advised that the figure mentioned at 8.4 in the report related specifically to North Herts’ portion of the pension fund and the total for the whole of Hertfordshire was much higher.

Councillor Terry Tyler proposed, Councillor Sean Nolan seconded and on the vote it was:

RESOLVED: That the 2020/21 Annual Statement of Accounts, as set out in Appendix A, be approved and signed by the Chair of the Committee.

REASON FOR DECISION: To ensure that the Council abides by the Audit and Account Regulations 2015, which require the approval and publication of audited Statement of Accounts.

36 SIAS ANNUAL REPORT AND UPDATE ON 2022/23 AUDIT PLAN

Audio Recording – 21:34

Chris Wood – Head of Assurance, SIAS presented the report entitled SIAS Annual Report and highlighted points including:

- SIAS had given a reasonable overall assurance on the Council's financial systems and reasonable overall assurance on the Council's non financial systems;
- The SIAS annual self-assessment against the Public Sector Internal Audit Standards and Quality Assurance and Improvement Programme was that SIAS generally conformed to the required standards;
- The external quality assurance assessors also held that SIAS conforms with the standards;
- In terms of performance on page 13, SIAS narrowly missed targets on plan days and plan projects at 91 and 92% respectively; this was nevertheless a good outcome in view of an organisational restructure that impacted auditors.
- The work carried forward in the progress update has either been completed or was nearly completed;
- The Committee was also required to approve the SIAS Audit Charter for 2022/23 and was recommended to accept one amendment in the glossary of terms, substituting "CAA" for "CAE" in the section related to the Chief Audit Executive;
- SIAS also recommended that the Committee formally request management of the Council confirm that the scope and resources for internal audit were not hampered in 2021/22.

Councillor Terry Tyler proposed, Councillor Phil Weeder seconded and on the vote it was:

RESOLVED: That the Committee:

- (1) Notes the Annual Assurance Statement and Internal Audit Annual Report
- (2) Notes the results of the self-assessment required by the Public Sector Internal Audit Standards (PSIAS) and the Quality Assurance and Improvement Programme (QAIP)
- (3) Approves the SIAS Audit Charter for 2022/23
- (4) Seeks management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22

REASON FOR DECISIONS: To update the Committee on the Annual Assurance Statement and Internal Audit Annual Report 2021/22.

The Chair of the Committee sought management assurance that the scope and resources for internal audit were not subject to inappropriate limitations in 2021/22.

The Service Director – Resources gave confirmation that there were no inappropriate limitations on the scope and resources for internal audit in 2021/22 and no matters which threatened the independence of SIAS.

Chris Wood – Head of Assurance, SIAS presented the report entitled Update on 2022/23 Audit Plan and highlighted points including:

- SIAS was on target for the audit plan given this was still close to the start of the financial year, and with projects scheduled to begin work in forthcoming months;
- The Committee was requested to identify and approve medium priority audit projects for Quarter 3 and a pool of suitable projects had been identified in Appendix B.

The following Members asked questions:

- Councillor Terry Hone

- Councillor Terry Tyler

In response Chris Wood, Head of Assurance – SIAS advised that there were 13 potential topics and Members were being asked to select 2 from that group that they felt were of a higher priority to schedule in to Q3.

In response to questions the Service Director – Resources advised that the potential audit topics had been considered by the leadership team and that Project Management and Temporary Accommodation were suggested for adoption for Q3, and parking strategy, safeguarding and the community lottery be considered by Q4. Given the estimated time allocated to each audit it was felt these 5 topics could be completed successfully.

Councillor Terry Tyler proposed, Councillor Clare Billing seconded and on the vote it was:

RESOLVED: That the Committee:

- (1) Notes the SIAS Progress Report for the period to 30 May 2022
- (2) Notes the plan amendments to the 2022/23 Annual Audit Plan
- (3) Approves “Project Management” and “Temporary Accommodation” as ‘medium’ priority audit projects for Q3 2022/23

REASON FOR DECISIONS: To update the Committee on the SIAS Progress Report and set medium priority audit projects for Q3 2022/23

37 ANNUAL REPORT ON RISK MANAGEMENT AND RISK MANAGEMENT UPDATE

Audio Recording – 44:42

The Service Director – Resources presented the report entitled Annual Report on Risk Management and Risk Management Update and drew attention to points including:

- This report had been seen by the Risk Management Group to which all members of FAR and O&S had a standing invite, along with core risk and finance officers, service managers, SIAS and the health and safety advisory group;
- The introduction of a new corporate risk relating to Council resourcing related to a range of challenges placing pressure on Council resources including the war in Ukraine, increased fuel prices and the cost of living; staff resources due to additional work taken on like accommodation checks and the provision of energy rebate payments combined with rising costs due to inflation presented a risk that the objectives of the Council Plan would not be achieved due to the increased financial pressure;
- This report was the last to be presented to FAR in this format was the new risk management arrangements would come into effect for the next quarter.

Councillor Sean Nolan asked if additional funding from central government was available and whether the Council could secure it to mitigate the risk caused by increased pressure on staffing resources.

The Service Director – Resources advised that if government required extra work extra funding was provided but that it couldn't be guaranteed at this stage if that funding would match costs, and furthermore that the availability of funds does not always mean more staff are available to meet demand, e.g environmental health officers were in short supply and funding from central government would not increase the pool of available trained members of staff.

Councillor Terry Hone proposed, Councillor Phil Weeder seconded and on the vote it was:

RESOLVED: That the Committee notes the Annual Report on Risk Management.

RECOMMENDED TO CABINET:

- (1) That Cabinet agrees the introduction of a new Corporate Risk relating to Council Resourcing.
- (2) That Cabinet notes the Annual Report on Risk Management before referral to Full Council.

REASONS FOR DECISIONS:

- (1) The responsibility for ensuring the management of risks is that of Cabinet.
- (2) This Committee has responsibility to monitor the effective development and operation of Risk Management.

38 REVENUE BUDGET OUTTURN 2021/22

Audio Recording – 53:03

The Service Director – Resources presented the report entitled Revenue Budget Outturn 2021/22 along with Appendix A, and clarified to Members that it was the addendum reports enclosed in the supplementary agenda to which they should refer.

The Service Director – Resources highlighted points including:

- The purpose of this report was to inform members of the position of the revenue budget which concerned day to day running expenses including service delivery contracts and staff payment;
- The report concerned the position at the end of the last quarter and a survey of the last financial year in total;
- Tables 1 and 2 showed the budget set at the start of the year and the report covers amendments that have been made to the budget throughout the preceding financial year;
- Table 4 covered the last quarter and highlights any significant variances with the agreed budget, many of which were underspends;
- One of the significant underspends related to the Welcome Back fund provided by the EU to support projects that encouraged a return to high streets. This funding was not paid out due to a missed deadline; EU funding rules required payments be made before a cut-off point, whereas central government funding or similar grants only required that the expense be incurred before the relevant cut-off. Lessons had been learned to avoid this again though it was noted that EU funding streams would now tail off.
- The overall variance for underspend reported in that quarter was £592,000 with a request to carry forward £172,000 of that money into the next financial year;
- Paragraph 8.15 onwards covered the impact of covid-19 with the main elements being additional support to Stevenage Leisure Ltd; the actual impact was lower than what had originally been budgeted for totalling £765,000 from a budget of up to £2million.
- Table 7 highlighted the General Fund reserves which were currently significantly above the minimum level which given the uncertainty facing the Council with regards future funding formulae was positive;
- It was the role of the Chief Financial Officer to monitor the reserve levels;
- Higher reserves allowed the Council to respond to changing financial circumstances in a measured and considered way;

- The general fund had increased in the last year mostly due to previously earmarked reserves being recombined into the general fund;
- Net expenditure was at around £16.9million with funding coming in at £15.1million which represented a significant unsustainable funding gap; the majority of that overspend related to the impact of covid-19 that had not been mitigated for;
- Table 9 highlighted the earmarked reserves and movement of funds in and out of specific ringfenced funds which were subject to approval by Full Council.

Councillor Terry Hone asked for clarification on Table 6 which noted a balance not covered by Sales Fees and Charges (SFC) funding which suggested the Council incurred £723,000 of additional cost as a result of covid-19 that was not covered by funding from central government.

The Service Director – Resources advised that the figure in Table 6 plus the additional loss of income from Stevenage Leisure Ltd in the region of £765,000 covered at paragraph 8.16 amounts to £1.5million of additional cost and lost income not covered by SFC compensation. £558,000 of central government funding had been received which offset some of that amount but the Council still had to rely on its own reserves.

With the consent of the meeting it was:

RECOMMENDED TO CABINET: That Cabinet:

- (1) Notes this report.
- (2) Approves a decrease of £592k in the 2021/22 net General Fund expenditure, as identified in table 4 and paragraph 8.1, to a total of £16.892million.
- (3) Approves the changes to the 2022/23 General Fund budget, as identified in table 4 and paragraph 8.3, a total £179k increase in net expenditure.

That Cabinet recommends to Council:

- (1) That Council approves the net transfer from earmarked reserves, as identified in table 9, of £8.123million.

REASONS FOR DECISIONS:

- (1) Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- (2) Changes to the Council's balances are monitored and approved.

39 INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2021/22

Audio Recording – 1:02:18

The Service Director – Resources presented the report entitled Investment Strategy (Capital and Treasury) End of Year Review 2021/22 along with Appendices A and B and highlighted points including:

- The total capital spend at the end of year was significantly lower than budgeted for coming in at around £1.434million where the budget originally forecast up to £16million. This budget was set with a significant speculative component to allow for potential commercial property acquisitions and housing investments which have not been made;

- CIPFA rules had also changed in year which impacted the range of investment opportunities the Council could pursue;
- £979,000 of the capital budget due to be spent at the end of last year had been slipped and would be allocated to the start of this financial year;
- Paragraph 8.6 lists the capital projects that have been undertaken in the last financial year;
- The current capital programme was funded primarily by usable capital receipts from previous capital sales but this source would run out in the next few years and the Council would then have to borrow to fund capital projects which was permitted under the regulations;
- There was one breach of the treasury strategy during the year that was to be noted where due to an IT failure which took longer to resolve than anticipated a treasury deal was not completed in time and the Council held an excess of money in its current account over night;
- Interest rates have been very low over the last year with returns ranging from 0.15% to 0.3% by the end of the year;
- Interest rates had risen quickly to around 1% recently which was better news but still below the level of inflation.

With the assent of the meeting it was:

RESOLVED: To note the report entitled Investment Strategy (Capital and Treasury) End of Year Review 2021/22

RECOMMENDED TO CABINET: That Cabinet:

- (1) Notes expenditure of £1.434million in 2021/22 on the capital programme, paragraph 8.3 refers.
- (2) Approves the adjustments to the capital programme for 2022/23 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in by £0.979million.
- (3) Notes the position of the availability of capital resources, as detailed in table 3 paragraph 8.7 and the requirement to keep the capital programme under review for affordability.
- (4) Approves the application of £1.225million of capital receipts/set aside towards the 2021/22 capital programme, paragraph 8.7 refers.
- (5) Notes the position of Treasury Management activity as at the end of March 2022.

That Cabinet recommends to Council to:

- (1) Approve the actual 2021/22 prudential and treasury indicators.
- (2) Note the annual Treasury Report for 2021/22.

REASONS FOR DECISIONS:

- (1) Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- (2) To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

40 FINANCE, AUDIT AND RISK ANNUAL REPORT 2021/22

Audio Recording – 1:09:42

The Service Director – Resources presented the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A and highlighted points including:

- The SIAS review of the effectiveness of audit and scrutiny committees in 2021 had a number of recommendations which were being actioned this year including the appointment of an Independent Member to the Committee; their appointment was due to be finalised at Full Council following the completion of all the necessary conflict of interest checks;
- The Independent Member to be appointed worked for an audit firm (though not working with or near Local Government) and would assist the Committee in scrutinising the finance team and the reports presented to them;
- The annual report covered the proposed work programme for the forthcoming year including options for training, regular and quarterly reports, and changes to the way that audit and governance are done at the Council.

The following Members asked questions and took part in discussion:

- Councillor Clare Billing
- Councillor Terry Tyler
- Councillor Terry Hone

Councillor Ian Albert, Executive Member for Finance & IT, also participated.

In response to questions the Service Director – Resources advised that:

- The issue of Council resilience in view of the rising cost of living and inflation generally would be considered under the Medium Term Financial Strategy and as a live issue would be kept in mind throughout the forthcoming year;
- Options for training sessions included before committee meetings, during the day, or on entirely separate nights; in view of the fact that many members would not be able to make daytime sessions a mixture of the pre-committee and standalone sessions would be explored;
- Substitute Members of this committee would be invited as standard and any other Members of Council wishing to attend would also be welcome.

It was:

RESOLVED: That the Annual Report of the Finance, Audit and Risk Committee as attached at Appendix A, prior to consideration by Full Council, be noted.

REASON FOR DECISION: To enable the Committee to consider the report before it is presented to Full Council. To provide Full Council with assurance as to the effectiveness of the Finance, Audit and Risk Committee.

The meeting closed at 8.56 pm

Chair