

**NORTH HERTFORDSHIRE DISTRICT COUNCIL**

**FINANCE, AUDIT AND RISK COMMITTEE**

**MEETING HELD IN THE COUNCIL CHAMBER, DISTRICT COUNCIL OFFICES  
ON WEDNESDAY, 15TH DECEMBER, 2021 AT 7.30 PM**

**MINUTES**

**Present:** *Councillors: Councillor Keith Hoskins MBE (Chair), Councillor Clare Billing (Vice-Chair), Terry Hone, George Davies*

**In Attendance:** *Ian Couper (Service Director – Resources), Mark Chalkley (SIAS), Nick Jennings (SAFS), William Edwards (Committee, Member and Scrutiny Manager), Louis Franklin (MSU – IT Support)*

**Also Present:** *Debbie Hanson and Ghulam Hussain (Ernst & Young)*

**15 WELCOME**

The Chair welcomed those present to the meeting.

**16 APOLOGIES FOR ABSENCE**

*Audio recording – 1:25*

Apologies for absence were received from Councillors Adam Compton, Sean Prendergast and Adem Ruggiero-Cakir.

Having given due notice Cllr George Davies advised he would be substituting for Cllr Adam Compton.

**17 MINUTES - 15 SEPTEMBER 2021**

*Audio Recording – 2:24*

**RESOLVED:** That the Minutes of the Meeting of the Committee held on 15 September 2021 be approved as a true record of the proceedings and be signed by the Chair.

**18 NOTIFICATION OF OTHER BUSINESS**

*Audio recording – 2:49*

There was no other business notified.

**19 CHAIR'S ANNOUNCEMENTS**

*Audio recording – 2:56*

- (1) The Chair welcomed those present at the meeting, especially those who had attended to give a presentation;

- (2) The Chair advised that, in accordance with Council Policy, the meeting would be audio recorded;
- (3) 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.
- (4) The Chair advised that representatives from Ernst & Young were joining the meeting later once they were available and Item 7 would be delayed until they were present.

## **20 PUBLIC PARTICIPATION**

*Audio recording – 3:16*

There was no public participation at this meeting.

## **21 EXTERNAL AUDIT 2020/21 UPDATE REPORT**

*Audio Recording: 33:02*

*N.B This item was considered once the representatives from Ernst & Young joined the meeting, at around 8PM.*

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

- This report was brought in view of changes to the audit timetable and to clarify the closing fee for the audit 19/20
- The Outline Audit Planning Report had been presented in March 2021 at which point not all of the audit procedures were complete, and so Ernst & Young had committed to bringing a report to this Committee to update if there were any additional risks identified;
- No additional risks had been identified to those previously included
- There was one error; the audit plan had included the risk of misstatement due to fraud as a new risk where it is actually a risk included in all audit plans every year.
- There had been significant changes in staffing and team structure due to staff leaving the organisation but they were confident the current team had the experience and skills necessary to deliver the audit planned;
- Due to ongoing delays in the 18/19 and 19/20 audits the team had made the decision to reschedule the 20/21 audit in order to deliver it in a reasonable timeframe. This change was discussed with the Council's finance teams over the summer and the final plan was not confirmed.
- Final work on the audit was to be completed in the new year and they would seek to sign off the audit early in 2022.
- The rationale for the increased audit fee in 19/20 was as a result of a protracted period of submissions to PSAA about the base scale and issues relating to the 19/20 financial year, in that the base scale had not increased in line with the increase in audit work and the fee had not taken into consideration the additional risks to be considered during 19/20 including but not limited to COVID-19.
- Similar submissions would be made to PSAA about the fee for 2021.
- Full details of the proposals made and the response from PSAA were included in the report for transparency for Members.

The following Members asked questions:

- Councillor Keith Hoskins
- Councillor Terry Hone

In response to questions, Debbie Hanson advised:

- Ernst & Young were expecting to make similar submissions to PSAA on an increase to the audit fee as they had regarding the 19/20 audit to reflect the increase in workload and in the expectations from an audit, and the increase in ingoing concerns going in to 20/21 and beyond.
- Ernst & Young maintained rotation periods at the partner level, and the contract with PSAA instituted a rotation period of 5 years for most audits. Managers would usually be rotated on a longer timetable.
- Rotation was important for maintaining independence and if they wished to extend beyond the 5 year period required by PSAA they had to apply for permission to do so.

The Chair thanked Ernst & Young for their update.

It was:

**RESOLVED:** That the Committee note the External Audit 2020/21 Update Report

**REASON FOR DECISION:** to update the Committee on the progress of the External Audit 2020/21.

## 22 SIAS 2021/22 PROGRESS REPORT

*Audio Recording: 3:30*

Mark Chalkley, Client Audit Manager at the Shared Internal Audit Service (SIAS), presented the SIAS Progress Report and drew attention to points including:

- The report showed the progress made against the Annual Audit Plan to date;
- The Investments Audit had been renamed to Tax in anticipation of changing HMRC policy in relation to tax and the investments audit 22/23 had been deferred to include tax.
- SIAS had an external quality assessment in June which concluded it partially confirmed with the standards due to an unclear relationship between the Chief Audit Executive and the board.
- As a consequence the Chief Audit Executive role has been updated to act as client audit manager to each partner, and the amended audit charter was attached for consideration and approval at this meeting.
- In all material ways and assessments the SIAS service was assessed as delivering the requirements of public sector audit standards and was well regarded in the field.

It was:

**RESOLVED:** That the Committee:

- (1) Note the SIAS Progress Report for the period to 26 November 2021
- (2) Note the plan amendments to the 2021/22 Annual Audit Plan
- (3) Approve the updated Audit Charter 2021/22

**REASON FOR DECISION:** To update the Committee on the SIAS Progress Report for the period 26 November 2021, to inform the Committee of the amendments to the 2021/22 Audit Plan and to maintain best practice under the Audit Charter 2021/22.

## 23 SAFS 2021/22 PROGRESS REPORT

*Audio Recording – 11:58*

Nick Jennings, Shared Anti-Fraud Service, presented the SAFS 2021/22 Progress Report and highlighted points including:

- The report covered progress on the 2021/22 Anti-Fraud Plan agreed by this Committee in March 2021 and in relation to key performance indicators for SAFS;
- The report covered fraud risks relevant to North Herts Council and the training delivered to staff to mitigate risk, and the types of allegations of fraud received to date.
- With respect to fraud allegations there was no national measure but the figures were in line with previous years at North Herts Council and with other partners in the Hertfordshire area;
- Losses and savings as a result of fraud and anti-fraud work were included, totalling around £3000 lost due to fraud and fraud to the value of £69,000 prevented.
- SAFS had recently reached an agreement with Settle to allow them to investigate fraud involving their housing stock which would enable properties to return to use to house people on the Council's housing register.
- All six KPIs agreed with North Herts Council were being met.

The following Members asked questions:

- Councillor Terry Hone
- Councillor Clare Billing

In response to questions Nick Jennings, SAFS, advised:

- The data presented in S.2.22 was the result returned from the upload of data made in October 2020 which is not returned until February/March of the following year;
- Further work with the National Fraud Initiative, HMRC and DWP was to be undertaken.
- Normally there was significant partnership working with the DWP and fraud reporting from them but due to the government COVID response many workers were undertaking other roles and fraud reporting had dropped off; this was expected to pick up again as staff returned to their usual roles.

It was:

**RESOLVED:** That the Committee notes the work of the Council and the Shared Anti-Fraud Service in delivering the 2021/22 Anti-Fraud Plan.

**REASON FOR DECISION:** To update the Committee on the work of the Council and the Shared Anti-Fraud Service in delivering the 2021/22 Anti-Fraud Plan.

## 24 QUARTERLY RISK MANAGEMENT UPDATE

*Audio Recording - 19:57*

The Service Director – Resources presented the Quarterly Risk Management Update along with Appendices A – E and drew attention to the following:

- Two of the corporate risks in the leisure management COVID-19 risk, and the overall COVID-19 had developed since the date of the reports publication; the latest monitoring into the leisure contracts was going well but there was concern that there would be a downturn in attendance and use of facilities in the near future.

- The Council was looking at how to support the NHS with the booster vaccine programme if requested.
- The main change proposed was in relation to the impact of antisocial behaviour; the reduction in antisocial behaviour has been consistent across lockdowns and reduced restrictions and efforts to mitigate antisocial behaviour have been effective and it was proposed that the risk be reduced and categorised as a service rather than corporate risk.

Councillor Terry Hone commented that he felt the proposed risk scores were accurate and was supportive of retaining the scores for those risks rated at 9.

On the vote it was:

**RESOLVED:**

- (1) That the Committee notes the update on the Corporate Risks for the quarter, namely:
  - The review of the Covid-19 Leisure Management Contract Corporate risk with an unchanged risk score of 9 and a Target risk score of 6.
  - The review of the Novel Coronavirus (Covid-19) Recover Corporate risk with a current risk score of 9 and a target risk score of 6
  - The review of the Managing the Councils Finances Corporate risk with an unchanged current risk score of 9 and a target risk score of 3
  - The proposal to downgrade the Impact of Anti-Social Behaviour on Council Facilities Corporate risk to a service risk
- (2) That the Committee notes the annual review of the Risk Management Framework

**RECOMMENDED TO CABINET:** That the Annual Review of the Risk Management Framework be approved.

**REASONS FOR DECISION:**

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

**25 SECOND QUARTER REVENUE BUDGET MONITORING 2021/22**

*Audio Recording – 24:43*

The Service Director – Resources presented the report on Second Quarter Revenue Budget Monitoring 2021/22 and drew attention to the following:

- The first major variance at Table 3 was on Housing Benefit overpayments; there were fewer overpayments last year, which caused a budget pressure at the time but has since led to less in repayment/bad debt in this period and therefore there's a positive impact this year. This change is reflected as a one off and it was hoped to get back to normal in future.
- The other significant variances were on leisure management forecasts; when the forecasts were made last month there was a risk that improvement would not be as positive as hoped. There was a positive recovery reported by Stevenage Leisure Ltd

and therefore rather than the forecast of a £2 million level of support it was assumed that would come down to 1.1 million.

- In relation to car parking fee income estimates for the year. The position to date is back to around to the 80% of normal level of parking and it was assumed this would gradually increase throughout the year; however, if the latest COVID variant if impacts people going into town and doing shopping, then that forecast may turn out to be incorrect.
- The working budget had been increased in quarters 1, 2 and 4 to accommodate changing projections.
- The position in table 8.15 based on those forecasts is quite a positive picture in terms of general fund balance carried forward, which does give the Council some leeway in terms of the potential for increased costs both next year and potentially year after in relation to COVID, where it continues to have an impact on both income and creating additional costs.

The following Members asked questions:

- Councillor Terry Hone

In response to questions the Service Director – Resources advised that the income guarantee only covers the first three months and the losses incurred in quarter two and a forecast to incur more losses in quarter three and quarter four are not covered. The scope of the sales division charge contribution only covers sales fees and charges; things like homeless accommodation, as an expenditure, are therefore not covered at all - that is where the big mismatch between the additional costs and lost income are occurring, and the amount that has been supported by government.

On the vote it was:

**RECOMMENDED TO CABINET:**

- (1) That Cabinet notes the report
- (2) That cabinet approves the changes to the 2021/22 General Fund budget, as identified in table 3 and paragraph 8.2, a £1.256million decrease in net expenditure
- (3) That Cabinet notes the changes to the 2022/23 General Fund budget, as identified in table 3 and paragraph 8.2, a total £68k decrease in next expenditure. These will be incorporated in the draft revenue budget for 2022/23.

**REASON FOR RECOMMENDATIONS:** 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.

**26 SECOND QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2021/22**

*Audio Recording – 43:29*

The Service Director – Resources presented the report entitled Second Quarter Investment Strategy (Capital and Treasury Review 2021/22) along with Appendices A and B and drew attention to the following:

- Table 3 at P.8.5 related to two big removals from the capital programme in the area of investment properties in the acquisition or development of commercial properties or the provision of market rents; the Council had no concrete plans in this area at present but

was exploring options, and was aware of a changing regulatory landscape that made it prudent to remove these items for possible re-entry at a future juncture;

- A new CIPFA prudential code was expected which would alter the way the Council was able to borrow money to fund projects and would impact future investment strategy;
- The Council had high balances of government money owing to business rate funding and short term investments in stable funds had been explored to make best use of this cash balance.

The following Members asked questions:

- Councillor Terry Hone

In response to questions the Service Director – Resources advised the Acquisition of Property Investment Policy was unlikely to need review in light of changing CIPFA guidance as the Council's policy was based largely on property within the District and property for economic redevelopment with a secondary focus on returns, which was not the focus of the CIPFA changes.

Councillor Terry Hone commented that he was pleased to see the Council had prudently focussed its investments on properties and funds within the United Kingdom rather than abroad and noted that other local authorities had suffered as a result of their decisions to do otherwise.

**RECOMMENDED TO CABINET:**

- (1) That Cabinet notes the forecast expenditure of £3.045million in 2021/22 on the capital programme, paragraph 8.3 refers
- (2) That Cabinet approves the adjustments to the capital programme for 2021/22 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, decreasing the estimated spend in 2022/23 by £2.661million
- (3) That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.
- (4) That Cabinet recommends to Council that it notes the position of Treasury Management activity as at the end of September 2021.

**REASONS FOR RECOMMENDATIONS:**

- (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.

**27 DRAFT BUDGET 2022/23**

*Audio Recording – 53:18*

The Service Director – Resources presented the Draft Budget 2022/23 along with Appendices A and B and drew attention to the following:

- This was the first iteration of the Budget based on a number of assumptions and projections and the feedback from the Budget Workshops
- The Local Government Settlement from central government was expected imminently and would clarify the position on a number of assumptions and projections made in this iteration of the Budget
- Inflation was at a very high level and projections for foregoing years suggested it would remain as such which caused significant budget pressures, resulting in the savings envisioned by the MTFS having a less significant impact.
- Budget workshops demonstrated that there were some proposed savings that could be removed and further options to bridge the funding gap were being explored
- This budget was the first step in a many step process towards balancing the budget and savings in the medium term would need to be made.

The following Members asked questions:

- Councillor Keith Hoskins
- Councillor Terry Hone

In response to questions the Service Director – Resources advised:

- Council Tax brought in approximately £10 million a year and increasing with inflation at 2% would result in an additional £200,000. The impact of freezing Council Tax would result in a loss of that amount in that year and an ongoing loss in future years as inflation continued.

Councillor Terry Hone noted that he was pleased the proposals to introduce charges for the use of public toilets were dropped and that the removal of the garden waste charge had been shelved until a more suitable time, and mentioned discussions around the letting of Harkness Court from the Overview & Scrutiny Committee.

On the vote it was:

**RECOMMENDED TO CABINET:**

- (1) That Cabinet note the latest funding forecasts for 2022/23 and the significant uncertainty around inflation and Central Government funding, and that these estimates provided could be subject to significant change.
- (2) That cabinet note the comments made at the budget workshops, and comment on the inclusion of the revenue savings and investments in the budget to be brought back for consideration in January, for referral on to Council in February.
- (3) That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the capital investments in the Investment Strategy to be brought back for consideration in January, for referral on to Council in February.

**REASON FOR RECOMMENDATIONS:** To ensure that all relevant factors are considered in arriving at a proposed budget, Investment Strategy and Council Tax level for 2022/23, to be considered by Full Council on 10 February 2022.

## 28 INTEGRATED PERFORMANCE MANAGEMENT

*Audio Recording – 1:01:38*

The Service Director – Resources presented the report on Integrated Performance Management and highlighted points including:

- This report set out the process for monitoring and reporting on council projects, performance indicators, and risk and the service delivery plan between Overview & Scrutiny Committee and the Finance, Audit and Risk Committee and sought to realign this process to promote better governance
- Under the proposed changes the Overview & Scrutiny Committee would deal with risk management on a more granular level by examining specific risks and the Finance, Audit and Risk Committee would deal with governance issues and the risk management framework more generally
- Financial risks would be able to come before the Finance, Audit and Risk Committee and the Chairs of the two committees would liaise to avoid the duplication of work and to ensure items were presented to the right body.

Councillor Terry Hone noted his support for these proposals and that a more integrated approach to performance management risk was appropriate.

On the vote it was:

**RECOMMENDED TO CABINET:**

- (1) That the proposals set out in this report be approved which relate to the relation and monitoring of an Integrated Council Delivery Plan.
- (2) That Cabinet recommend to Council to approve the changes to the Constitution as detailed in section 9.

**REASON FOR RECOMMENDATION:** To improve the current processes that are in place which do not seem to be well integrated with each other or the Council Plan.

**29 APPOINTMENT OF EXTERNAL AUDITORS FOR 2023/24 TO 2027/28**

*Audio Recording – 1:06:36*

The Service Director – Resources presented the report entitled Appointment of External Auditors for 2023/24 to 2027/28 and highlighted points including:

- Under the relevant regulations it was for Council to make a decision on the appointment of external auditors but the views of this Committee were important in relation to these recommendations:
- The Council had been with Public Sector Audit Appointments Ltd for five years (ending with the audits for 2023/24, noting that the years of work in which those audits are conducted would be different).
- PSAA Ltd was in his view the only viable option;
- In the current market procuring an audit board alone would be impossible and in terms of joint auditing arrangements in Hertfordshire and other neighbouring authorities there was none, and PSAA Ltd was used by most authorities nearby.
- PSAA Ltd provided a negotiating service with external auditors which allowed for feedback as well as independence and managed the process for requests for fee variances.
- There was an error in the report at paragraph 7.6 – following new information it was likely that the estimate for the increase in fees in 2020/21 would be higher, in the region of £20,000 in additional fees;
- The report covered the introduction of a pot of funding announced to cover the increase in base audit fee that would balance out increased costs in the medium term, though this

would not cover the increase in audit fees resulting from additional risks arising out of COVID and similar risks in the period.

On the vote it was:

**RECOMMENDED TO COUNCIL:** That the Council opts in to the appointing person arrangements made by the Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors, for a period of five years from the 2023/24 audit.

**REASON FOR RECOMMENDATION:** The Council is required to appoint an External Auditor, and an appointment through PSAA offers the only realistically viable option.

### 30 POSSIBLE AGENDA ITEMS FOR FUTURE MEETINGS

*Audio recording – 1:10:52*

The Chair requested that, should any Members have any suggestions for agenda items for future meetings, they advise himself, officers or the Committee Clerk.

The meeting closed at 8.41 pm

Chair