

AUDIT AND GOVERNANCE COMMITTEE

MONDAY, 9 NOVEMBER 2020

PRESENT: Councillors Christine Bateson (Chairman), Simon Bond, Lynne Jones (Vice-Chairman), Julian Sharpe and John Story

Also in attendance: Councillors Gurpreet Bhangra, David Cannon, David Hilton and Shamsul Shelim

Officers: Mark Beeley, Shilpa Manek, Steve Mappley, Adele Taylor, Andrew Vallance, Andrew Moulton (Wokingham Borough Council), Jonathan Gooding (Deloitte) and Aron Kleiman (Deloitte)

APOLOGIES FOR ABSENCE

There were no apologies for absence received, but there had been a change in Committee membership with Councillor Bond replacing Councillor Werner.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

MINUTES

RESOLVED: The minutes of the meeting held on 14th September 2020 were approved, providing the following amendments were made:

- In the last paragraph of page 7, it was corrected to reflect that Councillor L Jones was referencing the 20/21 financial year and not 19/20.
- In the second paragraph on page 9, the minutes said that Councillor Hilton believed "RBWM would be in a better position." This was requested to be changed as Councillor Hilton had said that RBWM would be in a good position, which Councillor L Jones disagreed with as she believed it would be in a better position, but not a good position. Councillor Hilton then agreed with this statement.

MID YEAR TREASURY MANAGEMENT UPDATE

Andrew Vallance, Head of Finance, explained that the Treasury Management Policy had been approved as part of the Budget at the beginning of the year and this was a mid-year update on the strategy. A report would be provided at the end of the year on performance across the year. RBWM had complied with its treasury strategy and had so far not compromised any of its boundaries or limits. Investment returns had beaten the bench marker target that had been set. RBWM would continue to borrow short term, with interest rates being kept low by the pandemic.

Councillor Bond said that he had noted that there was an early repayment penalty for loans and asked if this would be replaced by long or short term loans. He had looked at other local authorities and discovered that RBWM was borrowing a similar amount but that there was a lower useable reserves than other authorities. Councillor Bond understood that there was a limit of 80% on variable rate borrowing and wanted to understand where did the short term borrowing limit come from and if it could be changed. He also asked a couple of questions on the Counterparty Lending List. Did the list come from Arlingtonclose or was it something that RBWM managed and how did the process work with the list, was it something that went through Cabinet or Full Council?

Andrew Vallance said that there was a variable limit of less than 100% due to the risks involved, there would not be a 100% limit on variable debt. The recommendations came from Arlingtonclose, they used credit rating agencies to determine the ratings which RBWM then used. The list did not go to Cabinet as it was mid-year, but the strategy and counter party list would be going to Cabinet for consideration as part of the Budget early next year.

Councillor Bond said that the counter party list from last year included building societies but did not so now, Andrew Vallance said that he would have a look at the reason for this.

Councillor Story commented that the levels of debt were significant and asked how this compared to other local authorities nationally. He asked if there was any opportunity for the debt to be repaid.

Andrew Vallance said that the long term debt was from Berkshire County Council days so was something that had been an issue for RBWM and other Berkshire authorities for a number of years. There were a number of other authorities that were in a worse position. RBWM did not change the level of debt as the premium to do so would be high, but there were plans to pay off the short term debt in the medium term.

Councillor L Jones said that things were fast moving and asked if the strategy would be updated. Andrew Vallance explained that an updated strategy would be coming to Cabinet in February 2021 which would include an updated review from Arlingtonclose. The position of RBWM in the report was as of 30th September 2020.

Councillor Hilton, Lead Member for Finance and Ascot, noted that in the report it was stated that by paying pension contributions early RBWM was saving £108,000, but in Financial Monitoring papers this year the figure was £160,000. Andrew Vallance said that this figure would be checked and corrected where appropriate.

A named vote was taken on the recommendation listed in the report.

Recommendation listed in the report (Motion)	
Councillor Christine Bateson	For
Councillor Simon Bond	For
Councillor Lynne Jones	For
Councillor John Story	For
Councillor Julian Sharpe	For
Carried	

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee noted and approved the mid-year Treasury Management Update Report 2020/21.

DRAFT TREASURY MANAGEMENT STRATEGY & PRUDENTIAL INDICATOR REPORT 2021/22

Andrew Vallance explained that RBWM had avoided borrowing where possible, with other alternative sources of finance being considered, for example grants and Section 106/Community Infrastructure Levy (CIL). The report was currently a draft strategy, with the final strategy being presented as part of the Budget in early 2021. Numbers that were part of the strategy would be revised as they were currently draft figures, with officers always being aware of future changes in the market. Andrew Vallance invited members of the Committee to make any comments on the draft strategy.

The Chairman asked if borrowing was more short term or long term. Andrew Vallance said that there had been no long term borrowing recently undertaken, with the long term debt from Berkshire County Council. Short term loans would regularly be used once other loans had expired.

Councillor Sharpe said that he was concerned about the increase in borrowing and asked if the level of current borrowing was sustainable.

Andrew Vallance said that money from borrowing was being used to fund regeneration strategies and short term rates were relatively cheap at the moment which meant they had less risk.

Councillor Story asked for an explanation on the minimum revenue provision policy mentioned in the report. Andrew Vallance explained that the purpose of the policy was to pay back the premium, which included the actual amount borrowed along with any interest rates. The policy also covered any internal borrowing.

Councillor L Jones mentioned part of the report where it said 'debt had built up over time to fund its fixed assets' and asked what this meant. An affordable borrowing limit was also mentioned and Councillor L Jones asked what the criteria was for something to be affordable. Payments were being deferred and it was important to understand the reasons and risks associated with this. Regarding potential indicators, Councillor L Jones asked if the operational boundaries would go up compared to last year's report.

Andrew Vallance said that the operational boundary was increasing to help fund the council's capital programme and assets. Fixed assets were needed to fund the capital expenditure programme. Affordability relied upon how much of the revenue budget was being used to finance capital and the impact this had.

Councillor L Jones said that as part of the ratio of financing costs to net revenue stream in Appendix B, there were a number of percentages. She asked if these percentages were the ones looked at by officers with regard to affordability.

Andrew Vallance said that these percentages could be benchmarked against other authorities to compare patterns and performance. Councillor L Jones asked if it would be possible to have this as a benchmark, Andrew Vallance said it was something that could be done.

Adele Taylor, Director of Resources, confirmed that the cash flow was regularly reviewed along with the receipts, officers might look to sell an asset should an opportunity arise.

Councillor Bond commented that when RBWM was looking to borrow short or long term, it could be difficult to predict what would happen and lock in good rates. He asked if there was an implication if inflation turned negative.

Andrew Vallance said that the rates did not move particularly quickly compared to other market rates.

Councillor Sharpe mentioned that repayment schedule and asked how much of the schedule was based on agreements that were already in place. He queried if RBWM was reliant on selling assets to cover its borrowing.

Andrew Vallance informed him that most of the debt was short term so would be fairly flexible to extend or renew it if RBWM did not want to sell the assets. There was no reliance on selling assets at the moment to cover borrowing while rates were low.

The Chairman asked how much of the debt came from Berkshire County Council. Andrew Vallance said that he believed it was the full amount but would check this.

RESOLVED UNANIMOUSLY: That Audit and Governance Committee noted and commented on:

- i) The Council's Treasury Management Strategy for 2021/22 as set out in section 4 of the report.**
- ii) The Council's Prudential Indicators set out in Appendix B.**
- iii) The Council's associated counterparty list as set out in Appendix C.**

DRAFT CAPITAL STRATEGY 2021/22 - 2025/26

Andrew Vallance explained to the Committee that the Capital Strategy was in draft format and would form part of the Budget. Borrowing was a last resort for RBWM, with the report setting out the national financial context along with RBWMs own financial context. The report also set out the council's priorities, processes that were in place along with the establishment of a Capital Programme Board.

Councillor Story asked about the Capital Programme Board, how many times it had met and the work that it had undertaken.

Andrew Vallance said that there had been a meeting of the Board every 2-3 weeks and it had reviewed this years and future years capital programme. The aim was to try and finance the programme through other sources rather than relying heavily on borrowing.

Jonathan Gooding (Deloitte) left the meeting.

Councillor L Jones pointed out that there was a lot of information on capital asset disposal, and wanted to know what the process was to inform all members. She was interested to know when the updated capital programme would be available and how things like the parking provision and the figures for this would be decided on. Regarding priorities, Councillor L Jones asked what the objectives of RBWM were and how they used in relation to the capital programme.

Andrew Vallance said that on asset disposal, it would be individual papers on individual decisions that would be received through Cabinet. Parking would be a key area for capital and revenue within the Budget, with a significant amount of work was currently taking place. However, the loss of parking demand was a significant factor on the revenue budget. The new Capital Programme Board had looked to address items that were wrongly classed as capital when they were actually revenue items. One example of this was the cleaning of pictures in RBWMs collection, which should have been considered as routine maintenance instead of capital. The purpose of the report was to align capital expenditure with the objectives in RBWMs corporate strategy.

The Chairman said that it was important for savings to be made and asked if there was a specific paper on savings coming to the Committee. Andrew Vallance explained that saving schemes were part of the Transformation Strategy and was part of various reports that the Committee would be looking at in future.

Councillor Sharpe said that he was concerned about the risks in this strategy and asked what the Head of Finance was most concerned about or saw as the biggest risk.

Andrew Vallance commented that his main concern was the revenue budget and also volatility in local government finance. Interest rates were not currently a concern.

Councillor Hilton said that there was a full review of the capital programme at the beginning of the year, where a significant amount of money was taken out that was not needed.

Councillor L Jones asked if there was any way of highlighting the priorities and objectives of RBWM in the paper. Andrew Vallance explained that the current priorities of the council were set out in paragraph 6.4 of the report.

Adele Taylor said that £2.5 million had been taken out of the capital programme, which was the start of the work of the Capital Programme Board. There was a section on capital in the budget monitoring reports that were considered by Cabinet.

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the report and commented on:

- i) **The draft Capital Strategy set out in Appendix A.**

KEY RISK REPORT

Steve Mappley, Insurance and Risk Manager, explained that the risk register was extremely important because if risks were left unchecked they could be damaging to the local authority. All the risks mentioned in the report had an officer allocated, with trees and flooding being two areas that have been updated recently. The heat map showed the likelihood of any risks occurring and how much of a risk they were deemed to be.

Councillor Sharpe commented on there being no full analysis of the current global pandemic and therefore the impact of another pandemic in future being a concern. He asked if systems were in place to deal with this risk.

Steve Mappley said that the Covid response was on the risk register and more details on how RBWM was dealing with the pandemic were available in the Outbreak and Control Plan. He believed that all the right risks had been captured, but could put the question to management on whether this needed to be reconsidered.

Adele Taylor said that it was important RBWM was dealing with the here and now and that she would expect the risk to be reviewed to see what could be done to mitigate the risk in future. Learning from the pandemic would put the council in a good position.

Councillor L Jones said that there seemed to be little interaction or linking of risks, for example, if a similar issue around flooding happened again like it did in 2014, the problem would have a large financial impact on RBWM and therefore should be classed higher than just 'moderate risk'.

Steve Mappley said that now the risk register was complete work could be done to look at linking risks together and create a framework. Adele Taylor said that there was an ambition to do more focussed work around risk and that improvements around interconnectivity was something that would be looked at.

Councillor Hilton said that the register gave a good amount of information on the risks that RBWM faced. It was important to see which risks could be contained, and which ones needed to be dealt with.

The Chairman commented that to her, some risks seemed more significant than others.

Steve Mappley explained that there was a common framework for how risks were designated. It was not just down to the individual officers to decide on risks, as the register regularly came in for review by Committees and the Corporate Leadership Team at the council. However, the levels of risks did not change often.

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the report.

2020/21 INTERIM AUDIT AND INVESTIGATION PROGRESS REPORT

Andrew Moulton, Assistant Director of Governance (Wokingham Borough Council), informed the Committee that it had been less than two months since it considered the annual report.

There were two areas in the report that received the third level of assurance, debtors and reconciliations. Some follow up work had taken place around debtors which had showed some positive signs of improvement. Other areas to point out included Covid business grant work and ensuring that these grants were delivered, along with an empty property review and council tax work.

Councillor Story said that for continued success on debtors it required service areas to engage with the process. Andrew Moulton said that there was a recognition that there was further work to be done.

Adele Taylor said that work by debtors had been interrupted due to the pandemic but it was important to ensure that any debts raised by service areas were legitimate and were handled appropriately.

Councillor Story asked another question on reconciliation, the report said that 'there was not a consensus view on where the responsibility sits'. He asked for more information on this.

Andrew Moulton said that more follow up work was needed and would be done in conjunction with the finance team. Adele Taylor said that the report set out which areas would be followed up on. The 'corporate view' was effectively splitting up the reconciliations and deciding who should be responsible for them.

Councillor L Jones asked for a clear definition of what a key reconciliation was. There was a list of ten concerns identified in the report, with some listed as being the responsibility of RBWM. She asked if 'responsible' was different to 'owned' in this case.

Andrew Moulton said that the words responsible and owned were interchangeable but would check this. Key reconciliations would be part of the follow up work that was planned to be undertaken.

Councillor L Jones asked the Director of Resources how the use of resources was balanced against the work that RBWM needed to do. Adele Taylor explained that it always came back to risk and that it might be about system resource and not just human resource.

Aron Kleiman (Deloitte) left the meeting.

RESOLVED UNANIMOUSLY: That the Audit and Governance Committee noted the Shared Audit and Investigation Service activity for the six months ending 30 September 2020.

EFFECTIVENESS OF AUDIT COMMITTEES

Andrew Moulton explained that this item had been included on the agenda for information. A national review had recently taken place on external audit called the Redmond Review and it would be good for the Committee to consider this alongside the CIPFA best practise document that had been included as part of the agenda paperwork. Andrew Moulton recommended Appendix D and E as particularly important sections of the document to read.

Councillor Sharpe said that it was an interesting document but agreed that it was best to wait until next year so that it could be considered alongside the Redmond Review.

Councillor Bond pointed out that the report says that the 'local authority may be the accountable body of the Local Enterprise Partnership' and asked what this meant.

Councillor Story talked about the training of Committee members and asked how members could improve their knowledge. The report also discussed the desirability to have a person of financial independence on the Committee too which was something that could be explored.

Councillor L Jones agreed with Councillor Story regarding having an independent person on the Committee. She said that chapter 2 and the best practise section at the end of the document were both worth reading.

Adele Taylor said that this was the start of the training for members of the Committee. The Committee was governed around certain items and documents that it needed to consider. The Redmond Review also advised the inclusion of an independent person on the Committee, Adele Taylor said that she would send a link to the review to Committee members. She said that it was important that Members felt comfortable in their role and asked if there were any specific areas that Members wanted to look at to let her know.

The Chairman said that it would be useful to include substitutes on the training too.

WORK PROGRAMME

Adele Taylor said that there were a few items on the Work Programme that had not yet been scheduled. The audited accounts were currently being worked on with the external auditors and it was hoped that these would be ready before the Committee's next scheduled meeting in February. The Fraud Policies Refresh item needed a bit more work but would be ready for the February meeting, or could be considered earlier if an additional meeting was set up to consider the accounts.

Councillor L Jones asked if the Committee would get to see the accounts before they went into the Budget. She asked about the recommendations the Communities Overview and Scrutiny Panel had made with regard to the audit on the Serco contract.

Adele Taylor said that the Committee had suggested a review of the Serco contract at its last meeting, with the Communities Overview and Scrutiny Panel considering the scope of the audit. Updates would be received by the Committee in due course. She expected the Committee to be able to review the accounts before the final Budget was published.

The meeting, which began at 6.15 pm, finished at 8.15 pm

CHAIRMAN.....

DATE.....