

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 19 January 2023 at 4.00 pm.

PRESENT

T A Carter (Chairman)
H J W Bingham (Vice-Chairman)

F Biggadike
C J T H Brewis

M Hasan
S Timewell

S C Walsh

In Attendance: The Assistant Director - Finance, the Interim Treasury Manager (PSPS) and the Democratic Services Officer.

Apologies for absence were received from the Business Intelligence and Change Manager.

30. DECLARATION OF INTERESTS

There were none.

31. MINUTES

AGREED:

That the minutes of the Governance and Audit Committee held on 17 November 2022 be signed by the Chairman as a correct record.

32. ACTIONS

Updated responses to Actions which arose at the 17 November 2022 Governance and Audit Committee meeting were presented to the Committee.

Members considered the updated responses and made the following comments:

- Members stated that the format of the Action Sheet and captured responses therein were very useful.
- Members reiterated that the risk relating to the 'failure to deliver new homes programme' stated at Action point 24(c)

Action
By

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needed to be considered differently as there was a risk of frontloaded delivery and overdevelopment. The Business Intelligence and Change Manager had recently assured the Chairman that the risk would be reviewed in due course to consider the concerns raised. The action was to be marked as 'in hand'.

- Regarding action 27(a), the Assistant Director – Finance had liaised with both the Assistant Director – Leisure and Culture and the Internal Audit Manager and confirmed that the Leisure audit would be scheduled for the first quarter of the new financial year.
 - Members stressed the importance of the Leisure audit taking place in the first quarter of 2023/2024. The planning of new 'Levelling-Up' leisure facilities in Spalding should not detract from the audit schedule, moreover 'lessons learned' from the Leisure audit needed to be taken forward into the planning of the new facilities.
 - Members stated that Leisure facilities in other parts of the district should not be ignored.

- Regarding Action 18a relating to Housing Needs, Allocations, Homelessness and Housing Register: the Panel were advised that a presentation, to include details of emergency assessment cases, would be circulated to members by email on or before 17 February 2023.

AGREED:

That the Actions from the Governance and Audit Committee meeting held on 17 November 2022 be noted.

33. Q3 RISK REPORT 22/23

Consideration was given to the report of the Assistant Director – Corporate to provide an update on the Council's strategic risks for the period 1 October 2022 to 31 December 2022.

The Assistant Director – Finance introduced the report on behalf of the Business Intelligence and Change Manager, who had submitted his apologies.

Members considered the report and made the following comments:

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- Members stated that they had received an unprecedented number of reports relating to homelessness issues and agreed that the overall risk rating had been 'critical'. Members also noted that the narrative which related to 'Housing Team Resources and Support' was unchanged from the previous iteration and had required updating.
- Members also noted that the narrative for risk relating to 'Council Financial Positions' was unchanged and required updating.
 - The Assistant Director – Finance responded that an update would come forward to the Panel and confirmed that the Council was in the process of finalising the budget for the 2023/24 financial year. The financial environment was extremely challenging and additional factors had increased the complexity of the budget setting process for 2023/24.
- As a general point regarding the updating of narratives, the Assistant Director – Finance suggested a system to track response updates and increase engagement be implemented and this would be discussed with the Assistant Director – Governance and the Business Intelligence and Change Manager.
- Members referred to the Internal Communications risk and stated that:
 - although engagement with Assistant Directors and Service Managers was noted in the narrative, it was believed that a reduced engagement existed across the workforce at less senior levels and that this had echoed the findings of the Joint Scrutiny of the Partnership;
 - a communications action plan needed to include the engagement of less senior members of staff; and
 - engagement with staff from the early stages of Partnership planning activity was suggested, such as for service reviews, so that staff felt informed;
 - The Assistant Director – Finance responded that the Risk Report narrative had updated the Committee on the internal communication channels but this would be updated to include the following communication strategies that were in place to engage the wider workforce:
 - regular staff email bulletins;
 - regular videos from the Senior

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- Leadership Team to the workforce;
 - briefings of key corporate topics; and
 - dissemination of information from the Senior Leadership Team to the wider workforce via Service Managers.
- In connection with communications, members noted that where PSPS was to be involved in the delivery of a project, early engagement with relevant PSPS personnel during the strategic planning stage had been recommended by the Joint Scrutiny Panel.

AGREED:

That following consideration of the covering report and Appendix A, which detailed the latest assessment of the Council's strategic risks, the Q3 Risk Report 2022/23 be noted.

34. DRAFT TREASURY MANAGEMENT POLICY AND TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2023/24

Consideration was given to the report of the Deputy Chief Executive - Corporate Development which provided pre-decision scrutiny to the strategy being proposed.

The Interim Treasury and Investment Manager introduced the report which detailed the Draft Treasury Management Policy and Strategy Statement for the 2023/24 financial year which would be included within the Budget Setting Report submitted to Council for approval. As a treasury report, scrutiny from the Governance and Audit Committee was required prior to its submission to Cabinet and Council.

- Appendix A outlined The Treasury Management Policy Statement 2023/24; and
- Appendix B detailed the Draft Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2023/24.

The main points of the report and appendices were outlined in a presentation to the Committee at the meeting, which included:

- Reporting requirements as set out by the CIPFA (Chartered Institute of Public Finance and Accountancy) 2021 Prudential and Treasury Management Codes;

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- Treasury Management Strategy for 2023/34;
- Training;
- Capital Prudential Indicators 2022/23 to 2027/28 which included capital expenditure and financing; and borrowing need ;
- Minimum Revenue Provision (MRP) Policy Statement;
- Borrowing;
- Annual Investment Strategy;
- Prudential Indicators; and
- Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management.

Members considered the report and presentation and made the following comments:

- Members queried whether the value/performance of assets were assessed, and a discussion ensued which distinguished between assets, revenue and capital spend.
 - The Assistant Director – Finance clarified that:
 - performance of council assets was the responsibility of respective Assistant Directors;
 - the £5m borrowing requirement referred to at point 2.2 of the report related to the Capital programme which incorporated the longer-term financial view of an asset, whereas the Revenue account covered the day to day running of a service, such as stationery and salaries. Spending relating to the Capital programme included the utilisation of working capital, grant funding or borrowing;
 - to support communication of the services' details, a budget book would be produced alongside the budget papers and circulated to all members, which presented the net operation cost for each asset function in a granular format; and
 - the purpose of the Treasury Management Strategy was to provide a treasury management function which captured cash movements within services and identified any surplus or deficit.
- Regarding the utilisation of reserves, Members asked if the lowest balance kept in reserve, as a 'safety net', could be disclosed.
 - The Interim Treasury and Investment Manager responded that the figure would be considered and

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decided by the Section 151 Officer as part of the budget setting process.

- Members referred to the Internal Drainage Board precept and asked whether the 'without referendum' increased Council Tax payment was expected to revert to previous levels in future years.
 - The Assistant Director – Finance responded that the settlement announced on 19 December 2022 was the greater of 3 per cent or £5. It was assumed that the current level would remain for 2024/25 but it was not known what the levels would be after this date.
- During discussions around the Council's authorised borrowing limit compared with the operational boundary debt, stipulated at point 3.2 of the report, the Interim Treasury and Investment Manager confirmed that a £4million difference was maintained/safeguarded for unforeseen circumstances such as disasters and emergencies. Members highlighted the existence of the Bellwin scheme which enabled local authorities to seek financial compensation from central government where disasters had occurred in their areas.
- Regarding assessment of investment risk, members asked whether this was independently scrutinised.
 - The Interim Treasury and Investment Manager responded that the following risk assessment process for investments was in place:
 - Link Group collated credit rating data (from Fitch, Moody's, and Standard and Poor's) and provided the Council with a 'Counterparty Credit Criteria' which listed credit ratings for both banks and sovereign countries;
 - ratings informed where investments could be placed, in conjunction with the criteria outlined in the Annual Investment Strategy;
 - a maximum of £5million could be invested per sovereign country;
 - whilst the £5million overall limit did not apply to the UK, a £5million limit existed per UK banking group;
 - any concerns/warnings received for existing investments would be referred to the Section 151 officer for appropriate action.
- Members questioned whether the Council adhered to a moral code when considering where investments could be

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placed.

- The Assistant Director – Finance responded that, sequentially, the priorities for the placement of investments were: security, liquidity and yield. Link Group provided information which the Council utilised to inform potential investments however there had been instances where investments had not been made due to the consideration of wider socio-economic circumstances; and
 - The Interim Treasury and Investment Manager stated that the Treasury Strategy required investments to consider environmental, social and governance (ESG) issues and the Council was seeking specialist advice on this matter.
- The Interim Treasury and Investment Manager confirmed to members that interest earned on Council balances was not taxable.
- Members referred to section 2 of Appendix B and asked whether the £67.456million Housing Revenue Account (HRA) debt needed to be repaid by 2062.
 - The Interim Treasury and Investment Manager confirmed that the Council was not required to make a minimum revenue provision for HRA debt and if necessary, could seek to borrow funds from the markets when the loan matured; and
 - the Council could change the maturity profile of debt by rescheduling it at an earlier stage.
- Members referred to section 5.3 of Appendix B regarding 'Specified Investments'. These had been referred to in the meeting as 'not complex' and members asked whether this the term was subjective?
 - The Interim Treasury and Investment Manager responded that subjectivity was generally dependent upon experience. In Local Government, the Section 151 Officer and Deputy Section 151 Officer were generally knowledgeable of certain types of financial instruments. The services of external Treasury Advisers would usually be utilised for complex 'non-Specified' investments.
- Members referred to the Capital Budget and asked whether the Council's fleet of vehicles were to be transferred to electric vehicles.
 - The Assistant Director – Finance responded that:
 - an allowance for replacement vehicles had

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been included in the budget however the type of vehicles purchased would be a policy decision.

- regarding HRA vehicles, the requested information would be checked and circulated when available.
- Members' appreciation of the presentation at the meeting was conveyed to the Interim Treasury and Investment Manager and the Assistant Director – Finance. Members also stated full confidence in the content of the report and appendices.

AGREED:

That following scrutiny of the Treasury Management Policy (Appendix A) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24 (Appendix B), the comments of the Panel be noted for consideration by Cabinet on 14 February 2023 and Council on 2 March 2023 when the documents are to be considered as part of the budget report.

35. IMPACT OF FINANCIAL MARKET FLUCTUATIONS ON THE COUNCIL'S FINANCIAL POSITION

Consideration was given to a verbal update from the Interim Treasury and Investment Manager on the Q3 2022/23 Treasury position and the economy.

The verbal update had been requested by Members at the 17 November 2022 Governance and Audit Committee meeting as a result of:

- Market volatility in the financial markets following the fiscal event on 23 September 2022; and
- The Q3 treasury update was not due to be brought to the Governance and Audit Committee until March 2023.

Regarding the economic situation:

- Economic activity had lost momentum as households increased their savings;
- Gross Domestic Product rose by 0.5 per cent in October 2022 which was considered to be due to the reversal of bank holiday effects and a 0.1 per cent rise in November 2022;
- inflation update included:

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- Consumer Price Index inflation fell to 10.7 per cent in November 2022 after peaking at 11.1 percent in October 2022;
- goods price inflation was considered to have peaked;
- energy price inflation was expected to fall sharply in 2023; and
- global goods supply inflation was expected to fall as global supply shortages were fading.
- an upward pressure on wage growth prevailed but this was expected to slow when inflation fell. If strike action was successful in achieving large pay increases, wage growth could remain stronger for a longer period.

Regarding interest rates:

- the Bank of England Base Rate had risen by 1.25 per cent to 3.50 per cent during Quarter 3. Markets were expecting rates to peak at around 4.5 per cent in June 2023;
- the rise in interest rates had broadly followed market expectations. Long term investment rates had stabilised over the last quarter and shorter term rates had increased in line with base rate rises.

Quarter 3 Treasury update:

- The Council's investment priorities were confirmed as Security of Capital, Liquidity and finally Yield, in that order.
- Investment balances stood at £52.8million in December 2022 which was marginally higher than the £52.5million in September 2022;
- The cumulative rate achieved on treasury investment had increased from 1.126 per cent to 1.807 per cent, compared with the benchmark of 2.284 per cent. It was normal for the rate achieved to lag the benchmark in a rapidly rising interest rate environment. Inclusion of the Welland Home loans increased the cumulative rate achieved to 1.927 per cent;
- Interest earned as at 31 December 2022 was £767,000 which was £545,000 above the profiled budget;
- The estimated outturn for investment income currently stood at £1.2million which was approximately £900,000 above budget;
- No new borrowing had been undertaken and interest costs would match the estimate of £2,347,469;
- Regarding Capital expenditure;
 - the General Fund revised budget for the year was £12.8million and the actual expenditure as at Quarter 3 was just under £10million; and
 - the HRA revised budget for the year was

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£15.3million and the actual expenditure as at Quarter 3 was just under £5.3million.

The update was given with the caveat that it related to a set point in time. The final report to Council may factor in the receipt of grants received and any capital spend in the interim period.

AGREED:

That the update be noted by the Governance and Audit Committee

36. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

Consideration was given to the report of the Assistant Director – Finance which set out the Work Programme of the Governance and Audit Committee.

The Democratic Services Officer introduced the report and highlighted the following areas:

- Appendix A included agenda items that had been included in the schedule for the forthcoming year. Content for the Annual Report would be discussed at the Governance and Audit meeting on 16 March 2023. In preparation for discussions at the meeting, the previous report would be circulated to Committee members.

- Appendix B outlined the Committee’s training log.

Members considered the report and made the following comments:

- The Chairman noted that the 14 March 2023 Governance and Audit Committee meeting was particularly heavy and requested that where possible, items be scheduled so that the number of agenda items were balanced.
 - The Assistant Director – Finance responded that the meeting on the 14 March 2023 included a number of items which related to the 2021/22 year end accounts. In order to consider these items the Committee were required to receive training and it was proposed that a briefing session be carried out prior to the 14 March 2023 meeting. Any update from Ernst and Young could also be relayed.
 - Members agreed that the proposed training session be arranged prior to the March

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meeting and for it to take place virtually.

- Members queried the regularity of attendance by Internal Audit.
 - The Assistant Director – Finance confirmed that reports from Internal Audit were to be spread throughout the year and that attendance was not expected at every meeting. Updates were to be brought when sufficient information in a timely fashion.
 - The Chairman was confident with the interim updates received from the internal auditors.

AGREED:

That the report and content of the Work Programme be noted.

37. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.

There were none.

(The meeting ended at 5.33 pm)

(End of minutes)