

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 17 November 2022 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 C Walsh

In Attendance: The Assistant Director – Finance, the Business Intelligence and Change Manager, Assistant Director - Finance, Interim Treasury Manager and Contracts and Procurement Officer, Acting Principal Assurance Lincolnshire, the Portfolio Holder for Finance, Commercialisation and Partnerships and the Democratic Services Officer.

Apologies for absence were received from the Interim Assistant Director – Governance.

| | <u>Action By</u> |
|---|-------------------------|
| <p>21. DECLARATION OF INTERESTS</p> <p>At agenda item 5, Councillor Biggadike declared an interest that he was a private landlord and remained in the meeting during the discussion.</p> | |
| <p>22. MINUTES</p> <p>AGREED:</p> <p>That the minutes of the following meetings be signed by the Chairman as a correct record:</p> <ul style="list-style-type: none">a) Governance and Audit Committee held on 28 July 2022; andb) Governance and Audit Committee held on 22 September 2022. | |
| <p>23. ACTIONS</p> <p>Updated responses to Actions which arose at the 22 September 2022 Governance and Audit Committee meeting were presented to the Committee.</p> <p>Members considered the responses and made the following</p> | |

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

comments:

- Regarding completed action 9b, members stated that the response had not satisfactorily answered the question and a fuller response be requested; and
- Ongoing actions to be succinctly referenced in future iterations.

AGREED:

That the Actions from the Governance and Audit Committee meeting held on 22 September 2022 be noted.

24. Q2 RISK REPORT 2022/2023

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 July 2022 to 30 September 2022.

The Senior Change and Performance Business Partner provided the Committee with the following updates:

- The report included risks which related to the South and East Lincolnshire Councils Partnership (S&ELCP) at Appendix B. This element had been included at the request of the Governance and Audit Committee.
- Whilst there had not been any changes to risk scores in the current iteration, the following updates to ICT controls and mitigations had taken place:

In respect of risk relating to a cyber incident:

- PSPS had been successful in its application for a grant from the Department for Levelling-Up to improve the security position of the three partnership councils;
- the maximum grant of £175,000 had been secured;
- an action plan would be developed to improve cyber security and infrastructure; and
- the action plan needed to adhere to caveats stipulated by the award.

In respect of risk relating to ICT infrastructure:

- the risk had been moved onto the Strategic Risk Register;
- the risk scoring had not changed; an increased risk had been considered after the outage in September

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

2022, and whilst the risk had been elevated at the time of incident, the likelihood of reoccurrence in the future had not changed; and

- a Major Incident review had been conducted and was in the process of being shared with the ICT Strategy Board, Senior Leadership Team and Portfolio Holder. The review considered resiliency options that may be used to lower the risk scoring in the future.

Members considered the report and made the following comments:

- The 'retention of staff' risk had been duplicated.
- Members discussed the risks that related to both economic downturn and economic hardship (on agenda pages 47 and 54 respectively):
 - members referred to 'economic downturn' risk and noted that since the report was produced, a number of companies in the district had announced closures/ceased trading. Potential redundancies would have a significant impact on the local economy. The Committee strongly determined the risk rating of 3 to be too low and requested that this opinion be communicated to relevant officers;
 - members also referred to the 'economic hardship' risk and requested further details regarding the 'working with landlords' mitigation; and
 - members queried the impact that economic hardship would have on the partnership lottery.

The Senior Change and Performance Business Partner responded that:

- all of the issues that related to economic downturn and economic hardship would be raised with Growth Directors;
 - The economic downturn risk would be reviewed; and
 - The economic hardship risk would be developed.
- Members welcomed the chart on page 41 of the agenda which outlined how risks were graded and managed.
 - Members requested that Appendix A and Appendix B be clearly separated in future iterations.

GOVERNANCE AND AUDIT COMMITTEE -

17 November 2022

- Members referred to the risk relating to the 'failure to deliver new homes programme' and questioned whether the delivery pace of new homes was too quick/frontloaded, potentially resulting in a future economic slowdown when projects were completed. Members requested a risk be included for this aspect of delivery.
 - The Senior Change and Performance Business Partner would look into this and report back to the Committee.

- Members referred to the risk relating to 'failure to meet statutory requirements regarding general fund assets' and noted that the Business Support Officer narrative was incomplete. Members queried whether the intention had been for the Business Support Officer role to remain temporary as this position was likely to be required going forward.
 - Regarding the incomplete narrative, the Senior Change and Performance Business Partner stated that the current report was produced during a transition period. Formatting issues would be rectified for Q3 when the report would be generated wholly through the Pentana system.
 - The Senior Change and Performance Business Partner would investigate the terms of the Business Support Officer role and report back to the Committee.

- Members referred to the risk score of 3 for 'internal communications' and questioned whether this was realistic. The Q1 Performance Report 2022/23 presented at the 19 October 2022 Performance Monitoring Panel meeting stated the 'percentage of workforce who felt informed about the Partnership and what decisions it was making' was 44.

AGREED:

That following consideration of the covering report and Appendix A, which detailed the latest assessment of the Council's strategic risks, the Q2 Risk Report 2022/23 be noted.

25. MID TERM TREASURY MANAGEMENT UPDATE 2022/23

Consideration was given to the report of the Interim Treasury and Investments Manager (PSPSL) which provided an update of the

GOVERNANCE AND AUDIT COMMITTEE -

17 November 2022

treasury management position of the Council as at 30 September 2022.

The Interim Treasury and Investments Manager (PSPSL) introduced the report which had been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice on Treasury Management.

The requirement of the code was the production of:

- a Treasury Management Policy Statement;
- Treasury Management Practices;
- a Treasury Management Strategy Statement which included the Annual Investment Strategy and Minimum Revenue Provision Policy;
- a Mid-Year report which was being presented at the current meeting, and an annual report at the end of the financial year.

Appendix A included an update on the following areas:

- Capital Strategy and Treasury Management background information;
- An introduction to the Mid Term report;
- Economics and Interest Rates – key points from the commentary provided by Link Asset Services on 7 October 2022 stated that:
 - higher energy prices were predicted to have a persistent downward effect on the economy;
 - there had been double digit inflation;
 - interest rates had increased seven times – the Bank of England base rate had risen to 3% with an expectation that rates would peak at 5%. Since the report was written Link Asset Services had forecasted a reduced peak of 4.5%.
- Treasury Management Strategy Statement and Annual Investment Strategy Update;
- The Council's Capital position (Prudential Indicators); Appendix A1 detailed a full breakdown of the latest approved capital expenditure programme and actual expenditure to date;
- Borrowing;
- Debt Rescheduling;
- Compliance with Treasury and Prudential Indicators;
- Annual Investment Strategy; and
- Changes in Risk Appetite, which had remained unchanged.

Members considered the report and made the following

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

comments:

- Members referred to Housing Revenue Account self-financing settlement and called for central government to cancel the debt.
- Members queried the speed at which deposits could be withdrawn should a financial institution collapse.
 - The Interim Treasury and Investment Manager (PSPSL) responded that:
 - all investments were timed deposits which varied from instant access through to a fixed 12-month term;
 - the longer-term deposits could possibly be withdrawn early with agreement of the borrower but penalties may be incurred;
 - the Treasury Strategy, agreed by members at Council, outlined the agreed investment criteria;
 - investment advice was taken from external treasury advisors who monitored rates and credit ratings: and
 - a cautionary approach was taken with deposits restricted to AA and AAA rated companies.
- Members noted that capital expenditure and forecasted outturn reflected a dramatic change to the original approved programme. Concern was expressed if the Capital Programme expenditure was exceeded.
- Members acknowledged the lack of opportunities for the rescheduling of debt and asked whether this area was regularly reviewed.
 - The Assistant Director – Finance responded that this area was regularly discussed with the Interim Treasury and Investments Manager (PSPSL) and any rescheduling decisions would involve the consideration of prevailing interest rates and financial modelling.
- Members asked why the Street Cleansing forecast outturn had increased from a budget of £35,000 to £109,000.
 - The Assistant Director – Finance confirmed that £109,000 had related to the purchase of four 7.5 tonne trucks. Only one vehicle should have been coded to the Street Cleansing budget however there had been an error which had subsequently been

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

corrected. Of the remaining three trucks, one was attributed to Environmental Services Operational and two to South Holland Maintenance.

AGREED:

- a) That following consideration by the Governance and Audit Committee of the report and the treasury activity as detailed in Appendix A, the Mid Term Treasury Management update be noted; and
- b) That the comments of the Governance and Audit Committee be noted for consideration by Council at their meeting on 18 January 2023.

26. PROPOSED AMENDMENTS OF THE COUNCIL'S CONTRACT PROCEDURE RULES AND FINANCIAL PROCEDURE RULES

Consideration was given to the report of the Assistant Director for Finance and Deputy S151 Officer, and the Interim Assistant Director for Governance and Monitoring Officer, to introduce a new updated version of the Contract Procedure Rules and an amendment to the Financial Procedure Rules.

The Head of Procurement and Contracts introduced the report by referring to the amendments which applied to South Holland District Council, and outlined in Appendix 1A as follows:

- the single change to the exemption clauses were outlined at point 3.3.9 of the report. The proposed change allowed for a reasonable exemption to assist with the development of housing, where this was considered appropriate; and
- revised thresholds were outlined at point 9 of the report.

The Head of Procurement and Contracts presented the following case study which demonstrated how the exemption stated at point 3.3.9 of Appendix 1A could be utilised:

“The Council could pursue the purchase of housing through a ‘package deal’ which would incorporate planning consent, land purchase and build. Initially, a third party obtained the planning consent, secured the legal interest in the land, and secured a work contractor to build for a fixed price. On the date that planning consent was granted, the Council would enter into a simultaneous agreement to purchase the land and enter into a Joint Contracts Tribunal (JCT) contract with the works contractor at an agreed price. Should a package deal be pursued, the benefits to the Council included:

GOVERNANCE AND AUDIT COMMITTEE -

17 November 2022

- engagement in the project from an early stage; and
- the undertaking of a quality and value-for-money assessment prior to involvement.

The inclusion of the exemption clause enabled different housing delivery routes to be pursued/explored by the Council. If the authority were to pursue a package deal, formal approval for each specific scheme would always be required from either the Executive or the Council”.

Members considered the report and made the following comments:

- Members asked how Cabinet members obtained specialist knowledge when making such decisions.
 - The Assistant Director – Finance stated that the exemption resulted from legal advice which had been sought for a new type of housing delivery option. External advisers provided technical advice where this was not available within the skillset of officers.
- Members queried the process that would be followed for the purchasing of properties should the proposed exemption not have been brought forward as an amendment.
 - The Head of Procurement and Contracts stated that the purchase of a housing package would not be possible, and the Council would need to source land in the traditional way, or procure completed properties direct from developers. The exemption enabled Council involvement from commencement of a scheme and therefore control over the quality of the build.
 - The Assistant Director – Finance stated that whereas previously a builder may have approached the council directly, the exemption enabled a builder to work with a partner, such as a Housing Association, to put forward a package deal to the Council.
- Members asked whether the Council had considered utilising framework agreements, such as those provided by SCAPE.
 - The Head of Procurement and Contracts confirmed that the options to use frameworks had not changed and would be utilised where this was the best option.

GOVERNANCE AND AUDIT COMMITTEE -

17 November 2022

- Members welcomed the changes which offered new delivery opportunities. Nonetheless, it was requested that external advice be taken with projects to mitigate against issues that national companies had faced.
- Members asked for clarification of point 4.2.2 of the report regarding the disposal of land - did this apply solely to land, or to both land and property?
 - The Head of Procurement and Contracts confirmed this applied to both land and property
- Members referred to point 5.2 which listed records to be kept for tendered contracts of between £40,000 and £85,000 in value and asked why records were not kept for all values. Additionally, point 5.3 stated that records kept for contracts up to £40,000 'should be proportionate to the value of the contract' however it was not clear how proportionality was assessed, and the approach was subjective.
 - The Head of Procurement and Contracts stated that the vagueness relating to point 5.3 would be removed.
- Members asked who would approve, and therefore be accountable for, a Capital Programme spend of £209,000.00
 - The Assistant Director – Finance responded:
 - that approval would depend on the nature of the programme. Spend that related to several projects over various schemes of work, would be approved on a case-by-case basis;
 - a decision could be made by a Portfolio Holder or an officer with delegated powers;
 - any 'Key Decision' spend would be subject to the governance process; and
 - whilst the Procurement and Contracts team assisted with the procurement process, the responsibility of the design and project management of the scheme would remain with the client officer.
 - The Head of Procurement and Contracts stated that spend on a single project would involve an assessment of the case with the client officer which included:
 - whether the use of a framework was applicable;
 - which local contractors could potentially be utilised; and

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

- whether a tender process was necessary.
- Members referred to the £40,001 to £85,000 threshold stated at point 9 of the report and requested the addition that at least three quotations be received.
 - The Assistant Director – Finance stated that:
 - a minimum requirement had not been stipulated since a failure to achieve a stated number of quotations would delay progression of the project;
 - the Procurement Team applied an extra layer of scrutiny to ensure that appropriate quotations were received; and
 - the value-for-money assessment was wider than cost alone and also considered: quality; employment opportunities such as apprentices; and social values.
- Members considered the response but were not comfortable with the absence of a minimum quotation requirement and requested that at least two quotations be required. An exception could be considered where a single/limited supplier(s) existed, in which case the exemption process could be followed.
 - The Assistant Director - Finance and Head of Procurement and Contracts would consider the practicalities and feasibilities of the request. The request would also be raised when the item was scrutinised by Governance and Audit committees across the partnership.
- Members referred to the e-Tendering process as noted at point 5.2, and asked, for the benefit of all, whether responses to individual queries were circulated to all interested parties.
 - The Head of Procurement and Contracts confirmed that this was the case and full transparency was applied.
- Members asked whether the tender form included a declaration of a close relationship with a Councillor/officer.
 - The Head of Procurement and Contracts would ensure that this was included for transparency.
- Members asked whether the policy change needed to be scrutinised by the Policy Development Panel?
 - The Assistant Director – Finance responded that Contract Procedure Rules were part of the constitution and therefore the report process of

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

Governance and Audit, Cabinet and Council had been followed. This process would be checked with the Monitoring Officer.

- Members queried whether the exemption stated at point 3.3.3 could lead to unscrutinised extension of contracts/a monopoly situation.
 - The Head of Procurement and Contracts stated that various levels of scrutiny were employed to ensure that this would not occur.
- Members referred to Appendix 2 which outlined the proposed amended delegations to officers in relation to contracts, and asked for clarification of the changes.
 - The Head of Procurement and Contracts responded that the sole change for South Holland District Council related to the inclusion of split limits for the signing of contracts under seal. This was already stated in the Constitution and had been included in the procedure rules for transparency.
- Members thanked officers for the report and pre-briefing presentation which had facilitated their understanding of the proposed changes. It was requested that future proposed changes to existing procedures be highlighted within any report coming forward to committees for consideration.

AGREED:

- a) That following consideration of the draft revised Contract Procedure Rules at Appendix 1 to the report, the draft proposals be noted;
- b) That the suggestion that the Monitoring Officer be authorised to make the necessary changes to update the Council's Constitution, accordingly, including delegation to amend where inconsistencies arise, noting that the CPR will take primacy, be noted by the Governance and Audit Committee;
- c) That the recommendation for Council to approve the revised financial procedure rule for Banking arrangement and cheques as detailed in Paragraph 1.12 of the report be noted by the Governance and Audit Committee; and
- d) That the comments of the Governance and Audit

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

Committee which related to points 5.3 and 9 of Appendix 1A, be noted.

**27. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY
2022/2023**

Consideration was given to the report of the Head of Internal Audit to examine the progress made between 13 September 2022 and 7 November 2022 in relation to the completion of the Internal Audit Plan for 2022/2023 including an update on Internal Audit Recommendations.

Assurance Lincolnshire had replaced TIAA as South Holland District Council' internal auditors from October 2022. The Acting Principal, Assurance Lincolnshire introduced the report to the Committee which included an update on the following points:

- key messages: two audits had been carried out; 41% of the annual plan had been completed;
- assurances: two reviews had been completed;
- work in progress: five audits were in progress; three of which executed by TIAA would come forward to the Committee through Assurance Lincolnshire.
- matters of interest to Audit Committee members;
- audit plan progress to date;
- changes to the original plan;
- status of audit recommendations;

Members considered the report and made the following comments:

- Members referred to the Housing Benefit cases examined and asked in overall percentage terms, what size the 62 sample cases had represented.
 - The Acting Principal, Assurance Lincolnshire stated that the work was completed for external audit who decided the sample size to be audited and selected the sample. Should errors become apparent, a larger sample size may be investigated.
- Members requested the prioritisation of audits on both Leisure provision and the South Holland Centre before the end of the current administration. Should the planned Leisure audit be delayed, it would need to be prioritised for the beginning of the next audit cycle.
 - The Assistant Director – Finance had enquired whether Assurance Lincolnshire could

GOVERNANCE AND AUDIT COMMITTEE -

17 November 2022

accommodate the deferred Leisure audit before the end of the municipal year. The matter would be pursued with the Internal Audit Manager to ascertain whether this would be possible.

- Members referred to page 10 of Appendix A and sought clarification of 'fieldwork underway' for the Car Parks and Markets audit.
 - The Assistant Director – Finance responded that the report was due to be submitted imminently by T.I.A.A. and should come forward to the 19 January 2023 Governance and Audit Committee meeting.
- The Performance on Key Indicators for 'percentage of recommendations agreed' on page 7 of the report was set at 100%. Had Assurance Lincolnshire expected the target to be challenged by services?
 - The Acting Principal, Assurance Lincolnshire stated the target was standard and it was rare that recommendations were not agreed.
- Members noted the rescheduled SH2202 Human Resources audit on page 16 of the report and reiterated that requested extensions required the responsible officer to seek approval by the Governance and Audit Committee.
- Members commented on the content and format of the report:
 - Members requested that the Progress Report on Internal Audit Activity and the update on Internal Audit Recommendations come forward to the Committee as separate reports;
 - in general, contextual narratives were required throughout the report to enable the Committee to understand the current position and track progress;
 - detailed information was required for the Assurance review narratives: recommendations and action to be taken needed to be specified;
 - the Committee would decide at a future meeting whether any further delay in the delivery of Recommendation 1 of the Private Sector Housing DFGs required an update to be provided by responsible officers/Northgate team.
 - members requested feedback on the handover/transition between T.I.A.A. and Assurance Lincolnshire;
 - The Assistant Director – Finance acknowledged the short transition period

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

leading up the first report from the new internal auditors however feedback would enhance future iterations. A change of provider at the start of a financial year would have been preferred.

AGREED:

That the information detailed within the report be noted.

28. GOVERNANCE AND AUDIT 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 known agenda items that had been included in the schedule for the forthcoming year which included the following update:

- Whilst Ernst Young (E.Y.) were on track to deliver the planned Annual Results Report in January 2023, procedurally the Annual Audit Letter would come forward to the following scheduled Governance and Audit Committee meeting. This item had therefore been moved to come forward to the 16 March 2023 meeting.
- Appendix B outlined the Committee's training log.
- The Assistant Director – Finance confirmed that KPMG had been approved as external auditors for the three partnership authorities with effect from the 2023/2024 financial year.

Members considered the report and made the following comments:

- Members requested a short Treasury verbal update come forward to the 19 January 2023 meeting which summarised the recent changes encountered within the financial markets and the subsequent effects on the Council's situation.

AGREED:

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

GOVERNANCE AND AUDIT COMMITTEE -
17 November 2022

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

There were none.

(The meeting ended at 5.41 pm)

(End of minutes)