Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 30 January 2025 at 6.30 pm.

PRESENT

A C Beal (Chairman)
M Geaney (Vice-Chairman)

C J T H Brewis	I Sheard	A Cartwright
A Harrison		G Hall

Apologies for absence were received from or on behalf of Councillors M Le Sage and S-A Slade, and the Assistant Director – Governance.

In Attendance: The Deputy Chief Executive - Corporate Development (S151), the Chief Finance Officer (PSPS), the Deputy Chief Finance Officer - Corporate (PSPS), the Finance Manager - Corporate (PSPS), the Interim Treasury Manager (PSPS), the Head of Internal Audit (Lincolnshire County Council), the External Audit Director (KPMG) and the Democratic Services Officer.

Action By

52. DECLARATION OF INTERESTS

Councillor Brewis declared that he was a Director of PSPS.

53. MINUTES

AGREED:

That the minutes from the meeting of the Governance and Audit Committee meeting held on 19 November 2024 be signed by the Chairman as a correct record.

54. ACTIONS

Consideration was given to the actions that arose at the 19 November 2024 Governance and Audit Committee meeting.

- Regarding action 44. *24/25*, concern was expressed that malware could be inadvertently installed and lay dormant for several months and therefore the reliance upon monthly backups did not necessarily reduce or negate the risk. Members sought assurance that malware was prevented from becoming embedded within the backups.

- Regarding action 46.(a) *24/25*, members stated that they wished to suggest that the Peer Challenge progress

reports were brought to the Governance and Audit Committee for scrutiny.
    - The Deputy Chief Executive – Corporate Development (S151) responded that the reports were overseen by Cabinet and it was the responsibility of Cabinet to ensure that suitable progress was made. Whilst the Governance and Audit Committee had a focussed role in this area, the remit of the committee was to ensure that effective processes were in place to track progress rather than scrutiny of the progress itself.

- Regarding action 46.(b) *24/25*, members had been informed by email that the table was incorrectly labelled and had subsequently been corrected to "Severance Payment". The treatment of exit packages was carried out in accordance with the appropriate rules. Members were satisfied that this action could now be marked as completed.

- Regarding action 46.(c) *24/25*, members queried whether the council operated any salary sacrifice schemes and asked why the employee benefits expenses had been rounded up to £16.067m when the total was £16,065,991.32.
    - Regarding the salary sacrifice scheme: the Deputy Chief Executive – Corporate Development (S151) confirmed that such a scheme was available for employee cars; and
    - Regarding the £16.067m total: the Deputy Chief Finance Officer – Corporate (PSPS) stated that whilst the figures were generally rounded to the nearest thousand, a view had been taken that the 'employee benefits expenses' total be rounded up to the nearest two thousand. This approach had been taken due to various figures being inherent to the note and 'employee benefits expenses' did not feature anywhere else within the accounts. The figure was not deemed material from the auditor's perspective. For assurance, items which did feature elsewhere within the accounts would consistently be rounded to the nearest thousand.

- Members requested a breakdown of 'other miscellaneous expenses' and in particular queried private healthcare costs.
    - The Deputy Chief Finance Officer (PSPS) would provide a response to be circulated to members

after the meeting.

AGREED:

That the update on actions be noted.

55. ANNUAL GOVERNANCE STATEMENT 2023/24 AND FINANCIAL STATEMENTS 2023/24

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which sought approval of the Annual Governance Statement 2023/24 and the Audited Financial Statements 2023/24 for publication.

The Deputy Chief Finance Officer – Corporate (PSPS) introduced the report which accorded with the Accounts and Audit Regulations 2015 in seeking approval by the Governance and Audit Committee of the Annual Governance Statement 2023/24 and the Audited Financial Statements 2023/24 prior to their publication on the council's website.

The covering report outlined the following:

- Background to the report: including the legal deadline for the publishing of the Financial Statements 2023/24 of 28 February 2025 in keeping with the national backstop arrangements;
- That the external auditor had proposed a 'disclaimed opinion' for 2023/24 due to the audit of the Financial Statements 2022/23 not being completed;
- Adjusted audit differences;
- Unadjusted audit differences;
- Corrected disclosure differences;
- Control deficiencies;

The Audited Financial Statements 2023/24 were at Appendix 1.

Members considered the report and made the following comments:

- Members referred to the adjusted and non-adjusted differences and queried the measures in place to mitigate the need for adjustments in the future.
    - The Deputy Chief Finance Officer – Corporate (PSPS) responded that:
        - Regarding the car parking permit income: this had been addressed and the value included in the data for the current year;
        - Regarding the sum returned from Lincolnshire County Council: the issue had

occurred during a period when bank reconciliations had been outstanding however the issue had been resolved and assurance was given that bank reconciliations had been fully up to date since September 2024. Any potential issues would therefore be identified at an early stage. An Internal Audit update on the matter would be presented to the committee as part of the agenda item 8 of the current meeting; and

- Regarding the missed accrual: it was not uncommon for auditors to identify invoices which had been paid in a different financial year to the related item. Although the aim was to capture all transactions within the relevant period by a specified 'cut-off' date, any identified later would not be deemed material to the accounts and therefore remain unadjusted.

- Members referred to the HRA 2023/2024 Outturn on page 44 of the agenda pack, and queried the reason for the higher than expected depreciation.
    - The Deputy Chief Finance Officer – Corporate (PSPS) responded that the 2022/23 budget had not been uplifted for 2023/24 however this had been addressed for 2024/25. The value of the HRA had increased which had also contributed to the higher depreciation figure.

The following queries were raised in respect of the General Fund performance detailed on page 42 of the agenda pack.

- Members queried the £725,000 overspend for Repairs and Maintenance.
    - The Deputy Chief Finance Officer – Corporate (PSPS) referred to the Cabinet Outturn report which had presented that £500,000 of the variance data related to responsive repairs, £126,000 to void repairs and £112,000 to planned external repairs. The supportive narrative stated that "the response for void repairs budgets had been consistently under pressure as a result of increased labour inflation and volume demand".
- Members queried the relative high cost of smoke alarms.
    - The Deputy Chief Finance Officer – Corporate (PSPS) would investigate the matter and provide a response after the meeting.
- Members referred to the General Fund on page 42 of the

agenda pack and queried the overspend of the Regulatory budget.
    - The Deputy Chief Finance Officer – Corporate (PSPS) referred to the Cabinet Outturn report and responded that Land Charges Inspection Fee income had underachieved by £38,000 and Building Control fees by £77,000.
- Members queried the overspend relating to the Minimum Revenue Position (MRP).
    - The Interim Treasury Manager (PSPS) responded that this had resulted from a lower than expected unfinanced capital expenditure in the previous year (potentially due to slippage of the Capital Programme) but actioned during the current year. The future Capital Programme had been amended to account for the slippage and the MRP amended within the budget.
- Members queried the nil outturn for 'Efficiencies Requirement'.
    - The Chief Finance Officer (PSPS) referred to the Cabinet Outturn report 2023/24 and confirmed that £695,000 was achieved against a target of £887,000. The variance stated of £192,000 represented the residual element that was not achieved.

- Members referred to page 47 of the agenda pack regarding the use of the HRA Reserve to finance the Capital Programme. The reduction in balances was not sustainable long-term and therefore assurance was sought that there were no major concerns in this area.
    - The Deputy Chief Executive – Corporate Development (S151) responded that:
        - The HRA Reserves had been utilised to finance the acquisition of new Shared Ownership and Section 106 properties with 75 properties acquired in 2023/2024. The expenditure was therefore not recurring, and this element had been removed from the proposed Capital Programme for 2025/2026 and onwards;
        - It was to be noted that:
            - The authority held £7 million of capital receipts in respect of the HRA;
            - The HRA was able to take debt if deemed affordable according to the HRA Business Plan which was overseen by the Assistant Director –

Housing, with advice provided by Savills PLC. A report from Savills PLC on the matter would be presented to Cabinet in the near future; and
- A similar pattern would be evident in 2024/2025 due to the decarbonisation grant funded programme.

- Members requested an understanding of the increased pension liability outlined at note 4 of the 'Notes To The Accounts', specifically that which had resulted from the £3.250m actuarial loss.
    - The Deputy Chief Finance Officer – Corporate (PSPS) responded that:
        - A variety of elements affected this aspect including the return on fund assets being lower than obligations and liabilities, due to changes in demographic and financial assumptions; and
        - Pensions training for members was due to take place in the coming months which would assist with the provision of a greater understanding of the elements relating to the 'Pensions Assets and Liability' note.

- Members requested an explanation of note 6 with particular interest in the Housing element.
    - The Deputy Chief Finance Officer (PSPS) responded in respect of the 2023/24 data:
        - The column 'net expenditure in the comprehensive income and expenditure statement' represented the total cost of services, and included required technical accounting adjustments resulting from revaluations from the significant elements of pensions and housing stock;
        - The column 'net expenditure chargeable to the General Fund and HRA balance' represented costs that could be charged to the taxpayer; and
        - The column 'adjustments between the funding and accounting basis' included the reversal of some of the technical accounting adjustments from the income and expenditure statement to achieve the General Fund HRA balance; and
        - Significant swings were to be expected and would be detailed when the draft accounts

were presented.

- The Deputy Chief Executive – Corporate Development (S151) clarified that the Housing element referred to the council's retained housing stock which numbered circa 4000 properties. The high volume of stock contributed to substantial changes at the revaluation stage, and which followed through to the depreciation values. This was distinct from Welland Homes which was a company operating in the private rental sector, charging market rents, and which held circa 60 properties.

- Members referred to the balance sheet on page 54 of the agenda pack and requested clarification of the utilisation of 'usable reserves' and 'unusable reserves', particularly in relation to 'property, plant and equipment' outlay.
  - The Deputy Chief Finance Officer – Corporate (PSPS) responded that note 24 of the accounts provided a breakdown of 'unusable reserves' The property, plant and equipment revaluation was one of many accounting adjustments to go through the unusable reserve.
  - The Chief Finance Officer (PSPS) added that unusable reserves were used for accounting adjustments, such as from revaluations of assets, whilst useable reserves comprised cash-backed assets (bank balances).

- Members referred to note 30 in respect of 'officers' renumeration' and queried how a negligible decrease in the Chief Executive salary from 2022/23 to 2023/24 had resulted in an increased pension contribution of £11,000.
  - The Deputy Chief Executive – Corporate Development (S151) stated that comments could not be made on individual circumstances.

AGREED:

1) That the Annual Governance Statement 2023/24, detailed on pages 112-123 of Appendix 1, be approved;

2) Following approval of the Council's Annual Governance Statement, that the Financial Statements 2023/24, at Appendix 1, be approved;

3) That, in consultation with the chairman of the Committee, the Section 151 Officer be authorised to approve any

amendments, if required, after the committee date and prior to the official signing of the Financial Statements; and

4) That, in consultation with the chairman of the Committee, the Section 151 Officer be authorised to approve the letter of representation on its behalf once received from KPMG.

56. EXTERNAL AUDIT COMPLETION REPORT 2023/2024

Consideration was given to the External Audit Completion Report 2023/2024, produced by KPMG.

The External Audit Director (KPMG) introduced the report by stating that a draft version of the report had been presented to members at the 19 November 2024 Governance and Audit Committee meeting. The paper presented to the committee at the current meeting represented the final version of the report. Information previously received by the panel was presented in green text for ease of differentiation to updated information in the final version.

The External Audit Director (KPMG) stated that:

- The audit was complete, and KPMG were in a position to sign their opinion in advance of the statutory deadline;
- The key updates of the report included:
    - Confirmation that the audit of the Financial Statements had been undertaken within the context of the statutory backstop date of 28 February 2025 (pages 4 and 5 of the report);
    - That a disclaimed audit opinion would be provided due to the following two issues:
        - The prior year audit had not been completed and therefore sufficient and appropriate audit evidence had not been obtained in respect of opening and comparative information contained within the Financial Statements; and
        - KPMG had not been able to obtain sufficient audit evidence of floor areas and building condition information used within the council's valuation which had prevented the conclusion of year end balances relating to land and buildings.
    - That the reset and recovery phase for local audit was outlined from page 26 of the report. Based on the level work completed, positive progress had been made to rebuild assurance which would benefit the council's audits in future years;

- That a dashboard of key audit reportable findings was detailed from page 6 of the report. Since the draft report had been presented, KPMG had identified two further uncorrected errors, two corrected classification errors and one additional corrected disclosure amendment;
- That following the Financial Statements audit, five additional 'controls' recommendations had been raised. Four of which related to improvements regarding the 'valuation of land and buildings' process, and one to the 'related party' process; and
- That four performance improvement observations had been made relating to the 'value for money' arrangements, the conclusion of which had been positive with no significant weaknesses identified in the use of resources at the council.

Members considered the report and made the following comments:

- Members referred to the 'key accounting estimates and management judgements – overview' on page 17 of the report and queried a potential mismatch of scoring for the 'post-retirement benefit obligations'.
  - The External Audit Director (KPMG) agreed that the scoring had been slighted misplaced and would be updated.

- Members referred to 'audit misstatements – disclosures' on page 37 of the report and queried the number of undisclosed transactions that had been identified as being above the threshold.
  - The External Audit Director (KPMG) confirmed that, under the threshold of £10,000, two transactions had been identified which totalled £3700. This aspect featured within the recommendation stipulated in the report.

AGREED:

That the External Audit Completion Report 2023/2024 be noted.

57. DRAFT EXTERNAL AUDIT ANNUAL REPORT 2023/2024

Consideration was given to the Draft External Audit Annual Report 2023/2024, produced by KPMG.

The External Audit Director (KPMG) introduced the item by stating

that the report was required to be published on the council's website alongside the signed Financial Statements. The report provided a succinct summary of the conclusions made in respect of the Financial Statements and a detailed commentary regarding the 'value for money' conclusion.

The report at the current meeting presented a summary of the 'value for money' risk assessment received by the Governance and Audit Committee at its meeting held on 19 November 2024.

Members considered the report and made the following comments:

- Members referred to the 'financial sustainability' narrative on page 17 of the report and noted that the council's strategic risk of 'Council Financial Positions' had increased from 15 to 16 in quarter 4. Details of recommended actions to mitigate the increase were requested.
    - The External Audit Director (KPMG) responded that the external audit focussed on the arrangements in place to manage financial sustainability risks, including the risk management policy, framework and strategy. This aspect had been fully explored and although the risk had increased during the year, no significant weaknesses had been identified.
    - The Deputy Chief Executive – Corporate Development (S151) added that:
        - Savings targets built into the budget and the upholding of robust budget monitoring processes were key to the council's financial sustainability;
        - The ongoing budget was reviewed and tracked monthly by the Executive, including: at Cabinet, meetings between the Leader Portfolio Holder for Finance, and at Senior Leadership Team meetings; and
        - The Internal Drainage Board (IDB) levy increase represented the biggest risk to the Revenue Account and contingency arrangements had been prepared should the lobbied increase in grant funding not be forthcoming.

AGREED:

That the Draft External Audit Annual Report 2023/2024 be noted.

58. INTERNAL AUDIT PROGRESS REPORT - JANUARY 2025

Consideration was given to the report of the Head of Internal Audit (Lincolnshire County Council) which provided the Governance and Audit Committee with a progress report update on audit work undertaken.

The report was introduced by the Head of Internal Audit (Lincolnshire County Council) and provided the committee with the following information:

- The role of Internal Audit;
- The purpose of the document;
- Performance dashboard;
- Update on Internal Audit activity;
- Analysis of 'live' audit reviews:
    - The Treasury Management review and the Housing Benefits and Council Tax review had both received the highest assurance opinion of 'substantial; and
    - The Bank Reconciliations review and the Insurance review had both received 'limited' assurance opinions.
- Executive summaries had been provided regarding the assurance opinions given;
- Planning and resourcing;
- The work plan 2024/25; and
- Appendix 1 reported on the tracking of overdue medium and low priority actions, of which there were just two and one, respectively. The low number of items evidenced that actions were being addressed by management. Members were to note, and be satisfied, that an extension to the end of March 2025 had been requested for the completion of two outstanding actions.

Members considered the report and made the following comments:

- Members referred to the audit review of 'Service Level Agreements (SLAs) – SELCP and PSPS' summarised from page 12 of the report and requested further information regarding the observation findings that communication between the councils and PSPS required improvement.
    - The Head of Internal Audit responded that:
        - The issue applied to both parties of the service level agreements;
        - The timely communication of mid-year projects was identified as an area for improvement to enable all parties to react as required; and

        - Communication was an aspect integral to all reviews.

- Members queried whether an update had been received for the 'Carbon Reduction and the Natural Environment' medium priority action which requested sight of the evidence tool.
    - The Head of Internal Audit responded that verbal assurance had been provided however the action would remain active until the evidence tool information had been provided to the audit team. It was expected that this action would be completed ahead of the next Governance and Audit Committee meeting.

- Members referred to the Insurance review on page 11 of the report, specifically the issued raised during the asset register comparison with the insurance asset records, and queried when this would be rectified.
    - The Deputy Chief Executive – Corporate Development (S151) responded that:
        - The Insurance audit had been undertaken at her request and all of the identified matters had now been addressed;
        - There was a requirement that mechanisms implemented for the future were regularly reviewed and tracked to ensure that data remained current and relevant;
        - Services now had a greater understanding of their responsibilities in terms of assets and insurances, in accordance with the Constitution; and
        - Follow-up reviews of 'no' and 'low' assurance audits were undertaken which ensured that progress was tracked and reported.

- Members referred to the Bank Reconciliation review from page 9 of the report and queried the number of bank accounts held by the council and whether clearly documented processes were now in place for newly appointed staff.
    - The Chief Finance Officer (PSPS) responded that:
        - The council held one bank account for all transactions;
        - The 31 January 2025 deadline for the completion of work instructions for newly appointed staff had been met;
        - The assessment of skills and knowledge

within the team regarding responsibilities for bank reconciliations had been completed;
- Since September 2024, bank account reconciliations had been completed, reviewed and signed off within 10 working days; and
- This activity was monitored internally on a monthly basis as a Key Performance Indicator and reported to both PSPS and Council senior leadership teams.

AGREED:

That the Internal Audit Progress Report January 2025 be noted.

59. UPDATE ON CHANGES TO STATUTORY GUIDANCE: "CAPITAL FINANCE: GUIDANCE ON MINIMUM REVENUE PROVISION"

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which provided members with an update on changes to the Statutory Guidance: "Capital Finance: Guidance on Minimum Revenue Provision" and its impact on the Council.

The Interim Treasury Manager (PSPS) introduced the report which included:

- That recent changes to the statutory guidance were to be mainly effective from the 2025/2026 financial year;
- That the guidance prescribed how councils calculated their annual Minimum Revenue Position (MRP) charge for all unfinanced capital expenditure, which made up its Capital Financing Requirement (CFR);
- That the update impacted how MRP was to be calculated on the unfinanced capital equity investments in respect of Welland Homes, the consequence of which represented an increased budget pressure for the council; and
- Appendix 1 outlined Welland Homes Equity MRP based on an annuity rate of 5.94% over 50 years. The column figures were correct as stated and not represented in £'000s as indicated.

Members considered the report and made the following comments:

- Members referred to Appendix 1 and queried whether the 'MRP charge @ annuity' column represented unusable revenue.
    - The Interim Treasury Manager (PSPS) clarified that

the column represented the amount charged annually to the Revenue Account; and

- The Deputy Chief Executive – Corporate Development (S151) added that:
  - The government had adopted a methodology which discouraged councils from undertaking share capital and investment activities, such as Welland Homes, in that any benefit received was to be offset by the MRP charge;
  - Under the new methodology, the MRP charge had become irreversible and thereby created a double prudence approach to the value of assets. Even where value was asset-backed, councils were being forced to write-off the benefit; and
  - Although the consequence of this approach increased the value of councils' cash balances, these could not be spent for revenue.

AGREED:

1) That the changes to Statutory Guidance "Capital Finance: Guidance on Statutory Minimum Revenue Position" be noted;

2) That the proposed changes to the 2025/26 MRP Policy, to be recommended to Council as part of the budget setting report (included in the Treasury Management Strategy 2025/26) which detailed how MRP will be calculated on the unfinanced capital equity investments in Welland Homes, be noted; and

3) That the increased MRP budget pressure on the Council in relation to its total unfinanced capital equity investment in Welland Homes starting from the 2025/26 financial year, be noted.

60. DRAFT TREASURY MANAGEMENT POLICY, TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2025/26.

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which provided pre-decision scrutiny to the strategy being proposed.

The Interim Treasury Manager (PSPS) introduced the report

which outlined the following main points:

- Background to the item;
- That the Treasury Management Policy Statement at Appendix 1 did not propose any changes for 2025/26;
- That the Draft Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Plan 2025/26 at Appendix 2 included the following areas:
    - Reporting requirements;
    - Capital prudential indicators 2025/26 to 2029/30;
    - Borrowing requirement;
    - MRP policy statement;
    - Prudential and treasury indicators;
    - Treasury limits;
    - Prospects for interest rates;
    - Borrowing strategy;
    - Annual investment strategy;
    - Creditworthiness policy;
    - Country limits; and
    - Investment strategy.

Members considered the report and made the following comments:

- Members referred to the council's Capital Financing Requirement (CFR) table at point 2.2 of Appendix 2 and queried the significant projected differential to 'movement in CFR' from £10.9 million in 2026/27 to £734,000 in 2028/29.
    - The Interim Treasury Manager (PSPS) responded that the figures related to the capital programme, the finances for which were outlined at scheme level within the budget report.

- Members also queried the increase in the Housing Revenue Account (HRA) CFR.
    - The Deputy Chief Executive – Corporate Development (S151) responded that:
        - The HRA was currently under-borrowed;
        - Borrowing had not previously been required due the HRA's significant reserves however the identification of the need for HRA borrowing had been included within the HRA revenue implications since 2023/2024;
        - Further borrowing would be dependent on the HRA Business Plan evidencing affordability;
        - Initial short-term borrowing would be extended over a longer term when interest

rates reduced; and
- The new Section 151 officer would be briefed on the council's current position regarding this matter.

- Members noted that the 'core funds and expected investment balances' at point 2.4 of Appendix 2 should be in units of £'000s.

AGREED:

That the comments of the Governance and Audit Committee in respect of the Treasury Management Policy (Appendix 1) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2025/26 (Appendix 2) be noted by Cabinet on 18 February 2025, and by Council on 27 February 2025, when the documents are to be considered as part of the budget report.

61. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

Consideration was given to the report of the Democratic Services Manager which set out the Work Programme of the Governance and Audit Committee.

The Democratic Services Officer introduced the report and stated that:

- Appendix 1 had been updated with rescheduled items for the final meeting date of the current municipal year. A draft 2025/26 work programme would follow the approval of respective committee meeting dates at Council; and
- Appendix 2 summarised the training record for the committee. Discussions had taken place with the Pension trainer and it was recommended that the Pensions training take place in June or July 2025 which would give greater relevance to the upcoming valuation.

AGREED:

That the Work Programme of the Governance and Audit Committee be noted.

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

There were none.

(The meeting ended at 8.11 pm)

(End of minutes)