

## **EPHING FOREST DISTRICT COUNCIL COMMITTEE MINUTES**

**Committee:** Audit & Governance Committee      **Date:** Monday, 22 March 2021

**Place:** Virtual Meeting on Zoom      **Time:** 5.00 - 7.00 pm

**Members Present:** I Hadley (Chairman), A Jarvis (Vice-Chairman), S Heap, R Jennings, P Keska and B Vaz

**Other Councillors:** J Philip and A Patel

**Apologies:**

**Officers Present:** S Marsh (Chief Internal Auditor), M Crowe (Corporate Fraud Team Manager), S Linsley (Senior Auditor), A Small (Strategic Director Corporate and 151 Officer), C Hartgrove (Interim Chief Financial Officer), L Kirman (Democratic Services Officer), A Hendry (Democratic Services Officer) and R Moreton (Corporate Communications Officer)

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### **62. Webcasting Introduction**

The Chairman made a short address to remind everyone present that the meeting would be broadcast live to the internet, and would be capable of repeated viewing, which could infringe their human and data protection rights.

### **63. Declarations of Interest**

There were no declarations of interest pursuant to the Council's Member Code of Conduct.

### **64. Minutes**

**RESOLVED:**

That the minutes of the meeting held on 25 January 2021 be taken as read and signed by the Chairman as a correct record.

### **65. Matters Arising**

There were no matters arising from the minutes of the previous meeting which warranted further discussion.

### **66. Audit & Governance Committee - Work Programme**

The Section 151 Officer, A Small, advised the Committee that the audited accounts for 2018/19 could not be presented. An additional meeting of the Committee was requested, within the constraints of the municipal year, so that this item could be presented to the Committee.

There were no other outstanding items on the work programme.

**RESOLVED:**

An additional meeting of the Audit and Governance Committee would be called to consider the final statement of accounts for 2018/19.

**67. Internal Audit Progress Report**

The Chief Internal Auditor, S Marsh, presented the Internal Audit Monitoring Report and outlined the proposal to defer the Quails Commercial and Council's Treasury Management audits until 2021/22. She advised that no final audit reports had been issued since the last Committee meeting. The annual audit plan had progressed and the annual monitoring report would be presented at the next meeting. The Recommendation Tracker had only one outstanding recommendation, related to a cross council data sharing agreement for the Harlow Glisten Garden Town project. Internal Audit had worked with the Corporate Fraud Team on Covid -19 grant processes, continued work on the corporate purchase card projects and data matching for the National Fraud Initiative.

**Resolved:**

- (1) That the summary of the work undertaken by the Internal Audit Team and the Corporate Fraud Team during the period January to March 2021 was noted.
- (2) The Committee approved the deferral of the Qualis Commercial and the Treasury Management audits.

**68. Risk Management Report**

The Section 151 Officer, A Small, presented a report on Risk Management, the risk register and risks the Council are facing at a corporate level. The risk rating associated with Welfare Reform, Financial Resilience and Delays in Issuing Planning Permissions had all been downgraded.

Members sought clarify and discussed ensued on the detail of risks associated with the local plan, delay in planning permissions and housing capital finance. Above Consult had been appointed to review the Housing Revenue Account. The Section 151 officer would provide additional detail for the changed risk rating associated with the delay in issuing planning permission.

**Resolved**

- (1) The changes in the risk register were reviewed noted and endorsed.

**69. Internal Audit Strategy and Audit Plan 2021/22**

The Chief Internal Auditor, S Marsh, presented a report on the Internal Audit strategy and Plan 2021/22 and detailed the key deliverables of the Audit Service. The Internal Audit function must have an External Quality Assessment every five years, this would take place in 2021/22 and the results would be communicated to the Committee.

The methodology for developing the Internal Audit plan was outlined and the priority cross cutting areas were detailed as: Change Management; Information Governance and Management; Risk Management; Fraud; and Value for Money (VfM). The operational level priorities would be: Qualis, from the council's perspective; Key Financial Systems; and Project and Contract Management. The three-year audit plan was presented as an appendix to the report.

**Resolved:**

- 1) The Internal Audit Strategy and Plan for 2021/22 was approved by the Committee.

**70. Corporate Fraud Team Strategy 2021/22**

The Corporate Fraud Team Manager, Martin Crowe, set out the focus and approach of the Corporate Fraud Team for the year 2021/22. Proactive work would cover: right to buy; revenue streams; work with Council Tax and Revenue Teams; and internal and external awareness programmes. Reactive work would: review and risk assess all referrals; complete data matches for the national fraud initiative exercise; and explore joint working and shared service options. Longer term projects included; work with Human Resource; conflict of interests; the use of data mining; and the review of service access documentation.

The team had worked in synergy with the internal audit team and adapted working practices to ensure compliance with Covid restrictions and the efficacy of the service. The term 'fraudits' represented when fraud and audit worked together and provided a wider perspective

Cllr Jennings asked if government grants paid out incorrectly could be reclaimed M Crowe advised that there was no legislation for clawing back the money, but fraud and theft legislation was being explored.

**Resolved:**

The Committee approved the Corporate Fraud Team's Strategy for 2021/22.

**71. Draft Capital Strategy 2021/22 to 2025/26**

The Interim Chief Financial Officer, C Hargrove, outlined the Capital Strategy 2021/22 to 2025/26 and detailed this was a requirement of CIPFA's Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). The change in approach on commercial investment, regeneration and the introduction of Qualis, the Council's arms-length investment and service delivery vehicle, was highlighted. The Strategy had broadened in scope and set out the wider financial commitments for added transparency. The Council's adopted five year Capital Programme, for both the General Fund and Housing Revenue Account, showed planned capital expenditure of £52m in 2021/22 and £267m over the next five years. This required increased external borrowing of £434m at March 2025. The Council's Section 151 Officer was satisfied that Capital Programme was prudent, affordable and sustainable of the programme as required by the Prudential Code.

The Capital Strategy included the Council's approach to Asset Management, Treasury Management, Service Investments, Commercial Investments, Financial Guarantees and the maintenance of professional capacity. The Capital Strategy would be updated annually and presented to the Committee.

The Minimum Revenue Provision Statement (MRP) 2021/22, had remained unchanged from the adoption of the previous policy in Nov 2021.

The Chairman sought clarity on the timing of funding long term capital expenditure before financing arrangements. He was advised that Council reserves funded some of the expenditure and borrowing was used at the point of necessity to finance the expenditure.

The Vice Chairman made several observations in relation to gaps in rules, guidance, systems and controls, with specific reference to investments and the large sums of money involved (£10m). He suggested that additional detail should be made available and would clarify this position for the Committee in conjunction with the Section 151 Officer. The Interim Chief Financial Officer, advised that the Capital Strategy was an overarching document and the latest guidance on reporting had been used in the preparation of the report. Additional detail including lists of the outstanding loan portfolio and investments would be included in future reports.

The Section 151 officer clarified that the decision in relation to capital spend was a Council decision, and this had followed due process, he agreed that the rules needed to be clear in the strategy and highlighted that whilst the PWLB restricted access to funds for commercial return, this did not prohibit borrowing for commercial properties if this was in relation to regeneration or improving the local area.

The Vice Chairman asked if the Council made the decision on spend by third parties, this was confirmed by the Section 151 Officer.

Cllr Heap confirmed that additional details and information on the prudential code would be useful for the Committee. The Committee requested a paper on the changes to CIPFA prudential code at a future meeting.

### **Resolved**

That the Committee:

- i) recommended for approval by Council, the Capital Strategy 2021/22 to 2025/26 and the Minimum Revenue Provision Statement (MRP) 2021/22.
- ii) required a paper on CIPFA's Prudential Code and proposed amendments to the Code, at a future meeting.

## **72. Draft Treasury Management Strategy (including Investment Strategy) 2021/22**

The Interim Chief Financial Officer, C Hargrove outlined the draft Treasury Management Strategy 2021/22 and the draft Investment Strategy 2021/22 for consideration. The overriding position was a further rise in borrowing activity for the year ahead, as the Council continued to roll out its capital investment plans and limited investment activity. Borrowing and investing was taking place against historically low interest rates. As at the 28 Feb 2021 the Council held £250m in external borrowing partially offset by £11m treasury investments. The Capital Financing Requirement (CFR) would need to rise to meet the needs of the capital programme, but it was noted that estimated actual borrowing would remain below the CFR at all times. The investment balance would be a minimum £12m as the lowest risk level of borrowing shows that cash and investment balances should be kept at a minimum level of £12m. Treasury Management Indicators were detailed in the report

Cllr Jennings was concerned by the size of borrowing and asked how this compared with other similar local authorities, in relation to risk and debt levels. The Committee were advised that CIPFA carries out a resilience index which includes debt. The Council carried more debt than average due to the housing stock settlement of £183m in 2012. Every District Council had elements that make it unique and there may be value in carrying out a comparative exercise with similar boroughs. Cllr

Jennings confirmed that he did not want additional work carried out, but this would be useful in the future.

Cllr Heap confirmed that historical housing settlement debt was £183m and is now £185m and that reallocation of debt would be required. He challenged the inclusion of some of the proposed options and suggested that there was a risk if Epping became part of a unitary authority and comparison with other district council would be useful. The Section 151 officer advised that there would be assets in addition to the borrowing.

Cllr Hadley sought clarity on what was acceptable between short and long term fixed rates and was advised that the current difference was a 1% advantage for short term. There was an underlying borrowing need as a variable rate debt would mature in March 2022 and a refinancing exercise would be required and whilst there are historically low interest rates, any borrowing needed to be affordable.

Cllr Hadley asked if there were penalties for forward starting loans that did not materialise and was advised that these were required all details would be considered.

**Resolved:**

That the Committee recommended for approval by full Council

- i) the draft Treasury Management Strategy 2021/22 (including the MRP Policy), and
- ii) the draft Investment Strategy 2021/22.

**73. Any Other Business**

No other business was raised for consideration by the Committee.

**74. Exclusion of Public and Press**

The Committee noted that there was no business which necessitated the exclusion of the public and press from the meeting.

**CHAIRMAN**