

DACORUM BOROUGH COUNCIL

AUDIT COMMITTEE MINUTES

8 FEBRUARY 2023

Present:

Councillors: Riddick (Chairman)
Silwal
Townsend

Officers: F Jump Head of Financial Services
N Howcutt Chief Finance Officer
T Angel Corporate & Democratic Support Officer
P Zieba Hemel Garden Communities Programme Director
S Whelan Hemel Place Strategy Programme Director
C Silva Donayre Strategic Director, Corporate and Commercial
S Jayasinghe Strategic Planning and Regeneration Team Leader
A Elliott Revenues Team Leader

Others: Philip Lazenby (TIAA)

The meeting began at 7.30 pm

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Chapman, Symington and Elliot.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES AND ACTIONS

The minutes of the previous meeting were agreed by the members present and then signed by the Chairman.

There were no outstanding action points from the previous meeting.

4. PUBLIC PARTICIPATION

There was no public participation.

5. SUMMARY INTERNAL CONTROLS ASSURANCE (SICA)

P Lazenby presented the update, noting that 4 reports were being presented on council tax arrears, NNDR, Section 106 and Place Strategy. Substantial assurance have been given on the first three reports, and reasonable assurance has been given on Place Strategy.

The council tax arrears report has one routine recommendation regarding setting up a formal process for referral for an enforcement agency. Management have accepted this with a caveat around the necessity of doing this by exception over a 6-month period, which has been considered to be satisfactory.

NNDR has no significant recommendations and one operational recommendation, which is regarding best practice, and P Lazenby proposed not covering the report in any further detail.

The Section 106 report highlights a recommendation regarding the monitoring and maintaining of evidence and has been accepted by management.

The Place Strategy report has reasonable assurance with four recommendations classed as important and two as routine. The four important recommendations are largely in recognition of the importance of HGC (Hemel Garden Communities) and Hemel Place. The first recommendation suggests the memorandum of understanding be formalised, and management have provided a response indicating that it is a matter that is subject to partnership arrangements. A revised memorandum of understanding will be circulated for signing at a later date. The second recommendation looks at the risk register, and management have provided a response that is broadly in agreement with the response. P Lazenby referred to sections 3.1 and 4.1 of the policy regarding risk management, which highlight the importance of risk management arrangements, and management have provided a response indicating that they will update the risk register as well as an outline of how risk arrangements will be reported.

Looking at the next recommendation on Place Strategy regarding an adverse financial position, management have commented on this, disagreeing the overall level of adverse financial position and have noted the malleability of interdependencies. An update on this recommendation will be provided through the recommendation tracking process. The fourth recommendation notes key deliverables and the importance of having these as projects transition into active status. Management have provided an update and confirmed that KPIs (key performance indicators) will be updated as projects transition.

Councillor Townsend commented on Section 106 and asked what is being audited on the internal controls. P Lazenby advised that Section 106 is in relation to legal obligations regarding planning permission that the council has and the financial arrangements surrounding this. Section 106 was an area that was due to be audited though there has been little activity during the period with 4 ongoing projects.

Councillor Townsend asked which area Section 106 is focused on. P Lazenby stated that money had not been spent from the pots of money checked. Councillor Townsend queried if it was verified if there is a policy to spend this money. P Lazenby confirmed that the policy was checked.

The Chairman commented that Section 106 money is allocated specifically against projects and that it can take time before it is implemented during the progress of the actual development. Section 106 is project specific and obligations are tied up in legal agreements.

The Chairman suggested that Councillor Townsend may be confusing Section 106 with CIL, and Councillor Townsend retracted his comments.

Councillor Townsend stated that his concern is regarding the information being received on updates on Section 106 and is therefore not an audit concern.

It was clarified that Section 106 allocation is very specific and that it is checked that spending is in line with the legal agreement in place.

Councillor Townsend referred to the recommendation regarding the Place Strategy on page 11 of the report, noting the comment on the £170,000 deficit and the management comment suggesting that it is a £76,000 deficit. S Whelan noted that the budget has been in place for a draw down from reserves for around 18 months and is over a 2-year spend. The predicted overspend is up to September 2023 of £76,000. Given that work is likely to continue, it has been put forward into a restructure and further proposal regarding Place operation work. S Whelan advised that the financial forecast was confused in terms of budgeting between economic development and community partnerships due to Place, Communities and Enterprise being a new section of the Council. It has now been corrected as a £76,000 budgeted overspend.

Councillor Townsend queried where the £170,000 deficit had come from. N Howcutt explained that the audit had taken place in October 2022 when there was a pressure on the Place Strategy regarding the cost of delivery. When management responded, pressure was around £70,000, and there is now likely to be a balanced budget for the Place Project.

P Lazenby noted progress against the plan as detailed on page 14 of the report. A number of audits have been issued as final, two reports are in draft and will be provided at the next Audit Committee, and four additional audits have a brief issued and work is due to commence. P Lazenby stated that there are no concerns with regards to completing the plan by year-end.

Outcome

The Committee noted the report.

6. ANNUAL AUDIT PLAN 2023/24

P Lazenby took the report as read, noting the plan for consideration and potential approval. The first audit is MTFs (medium term financial strategy), as discussed at the last Committee meeting, and that this is a core audit to be undertaken to underpin the strategic risk that the organisation faces. The Period 1 Health and Safety works were also noted.

Outcome

The committee approved the annual audit plan for 2023/24.

7. 2023 STRATEGIC RISK REFRESH AND QUARTER 3 STRATEGIC RISK REPORT

N Howcutt presented the update, noting the recommendations to note the update, any further assurances, and to highlight the revised strategic risks put forward to the Committee and Cabinet.

N Howcutt advised of one change to the scores in reference to the Council's ability to provide sufficient quality and affordable homes, as linked to the moratorium. The moratorium has now been partially lifted, meaning that more development can be undertaken and there is now around £50m of new build programme in the HRA for next year. It was noted that the Council only provide a small amount of numbers and they are therefore reliant on the private sector.

Councillor Silwal queried the amber and red ratings. N Howcutt stated that part of the risk strategy outlines a matrix system for risks and anything that scores over 9 as an actual risk or over 4 as likely or consequence will be regarded as red, with amber being any item that scores over 2 or 3. The first red risk is on the failure to secure sufficient investment in essential infrastructure, which requires £1bn of investment, and is therefore particularly high risk as this relies on what funding is in place. The second red risk is regarding funding and income not being sufficient, particularly when there is an in-year pressure on budget. N Howcutt confirmed that there are several strategies in place to bring the budget back in line for the year.

N Howcutt noted the revised strategic risks, which commenced in June 2022 with a cross-party group of councillors to review the existing strategic risks. Key corporate priorities have been reviewed alongside the 52 objectives and key strategic risks have been identified around the delivery of the corporate plan. N Howcutt proposed a specific risk regarding climate and ecological emergency, which has cross-party support.

N Howcutt stated that, following the appointment of a new administration in May, there will likely be a new corporate plan and the strategic risks may need to be reviewed again, though the proposed risks remain a good basis for what the Council needs to focus on. Work has been benchmarked against other local authorities and it is therefore felt that the proposed list of strategic risks is appropriate for approval.

Councillor Townsend asked if the corporate plan had changed. N Howcutt explained that the corporate plan was revised in 2021 when the climate emergency was included in more detail. It was noted that Brexit negotiations have been removed.

Councillor Townsend noted the risk regarding infrastructure and asked how the scope of this risk is defined given that DBC is not responsible for all infrastructure. N Howcutt advised that the risk is now linked to the failure to deliver place, shaping and regeneration ambitions, meaning there is now more of a focus on what the Council does. N Howcutt referred to page 44 detailing the revised strategic risks as outlined in Table 1, stating that the risk has now been revised to ensure it is more appropriate. It was noted that HCC (Hertfordshire County Council) have a wider infrastructure development plan that they are delivering.

Councillor Townsend queried if the Risk Management Policy and Risk Management Guide would also be discussed. N Howcutt advised that these are part of the review.

Councillor Townsend commented that the Risk Management Policy is also referred to as a strategy. N Howcutt explained that the strategy and policy are effectively the same and confirmed that he would correct the references within the report.

Councillor Townsend noted the Committee's role to oversee risk management and asked what governance actions the Audit Committee is required to take. N Howcutt clarified that strategic risks are first reported to the Audit Committee to allow for scrutiny, and it was confirmed that the Committee provides oversight as Cabinet will approve the strategic risk reports whilst reflecting the Audit Committee's review. P Lazenby suggested that the Audit Committee has more responsibility regarding risks than stated give that the Committee's Terms of Reference articulates the responsibility in respect of identifying weaknesses, risks and receiving assurance, and it is therefore the Committee's duty to take an overall view of these risks. P Lazenby agreed that the Audit Committee does not have overall responsibility for each individual item, though it does have an overall monitoring responsibility.

Councillor Townsend suggested that the Audit Committee is responsible for setting the risk appetite and therefore the approval of the policies would also fall to the Committee. N Howcutt explained that risk appetite has to be set as part of strategic risks going forward and this needs to be discussed with members and the Audit Committee, with the Committee needing to be comfortable with the risk appetite being set. N Howcutt advised that now the new strategic risks are in place, they can now look at setting the appetite for these risks.

Councillor Townsend queried if the risk management framework is decided by Cabinet or the Audit Committee. N Howcutt stated that both the Audit Committee and Cabinet have to accept the risk strategy and appetites set. P Lazenby added that Cabinet has the ultimate say on the risk appetite of the organisation and that it is the Audit Committee's responsibility to monitor against this.

Councillor Townsend asked about the approval of the Risk Management Policy and where the responsibility for approvals sits. N Howcutt explained that the policy was brought to the Audit Committee for feedback and that it would not be taken to Cabinet for ratification unless the Audit Committee was comfortable with the policy.

Councillor Townsend noted that the Audit Committee was being asked to oversee the policy rather than formally approve it. N Howcutt stated that this was the language used in the recommendation.

N Howcutt asked if the recommendation could be updated to ask for approval. Councillor Townsend commented that his expectation was to comment on the policy rather than approve it. N Howcutt noted that the Councillor had read the policy and not raised any concerns. Councillor Townsend asked that the governance regarding the Audit Committee's responsibilities is considered further.

P Lazenby commented that the last version of the document was prepared in 2020 and has been brought to the Audit Committee, though this is now a new version and should be formally ratified.

N Howcutt stated that the policy could be brought back to the Audit Committee meeting in March for formal ratification.

Councillor Townsend stated that he did not wish to delay the process in approving policy and requested that the governance be considered for the future.

N Howcutt suggested the following options; that the recommendation be updated to approve the policy in the meeting, that they approve the recommendation and it be brought back to the Committee at a later date, or to approve the recommendation and an update be circulated electronically for approval.

The Chairman stated that having it circulated electronically would mean that members are reviewing the policy as individuals rather than an assembled committee and that he would therefore not recommend that option.

Councillor Townsend stated that he was comfortable approving the policies, subject to the comments raised being considered for the next iteration.

The Chairman noted that there is already a strong level of governance in place and recommended that this governance not be updated if not necessary.

Outcome

The Committee agreed the recommendations.

8. DRAFT TREASURY MANAGEMENT STRATEGY 2023-24

F Jump presented the update, noting that this was brought to the Committee as a supplementary item. The document has not been brought to the Audit Committee in the past, with Cabinet typically undertaking the scrutiny of this as part of the budget papers. F Jump stated that it was felt appropriate that the Audit Committee should review the strategy to provide comment and feedback for Cabinet to consider when making the recommendation to Council.

The strategy provides an outline on how the organisation manages cash flow, borrowing and investments, and the content of the strategy is dictated by legislation and CIPFA's Treasury Management Code of Practice. F Jump advised that prudential indicators must be included, a set of financial performance indicators to provide an overview of capital expenditure and borrowing requirements.

F Jump advised there is a new Treasury Management Code of Practice that will be effective from 1 April 2023, which includes increased reporting requirements. At present 3 documents are produced each year, the strategy, a mid-year update, and a report on performance

produced at the end of the year. The new code requires quarterly reporting and this will be provided from 1 April 2023, which should be brought to both the Audit Committee and Cabinet. The new code also requires a liability benchmark indicator, which provides an overview of the Council's indebtedness, and a statement on ESG issues regarding treasury management also needs to be included. It was noted that skills and training for those who work on the strategy must be proportionate to treasury management activity.

Councillor Silwal commented on borrowing and asked if this amount could be justified. F Jump advised that borrowing for local authorities is part of the normal course of events with the majority of forecasted borrowing in relation to the housing revenue account and investment into housing stock. This work can be financed in a number of ways, including rental income and selling off existing assets, with borrowing being the final option.

The Chairman asked if a review of revaluing stock is required to ensure there is adequate range of equity. F Jump confirmed that stock is valued on an annual basis and that borrowing undertaken is independent of valuation. If it was felt there was significant market changes then more regular reviews would be taken.

N Howcutt noted the debt increasing to over £400m and advised that the Council has a housing stock of 10,000. On average, debt is around £30-35,000 per property and each property is worth more than this.

Councillor Townsend queried where the social statement is included in the report. F Jump noted that this is on page 35 of the supplementary item.

Councillor Townsend noted the change in investments with an increased focus on unspecified investments and asked for further clarification on this. F Jump explained that investments are categorised as specified or unspecified, with specified investments generally being those in sterling products that are UK-based and less than 12 months in duration, and unspecified covering all other investments. Practice generally dictates that investments are not undertaken for longer than 12 months, though it is felt that the return to the authority can be increased by undertaking investments in longer-term products, provided that the counterparties have the same level of creditworthiness expected.

Councillor Townsend asked that the acceptable duration for investment be outlined as part of the policy. F Jump explained that there are no limits on an investment, though it would not be expected for any investments to go beyond a 2-year period. For creditworthiness, there would be no change in what is expected and this is set out in the strategy document with ratings taken from a number of agencies. F Jump stated that a number of factors are taken into consideration, including ratings, and that these are set out in the policy, though they will generally access higher rated counterparties. N Howcutt added that they would generally only look at AAA ratings.

Councillor Townsend asked if unspecified investments will only be bonds, loans or money market instruments. F Jump confirmed that they don't take preferred shares or equity as part of the current programme, and whilst the strategy would allow for them, it would be unlikely for this to change. N Howcutt added that whilst there are strategies in place that provide flexibility, they will always be led by security and liquidity before yields, meaning they will not

invest if there is a risk to the principle. Councillor Townsend commented that the underlying policy should reflect this. F Jump noted that the strategy does set out that security and liquidity are the first considerations with yields considered last, which is the overarching principle for treasury management investment.

Outcome

The Committee provided feedback on the strategy for the Cabinet's consideration.

9. NEW AUDITOR ANNOUNCEMENT

N Howcutt provided a verbal update, noting that the Council was part of the Public Sector Audit Appointments Programme to appoint external auditors for 2023-24 onwards. It has been confirmed that KPMG will be the Council's external auditors for 2023-24 and they are now awaiting communication to plan the audit. KPMG are new to the local authority audit market, having left the market 4-5 years ago, though they are a well-known organisation and should therefore receive the same level of service previously received.

10. WORK PROGRAMME

There were no changes to the work programme.

The meeting ended at 8:34 pm.