

Audit and Governance Committee

Tuesday 28 November 2023

PRESENT:

Councillor Allen, in the Chair.

Councillor Finn, Vice Chair.

Councillors Dr Mahony, Raynsford, Stevens and Independent Member Annette Benny.

Also in attendance: Louise Clapton (Audit Manager), Alison Critchfield (Senior Lawyer), Paul Dossett (Partner, Grant Thornton (online)), Wendy Eldridge (Lead Accountancy Manager for Capital and Treasury Management), Carolyn Haynes (Head of Finance), Ross Jago (Head of Governance, Performance and Risk), Ken Johnson (Counter Fraud Services Manager), David Northey (Interim Section 151 Officer), Giles Perritt (Assistant Chief Executive), Tony Rose (Head of Devon Audit Partnership) and Hannah Whiting (Democratic Advisor).

The meeting started at 12.30 pm and finished at 2.37 pm.

Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.

33. **Declarations of Interest**

No declarations of interest were made.

34. **Minutes**

In relation to Minute 26b of the minutes of the meeting held on 26 September 2023:

- a) Councillor Alison Raynsford asked if more detail would be provided in relation to Minute 26b of the minutes of the meeting held on 26 September 2023;
- b) David Northey (Interim Section 151 Officer) explained that the minute related to providing more detail in the next report of its kind to come to the Committee, and that work was underway.

The Committee agreed the minutes of the meetings held on 5 September 2023 and 26 September 2023 (including confidential minutes) as an accurate record.

35. **Chair's Urgent Business**

The Chair asked David Northey (Interim Section 151 Officer) to provide an update on the transaction that had caused the 2020/21 audit to not yet be signed off:

- a) Plymouth City Council was working with Grant Thornton to resolve the issue;

- b) David had sent all information requested to DLUHC, was waiting for their response and was due to meet them after that week for an update;
- c) It was important to try and reach a conclusion before setting the budget for 2024/25;
- d) He would update the Committee as soon as he could with any developments.

36. **Counter Fraud Half Year Report**

Ken Johnson (Counter Fraud Services Manager) introduced the report and highlighted:

- a) Savings being generated through counter fraud activity were increasing and anticipated that this would continue as data accuracy and NFI (National Fraud Initiative) specialisations were used, because the team were able to be more flexible and deal with more cases;
- b) Continued to provide training to teams in the council, most recently the Low Carbon Energy Team, in relation to a new grant system;
- c) Best practice responses to counter fraud work that was expected of local authorities and the team would be aiming to a deeper understanding of the risks;
- d) Was to provide a more integrated approach to assurance;
- e) Pleasing to see response from Council departments to the latest NFI from the Cabinet Office;
- f) Was able to look into the possibility of Plymouth City Council overpaying VAT, and were able to say that was not the case;
- g) A new offence was being brought forward – failure to prevent fraud – he would update the Committee when it became law;
- h) Continued to work with teams across the Council very well, in particular the Digital and Customer Experience Team, Strategic Planning and Infrastructure Team and Finance Teams in response to NFI matches.

The Committee agreed to note the report.

37. **Internal Audit Half Year Report**

Louise Clapton (Audit Manager) introduced the report highlighted the following points:

- a) The Public Sector Internal Audit Standards required the Head of Internal Audit to prepare an annual report, providing an opinion that could be used by the organisation to inform its annual governance statement;
- b) The report provided members with a mid-year position on work carried out up to the end of September 2023 and provided a position statement on the progress towards the annual audit assurance opinion;

- c) The mid-year assurance option was 'reasonable assurance', which meant that there was a generally sound system of governance, risk management, and control in place across the organisation;
- d) Some reports, that had been included in an appendix to the report, had been finalised since publication, and had limited assurance, which would affect the chart shown on Page 17 of the agenda pack for the meeting, but overall the outcome would still have been 'reasonable assurance';
- e) Management were required to provide a response to the audit observation and to agree an action plan to address any risk or control issues, but this had not been received in relation to the special guardianship orders when the papers for the meeting had been published, but it had been received since;
- f) The team were in the process of reviewing the audit plan for the remainder of 2023/24, and were planning for 2024/25.

In response to questions it was further explained:

- g) A draft report that had been issued to the Section 151 Officer, what was found in work on 22/23 was there was an issue when debt recovery reaches a point where no further action was taken, so good recovery is automatically in place, but once those avenues were exhausted, there were limited resources within the debtors team to continue with the debt recovery;
- h) Would be using the limited assurance audit reports to determine the audit plan for Q4 and for 2024/25, and the team would follow up on management actions and it would influence audit work in other areas where the risk would continue, or was similar, and the team were trying to link in better with finance and risk management at the Council to be more transparent across the board in what the risks were;
- i) The identified risks did triangulate and all involved were trying to improve how risk and audit worked together, as part of the compliance process, so they were all on the 'same page' and where risk was in the authority;
- j) Debt recovery for business rates worked well and was high overall, but there were a small amount where resources had been exhausted and had then been lacking, but action had been taken to put more resource into those areas and a business case was in progress to address the shortfalls, which would put 6 people into the team, and would be paid for by the collection of additional debt.

The Committee agreed to:

1. Note the mid-year assurance opinion statement within this report;
2. Note the findings within the report.

38. **Treasury Management Strategy**

Wendy Eldridge (Lead Accountancy Manager) provided a summary of the report and highlighted:

- a) The key objectives of the Treasury Management Strategy were to ensure that the organisation had sufficient funds to meet its short term and long term obligations, minimizing financing costs and maximising return on investment;
- b) Treasury management encompassed a wide range of activities including cash management, funding and investment management, risk management and working capital management;
- c) As part of the budget setting assumptions for 2024/25, the forecast for the average rate of return on investments would be 5%;
- d) The forecast for capital expenditure for 2024/25 was £147 million, but the capital programme was under continual review;
- e) The Council budget assumption for 2024/25 borrowing was 5.5%;
- f) The Bank of England interest rate was 5.25%, and the forecast was that there would be a slow reduction in interests rates, with the rate to be around 3% by early 2026;
- g) Short-term borrowing was favourable while interest rates were high;
- h) Where possible, reviews were being undertaken on long-term fixed rate loans;
- i) The Council had protected itself with its PWLB borrowing across 50 years to secure rates between 1.37% and 2.54%, and a rate swap agreement had protected a further £75 million against the risk with interest rates.

In response to questions, it was further explained:

- a) The rate swap agreement was very likely to not be impacted by the outcome of the outstanding issue of the transaction that was holding up the sign off of the 2019/20 accounts;
- b) With regards to making provision to repay debt, throughout the year, if the Council held higher balances it would be used to repay short-term borrowing in advance of taking out further short term;
- c) The minimum revenue provision that was made each year, circa £20 million, was used to reduce the requirement for borrowing;
- d) Drop in borrowing was as a result of schemes where re-profiling had been done and, significant factor would have been Freeport;
- e) The significant increase in grants and contributions for 2025/26 was due to an assumption that the Manadon Road Network project would secure additional funding;
- f) The significant drop in borrowing was a result of significant re-profiling, and in some cases borrowing would be funded by developments

- g) With interest rates at their highest for a long time, the Council was cautious over new projects, but also took the forecasted drop in interest rates into consideration;
- h) The borrowing was increasing and driven by an ambitious capital programme, and would continue to do so, if no programs were added from 2026/27 then it would decrease, but was being driven by high borrowing to support investment to date;
- i) Borrowing would become 'too much' when the revenue budget being set could not support the pay back of the borrowing requirement for the capital programme and an upper boundary was set;
- j) The purpose of the report was to highlight the forecast, but all projects in the capital programme would be subject to the capital governance process;
- k) An overall debt ceiling would be driven by the number of the capital programme and the requirements to support development within the city, it would need to be a wider conversation if one was to be discussed.

The Committee agreed to:

- l. Recommend the Treasury Management Strategy 2024/25, that incorporated the authorised limits, operational boundaries and prudential indicators, to Council for approval.

39. **Treasury Management Mid-Year Review**

Wendy Eldridge (Lead Accountancy Manager for Capital and Treasury Management) introduced the report and highlighted the following points:

- a) Net borrowing was £559 million on 31 March 2023, offset by reserves and working capital;
- b) Although the Council had been negatively impacted by higher interest rates with regards to borrowing, the Council was also benefitting through investments;
- c) It was forecast that the treasury management budgets would delivery just under £500,000 worth of savings in 2023/24 as a result of the benefits of the rate swap and ongoing benefits of interest rates being linked to longer term investments, reducing the exposure to risk.

In response to questions, it was explained:

- d) The upper limit of fixed rate interest exposure was at 77%, with a maximum of 80%, and could become in risk of breach in the future if there was a change in fixed rates that the Council wanted to take advantage of, but if it were to the benefit of the Council, it would just need to be acknowledge as to why it had happened;
- e) Some of the 2023/24 actuals were getting close to the boundaries set, but there was room for recovery within them.

The Committee agreed to note the report.

40. **Capital Finance Strategy**

Wendy Eldridge (Lead Accountancy Manager for Capital and Treasury Management) introduced the report and highlighted the following points:

- a) Additions to the Capital programme over £200,000, were added via Executive Decision, and was subject to a call-in period;
- b) The five year programme at 30 September 2023, set out a programme totalling £373,765,000 and a breakdown of funding across various sources;
- c) The programme was mostly funded through borrowing, which did carry risk due to high interest rates, and would be incorporate within the treasury management revenue budget as part of the budget setting process to ensure affordability.

In response to questions, it was added:

- d) Each individual project would have an element of inflation built into the affordability of the project, and it would be the project officers role to review the affordability of the project throughout and identify any additional funding that might be needed to complete the project;
- e) Work was being undertaken on the capital programme to look for opportunities to hold projects for years when interest rates would be lower, if they could be delivered at another time;
- f) Although rates were often achieved below 6%, all business cases had to be able to cover 6%;
- g) Councillor Stevens stated that the Council was doing very well given the difficult economic times;
- h) Each project had limitations, and when a contract was negotiated or procured, there would be a review of the project affordability, and if there were any issues, they followed the governance route.

The Committee agreed to:

- I. Recommend the Capital Financing Strategy to Council for approval.

41. **Risk and Opportunity Management Strategy 2023-2025**

Ross Jago (Head of Governance, Performance and Risk) introduced the report and highlighted:

- a) The main focus of this year's review was to make progress against recommendations from the external review of the risk management that took place in 2022, which suggested that the risk controls were working but were exposed to further degradation and that risk management was embedded at a strategic level, but there was improvement needed around operational risk;

- b) Work had been done to make it clearer for staff to identify and analyse risks, and what to do to mitigate them, with a concentration on Team Plymouth, moving away from risk champions, as inconsistencies had occurred as people moved roles;
- c) A new process had been instigated for collation and amendments which would utilise Office365 to minimise bureaucracy;
- d) A SharePoint site had been developed to enable staff to access information on risk scoring and training;
- e) He would be working with Chris Squire (Service Director for HR) to support managers with compliance activities;
- f) He was working closely with Kirstie Spencer (Head of Health and Safety) to ensure health and safety risks were reflected within the risk register;
- g) Discussions would be taking place with departmental management teams about risk appetite and risk tolerance, how much was willing to be tolerated;
- h) In future, the Committee would receive a Microsoft Power Bi dashboard giving an overview of the strategic risks that Plymouth City Council was facing.

In response to questions:

- i) Risks would be recorded by 3rd tier managers, chosen because they held regular 1:1's, led service discussions and team meetings, where conversations around risk were being encouraged;
- j) There was a sense that the authority and its staff were very risk aware and were risk averse frequently, but needed to empower managers to work with some risk;
- k) On SharePoint, the risk pages made it clear that if staff had concern how they could access whistleblowing policies, and the adequate signposting was in place to ensure concerns were dealt with in the correct way;
- l) Risks would be set against risk appetite and tolerance to enable it to be seen where immediate changes needed to be made.

The Committee agreed to note:

- I. The Risk and Opportunity Management Strategy 2023-2025.

42. **Risk Management Monitoring Report – November 2023**

Ross Jago (Head of Governance, Performance and Risk) introduced the report and highlighted:

- a) The risk dashboard gave a graphical view of the overall risk status of the organisation;

- b) The status at the time of the meeting was 'Orange – Severe' because any risk with a score of 5 would mean it would be at this level;
- c) There were two risks rated at 5, and those risks were updated on a regular basis through the dashboard;
- d) The interactive elements of the dashboard were hard to difficult to see as it was printed, but a SharePoint page could be set up where members of the Committee could access the dashboard;
- e) High level risks were across several areas of the Council;
- f) Since the publication of the agenda pack, the total number of strategic risks being managed had reduced from 19 to 15, and the number scored as severe had reduced from 4 to 2;
- g) There had been a reduction in risk probability against Council expenditure exceeding resources following the approval of the medium term financial strategy;
- h) Costs relating to SUDS had been of concern, but the risk had been reduced whilst waiting for legislation from Government on the matter;
- i) There had been a considerable rise in demand in relation to homelessness, and mitigation had included the Homelessness Recovery Plan, which would be published in the following weeks;
- j) The overall risk around adult social care workforce had been reduced and it was making a recovery overall;
- k) Housing delivery risk had been reduced following mitigation by the service but would continue to be monitored at a departmental level;
- l) The viability of commercial bus operators risk had been removed from the strategic risk register following the endorsement of the BSIP, but this would also continue to be monitored at a departmental level.

In response to questions and queries it was explained;

- m) When members had access to a SharePoint page to view the dashboard, the data would not be truly live, but would be very close;
- n) Mrs Benny thanked Ross for the new way the data was being presented as it was much easier to understand.

The Committee agreed to:

- I. Note the current position with regards to the Strategic Risk Register.

43. **External Audit - Progress Report**

Paul Dossett (Partner, Grant Thornton) introduced the report and highlighted the following:

- a) Although the audit sign off for 2019/20 had been delayed, work had continued on subsequent years, so when the issue resolved, work would be virtually up to date;
- b) As of September 2023, there was a local government audit backlog of 913 and it was expected that Government would announced that March 2024 would become the 'backstop' for all audits in order to address the backlog.

In response to questions, it was explained:

- c) The only outstanding issue of concern was the pension transaction from 2019/20;
- d) There was the wider issue of the financial sustainability of local authorities, as some with sound finances and investments etc. were issuing I14 notices, but there was nothing for Plymouth City Council that he was particularly concerned about.

44. **Work Programme**

Following a short discussion, the Committee agreed to add the following to the work programme for the meeting in January 2024:

1. Electoral Cycle Consultation Arrangements;
2. Constitutional Review Update.

45. **Tracking Decisions**

Hannah Whiting (Democratic Advisor) advised that the third item on the tracking decisions document had been completed since publication.

The Committee agreed to note the tracking decisions document.