

FULL COUNCIL

27th September 2021

To receive the confirmed minutes of the meetings
of the Audit and Governance Committee held on
25th January and 29th March 2021.

Present: Councillor Tom Ashton (Chairman), Councillor Martin Howard MSc. PCGM, Cert Ed (Vice-Chairman), Councillors Alison Austin, David Brown, George Cornah, Anton Dani, Anne Dorrian, Frank Pickett, Peter Watson and Mr Alan Pickering

In attendance: Councillor Jonathan Noble, Portfolio Holder for Finance

Officers –

Section 151 Officer, Transformation & Governance Manager, Head of Internal Audit (City of Lincoln Council), Principal Auditor (City of Lincoln Council), Senior Democratic Services Officer and Democratic Services Apprentice

54 MINUTES

The minutes of the meeting held on 9th November 2020 were agreed as a correct record subject to the deletion of Councillor Martin Howard's name from the list of those present at the meeting, and would be signed by the Chairman.

55 APOLOGIES

None.

56 DECLARATION OF INTERESTS

None.

57 PUBLIC QUESTIONS

None.

58 RISK REPORT QUARTER 2 - 2020/21

The IT & Transformation Manager presented a report, which provided the Committee with an update on risks as at the end of Quarter 2 of 2020/2021 (April to September 2020) to provide assurance that corporate governance arrangements were in place and functioning effectively.

Strategic and operational risks continued to be managed in accordance with the Risk Management Framework.

Strategic risks, which were monitored quarterly, were reviewed by the corporate management team in Quarter 1, particularly with regard to the impact of Covid-19 and the Strategic Alliance with East Lindsey District Council. They had also been reviewed in Quarter 2 in light of the change in management structure and would be reviewed again in Quarter 3/4 in light of the new Corporate Plan.

Housing and Budget remained the two high strategic risks in Quarter 2 and there had been no change to the strategic risk scores in Q2. Full details of strategic risks were set out in Appendix A.

Operational risks had been reviewed in Quarter 1 and 2, with exception reporting of high operational / project risks, and any changes to management assurance levels, being set out in the report.

For 2021/22, the Council would be looking to have a single risk management approach across the Alliance, with strategic and operational risks reviewed as part of service planning. The Council's Risk Management Framework was based on the countywide model and so would lend itself to aligning into a single approach.

In response to questions, the IT & Transformation Manager explained that the health risk was rated as medium as it related to the delivery of the Council's own health objectives. However, the point made regarding the impact of COVID-19 on services was noted.

The risk relating to flooding would be revised as the barrier was now operational. The report only related to risks within the control of the Council; details could be obtained from the Environment Agency about other measures to keep the town safe.

Action: SR

Forward details to Members regarding the risk relating to fresh water flooding and regarding the forecast of population change due to Brexit.

It was confirmed that there was a Transformation Plan in place for the Council and that officers were working on a new plan for the Strategic Alliance.

A Member raise concerns about the IT upgrades and accreditation needed. In response, the IT & Transformation Manager explained that the risk relating to the Public Services Network Compliance Certificate had been medium for some time and measures were in place to work towards accreditation. The Audit Report had judged it as a medium risk and, therefore, it was not high enough a risk to report to Cabinet at this stage, though the impact would need to be considered if it carried on into the future. Capacity and resilience within the IT section had been an issue for some time. The risk would appear on both strategic and operational risk registers.

The Portfolio Holder confirmed that Public Sector Partnership Services (PSPS) would be delivering IT upgrades at a cost of around £633,000, as opposed to approximately £825,000 for the Council to do itself.

59 STATEMENT OF ACCOUNTS 2020/21 - ACCOUNTING POLICIES

The Section 151 Officer presented a report regarding the proposed Accounting Policies for the 2020/21 Statement of Accounts, with the draft attached as Appendix A.

The annual Statement of Accounts was one of the ways that the Council demonstrated the stewardship of funds, and its preparation was governed by a series of specific requirements relating to its content and format.

Unless there were major changes to accounting rules and regulation, accounting policies did not change significantly between years because the Accounts would not be comparable from one year to the next.

The pre-audit 2020/21 Statement of Accounts would be presented to the Committee in May 2021. The accounting policies would be included within the Accounts, and any changes made as a result of the audit process would be highlighted and explained in the final report to the Committee in July 2021.

There were no changes to the Council's Accounting Policies for 2020/21. The proposed implementation of a change in the way Leases were treated (IFRS16) had been deferred, probably until 2022/23.

RESOLVED That:

- 1. The Accounting Policies, as set out in Appendix A, be approved and adopted for 2020/21; and**
- 2. The final approval of any necessary minor change, prior to inclusion in the Accounts, be delegated to the Section 151 Officer.**

**60 TREASURY MANAGEMENT AND CAPITAL STRATEGY UPDATE -
QUARTER 3 2020/21**

The Chief Finance Officer and Section 151 Officer presented a report, which set out the Treasury Management and relevant capital strategy activities of the Council for the period 1 April to 31 December 2020.

In terms of investment returns, the Council was expecting to achieve a total of £960,000 for 2020/21 comprising £897,000 gross distribution income from property fund holdings (i.e. before deduction of management fees) and £63,000 from cash investments. This compared to the total gross annual budget of £1,077,000.

The Council was generally keeping cash investments short term up to a maximum of twelve months. As the financial climate changed, whom the Council invested with and the amount invested, was under constant scrutiny, taking into account risk at any particular moment in time.

Members asked a range of questions. The Section 151 Officer advised the Committee that returns from the Council's property funds equated to approximately 3.5%, which was an excellent rate of return.

The value of the funds had gone down from £20m to £19.5m since the previous year. However, the Section 151 Officer advised Members not to be concerned in this regard because this was a long-term investment. In the same way, when a house-owner rented out the property, the fact that the value of the house might fluctuate in the short to medium term would not be a concern as long as the rental income continued. The excellent rate of return from the property funds was due to the management of the funds by professional experts who ensured the funds yielded the maximum return.

An increase in interest rates would be to the Council's advantage overall because it had surplus cash, but long-term forecasts indicated that rates would remain low for some time to come.

The Portfolio Holder pointed out that the Council's investments in property funds were at a fixed rate of interest and that it was a long-term 50-year investment.

The Section 151 Officer reassured Members that the possibility of there being a situation of negative interest rates was very unlikely.

61 DRAFT BUDGET SETTING REPORT AND MEDIUM-TERM FINANCIAL STRATEGY 2021/22 - 2025/26 FOR CONSULTATION

The Section 151 Officer presented the draft Budget Setting Report and Medium-Term Financial Strategy for 2021/22 to 2025/26 for the Committee to consider during the budget consultation.

On 27th January 2021, Cabinet would receive the draft report for approval for consultation. The Cabinet report and its appendices were attached at Appendix A.

The report included the recommended level of Council Tax increase for 2021/22 of £4.95. This represented a 2.57% increase to make the Council's share of the precept £197.91.

The proposed revenue budget for 2021/22 showed a surplus position currently of £98,000. However, in the following years there was a savings requirement of approximately £700,000 per year.

Members were invited to consider the report in the light of the Committee's governance responsibilities and make any comments, which would be fed back to Cabinet as part of the consultation prior to the budget's approval at Full Council in March.

The Section 151 Officer thanked the Accountancy Manager - Revenue and Systems and the finance team for the substantial amount of work they had undertaken.

The £98,000 surplus the following year was mainly due to the delay of the Government's Fair Funding Review, which had been put back a year due to the pandemic. However, the following year there would be a deficit.

The report was very positive; many authorities were in a much more precarious position. The Council had recently benefited from funding from the Community Champions budget as well as funding for homelessness. This meant the Council was in a good position and in a good place to make savings.

In response to questions, the Section 151 Officer confirmed that there was no intention to reduce staff; the report forecast that a very small number could perhaps be lost over future years. The Council Tax increase proposed was the highest that could be put in place without triggering a referendum. Officers were erring on the side of caution.

The Portfolio Holder answered questions about the reserves, explaining that the housing reserve was for expenditure such as funding a housing association to provide low-cost housing. The funding volatility reserve was to provide cover for short-term fluctuations in funding.

A Member then proposed that it be recommended to Cabinet and Full Council that there be no increase in the Council Tax for 2021/22 in order to give some respite to Council Tax payers – many were on low wages and had been hit by the impact of the pandemic,

which had also affected mental health. The Council had a surplus of £98,000, which it could use instead of increasing Council Tax. This proposal was seconded.

The Section 151 Officer urged caution, as not increasing the Council Tax would jeopardise the balancing of the budget in future years.

Other Members raised concerns about the proposal, including public expectation that the Council Tax increase to be 0% every year.

The Portfolio Holder explained that the Council had received generous Government funding in the current year, but the Council could not rely on this in the future and they did not know what the full impact of the pandemic would be.

Members asked a range of questions. In response, the Section 151 Officer explained that it was a risk that the proposed level of fees and charges would not achieve the income expected, but it was expected that the Government would recompense authorities for losses next year. If not, reserves would be used to avoid unnecessary cuts to services. The proposed £4.95 increase would result in an extra 9p per week for Band D properties and 6p per week for Band A properties and provide the Council with approximately £100,000 additional income per annum. The proposed increase for Lincolnshire Police was approximately £15 and £40 for the County Council.

During discussion of the internal drainage board (IDB) levies, which two-thirds of the Council Tax increase would have to cover, Members agreed that they should receive a briefing on the matter to explain the details fully.

Action: AS

Arrange a Member Briefing regarding the impact of the internal drainage board (IDB) levies on the Council's budget and invite representatives from the IDBs to attend.

The Chairman commented that the Council Tax increase had been low since the introduction of the Government's cap and considered that the Council was managing satisfactorily despite those small increases. A deficit of £700,000 was predicted the following year and it would be irresponsible not to increase Council Tax in the current year, as it would result in an annual loss going forward and the amount to cover the deficit would have to be found from somewhere.

The proposal to recommend a 0% increase in Council Tax was then put to the vote, but fell, with 3 votes for and 6 votes against. Mr Pickering confirmed that he was against the proposal.

It was then agreed that Members' comments be fed back to Cabinet as part of the consultation on the budget, prior to its approval at Full Council on 1st March 2021.

62 INTERNAL AUDIT PROGRESS REPORT 2020/21

The Internal Audit Manager presented the regular Internal Audit progress report for 2021/21.

Good progress was being made delivering the revised plan – at the end of December 2020, 46% of the Audit Plan had been completed, against the target of 50%. The Plan would be substantially complete by the end of the financial year, i.e. reports would be at draft stage but might not have been finalised.

Two pieces of work had been completed in this period, and six pieces of work were in progress.

The Covid-19 Assurance audit report was at draft stage. This was an assessment to determine if any of the changes caused by the initial lockdown had any significant impacts on the risk and control environment.

Other audits in progress were:

- ICT security assurance
- Council Tax
- Housing Benefits & Council Tax Support
- Payroll

The assurance review of National Non-Domestic Rates (NNR) had been completed and given *High* assurance.

The report detailed the results of a piece of consultancy work completed on the Strategic Alliance Memorandum of Agreement (MOA).

The report also summarised other matters that would be of interest to the Committee.

The Chairman commented that there had been very little slippage within the work plan in the current difficult times. The Committee agreed that their thanks be extended to the Internal Audit team along with the Section 151 Officer, Accountancy Manager - Revenue and Systems and the finance team.

63 WORK PROGRAMME

Members considered the work programme for the remainder of 2020/21.

The Chairman reported that the Monitoring Officer and Councillor Development Group had indicated that the new Local Government Association (LGA) code of conduct still needed some primary legislation. It would need to be considered by the Standards Sub-Committee in the first instance before it came before the Committee. Ideally, the Council would adopt the code within the current municipal year.

The Meeting ended at 8.30 pm

Present: Councillor Tom Ashton (Chairman), Councillors Alison Austin, George Cornah, Anton Dani, Anne Dorrian, Frank Pickett, Peter Watson and Mr Alan Pickering

In attendance: Councillor Jonathan Noble, Portfolio Holder for Finance

Guests:

Richard Tanner – Portfolio Manager for the Fund and Head of UK Business

Michael Shears – Assistant PM, Asset Management Executive Director)

Kari Clarke – Investor Relations Associate Director

Officers –

Section 151 Officer, Head of Internal Audit (City of Lincoln Council), Principal Auditor (City of Lincoln Council), External Auditor (Mazars) and Senior Democratic Services Officer

64 MINUTES

The minutes of the meeting held on 25th January 2021 were agreed as a correct record and would be signed by the Chairman.

Action: JC

Produce an action sheet after meetings so that timelines can be added to any actions agreed.

65 APOLOGIES

None.

66 DECLARATION OF INTERESTS

None.

67 PUBLIC QUESTIONS

None.

68 APPOINTMENT OF VICE-CHAIRMAN

RESOLVED: That Councillor George Cornah be appointed Vice-Chairman for the remainder of the Municipal Year.

69 FUND MANAGER PRESENTATION

The Committee considered a request from the representatives from AEW Property Fund to receive their presentation in exempt session, owing to the commercial sensitivity of information contained within it; it would only be possible to make the presentation in public by removing integral parts from it, meaning that Members would not receive the full picture.

IT WAS RESOLVED that under Section 100 (A) (iv) of the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) Order 2006, the public and press be excluded from the meeting for the following items of business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Schedule 12A of the Order.

The AEW representatives then gave their presentation and answered a range of questions.

Action: JC

- Email AEW's PowerPoint presentation to Members;
- Email future PowerPoint documents to Members prior to future presentations.

The Chairman thanked the representatives from their presentation, which had given reassurance to Members that the company was managing the Council's investment well and it was performing.

[Councillor Dorrian left the meeting at this point.]

IT WAS RESOLVED that the meeting be moved back into public session.

70 AUDIT STRATEGY MEMORANDUM - YEAR ENDING 31 MARCH 2020

Mark SurrIDGE presented Mazars' Audit Strategy Memorandum for the year ending 31 March 2020.

The purpose of the document was to summarise Mazars' audit approach, highlight significant audit risks and areas of key judgements, and provide the Committee with the details of the audit team.

The document had been prepared following Mazars' initial planning discussions with management, as the basis for a discussion around their audit approach.

Mr SurrIDGE thanked the finance officers for their complete support, enabling Mazars to carry out their work.

The pandemic had extended the timeline for completion of work; the accounts would be produced by 31st July and published by 30th September 2021.

Mazars had identified the following relevant risks to the audit of the financial statements, which were deemed to be significant:

- 1 Management override of controls
- 2 Net defined benefit liability valuation
- 3 Valuation of land and buildings
- 4 Covid-19 grant recognition

The first three were the same as for the previous year and all were the same as for the majority of local authorities. The report set out a summary of Mazars' audit response to these risks.

Mr Surridge then highlighted Mazars' Value For Money (VFM) work. The new Code of Audit Practice (the Code) had changed the way in which auditors reported their findings in relation to VFM arrangements from 2020/21. Whilst still required to be satisfied that the Council had proper arrangements in place, Mazars would now report by exception in their auditor's report where they had identified significant weakness in those arrangements. This was a significant change to the requirements under the previous Code, which required them to give a conclusion on the Council's arrangements as part of their auditor's report.

Under the new Code, the key output of their work on VFM arrangements would be a commentary on those arrangements, which would form part of the Auditor's Annual Report.

The Code required Mazars to structure their commentary to report under three specified criteria:

1. Financial sustainability – how the Council planned and managed its resources to ensure it could continue to deliver its services
2. Governance – how the Council ensured that it made informed decisions and properly managed its risks
3. Improving economy, efficiency and effectiveness – how the Council used information about its costs and performance to improve the way it managed and delivers its services.

This "commentary report" would be made public and Mr Surridge assured Members it would be of the highest quality.

The Chairman thanked Mr Surridge for his report, which was noted by the Committee.

71 COMBINED ASSURANCE - STATUS REPORT 2020/21

John Scott, Internal Audit Manager, presented the Combined Assurance Status Report for 2020/21.

Combined assurance was obtained by speaking to senior and operational managers, working with corporate functions and using third party inspections and the outcome of Internal Audit work. It would feed into the Annual Audit Plan for 2021/22 and the Council's Annual Governance Statement.

The report concluded that the Council had established and varied assurance arrangements in place to manage risk and ensure services were delivered to a high standard. Internal Audit was pleased to see this was working well and evidenced with high levels of assurance. The Council had a much-improved financial position since joining the Strategic Alliance with East Lindsey District Council (ELDC) and this was helping increase resilience in many service areas. This newfound advantage would be used to improve areas as required.

The Council's Strategic Risk Register was regularly reviewed, and risks were being effectively managed. The Assistant Directors had provided summaries of the risks relating to their service areas and these were set out in the report along with the overall assurance direction of travel, in terms of red, amber or green with respect to critical

activities. There had been changes in the risks, with more rated as amber and fewer rated green, but this was not a particular concern; the same as for other authorities, many related to the impact of the Covid 19 pandemic, and also to the effect of the Strategic Alliance process.

The layout of the report was commended, though explanation of the abbreviations *PCIDSS* and *ROPA* was required.

In response to questions, the Internal Audit Manager explained that the reference to 'lack of visibility of contracts' related to shared visibility following the Strategic Alliance. The Section 151 Officer explained that the text in report for each service area was each Assistant Director's own wording. The Princess Royal Sports Arena had a red rating as its rent had not been paid; the facility was receiving some compensation for its use as a mass vaccination centre, but reported that it was not sufficient to enable the rent to be paid in the current circumstances.

The Chairman commented that the report indicated a significant impact in many areas due to the pandemic.

The Committee noted the report.

72 INTERNAL AUDIT PROGRESS REPORT 2020/21

John Scott, Internal Audit Manager, presented the progress report on Internal Audit work for 2020/21.

All remaining 2020/21 audits had been started and it was expected that the Plan would be substantially complete by the end of the financial year with reports at draft stage but might not be finalised.

One assurance review had been completed, the *Covid Assessment*, which had been given Substantial assurance.

Two audit reports described as at draft stage and three as being in progress were now all at the stage of being finalised:

- Council Tax
- ICT Security Assurance
- Housing Benefits & Council Tax Support
- Payroll
- Accountancy Key Controls

Only one, the *Governance, Risk & Fraud* audit, was still in progress.

Other significant work included the completion of the annual Combined Assurance process, presented elsewhere on the agenda. Internal Audit had worked closely with the East Lindsey District Council (ELDC) Internal Audit team in order to streamline the process for the Strategic Alliance.

Again, the Draft 2021/22 Internal Audit Plan, also presented separately on the agenda, followed close working with the ELDC Internal Audit team. The result was a plan that was relevant to the Alliance and a number of joint audits.

A detailed update giving the position regarding Audit Recommendations as at 31st December was attached at Appendix 3. Recommendations were being implemented and none had needed to be brought to the Committee's attention. A number had been extended to the end of March 2021 or later, either due to the impact of the pandemic or the process of the Strategic Alliance, and a follow-up report would be made at the Committee's next meeting.

The Committee noted the report.

73 DRAFT INTERNAL AUDIT PLAN 2021/22

John Scott, Internal Audit Manager, presented the draft Internal Audit Plan for 2021/22, as at 1st April 2021.

The plan detailed the activities to be audited and the indicative scope for each audit and was presented for Members' comments. The plan delivered assurance within agreed resources, which remained the same as the previous year at 145 days. The plan would be amended throughout the year to reflect changing assurance needs.

The plan had been developed using various sources including external intelligence, local knowledge and the meetings held with Assistant Directors and the Senior Leadership Team as a whole.

The Audit Focus for 2021/22 was set out with information on key audit areas and the rationale for their inclusion in the audit strategy and plan.

The impact of Covid19 on the public sector had been unprecedented. Internal Audit had carried out some assurance work in this area during 2020/21 and the plan remained flexible to take account of this and other evolving risks. Appendix A outlined the various audits to be undertaken within each area. Appendix B contained those areas, which Internal Audit had not been able to include in the plan, but management might wish to consider whether they should be included.

Due to the formation of the Strategic Alliance between the Council and East Lindsey District Council (ELDC) and the Council's partnership with Public Sector Partnership Services (PSPS), Internal Audit had been working closely with ELDC's Internal Audit team, both being part of Assurance Lincolnshire. Many audits were the same or similar; they were undertaken separately, but jointly, as it was beneficial to align them as much as possible.

The Chairman thanked the Internal Audit team for their work and the Committee noted the report.

74 WORK PROGRAMME

Members considered the Committee's work programme.

The Chairman thanked all parties for their input during the year.

Audit & Governance Committee
29 March 2021

The Section 151 Officer advised the Committee that the next agenda would include a work programme for the full year ahead. Members should e-mail any issues they wished to be included.

Action: AS

Include a work programme for the whole of 2021/22 on the next agenda.

The Meeting ended at 8.45 pm