PETERBOROUGH CITY COUNCIL

MINUTES OF THE AUDIT COMMITTEE MEETING HELD AT 5:00PM, ON MONDAY, 21 FEBRUARY 2022 ENGINE SHED, SAND MARTIN HOUSE, PETERBOROUGH

Present: Councillors: Sainsbury (Vice-Chair), S Farooq, Haseeb, J Allen, Jones, I Ali, Hogg

Co-opted members: Chris Brooks (Chair), Stuart Graham, Mike Langhorn

Officers in Attendance: Cecilie Booth, Acting Corporate Director of Resources
Dan Kalley, Senior Democratic Services Officer
Fiona McMillan, Director of Law & Governance and Monitoring Officer
Steve Crabtree, Chief Internal Auditor

Also in Attendance: Councillor Andy Coles, Cabinet Member for Finance
Councillor Day, Green Group representative

35. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Joseph, Haseeb and Shaheed. Councillors Jones and Hogg attended as substitutes.

36. DECLARATIONS OF INTEREST

There were no declarations of interest were received.

37. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 29 NOVEMBER 2021

The minutes of the meeting held on 29 November 2021 were agreed as a true and accurate record.

38. DRAFT 2022/23 TREASURY MANAGEMENT STRATEGY

The Audit Committee received a report in relation to the draft Treasury Management Strategy (TMS).

The Interim Corporate Director of Resources introduced the report and highlighted the key elements. The report set out the Council's appetite for investment and borrowing. This was a technical document outlining the criteria this needed to fulfil.

Members were informed that the TMS would be set as part of the budget being presented to Full Council in March. More training around this area would be provided to members of the committee. A mid-year review of the strategy would be presented to members. The main purpose of the strategy was to look at the risks and appetite for Councillors when investing or borrowing money.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The report highlighted that in 2022/23 there was a capital expenditure of £71.5 million, which was far greater than in previous years. Members were informed that the detail around this figure would be investigated and reported back to committee members. Officers were investigating in detail the savings plan and looking at possible ways to cut back on capital programme going forward as the revenue implications could be significant for the Council.
- It was likely that this was a one off item earmarked for that financial year. As part of the Capital Strategy the capital programme was to be funded from capital receipts. Officers were therefore looking at the asset disposal strategy to minimise borrowing costs.
- It was unlikely that the high level of capital expenditure in 2022/23 was due to the hold on capital expenditure that was agreed at Full Council in December. It was far more likely to be a one-off spend, however officers would investigate further and report back.
- Members were informed that the Minimum Revenue Position (MRP) was a technical term. The MRP was a direct hit on the Council's revenue budget. The guidance on the MRP required the Council to set a number of prudential indicators to reduce the debt liability. This was not to repay borrowing but to reduce debt liability to the Council. This was also required as part of the Capital Financing Requirement (CFR). The Council had used capital receipts in lieu of a hit to the revenue budget as part of the MRP. This was no longer going to be allowed going forward. Members were informed that the cash generated from capital receipts can be used to pay back borrowing.
- The Loan of £15 million with regards to the Hilton Hotel at Fletton Quays and the £500,000 interest to be paid back was likely pushed back slightly due to the pandemic. This was likely to be rolled up in the capital programme and added to the capital receipts when the loan was paid back.
- Members were informed that Peterborough City Council, like many other local authorities was short on revenue but had higher levels of capital. It was no longer common practice for local authorities to use surplus revenue for capital expenditure. One of the key priorities of the Council was to replenish the low reserves level the Council were currently carrying.
- It was unlikely that the Council would use surplus cash to fund the capital programme, this would need to be done through the disposal programme. With regards to the disposal programme officers were taking a long term approach to this to see what assets could be retained

and to understand their potential to support the Council's priorities, any that did not would be disposed of over the next five to six years.

- There were two limits for borrowing, the first being the operational boundary limit. This was the day to day borrowing limit for the Council. Occasionally the Council would borrow for cash flow reasons and the operational boundary was put in place to cover this and could be breached if needed for operational requirements. In terms of the authorised limit this was absolute limit set by the Council and could not be breached. If this level needed to be breached it would need to be placed in front of a meeting of Full Council.
- The authorised limit was set with sufficient headroom to ensure that it was almost impossible for it to be reached and any unforeseen issues can be covered at short notice.
- Some members noted that the level of the operational boundary and authorised limit seemed to be set too high. In particular the authorised limit was around 50% of the total capital expenditure of the Council itself.
- Members were informed that in reality the Council would never borrow up to the authorised level. Borrowing up to this level would be unsustainable. The prudential indicators were also in place to prevent this level of borrowing from becoming a reality. In addition borrowing up to the authorised limit would breach all the requirements set by the Council.
- It was felt by some members that if the long term target was CFR any excess over CFR for the operational limit or the authorised limit needed to be explicit in terms of circumstances when it could be used. In addition it would be useful for analysis to be done over when, realistically, this level of borrowing would be required.
- There were additional concerns raised over the strategy mentioning short term interest rates for borrowing at the short end of the margins set out. This raised concern over whether the Council were matching their assets and liabilities and the point at which these assets and liabilities re-priced.
- It would be useful for the TMS to also set any maturity mismatches with regards to creditors moving forward, with limits setting out how far the Council would allow itself to deviate from that matched position.
- There were a broader set of risks within the TMS that it would be useful for Full Council to understand when setting its budget position. The strategy would benefit from setting out those scenarios and how the Council planned to mitigate those risks.
- Members were informed that the scenarios that may occur between the CFR and the authorised limit could include a situation whereby the revenue software to collect council tax and business rates for a couple of months failed. The Council would still need to pay wages, salaries and bills. It was important that the Council had this headroom for situations such as these.
- Officers agreed that these scenarios and risks would be built into the TMS for Full Council when presented with the budget.
- The guidance around the authorised limit had stated that Council's needed to set a high limit to deal with any unforeseen circumstances.
- In terms of matching assets to debt the guidance stated that Council's must not do this. Members were informed that when the new capital accounting rules came into force in 2003 it specifically stated that this

was not the correct process to follow. The Council would borrow where it was prudent to do so based on market conditions.

- The Council would normally borrow from the Public Works Loan Board (PWLB), the rates on these loans were linked to the rates of the government guild. It was therefore, on occasions, cheap to borrow loans from the PWLB on a short term basis and sometimes on a longer term basis.
- When the Council took out loans they viewed the market forecasts and the rates offered by the PWLB.
- The Council had a smooth maturity profile and along with the CFR the Council tried to have a debt profile with loans maturing in a smooth pattern. This would therefore reduce the risk of large chunks of loans maturing in any one financial year. There needed to be a balance to getting the cheapest rates when taking a loan against the re-financing risks around those loans.
- The Council, in accordance with the code of practice, would have a liability benchmark that tried to forecast what the re-financing liability was going to be for the next 30 years. Officers would then plot the debt portfolio loans against a liability benchmark.
- Members were informed that the code did not require Councils to match loans to the 30 year liability benchmark.
- The committee agreed that it would be useful for the TMS to include a list of potential risks and the mitigation taken, so as to be transparent with Full Council.
- It was considered beneficial if officers could share with committee members the debt repayments and asset revenues to see how the Council was mitigating those risks. Members were also directed to page 26 of the report, which outlined in a bar chart the maturity profile over the long and short term period.
- It was important that in future Treasury Management reports that the committee could see how the Council was managing the debt repayments this would be helpful.
- The report lacked sections on how the risks were going to be managed and what the impact of this would be on the Council. In addition some scenarios would be beneficial.
- The Council only borrowed from the PWLB, although there were other sources of finance they were unusual. Generally the PWLB loan rates were the cheapest for the local authorities. Occasionally local authorities loaned other local authorities money if they had a large cash flow on a short term basis.
- The code of practice does not say that the Council does not have to have regard to the liability benchmark. The Council was forward planning in terms of the capital financing for the next 30 years. The code made specific reference to state that Councils are not to match the assets.
- It was reiterated that the authorised limit was a Full Council decision and it would be unlawful to breach the authorised limit, unless this was agreed at a special Full Council meeting. It was common practice for local authorities to set a high authorised limit.
- There was more possibility to reduce the operational boundary limit but it was not common practice to reduce the authorised limit.
- The authorised limit was calculated and intended to pay two months of bills and payroll at the Council, if no income was able to be collected.

- It was noted that it would be helpful for scenarios and an explanation over the level of the authorised limit to be included in the TMS going forward.

The Audit Committee considered and **RESOLVED** (unanimously) to:

1. Review and comment on the draft 2022/23 Treasury Management Strategy (TMS) before it is approved as part of the Medium-Term Financial Strategy (MTFS) at Full Council in March 2022 subject to the inclusion outlining the risks, specific scenarios and mitigation the Council is taking with regards to the (TMS) before being presented to Full Council.

39. DRAFT INTERNAL AUDIT PLAN 2022

The Audit Committee received a report in relation to the potential internal audit coverage for 2022/23.

The Chief Internal Auditor introduced the report and set out the initial thoughts into future audit activity and the emerging themes. The final plan was to be presented to committee at the next meeting.

The report set out a series of themes to be considered for next year's audit. This was an opportunity for members of the committee to comment and input into the areas being considered and make any suggestions to help shape the audit work. The internal audit team need to provide assurances with regards to the governance arrangements in place at the Council so the plan has to cover as many areas as practical.

The team identified themes that were of most importance to the Council based on risk. This included climate change, which was a big priority for the Council. As this was such a large area officers were in discussions with the section as to what the current key activities of climate change were so as to target works appropriately.

Members were informed that the audit plan was established using a planning and assessment tool, where each of the proposed audits were assessed against a number of risks areas to establish a score up to 80. Once this had been completed an overarching audit plan was created. Any areas that scored over 50 were considered a high priority. The audit plan was regularly re-assessed throughout the year so that any areas that previously were not a high priority when the plan was initially drawn up could move up the priority list if needed. Similarly, others could drop down.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The report outlined the current internal audit structure. At the current time one officer was working within the Council's Covid Coordination Hub, which meant the team had reduced capacity. The plan is based on those in post at present. Should the officer return in year, additional works would be able to be covered. However with the resources available the team were confident that they could provide appropriate assurances to the Council although additional resource would be requested if there were specific needs. If the team had more staff it would then be possible to do more thematic reviews and audits around some of the higher priority areas.

- With regards to last year's plan there had now been an inclusion of the levelling up fund and how this could be delivered around the assurance framework. In addition audit work was now taking place around the Covid grants that were issued.
- Members were informed that the Improvement Panel was now in place and they would be expecting high level reports on how the Council was delivering on savings. It was then important for the team to drill down on these to make sure compliance changes were being delivered.
- With regards to organisational resilience, climate change was such a large area and had a big impact across a number of areas. The audit team investigated whether certain targets and criteria were in place across the organisation to ensure this target was being met.
- In terms of external partners, such as Peterborough Limited and Norfolk Property Services, there had been some initial work done around governance arrangements, however there was still further work to do with these organisations.
- In terms of what was going through the Improvement Plan this was highlighting the top spenders and looking in detail if the Council could get better value for money from these arrangements. There were a large number of contracts under these higher spending levels that needed to be looked at. The team had requested a list of contracts from procurement and some of these would be looked at in detail, focusing on deliverables and where possible value for money.
- In terms of the details on some of those contracts these could be detailed in the audit plan presented to committee or in progress reports.
- It was important for the committee at future meetings to look at the processes and procedures around contracts and procurement.
- In the current year the team had reviewed risk management, looking at the strategy and how it operated through the Risk Bboard and how departments had reacted to this. This process had identified a number of issues that needed to be addressed. The entry in the draft plan focussed on the follow up to and being embedded and now operating.
- It was important that the committee had a look at the risk assurance framework going forward so that expertise could filter into this.
- Some members felt it was important for the committee to understand and note what the internal audit team was not covering.
- For the next meeting it would be useful for the audit plan to have a link to the risk register, links to what the external auditor were looking at, links to the medium term financial review. In addition it would be useful to look at what audits had taken place over the past three years. This would create a broader picture of the work carried out by internal audit.

The Audit Committee considered and **RESOLVED** (unanimously) to note the report, subject to the inclusion in the final audit plan of a broader picture of work carried out by internal audit over the past three years and links to the risk register, external audits and the medium term financial review.

40. INVESTIGATING ALLEGATIONS OF FRAUD

The Audit Committee received a report in relation to investigating allegations of fraud.

The Chief Internal Auditor introduced the report and stated that the report gave the committee an update on how investigations had been conducted at the Council. Members of the committee were informed that there were three policies attached to the report, namely the anti-money laundering policy, the council tax and local council tax reduction scheme sanctions and prosecution policy and the blue badge, parking permits and visitor permits sanctions policy. These were similar to previous years and were still compliant with relevant legislation.

The main purpose behind the report was around the analysis of data in terms of fraud. The Council followed the national fraud initiative, which was completed every two years, this contained a number of data sets from local authorities across the Country. In addition the covid business grants had been included as part of the fraud investigations. Taking what had happened so far, the Council had taken all the data sets and had so far received 6000 matches. Some of the matches were down to poor record management on behalf of the Council. Some examples of this included people who had been deceased and still had a blue badge registered to their name.

With cases relating to the council tax reduction scheme officers were liaising with colleagues from the Department for Work and Pensions as they were the lead on benefit investigations. In the past the Council investigating council tax fraud and the DWP used to investigate benefit fraud, however this was now done in a joined up approach with one interview covering all areas. During the pandemic these interviews were paused, however they had now been ramped up.

With regards to creditors there were three years of data that had been passed to the team. This included around £3000 of duplicate payments that had been made and was being recovered. During the past year the Council had identified just under £60,000 of council tax single person discount that had been claimed incorrectly. This was down from over £100,000 the year before. This had shown an improvement on record keeping. It was anticipated that the early results of the audit from business grants that were given out as a result of covid would be available from March.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- There was an argument as to whether the committee needed to look at this and if it should be a function internal audit. The committee had more pressing issues to address at the current time. It was felt this was a more operational matter than a strategic one.
- There was a 21 day period in which people should notify the Council if someone moves in or out of the local authority. The Council were mainly interested in looking at the long term issues and those people

who had moved in or out and had not notified the Council for a long period of time.

- It was agreed that these investigations could be considered as part of the annual fraud report.

The Audit Committee considered and **RESOLVED** (unanimously) to note the report and agreed that the work on investigations be presented annually to the committee as part of the annual fraud report.

41. AUDIT COMMITTEE START TIME 2022/23

The Audit Committee received a report in relation to agreeing the Audit Committee start time for the municipal year 2022/23.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- Members felt that a 6pm start tie was more favourable for the next municipal year.

The Audit Committee considered and **RESOLVED** (unanimously) to recommend to Full Council the start time of 6pm for 2022/23.

42. USE OF CONSULTANTS

The Audit Committee received a report in relation to the use of consultants.

The Interim Corporate Director of Resources introduced the report and stated that this was a standard report presented to committee. The figures for the current financial year had been much lower than in previous years. It was not necessarily a bad thing to use Consultants but the Council needed to keep a balance and level of transparency and a schedule of consultants. Members were minded to move this to a more fluid approach and be reported on if the spend started to increase again.

The Audit Committee considered the report on the Use of Consultants up to January 2022 and **RESOLVED** (unanimously) to:

1. consider the update report on the use of consultants for the 2021/22 period for the first seven months of the financial year (April 2021 – January 2022).
2. agree that future monitoring is undertaken within the normal budgetary control reporting process, and brought back to Audit Committee only if requested.

43. DECISIONS OF THE SHAREHOLDER CABINET COMMITTEE

The Audit Committee received a report in relation to the decisions taken by the Shareholder Cabinet Committee.

The Audit Committee considered the report and **RESOLVED** (unanimously) to note the decisions of the Shareholder Cabinet Committee.

44. WORK PROGRAMME

The Audit Committee received a report in relation to the work programme for 2021/2022.

The report was introduced by the Senior Democratic Services Officer who advised that the format followed a similar process to previous years and further items could be added to the programme at the Members discretion.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- There were potential items for the work programme including:
    - An analysis of the committee's terms of reference. This was covered in the Chair's Annual Audit Report and would be presented at the next meeting.
    - It was important to review the terms of reference and work programme to see if there were items that could be added or removed and the value in covering some items on the list.
    - An update to the work programme so that it could be a rolling work programme rather than a strict annual work programme.
    - A report on the Council's risk register. It was fundamental to look at a summary of these risks and what the Council was doing to mitigate these.
    - A future report on the control environment and the defences the Council had in place.
    - More reports on the Councils value for money position, the effectiveness of the Audit Committee themselves
    - Procurement was an important element of the Councils future contract arrangements and would be useful for the committee to receive updates on.
    - Some members felt that an update was needed in the future around the shared services arrangements with other local authorities and whether these provided value for money.
    - An update on the Corporate Services Strategy would be beneficial for the committee to review.
    - In addition there should be an opportunity for a member of the committee to suggest a topic for the committee to have a deep dive into and investigate in more detail throughout the year.

The Audit Committee considered and **RESOLVED** (unanimously) to note the report, with the inclusion of the additional items going forward.

Chair
5:00pm – 6.42pm

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