CORPORATE GOVERNANCE AND STANDARDS COMMITTEE

26 August 2021

* Councillor George Potter (Chairman)
* Councillor Deborah Seabrook (Vice-Chairman)

Councillor David Goodwin
Councillor Nigel Manning
* Councillor Susan Parker
Councillor John Redpath
* Councillor James Walsh

Independent Members:	Parish Members:
Mrs Maria Angel MBE	*Ms Julia Osborn
Mr Murray Litvak	Mr Ian Symes
	Mr Tim Wolfenden

*Present

The Leader of the Council, Councillor Joss Bigmore and Councillors Colin Cross, and Graham Eyre were also in attendance.

CGS20 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors David Goodwin, Nigel Manning (for whom Councillor Graham Eyre substituted), John Redpath (for whom Councillor Colin Cross substituted), and from Maria Angel MBE, Murray Litvak, Ian Symes, and Tim Wolfenden.

CGS21 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS

There were no disclosures of interest.

CGS22 MINUTES

The minutes of the meeting of the Committee held on 29 July 2021 were approved as a correct record. The Chairman signed the minutes.

CGS23 INTERNAL AUDIT PROGRESS REPORT (APRIL TO JULY 2021)

The Committee considered a report on progress made by the Council's internal audit manager (KPMG) on their internal audit plan for 2021-22 for the period April to July 2021, which included a summary of the work that they had concluded since the previous report to Committee and what they had planned to do ahead of the next. The report also provided a summary of three performance reporting reviews which examined data quality, in terms of the consideration of the completeness, accuracy, and reliability of the Key Performance Indicators (KPIs) that were reported and used for decision making purposes at the Council.

The Committee noted that in 2020-21, when this area was looked at previously, KPMG had issued an amber/red rated report. This year, there had been a positive direction of travel as demonstrated by the overall amber/green rating of assurance. In completing this work, KPMG had looked at three KPIs that were included within the Corporate Performance Monitoring Report namely, staff turnover, average time to let void properties, and council tax collected. KPMG had identified no significant issues through the Audit and had agreed a number of management actions, three of which were graded amber and one graded green, which related to enhanced quality assurance procedures, data security, and clarification of some of the definitions used for the KPIs.

In debating this item, the Committee raised the following points:

- In response to a question as to whether KPMG should report to the Committee on progress with the internal audit plan more frequently, KPMG noted that the reason for the two-stage approach rather than anything more frequently through the year in terms of following up on the recommendations was that the deadlines for implementation tended to coalesce around the financial year end.

- It was noted that CIPFA guidance on audit committees in local government had recommended that to discharge their responsibilities effectively, such committees should, inter alia, be able to meet privately and separately with the external auditor and with the head of internal audit. The Council's external and internal auditors both confirmed that they would be happy to meet privately with the Committee.

- In response to a question regarding the monitoring of information on void properties using paper-based t cards, and the action the Council was taking to address the auditor's findings, the Director of Resources indicated that she would find out and circulate a response to the Committee.

The Committee

RESOLVED: That the internal auditor's progress against their 2021-22 internal audit plan, together with the key findings from the reviews undertaken, be noted.

<u>Reason:</u>
To ensure good governance arrangements and internal control by undertaking an adequate level of audit coverage.

CGS24 FINANCIAL MONITORING 2021-22 PERIOD 3 (APRIL/JUNE 2021)

The Committee considered the latest financial monitoring report, which summarised the projected outturn position for the Council's general fund revenue account, based on actual and accrued data for the period April to June 2021.

Officers were projecting an increase in net expenditure on the general fund revenue account of around £4.4million.

Covid-19 continued to impact the Council. The direct expenditure incurred by the Council in the current financial year currently stood at £59,718. The Government support would contribute to both the direct and indirect costs of the Covid-19 pandemic.

The indirect costs of Covid-19, particularly the loss of income, were reflected in the services forecasting. As the pandemic continued, estimates for losses in income and increased costs had been made with the best information available, which were subject to change as the year progressed. The report considered the expenditure and income forecasted up to 30 June 2021 and would potentially be subject to substantial movement depending on the success of the Government's roadmap for lifting all Covid restrictions.

The Council would be able to make a claim for some of the income loss under the Sales, Fees and Charges compensation scheme; however, officers were waiting for the government to issue guidance on this scheme for 2021-22 so an estimate of how much might be claimed was not currently included within the projection.

There was a reduction (£217,940) in the statutory Minimum Revenue Provision (MRP) charge to the general fund to make provision for the repayment of past capital debt reflecting a re-profiling of capital schemes.

A surplus on the Housing Revenue Account would enable a projected transfer of £7.2 million to the new build reserve and £2.5 million to the reserve for future capital at year-end.

Progress against significant capital projects on the approved programme as outlined in section 7 of the report was underway. The Council expected to spend £118.194 million on its capital schemes by the end of the financial year.

The Council's underlying need to borrow to finance the capital programme was expected to be £73.329 million by 31 March 2022, against an estimated position of £94.59 million. The lower underlying need to borrow was a result of slippage on both the approved and provisional capital programme as detailed in paragraphs 7.3 to 7.6 of the report.

The Council held £130 million of investments and £271 million of external borrowing on 31 January 2021, which included £192.5 million of HRA loans. Officers confirmed that the Council had complied with its Prudential indicators in the period, which had been set in February 2021 as part of the Council's Capital Strategy.

In considering this report, the Committee made the following comments:

- In response to a question in relation to expenditure in the current year on the proposed Guildford Park Road development in the HRA capital programme, the Director of Resources confirmed that a small amount of expenditure on the project was forecast for this financial year. The project was progressing and had been redesigned to omit the car park from the scheme, and it was anticipated that a planning application would be submitted in the new year. There was therefore a likelihood that there would be some planning related costs in this financial year, but the actual expenditure on the scheme probably would not come forward until at least the next financial year, subject to receipt of a new planning permission.

- The Right to Buy model in the report stated that no RTB receipts were at risk of repayment until 2028-29, which appeared to contradict the Lead Councillor for Resources' statement that the Council had £7 million at risk up to 31 March 2023. The Director of Resources commented that a great deal of work had been done in the last few months to identify new housing capital schemes and to acquire further properties in order to reduce the risk of repayment of RTB receipts. Whilst in March 2021, there was a risk that if the Council did not take any action, there was potentially a risk of having to repay a further £7 million by 2023; the work that had been done particularly around bringing forward some of the smaller pipeline projects meant that there was currently no risk of having to repay. This would, however, be kept under review.

- Greater prominence should be given to the purpose for which S106 contributions are to be put, and to set out details of total contributions received, amounts allocated to Surrey County Council in relation, for example, to highways/education, balance retained by Guildford Borough Council for its purposes.

- In relation to the trends around the estimated overspend, the Director of Resources was confident that, for period 4, there would be a slightly smaller overspend compared to the figure reported now, although the overspend would still be a significant problem. In terms of how the Council was dealing with it, there were options to consider but the difficulty was clearly the loss of income from sources such as car parking fees and our Leisure Management contract. In terms of scaling back expenditure beyond what the Council had already achieved with Future Guildford and what the Council had already programmed to do in respect of the Savings Strategy, it would be very difficult to find additional savings in this financial year. The Director noted that accurate estimates of costs and savings arising from the Guildford Waverley collaboration proposals were not yet known, although indicative estimates of the potential costs had been provided to councillors in the exempt information considered at the Council meetings in July.

- In response to the various points raised by the Committee, the Leader commented on the continuing uncertainty around revenue streams, particularly in the leisure industry, which have impacted significantly on the Council's financial position. The Council was also currently reviewing its operational property needs post Covid, and this would be a matter for further discussion with Waverley as part of the collaboration proposals. The Leader also indicated that the Council would need to review the high level of discretionary services it currently provided, with some difficult decisions to be taken.

- Further general concern over the risk of having to return RTB receipts, grants and other external capital funding due to slippage in capital programmes, and ensuring that such risk was effectively monitored, and action taken to avoid the risk.

- Concern over lack of explanatory commentary from service leaders in relation to, often significant, variances in the detailed service summary (Appendix 2 to the report). The Director of Resources accepted that more detailed commentary was required but noted that the lack of information had partly been due to the need to restructure the salary budget allocation following the recent salary restructure arising from Future Guildford Phase B.

- Concern over consistent slippage and significant underspend within capital projects in general.

Having considered the report, the Committee

RESOLVED: That the results of the Council's financial monitoring for the period April to June 2021 be noted, subject to the corrections set out on the Supplementary Information Sheet.

<u>Reason:</u>
To allow the Committee to undertake its role in relation to scrutinising the Council's finances.

CGS25 EXTERNAL AUDIT PLAN 2020-21

The Council's external auditors, Grant Thornton, had prepared their annual audit plan for 2020-21, which was attached to the report submitted to the Committee. The plan detailed the scope of the audit and the programme of work that Grant Thornton intended to carry out during 2020-21, the approach they would adopt and significant risks that they would review as part of the audit.

Pages 25 and 26 of the audit plan detailed the fee that Grant Thornton would charge in respect of the external audit of the Council. The scale fee for the core audit, which was published by Public Sector Audit Appointments (PSAA) Ltd of £44,300, had not changed since 2018-19. However, the Financial Reporting Council (FRC) had set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Within the public sector, where the FRC had recently assumed responsibility for the inspection of local government audit, the regulator required that all audits achieve a 2A (few improvements needed) rating. This had led to additional work being required. The revised fee for 2020-21 would therefore be £80,300 for the core audit. A further fee of £24,000 was estimated in respect of the audit of grant claims.

PSAA were responsible for appointing an auditor to principal local government and police bodies that had chosen to opt into its national auditor appointment arrangements. At its meeting on 6 December 2016, the Council resolved to opt-in to the appointing person arrangements made by PSAA. Grant Thornton UK LLP had been successful in winning a contract in the procurement process and were recommended by PSAA as the Council's auditors for a period of 5 years from 2018-19. This appointment was made under Regulation

13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its meeting on 14 December 2017 and by Council on 10 April 2018.

PSAA had recently consulted on their draft prospectus for public sector audit from April 2023. As part of the exercise the Council would need to decide in the autumn if it wished to be part of the national procurement exercise or whether it wished to undertake its own procurement exercise and set up an independent auditor appointment panel.

In considering the audit plan, some concern was expressed regarding the increase in the audit fee. In response to a request for an update on progress with the current audit of accounts, the Director of Resources reported that it was anticipated that the draft accounts would be published in September and the timescale for the completion of the audit would be discussed with Grant Thornton at that time.

Having considered the external audit plan, the Committee

RESOLVED:

That the external audit plan submitted by Grant Thornton, attached as Appendix 1 to the report submitted to the Committee, including the audit fee set out on page 25, be approved.

<u>Reason:</u>
To enable the Committee to consider and comment on the planned audit fee, work programme and update report.

CGS26 WORK PROGRAMME

The Committee considered its updated 12 month rolling work programme and noted that the next meeting of the Committee, would be held on 23 September 2021, as originally planned and that the "Draft 2020-21 Statement of Accounts" item listed on the work programme for the September meeting should be deleted.

In considering the work programme, the Committee considered the suggestion made earlier in the meeting that the Committee holds informal, private meetings with the Council's internal and external auditors. It was suggested that the first of such meetings could be held immediately prior to the Committee meeting scheduled for 24 March 2022.

The Committee also discussed how it could better monitor expenditure on:

(a) Housing Capital Schemes to avoid repayment of RTB receipts to the Government,
(b) Capital schemes funded by S106 contributions
(c) Any other capital schemes reliant on grant funding which might need to be returned if monies are not spent within a specified timeframe.

RESOLVED: That the updated 12 month rolling work programme, as set out in Appendix 1 to the report submitted to the Committee, be approved.

<u>Reason</u>:
To allow the Committee to maintain and update its work programme.

The meeting finished at 8.50 pm

Signed .... Date ....

Chairman