

MINUTES OF A MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD IN THE COUNCIL CHAMBER,
WALLFIELDS, HERTFORD ON TUESDAY 9
NOVEMBER 2021, AT 7.00 PM

PRESENT: Councillor M Pope (Chairman)
Councillors A Alder, A Curtis, T Stowe,
R Townsend and A Ward-Booth

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	- Scrutiny Officer
Jackie Bruce	- Infrastructure Contributions and Spend Manager
James Ellis	- Head of Legal and Democratic Services and Monitoring Officer
Steven Linnett	- Head of Strategic Finance and Property
Alison Street	- Finance Business Partner

ALSO IN ATTENDANCE:

Simon Martin	- Shared Internal Audit Service
Nazmin Miah	- Link Services

217 APOLOGIES

Apologies for absence were submitted on behalf of
Councillors Fernando and Huggins. It was noted that

Councillor Curtis was substituting for Councillor Fernando.

218 MINUTES - 14 SEPTEMBER 2021

The Chairman drew Members' attention to the fact that Councillor Alder's apologies at the last meeting had not been recorded in the Minutes and explained that she had apologised in advance of the meeting because of car difficulties.

It was moved by Councillor Townsend and seconded by Councillor Stowe, that the Minutes of the meeting of the Committee held on 14 September 2021, as amended, be confirmed as a correct record and signed by the Chairman. After being put to the meeting and a vote taken, this motion was declared CARRIED.

RESOLVED – that the Minutes of the Committee meeting held on 14 September 2021, as amended by confirmed as a correct record and signed by the Chairman.

219 CHAIRMAN'S ANNOUNCEMENTS

The Chairman said that at the last meeting, the Head of Strategic Finance and Property explained that an additional meeting of Audit and Governance might have been necessary before Christmas. He informed Members that the audit had now been put back by EY LLP, due to their difficulties resourcing the audit, and was due to start on 3 January 2022 and that the sub-committee meeting planned for December would now be moved to February/March 2022.

The Chairman said that the Audit and the Treasury Management Outturn Appendix A had been erroneously posted under item 8, when it should have been attached to Agenda Item 7.

The Chairman reminded Members to kindly use their microphones when speaking to guide the camera for the website.

220 DECLARATIONS OF INTEREST

There were no declarations of interest.

221 TRAINING: TREASURY MANAGEMENT

The Chairman welcomed Nazmin Miah from Link Services who provided Members with training on Treasury Management.

Ms Miah explained the definition of treasury management adding that it was important that Members were provided with the necessary training, and knowledge when reviewing treasury management reports from the viewpoint of governance and scrutiny. Ms Miah outlined the legislation, statutory codes and codes of practice which regulated treasury management.

Members sought and were provided with clarification on a number of treasury management issues having considered the presentation. Ms Miah agreed to provide the slides following the presentation.

The Chairman, on behalf of Members, thanked Ms Miah for her detailed presentation.

222 BUDGET 2022/23 AND MEDIUM TERM FINANCIAL PLAN
2022/23 - 2026/27

The Head of Strategic Finance and Property introduced the report which set the scene for the Budget 2022/23 and the Medium Term Financial Plan (MTFP) 2022 – 2027. It was noted that the Executive had previously provided guidance to Officers that the budget proposals should be: based on a Council Tax increase of £5; contract inflation of up to 4%;; that there be no inflation in other goods and service budgets; and a provision of 3% for the national pay award be made (which could be reduced by 0.25% of the 2021/22 pay provision carried forward as a result of the 1.75% final pay offer from the employer’s side). He further summarised the recommendations B – G as detailed within the report.

The Head of Strategic Finance and Property referred to savings requirements of £0.967 million in 2022/23 which was principally being driven by the costs in relation to Harlow and Gilston Garden Town (HGGT) and explained that there would be other costs in relation to the crossings over the River Stort. Furthermore, Compulsory Purchase Orders would impact on the ability to fund the costs from reserves. He referred to the establishment of a Major Applications Team which would oversee the HGGT applications which could generate work over a 20 year period.

The Chairman thanked the officer and referred Members to the seven recommendations in the report. He said that that there were a lot of positives

throughout the report.

Councillor Townsend referred to the Equalities Impact Assessment (EIA) and queried the depth of investigations needed. The Head of Strategic Finance and Property explained that the aim was to ensure that the budget did not impact on individuals who had protected characteristics and if it did, then an in-depth EIA investigation would be conducted. On the issue of the New Homes Bonus and the Government's response, the Head of Strategic Finance and Property said the Local Government Finance settlement in the second week in December. Based on the government consultation on the new system it was unlikely the council would receive any New Homes Bonus. Until the Settlement and the consultation response were announced, about the council did not know whether it would receive any New Homes Bonus.

Councillor Stowe referred to the possible savings from letting out floor space in 2022/23 i.e. an achievement of £100k in the first year. The Head of Strategic Finance and Property said that this referred to the overall savings estimate from the Transforming East Herts Programme and confirmed what the estimated transformation savings would be phased over several years and this was an initial estimate of delivery of those savings.

Councillor Curtis referred to the guidance to Officers on the budget and the request that there be no inflation in other goods and services and whether this was a reasonable assumption. He questioned what might happen if there was an inflationary increase of 4 or 5% in other costs budgets. The Head of Strategic

Finance and Property explained that if there was an increase in stationery for example, then officers would be advised that they could not buy any stationery unless all had been used in the building. He stated that inflationary provision had been made for major contracts, for example the waste contract, leisure and parks contracts and if utility bills increased, then there would be provision. All other budgets were frozen.

Councillor Curtis referred to risk, specifically in relation to the unknown risks. He referred to the impact of the pandemic and that it was important to acknowledge that it was good to consider the unknown risks and whether the council was protected and that it had sufficient resilience to those risks should they arise. He asked how unknown risks were planned for in relation to the development of the Medium Term Financial Plan.

The Head of Strategic Finance and Property explained that the council kept a general fund balance and a level of reserves which was designed to meet risk and as the Section 151 Officer, he was required to report the adequacy of those balances to Council under Section 25 of the Local Government Act 2003. He referred to the known risks and that the unknown risks were just that, unknown. He explained that there was a certain level of cash flow and contingency balances which he recommended the Council should keep to protect itself from risks, including unforeseen risks. Councillor Curtis referred to the Planning Department and welcomed the decision to have a major applications team, supported by a budget to handle the major applications coming through and in delivering the District Plan. In relation to funding and major

developments happening in East Hertfordshire, he asked if any approach had been made to Central Government to get financial assistance to help support the council and officers to get the right development in East Herts which complied with the District Plan and which ensured that section 106 monies were received on time.

The Head of Strategic Finance and Property explained how the work around Harlow and Gilston Garden Town development had been funded and of the possibility that funding could be withdrawn. He suggested that the Member write to the Head of Planning for a definitive response on this issue and also moving forward on governance issues.

It was moved by Councillor Ward-Booth and seconded by Councillor Townsend that the recommendations, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that (A) the Executive be advised that Members have noted the guidance to officers, that the budget proposals should be based on a Council Tax increase of £5, contract inflation up to 4%, there be no inflation in other goods and services budgets and that the provision for the national pay award will be up to 3% (effectively 2.75% as 0.25% of the pay provision this year will be carried forward as a result of the 1.75% final pay offer from the employer's side);

(B) Members noted that the comprehensive spending review savings to be implemented in

2022/23 and 2023/24 as agreed by council in March 2021 and acknowledge the requirement of council that compensating savings, delivered to the same timescales, have to be put in place and reported to the next council meeting should the Executive decide that any savings proposals should not proceed, or are reduced by 10% or more.

(C) Members welcomed the Collection Fund updated estimate that the Business Rates deficit be spread over 3 years and be met in full by changes to the appeals provision removing a £0.900 million pressure on the General Fund and the forecast increase in Local Council Tax Support cases has not materialised and the Council Tax Base is now forecast to increase in future years;

(D) The assumption that the Transforming East Herts Programme will not start to result in revenue savings until the latter half of 2022/23 and into 2023/24, be noted.

(E) Noted that the Executive had agreed: the re-phasing of the capital programme and revenue impacts of capital financing; that existing minor projects should be subject to a full value for money test before proceeding; and that no new projects may come forward for the capital programme unless they are able to cover the capital financing costs in full or mitigate significant increases in revenue costs;

(F) The revised savings requirements of £0.967

million in 2022/23, £1.520 million in 2023/24 – 2025/26 rising to £1.901million in 2026/27 be noted; and

(G) Noted that the Executive had agreed that all service areas should review fees and charges and ensure that, where the council has discretion to set the charge, that charges should be set so as to: recover full costs; concessions should be explicitly linked to an Equalities Impact Assessment; and that services which are not currently charged for the introduction of a charge should be considered unless the service is provided generally under a statutory provision.

223 ANNUAL TREASURY REPORT 2020/21

The Head of Strategic Finance and Property introduced a report setting out the Council's treasury management activities for 2020/21 including the prudential indicators. The report set out the management of the council's investments, capital expenditure, its borrowing position and the control of associated risks. Members were reminded that the supporting Appendix to this item had been erroneously attached to the Agenda item 8.

Councillor Curtis referred to interest rate forecasts and questioned what might happen to bank rates given increases in inflation and the impact this might have in terms of the council's funds. He added that rates of return for bank deposits were below inflation and queried whether it was a good idea to have a lot of cash in bank accounts and whether investments in

equities and real estate investments might give a better rate of return.

The Head of Strategic Finance and Property explained that the council's cash balances were reducing as it has been paying capital expenditure and that it now had £12M in liquid funds and £20M in property funds. There were no proposals to liquidate property funds because of their rate of return in excess of 3%. He explained that the council might shortly be moving into a position where it will need to borrow. The Head of Strategic Finance and Property was of the view that interest rates would not increase in December but might in January 2022. This would be kept under review. He confirmed that the council was spending cash on the capital programme therefore investments were kept liquid as it was likely the cash would be needed to pay for capital expenditure. The Head of Strategic Finance and Property stated that it was unlawful for the council to invest in equities as there was no security of capital and this was not permitted under the Prudential Code.

The Chairman referred to short term borrowing, and asked what length of time could that be and the rate of interest compared to the Public Loan Works Board (PLWB).

The Head of Strategic Finance and Property explained that this could be up to 364 days and the rate of interest would be between 0.1% and 1% but that the alternative of the PLWB would limit the council to a borrowing period of over one year and at interest rates far in excess of the inter-local authority lending market. He explained that once capital schemes were

nearing completion the council could then take a better view of the council's debt structure to match when the assets came on line along with accrued levels of Minimum Revenue Provision so that debt could be repaid thus reducing interest costs and creating borrowing headroom to meet future capital programme spending requirements.

Councillor Curtis asked whether there was the possibility to investing in equities index funds as property funds were returning less than inflation. The Head of Strategic Finance and Property said that the council could not do this as there was no security of capital but that the council could invest in money market funds as this was spread over diverse portfolios, but that the Council did not have the cash to do this and was moving into a net borrowing position.

The Chairman summarised that Members had had an opportunity to examine and comment on the 2020/21 Treasury Management Activity and Prudential Indicators.

RESOLVED – that the report be considered and received.

224 TREASURY MANAGEMENT 2021/22 MID YEAR REVIEW

The Head of Strategic Finance and Property introduced a report setting out the council's treasury management activities for the first six months of the 2020/21 financial year including the prudential indicators before consideration by the Executive and then by Council. He summarised the council's capital spending and revised status and how this had been financed.

The Chairman sought clarification in relation to changes to financing of the capital programme specifically the reference to *“this direct borrowing need may also be supplemented by maturing debt and other treasury requirements”*. The Head of Strategic Finance and Property explained what this meant in relation to the one loan with the PLWB and the financial premium which would be incurred if this was redeemed.

The Head of Strategic Finance and Property referred to the reduced amounts of cash held by the council which had been used to fund the capital programme. He commented that there had been some slippage on a number of capital schemes, including Old River Lane, Bishop’s Stortford, Hertford Theatre and Hartham Common Leisure Centre and that these would be re-forecasted. It was noted that Grange Paddocks had been completed and revenue from this leisure facility would be generated to meet borrowing costs.

Councillor Curtis referred to capital expenditure on major projects and the assets which were depreciating. He asked if the Council was making the necessary capital expenditure needed to counteract depreciation because the council was not investing in upgrades on its equipment. He queried whether the council should be borrowing from the PLWB to help fund replacement equipment i.e. investing to save.

The Head of Strategic Finance and Property explained that there was a need to think about the overall affordability of schemes and what money could and should be spent and that taking on borrowing had a direct impact on the revenue account, which meant

that savings had to be made elsewhere. Anything which needed to be made safe, useable and habitable would be made, but from the viewpoint of enhancement and improvement he said that spending had to be matched with resources available.

Councillor Curtis expressed concern that depreciation was not recorded as an expense. He felt that the council needed to think long term about large expenditures and how we dealt with this to maintain the services we provide. The Head of Strategic Finance and Property explained how depreciation was dealt within the council's accounts. He added that in the next report on the agenda the Annual Infrastructure Funding Statement would show how the council could invest in community resources, including maintenance, via Section 106 monies.

The Chairman referred to the council's Cash Flow Borrowing and the possible use of £15M from the council's balances. The Head of Strategic Finance and Property explained that where the council had reserves it could use this in the short term to finance capital expenditure.

It was moved by Councillor Curtis and seconded by Councillor Ward-Booth that the recommendations, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that the report be considered and received.

2020/21

The Infrastructure Contributions and Spend Manager submitted the Infrastructure Funding Statement Report for 2020/21, which provided an update on the collection and allocation of section 106 contributions and the additional work undertaken by the Infrastructure Contributions and Spend Manager over the last year. The Manager explained that her role was to ensure that all funds were collected and allocated in an appropriate way. She explained that this year, there had been no late payment fees sent to developers and despite the pandemic, matters had been kept on track and significant income from Section 106 monies and expenditure would be achieved.

The Infrastructure Contributions and Spend Manager highlighted what projects had been allocated funds and explained the restrictions around how Section 106 monies could be spent. She explained that she worked closely with planning officers and developers to ensure these S106 contributions could be more easily spent including the development of community assets. She reminded Members that the council had 10 years to use the monies from the date of receipt.

It was noted that there was income generated from her role in terms of monitoring fee income and secondly where the Manager provided confirmation of the status of section 106 monies to solicitors in relation to house moves.

The Manager explained that this was the second report produced requiring publication before 31 December 2021 on the website and to central government, along with CSV machine readable files as required by Regulations. She explained that the statement had been produced in such a

way as to be accessible to those using screen readers and those with visual impairment.

The Statement detailed agreements signed, contributions spent and an overview of affordable housing units proposed. Last year, there were over 400 affordable homes delivered from S106 agreements. The statement gave an overview of spending and individual contributions for the last financial year. She explained that next year, she would be reporting on this financial year and to date the Council had collected an additional £2.2M and allocated £2.4M of contributions to projects.

Following a question from Councillor Townsend on the allocations, the Manager explained that the council was holding £8.8M in contributions collected and held on behalf of others, which would be spent in accordance with the legal agreements. It was noted that some contributions were coming up to the 10 year claw back date but work was ongoing with developers to ensure that this was not returned.

Councillor Ward-Booth thanked the Officer for her continued work adding that it was good to have a dedicated officer monitoring this important work.

Councillor Curtis thanked the Officer for her report. He asked how much the council could lose on those coming up to the 10 year claw back on funds. He sought assurances that the wording on the documents was as flexible as possible. The Manager confirmed that the council was not losing any money and that there was significant ongoing work to ensure that any historical contributions were spent in accordance with the agreement. She explained that in relation to a situation in

Gilston and the provision of outdoor equipment, the Manager had been working with developers and residents and the Parish Council to produce a Deed of Variation to be able to use the S106 contributions to cover community facilities and outdoor sports and so use the S106 monies in the locality.

The Chairman, on behalf of Members, thanked the Officer for an informative and well thought out document.

RESOLVED – that the Annual Infrastructure Funding Statement 2020/21 report, the update on the collection and allocation of section 106 financial contributions and the work of the Infrastructure Contributions and Spend Manager be noted.

226 STRATEGIC RISK REGISTER MONITORING - QUARTER 2:
2021/22

The Head of Strategic Finance and Property submitted a report detailing the changes to the Strategic Risk Register for Quarter two. He explained that this was considered in detail at the last meeting and tracked changes were shown on the document now submitted.

The Chairman referred to the issue of a cyber-attack that was being audited by Internal Audit which the Committee would receive at its next meeting which would inform the risk score in the report. The Shared Internal Audit Service Manager explained that there had been a delay as a result of resource issues but that the intention was to bring to Members an assurance map which would highlight the control framework for Members' consideration.

It was moved by Councillor Curtis and seconded by Councillor Townsend that the recommendation as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that the 2021/22 Quarter two Strategic Risk Register be received.

227 ANTI-FRAUD AND CORRUPTION POLICY

The Head of Strategic Finance and Property submitted a new suite of refreshed anti-fraud and corruption policies for Members' consideration. He reminded Members that two of the reports for consideration, had been circulated after the agenda had been published. The suite of policies included:

- Anti-fraud and Corruption Strategy
- Anti-money laundering Policy
- Fraud Sanctions Policy
- Confidential Reporting Procedure (Whistleblowing) Policy

Members welcomed the policies, as detailed in the report.

It was moved by Councillor Curtis and seconded by Councillor Alder that the recommendation as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that the suite of anti-fraud and corruption policies as detailed be approved.

228 SHARED INTERNAL AUDIT SERVICE - INTERNAL AUDIT PLAN PROGRESS REPORT

The Shared Internal Audit Service (“SIAS”) Manager submitted a progress report on Internal Audit in delivering the Internal Audit Plan to 22 October 2021; the findings for the period 10 July to 22 October 2021 including performance management. The report detailed the changes needed to the approved Internal Audit Plan and the status of previously agreed audit recommendations. The report also detailed the outcomes of the Internal Audit External Quality Assessment and revisions to the Audit Charter for 2021/22.

The SIAS Manager explained that, since the last meeting two further internal audits had been finalised. He confirmed that the work programme was progressing on track. He provided an update on two existing and one new high priority recommendations. He explained why it was necessary to carry out revisions to the Audit Charter to clarify terms as recommended by the external review.

The Chairman sought and was provided with assurances that the list of high priority and critical recommendations was reducing and that matters were relatively good.

Councillor Townsend thanked the Officer for the annotations within in the report which contributed to its clarity.

Members received the report an approved the Revised Audit Charter for 2021/22.

It was moved by Councillor Curtis and seconded by Councillor Ward-Booth that the recommendations as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that (A) the Internal Audit Progress report be noted.

(B) The status of Critical and High Priority Recommendations be noted ; and

(C) the Revised Audit Charter for 2021/22 be approved.

229 EXTERNAL AUDIT NATIONAL PROCUREMENT OPT IN

The Head of Strategic Finance and Property submitted a report on the options available in relation to the appointment of external auditors and opting in to the External Audit National Procurement process. The report before Members recommended to the Executive Member to recommend to Council, that East Herts opt-in to a sector led body (Public Sector Audit Appointments Limited (PSAA)) and the advantages of such a decision.

Members supported this recommendation.

It was moved by Councillor Townsend and seconded by Councillor Curtis that the recommendation as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that Members advise the Executive

Member to **RECOMMEND** to full Council, that under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, East Hertfordshire District Council opts into the sector led body for audit appointments provided by Public Sector Audit Appointments Limited.

230 DATA PROTECTION UPDATE

The Information Governance and Data Protection Manager submitted an update report on data protection and information governance compliance, including the number of data breaches reported and responded to and the number of Subject Access Requests (SARs) within the six month reporting period as detailed in the report.

Members received the report.

It was moved by Councillor Curtis and seconded by Councillor Ward-Booth that the recommendation as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that the content of the report be received and that any observations be provided to the Information Governance and Data Protection Manager.

231 STANDARDS UPDATE

The Head of Legal and Democratic Services and Monitoring Officer submitted an update report in relation to standards issues. He detailed a summary of what had been received since the last report and how

these had been dealt with saying that large volumes of complaints from Town and Parish Councils could often be petty and time consuming to go through. The Head of Legal and Democratic Services explained that Local Government Association Model Code of Conduct had been adopted by the District Council and was in the process of being rolled out to Towns and Parishes. This was an ongoing process.

The Head of Legal and Democratic Services referred to the Independent Person ("IP") and role they played in relation to standards matters. He hoped that he could invite him along to future meetings. The Head of Legal and Democratic Services explained the difficulties of having just one Independent Person when some authorities had up to three IP's and explained an additional Independent Person would build resilience into the process.

Members received the report and supported the recommendation to appoint an additional independent person.

It was moved by Councillor Curtis and seconded by Councillor Ward-Booth that the recommendation, as detailed, be approved. After being put to the meeting and a vote taken, the motion was declared CARRIED.

RESOLVED – that (A) the report be received any observations be provided to the Head of Legal and Democratic Services; and

(B) that the recommendation for an additional Independent Person, as identified under s.28 of the Localism Act 2011, be sought

and, where appropriate, appointed, be approved.

232 AUDIT AND GOVERNANCE - WORK PROGRAMME

The Head of Strategic Finance and Property summarised the content of the Work Programme which would be presented to Members at each meeting. He proposed to include a further report on the Transformation Programme. The Head of Strategic Finance and Property said that the Audit Letter would not be presented to the January meeting. Additionally, he said that he would be discussing with the Head of Legal and Democratic Services how best to arrange a joint meeting with the Overview and Scrutiny Committee in January.

Following a suggestion by the Chairman, the Head of Legal and Democratic Services agreed that it might be prudent to look at the new Code of Conduct in terms of training.

Members considered that further training before meetings could cover:

- March 2022 – Risk
- September 2022 – the accounts / budget
- November 2022 – Standards and the Code of Conduct

Members supported this approach.

It was moved by Councillor Curtis and seconded by Councillor Stowe that the recommendation as detailed, be approved. After being put to the meeting and a

vote taken, the motion was declared CARRIED.

RESOLVED – that the work programme as set out in the report be approved; and

(B) the training requirements as detailed by Members be approved.

233 URGENT ITEMS

There were no urgent items of business.

The meeting closed at 8.43 pm

Chairman
Date