

GOVERNANCE AND AUDIT COMMITTEE

6 September 2022

Present:- Councillor Paul Smith (Chair)
Councillor Dave Harris, Councillor Chris Pearson,
Councillor Rhys Smithson, Councillor Dennis Willetts,
Councillor Barbara Wood

Substitutions: Councillor Michael Spindler for Councillor Sam McCarthy

Also Present:- Councillor King*, Councillor Cory*, Councillor Sunnucks

*Attended remotely

324. Minutes of the previous meeting

RESOLVED that: the minutes of the meeting of 26 July 2022 be confirmed as an accurate record.

325. Colchester Borough Homes Annual Governance Statement 2021/2022

Councillor Rhys Smithson declared a non-pecuniary interest in the following item by virtue of the fact that he was a director of Colchester Borough Homes.

The Committee considered a report requesting that it accepted and commented on the Governance Assurance Statement of Colchester Borough Homes (CBH).

Andrew Tyrrell, Client and Business Manager, introduced the report to the Committee and assisted the Committee in its deliberations. The Committee was asked to annually consider the governance of Colchester Borough Council (the Council)'s arms-length management organisation, CBH, which managed the Council's housing stock. A series of nine internal audits which had been undertaken had achieved either substantial or good assurance levels, with no weak audit reports having been received, and only minor improvements were recommended.

Fiona Marshall, Chair of the Finance and Audit Committee at Colchester Borough Homes, attended the meeting remotely. The Committee heard that the Finance and Audit Committee had a key role in overseeing corporate governance and internal controls at CBH. An agreement was in place until 2028 between the Council and CBH which included clear requirements around governance arrangements and arrangements for internal control. Part of these arrangements was the production of the Annual Governance Statement, which set out the purpose of the governance

framework to ensure that the objectives of CBH could be pursued effectively, and good use was made of mechanisms of control and management of risk. The company had a Strategic Plan entitled 'Colchester 2022-2027', which focused on three key areas of customer, colleagues and communities, and the Companies budget was approved annually by its Finance Committee for recommendation to Board, along with a five year Business Plan which projected the Companies financial position in the future, including remaining reserves. Management Accounts were also received on a quarterly basis which showed variance cash flow forecasts and helped to ensure that plans remained sound. The Company had an up to date Risk Management Policy, Strategy and Framework for managing risks, and all Board Members received training on this. There were currently ten risks identified on a Strategic Risk Map for CBH, including the recent addition of the risk of tenants' quality of life being reduced, and identified risks were discussed at every Board Meeting.

Of critical importance were the governance arrangements of CBH, which was managed by a Board consisting of three Council nominees, three CBH tenants, four independent members, and the Chief Executive. The Board was skills based, with all members recruited to provide the skills which were needed, and an annual self-assessment was carried to endure that the necessary skills were present. An annual review of effectiveness of the governance arrangements was carried out by the Executive Directors Corporate Management Team, supported by an internal audit annual report and external auditors.

The Committee heard about significant governance developments during 2021-2022, which included development of a new Strategic Plan, the induction and training of a number of new Board members. Additionally a Board effectiveness review was carried out to ensure that the overall governance structure was working well and was well supported by governance systems, agendas, reports, minutes and plans. The Board was modern, effective, skilled and well lead.

At the invitation of the Chair of the Committee, Councillor Smithson commented on the induction process of CBH which he had experienced as a Board Member. The process was very thorough, and Officers had spent considerable time with new Board members. The process had been robust, and the training was comprehensive. Councillor Smithson had closely analysed CBH's Risk Register and was very happy with its contents. He considered that the Board meetings themselves were very transparent and very thorough.

In response to questions asked by a Committee member, Matt Armstrong, Director of Business Improvement at Colchester Borough Homes, confirmed to the Committee that 100% of CBH staff had now received data protection training, and CBH's risk report was available to be viewed by anyone, and could be circulated to the Committee. In respect of safeguarding residents. CBH maintained a dedicated team of staff, the Financial Inclusion Team, who monitored rent arrears and highlighted where it was considered tenants may be in need of assistance. Additional training was being given to staff who visited homes, and tenants who were in need of assistance would be directed to the help which was available to them. A referral

system to a safeguarding officer was in place to ensure that necessary action was taken. Councillor Smithson offered the Committee additional assurance that the Board of CBH was wholly committed to providing safeguarding for its residents, and had discussed safeguarding issues in detail at its last meeting.

The Committee noted that there appeared to be no falling back of the high standards which had been set by CBH in previous years, however, it sought assurance that money from the housing revenue account (HRA) and the general fund were clearly delineated in all accounting practices within CBH. Matt Armstrong advised the Committee that CBH had a number of income sources, and as well as general fund activities carried out on behalf of the Council, and the HRA, grant funding was available as well. Great care was taken by the accounting team at CBH that there was clear delineation between the two funds. A report detailing the performance of CBH would be presented to the Scrutiny Panel of the Council at its October meeting.

The Committee considered that many positive comments had been made in respect of the ongoing governance of CBH, and no significant issues had been raised.

RESOLVED that:-

- (a) The Committee had considered and commented on the Governance Assurance Statement of Colchester Borough Homes.
- (b) The Committee accepted the assurance provided by Colchester Borough Homes regarding its governance arrangements throughout 2021/22.

326. Financial Monitoring Report – April to June 2022

The Committee considered a report setting out the financial performance of General Fund Services and the Housing Revenue Account (HRA) for the first three months of 2022/23.

Paul Cook, Head of Finance, introduced the report and assisted the Committee in its deliberations. The Committee heard that it was being asked to consider the first quarterly revenue monitoring report, and it was an early stage of the financial year to make an accurate forecast, and it was expected that a much clearer picture would be available by quarter two. At the current time, a net overspend of just over £1million was predicted, although Officers were working hard to try to bring this figure back within budget. Some of the causes of the predicted overspend had been spending pressures in Colchester Borough Council (the Council)'s Environment portfolio, some loss of planning income and higher than anticipated planning appeal costs, but these had been balanced to some extent by higher interest rates which had been received on the Council's cash investments. When the budget had been prepared, it had been assumed that inflation would be at 2%, and the Committee was requested to bear in mind the fact that inflation was now at 10%, and the impact which this would have on the Council's current finances.

Councillor Sunnucks attended the meeting, and, with the permission of the Chair, addressed the Committee. He was particularly concerned by rising interest rates and the predicted net overspend of over £1million, and wondered whether this shortfall would be addressed through the use of the Council's reserves. He considered that the Council found itself in a far weaker position than some other local authorities in terms of its levels of reserves. Although he thought that some considered that running the reserves so low to assist residents was justifiable, he did not agree with this approach, and considered that the Council had to, in the first instance, assure its own financial security so that it was in a position to help others in the future. He believed that difficult decisions would have to be taken in the future in terms of what the Council was able to focus its resources on, and a pragmatic approach to this would be essential.

Councillor Smith, in his role as Chair of the Committee, reminded it that some of the issues that had been raised by Councillor Sunnucks were more appropriately addressed by Cabinet, and did not fall within the remit of the Governance and Audit Committee.

A Committee member wondered what the appropriate role of the Governance and Audit Committee in regard to reviewing the financial monitors of the Council, noting that in the past such matters had been referred to it to relieve pressure on the Council's Scrutiny Panel. They considered that it would be useful to have a mechanism for comparing the current income monitoring data against the budget that was originally agreed in order to better note and understand the variations which had occurred. Of particular concern was the overspend of £788,000 associated with the Council's Environment and Neighbourhood Services, and it was suggested that it may be prudent to specifically address the volatility of this area in the future. The continued impact of the vacancy factor targets not being met on the budget was highlighted, and it was considered useful that more information was provided on the budget modelling which had taken place.

Councillor King, Portfolio Holder for Strategy and Leader of the Council, attended the meeting remotely, and with the permission of the Chair, addressed the Committee. He acknowledged the issues which the Council was now facing since the budget had been set by Full Council this year, and considered that problems were likely to worsen over the coming years. He did not, however, consider that the Council was in the position of a number of local authorities who had failed, or who were heading for failure, and the action that the Council needed to take to ensure this position continued was clear, and had already started. The Council was a well-run authority, and an intense process of review was underway to support the response to an expected, but still unwelcome, first quarter position and the challenges to come.

Councillor Cory, Portfolio Holder for Finance, attended the meeting remotely, and with the permission of the Chair, addressed the Committee. He was comfortable with the level of the Council's reserves, which had been recently depleted by the Council's response to the Coronavirus pandemic. He further considered that the Council utilised its assets more efficiently than some other local authorities, and as a result were able to respond in a more agile way to financial pressures. He assured

the Committee that the Council's accounts would be balanced by the end of the financial year, but noted that the early concerns which had been expressed were not surprising. Difficult decisions may have to be made during the year as a response to the rates of inflation, to ensure that budgets were not exceeded, and strategic priorities may have to be re-considered.

Responding to questions and comments from the Committee, Paul Cook confirmed that Officers would always seek to present information in as clear and consistent a manner as possible, and this could be explored further through scheduled budget workshops in the future. In setting the budget each year, there was a requirement that the Council's Section 151 Officer make a judgement on the level of reserves, and as part of this process a lot of comparisons had been made with other authorities, and it was considered that the Council's reserves were at a reasonable level, and those judgements would be thoroughly reviewed when setting future budgets. Modelling assumptions were brought forward when considering the medium range financial forecast, and this information would be provided in the future. There were currently no concerns about the level of Council reserves.

In discussion, the Committee expressed concern about the impact that rising interest rates would have on re-financed loan agreements, and the sustainability of income figures from areas such as licensing and planning during times of recession. It was suggested that it might be prudent to encourage cross-party involvement in considering budget issues, to take full advantage of the different professional experience which Councillors had. It would be helpful for a paper detailing the debt structure of the Council to be circulated to the Committee. A Committee member expressed some concern about the capacity of the Committee to scrutinise financial monitoring reports in great detail, and wondered whether a change to the constitution was required to allow this work to continue. The Chair was confident that the agreement that had been made some years ago between Scrutiny Panel and the Governance and Audit Committee would be treated as valid until such time as the Committee was advised otherwise.

It was noted that high expenditure in the Council's Neighbourhood service was associated with the employment of agency staff to fill Council vacancies, and concern was expressed that the Council should be prepared for residents who may be unable to pay their Council tax in the future. A Committee member queried a figure that had been presented in the report in relation to civil penalty notices, and Paul Cook confirmed that the position would be clarified. The Committee was reminded that a comprehensive Treasury Management Strategy was produced each year as part of the budget process, which was scrutinised by the Scrutiny Panel, Cabinet and Full Council, and this Committee received reports on it through the year. A copy of the Strategy would be circulated to new members of the Committee.

Councillor King assured the Committee that Senior Officers and Cabinet recognised the issues which the Council was facing and were taking action to address these. An update had been sent to all Councillors within the past week with respect to budgetary issues, and information would continue to be provided. The Council was

legally required to balance its books by the end of the financial year, and he was confident that this would happen.

RESOLVED that:

- (a) The Committee had considered the financial performance of General Fund Services and the Housing Revenue Account (HRA) for the first three months of 2022/23
- (b) The Committee had noted the forecast budget overspend of £1.007m on the General Fund.

327. Capital Outturn 2021/2022

The Committee considered a report requesting that it reviews the progress on the Capital Programme, and reviews the 'red, amber, green' rating for each scheme, as rated by the relevant project manager.

Paul Cook, Head of Finance, introduced the report and assisted the Committee in its deliberations. The report detailed the Council's capital outturn for the previous financial year, and touched on inflationary issues which would be addressed when the Capital Programme was reset for the financial year 2023/2024 onwards. Some schemes may not be overly affected by inflation, for example schemes brought forward by the Council's wholly owned commercial companies or where funding had been sourced by a cash limited government grant. There was, however, still a risk which would be picked up during monitoring, and reported to Cabinet. Actual expenditure in 2021/2022 was lower than planned, due both to the Coronavirus pandemic and delays to advances to the housing company due to the proposed introduction of minimum revenue provision (MRP). The Committee heard that MRP meant that for any Council borrowing there needed to be minimum revenue provision made from the revenue account which was repaying the principal of the loan over the asset life. Local authorities had not been making MRP for advances to housing companies that they owned because when a development was completed the entire loan would be repaid from the proceeds. It had been suggested by central government that this may not be an appropriate practice, and that Council's should be making MRP on advances to companies that they owned. It was pointed out via a consultation that having to provide MRP would adversely affect the business models of local authority housing companies, and government subsequently confirmed that councils did not need to make MRP on advances to their housing companies.

Councillor Sunnucks attended the meeting, and, with the permission of the Chair, addressed the Committee. He welcomed the assurances which had been given by the Leader of the Council an inclusive approach would be taken to addressing financial issues. It was of fundamental importance that a forum existed where Councillors took a part in considering the Council's accounts. He noted that the Council had massively underspent on the Capital Programme in the previous financial year, which meant that future spending on schemes would now be carried

out in a higher cost environment. The viability of some of the schemes should be re-considered in the light of this, for example the purchase and rental of open market housing. Would higher interest rates affect the amount of compulsory sales of houses at discounted prices?

Councillor Smith explained to the Committee that council house funding was a byzantine procedure. The government allowed councils to keep a portion of the proceeds which they made from the sale of housing, but only if this money was spent within the correct amount of time, otherwise it had to be returned to the Treasury. He agreed that the Council may struggle to afford some schemes in the Capital Programme if inflation was at 10%, and this was a serious problem which needed to be considered.

In discussion, the Committee supported the idea that Cabinet reviewed the Capital Programme, and considered that the budget workshops which were open to all Councillors were a positive step in facilitating all-party engagement and involvement in financial matters.

At the request of a Committee member, Paul Cook confirmed that the difference between the capital and revenue accounts, by explaining that revenue constituted the Council's year to year running costs such as salaries, whereas capital was long term investment in assets such as land or buildings. Although it was possible to transform revenue income into capital assets, it was not possible to use capital assets to fund the Council's revenue expenditure.

Paul Cook offered the Committee assurance that when the Capital Programme was reset each year, the Council was required to set out a Capital Strategy, which ensured that proposed schemes were considered to be affordable and which was supported by detailed calculations. As the request of a Committee Member, an explanation of the overspend associated with the Mercury Theatre project was offered. The overall cost of the project was significantly higher than the direct provision in the capital programme because external funding had been obtained, so although there had been a large percentage variation in terms of the input from the Council, in terms of the overall project this was not a high variation.

The Committee considered the merits of suggesting to Cabinet that it considered listing the relative priority of items in the Capital Programme, so that in times of hardship and financial difficulty, there would be a level of guidance as to which capital projects were delayed and which were completed within the available budget. It was accepted that there was an inherent difficulty with determining priorities in this way over a four year Strategic Plan, when priorities would naturally change over this period. Although considering MRP was not a requirement, the Committee wondered whether this should form part of the risk rating process for capital schemes as a matter of good practice.

Dan Gascoyne, Deputy Chief Executive, attended the meeting and advised the Committee that when the Capital Programme was reset as part of the budget setting process, this had set out the Capital Strategy which articulated the relationship to the

Strategic Plan in areas such as sustainability; both affordability and financial sustainability, together with other considerations such as environmental impacts.

RECOMMENDED TO CABINET that the Capital Programme be reviewed in the light of inflationary impacts.

RESOLVED that:-

- (a) Progress on the Capital Programme as set out in the report had been reviewed
- (b) The 'Red, Amber, Green rating for each scheme as rated by the relevant project manager had been reviewed.

328. Work Programme

The Committee considered its draft work programme for 2022-23.

The Committee was advised that with respect to the proposed Agenda for its November meeting, about which it had expressed concern, the Monitoring Officer had provided assurance that there was little new or controversial information to be provided as part of the suite of reports dealing with the Council's Ethical Governance Policies, and the agenda was not, therefore, as full as it may appear. Did the Committee still wish to schedule an additional meeting? Notwithstanding the assurance of the Monitoring Officer, the Committee was concerned that the Annual Statement of Accounts may be presented to its November meeting which would have the effect overloading the agenda, and an additional meeting should be scheduled to take account of this.

RESOLVED that:-

- (a) the work programme for 2022/23 be noted.
- (b) an additional meeting in autumn 2022 be scheduled.