

Minutes of a Meeting of the Audit and Governance Committee held in Committee Room One, Tedder Hall, Manby Park, Louth on Wednesday, 22nd January, 2020 at 10.15 am.

PRESENT

Councillors David Andrews, Adrian Benjamin, Rosalind Jackson, Terry Knowles and David Mangion.

Mr George Krawiec and Mr Walter Leschenko attended the Meeting as Independent Co-Opted Members.

Councillor Alex Hall attended the Meeting as a Substitute.

GUESTS IN ATTENDANCE:

Councillor Richard Fry - Portfolio Holder for Finance
Matthew Humphreys - Technical Services Manager, PSPS Limited

OFFICERS IN ATTENDANCE:

John Armstrong - Monitoring Officer
Adrian Sibley - Section 151 Officer
Steven Houchin - Head of Financial Services, PSPS Limited
John Medler - Service Manager - Corporate Support
Emma Bee - Internal Audit Manager
Matthew Waller - Principal Auditor, Assurance Lincolnshire
Stacey Richardson - Senior Auditor, Assurance Lincolnshire
Elaine Speed - Democratic Services Officer

The Monitoring Officer informed Members that in the absence of the elected Chairman and Vice-Chairman, he was seeking a proposal for a Member of the Committee to take the Chair.

Councillor Ros Jackson proposed, seconded by Councillor Terry Knowles that Councillor David Andrews be acting Chairman at the Audit and Governance Committee for this Meeting only. Upon being put to the vote it was a unanimous show of hands to support this.

Following which Councillor David Andrews took the Chairman's seat.

COUNCILLOR DAVID ANDREWS IN THE CHAIR

47. APOLOGIES FOR ABSENCE:

Apologies for absence were received from Councillors Jimmy Brookes, Colin Davie and Will Grover.

It was noted that in accordance with Regulation 13 of the Local Government (Committees and Political Groups) Regulations 1990, notice had been given that Councillor Alex Hall had been appointed to the

Committee in place of Councillor Paul Hibbert-Greaves for this Meeting only.

48. DISCLOSURE OF INTERESTS (IF ANY):

At this point in the meeting, Members were invited to declare any relevant interests. No such declarations were received.

49. MINUTES:

The Minutes of the Meeting held on 30 October 2019 were confirmed and signed as a correct record.

50. CHAIRMAN'S UPDATE:

The Acting Chairman welcomed everyone to the Meeting, in particular Mr Walter Leschenko and Mr George Krawiec who had recently been appointed as Independent Co-opted Members to the Committee who each provided a verbal résumé of their knowledge, skills and work related circumstances. The Acting Chairman also welcomed Councillor Adrian Benjamin who had been appointed to the Committee in place of Councillor Mel Turton-Leivers.

The Acting Chairman introduced Matthew Waller, Principal Auditor from Assurance Lincolnshire who was new to Committee following the transfer of the internal audit function to Lincolnshire County Council in November 2019.

51. ACTION SHEET:

Actions from the previous Meeting were confirmed as completed or in hand.

Action No. 41(ii) – Risk Management Position Statement – Quarter 2 2019/20 – CORP011 – 'Uncertainty on how exit from the European Union would impact on the Council', page 20 of the Agenda refers.

In relation to the query on how Brexit may affect staffing resilience at the previous meeting, Members were informed that there was one employee currently affected by this and that HR was working on this with regards to the status of this person's employment.

Action No. 37 – Internal Audit Progress Report Quarter 2 2019/20 – 'Information on ICT Disaster Recovery and business continuity', page 19 of the Agenda refers.

Members were pleased to welcome Matthew Humphreys, Technical Services Manager from PSPS Limited who was in attendance to provide Members with information on ICT disaster recovery and business continuity.

N.B. Councillor David Mangion joined the Meeting at 10.25am.

Mr Humphreys provided Members with an overview of the processes in place in the event of a cyber attack and highlighted the following information:

- PSPS Limited had recently employed a new security analyst whose role was dedicated to cyber incidents and as part of the role attended all cyber security events. Members were informed that PSPS Limited had a robust system and had recently been audited;
- A reported incident would initially go through to the service desk who would refer this to the security analyst. The incident would be assessed and either closed if not considered to be a risk or if it contained personal or sensitive data for example, would be referred to the Head of ICT. A risk matrix was in place that broke down the classification of security into a low, medium or high risk;
- All data was kept on a live server. A copy was taken every night and backed up and saved elsewhere. A full copy was also available on a tape backup that could be transferred to a disk. The core timescale for recovery was between 15 minutes and 1 hour, dependent whether it was disk or tape. Backups were monitored on a daily basis;
- Regular disaster recovery exercises were undertaken. PSPS Limited also engaged with trusted third parties to test and access systems, with auditable records of back up tests retained.

Members were invited to put their questions and comments forward. In response to Member queries, it was confirmed that:

- ICT had the capacity to take tape backs ups overnight of everything stored on the servers. Members were informed that there were approximately 300 tapes in use. To put this in context, 400 servers would go to one back up job on one tape. A back up was dual purpose for both disaster recovery and archive;
- Data encrypted on tape was only ever moved between the server and safe room and audit accepted this as mitigation in the event of loss. The weak point was the trusted third party, however due diligence was undertaken on these companies who were also tested;
- Members were informed that there had been no data breaches in the last five years. In 2015 there had been two virus-related incidents, however there had been no further incidents since this time;
- Backups were assessed on a daily basis with a six year retention schedule in place for internal information on both disk and tape

recovery. A record was also kept for when files had been restored. In the interest of best practice, this was in line with the national standard set by National Cyber Security Centre (NCSC). The Council was also working with the NCSC for the forthcoming implementation of Office 365 across the authority. A Member commented that the NCSC had produced an excellent toolkit that included useful information. It was agreed that a copy of the NCSC toolkit and a link to the website would be circulated to Members;

The Internal Audit Manager, Assurance Lincolnshire added that a mix of internal and external scrutiny was essential for managing the risk in relation to ICT disaster recovery and business continuity.

The Acting Chairman thanked Mr Humphreys for his informative update to Committee.

N.B. Matthew Humphreys, Technical Services Manager, PSPS Limited left the Meeting at 10.39am.

52. ANNUAL BUDGET REPORT, MEDIUM TERM FINANCIAL STRATEGY, FINANCIAL STRATEGIES & COUNCIL TAX:

The Portfolio Holder for Finance presented Members with the Annual Budget Setting Report and Associated Financial Strategies 2020/21-2024/25. Members were invited to review the papers and provide comment and feedback for Executive Board to consider at its Meeting to be held on 19 February 2020. The report and associated documents were attached to the Agenda, pages 23 to 121 of the Agenda refer.

Key information was highlighted to Members as follows:

- Section 2 – Budget Assumptions, Table 1 - These assumptions influenced the 5 year financial strategy and although cautious were sound;
- Section 3 – Resources – This identified the resources available to the Council, for example Business Rates, Revenue Support Grant, Rural Services Delivery Grant, New Homes Bonus and Council Tax, together with Fees and Charges and Other Income;
- Section 4 - 2020/21 Spending Plans – This detailed the estimated Council spending plans for the next 5 years;
- Section 5 - Budget Requirement – This contained a comparison of resource prediction and spending plans;
- Section 6 – Reserves – The proposed budget had been developed on the basis of not requiring any long term support from reserves for the revenue budget.

During his introduction, the Portfolio Holder for Finance made reference to Table 11 of Appendix A to the report, page 52 refers which detailed the budget requirement. Members were informed that it was a legal requirement for the budget to be balanced and based on current assumptions was pleased to report that the Council had a balanced budget for 2020/21.

It was highlighted to Members that 2020/21 was the first year after the four year grant settlement confirmed by Government in November 2016, therefore it was anticipated there would be a new spending review and funding settlement thereafter. With uncertainties around Brexit this had been delayed and a one year funding settlement had been announced. The difficult decisions around funding levels had been moved a year further on and so the Council now had a further year to develop its plans to increase its income to move towards financial sustainability. However, it was highlighted that in 2021/22 there was likely to be a loss of Revenue Support Grant and Rural Services Delivery Grant and a drop in Business Rates income retained, therefore there could be a budget deficit. However, it was highlighted to Members that the budget assumed a neutral impact.

To create resilience, the Council needed to continue to face the risks and it was highlighted that over the past year work had continued to develop new income streams and adopt different ways of working.

The return on property funds would not be known until the end of February 2020, however it was anticipated that this would be circa £55k above projections.

Reserves for 2020/21 were correctly positioned. There was an in-year surplus of circa £600k that had not been assigned to reserves but to market town investment funding, targeting deprivation and towards carbon reduction.

Members were invited to put their comments and questions forward. In response to Member queries, it was confirmed that:

- In relation to the housing schemes referred, this was for community schemes and £2m was held in reserves for this. The Council would be evaluating its potential for taking advantage of government announcements regarding support for facilitating Council borrowing to fund housing schemes and a project to review this potential had been established. Members were informed that it was for those communities that could identify the need for housing and run as a trust for the community, however whilst the initiative had been taken forward it had taken time for organisations to get involved. A Member queried whether local wards would be involved as he would be keen to be part of this initiative. The Section 151 Officer informed Members that a set amount of funding had been identified for this, with separate funds for individual projects and other areas

where money could be best spent, however was happy to take feedback on this;

- With regards to the creation of a market towns fund investment, no decisions had been made to date. The £600k surplus referred was in a reserve but not shown in the budget, however the market towns fund investment was one initiative that the Council proposed to use it for. The Section 151 Officer informed Members that the Chief Executive would be setting up meetings for consideration of how to utilise these funds and more information on this would be available at a later date and welcomed Members' thoughts on this. A Member queried whether feedback had been sought from town and parish councils and highlighted the importance of stakeholders' involvement. The Portfolio Holder for Finance responded that this was the purpose of the corporate strategy consultation and hoped that the Council was proactive in promoting initiatives within the district. With regards to consultation with wards across the district, he would try to ensure that the process was inclusive;
- A Member highlighted that the Carbon Reduction Reserve remained at £106k throughout the 5 year Medium Term Financial Strategy, page 53 of the Agenda refers and queried whether any other sources of funding was available. The Portfolio Holder for Finance responded that carbon reduction was one area that would be considered for the use of the aforementioned £600k surplus;
- A Member highlighted that the Councillor Community Grant was not included in the papers and queried whether this was to cease;
- A Member commented that the report was well written and was very transparent;
- A Member queried the on-year increase in Insurance Reserve, Table 12, page 53 of the Agenda refers. The Section 151 Officer advised Members that he would provide an update for the next meeting;
- A Member asked for clarification on the reduction of the Legal and Appeals Reserve from £445k as at 31 March 2020 to £336k as at 31 March 2021, Table 12, page 54 of the Agenda refers. The Section 151 Officer advised Members that he would provide an update for the next meeting;
- A Member highlighted that there was a significant increase in Corporate Accounting from £5322k in 2019/20 to £6300k in 2020/21, page 65 of the Agenda refers and queried the reason for this. The Section 151 Officer responded that it would be an accounting issue, however would provide details for the next meeting;
- A Member commented that staffing levels remained at 99% from 2019/2020 through to 2024/25, Table 1, page 35 of the Agenda

refers and queried why the line was level when there was an increase of full time equivalent employees from 2019/20 to 2020/21. The Section 151 Officer responded that national insurance contributions and superannuation, including pension costs were reflected in these figures. It was further explained that one line reflected a percentage of salary, the other a one-off cost for previous employment which was subject to change. The Head of Finance added that a tri-annual review was undertaken on the local government pension scheme which looked at balances across the country; East Lindsey currently paid 16.6% in contributions which equated to £789k per year. Members were informed that based on the pension review, the pension contribution rate would rise to 17.5% in 2020/21 and was assumed to remain the same throughout the life of the Medium Term Financial Strategy;

- A Member referred to the key risks, Table 13, page 56 of the Agenda refers and noted that there were robust risk management practices in place. However, it was considered that it would be advantageous if those responsible for mitigating actions, together with a timeframe could be included in the table. The Section 151 Officer informed Members that he would adapt the table to reflect this.

The Acting Chairman thanked the Portfolio Holder for Finance, Section 151 Officer and Head of Finance, PSPS Limited for their attendance and providing clarification to Members' queries.

Following which it was,

RESOLVED:

That the draft Medium Term Financial Strategy and associated financial strategies 2020/21 to 2024/25 be noted and relevant Member comments be fed back to Executive Board.

53. Q3 TREASURY MANAGEMENT UPDATE:

The Head of Finance, PSPS Limited presented Members with the Quarter 3 Treasury Management Update Report, together with the Treasury Management Strategy Statement and Annual Investment Strategy attached at Appendix A, pages 123 to 139 of the Agenda refers which detailed the Economic Background, Interest Rate Forecast, the Annual Investment Strategy, Borrowing, Debt Rescheduling and Compliance with Treasury and Prudential Indicators.

Members were informed that the report referred to a key element of the Council's Governance Framework and represented an important contribution to the evidence trail in support of the Annual Governance Statement 2019/20.

Key financial considerations and implications were highlighted to Members as follows:

- The Council's budgeted annual investment income for 2019/20 was £1.34m;
- Cash investments held by the Council at 31 December 2019 was £33.924m across ten institutions. The estimated outturn for investment income for 2019/20 was expected to be £55k above budget, based on current projections;
- Investment interest as at Quarter 3 was estimated to be £1.048m which was £38k above the profiled budget. This figure was still an estimate as the actual returns on property funds up to December 2019 were not likely to be known until the end of February 2020;
- Estimated revenue received for 2019/20 was £808k and over a four year period was estimated to be £1.072m;
- External borrowing of £20m was undertaken in December 2018 and it was anticipated that additional borrowing would be undertaken in 2020/21. It was highlighted that the Public Works Loan Board increased its interest rates in October 2019;
- The projected outturn for borrowing costs for 2019/20 was estimated to be £493k which was in line with the original budget.

Members were invited to put their questions and comments forward.

- A Member referred to the losses as detailed in the table relating to the performance and valuation of the property funds as at 31 December 2019, page 127 of the Agenda refers. The Section 151 Officer responded that the property funds were long term investments and the country was in uncertain times, however the Council expected to see an increase in 5 to 10 years time. It was further highlighted to Members that the Council received revenue from annual rental on these investments. The Head of Finance added that interest rates were generally low, with investment into councils normally attracting a higher interest rate. In relation to the risk for an investment into a council, any losses were underwritten by government.
- A Member considered that county councils were more vulnerable than district councils to going broke, however highlighted that Lancashire County Council had recently invested in Glasgow City Council where alleged irregularities had been identified from an audit review. The Finance Manager, Treasury had been made aware of this and it was requested that the audit results for Lancashire County Council over the last two years be reported to Committee to provide assurance for their investment. The Section 151 Officer informed Members that Glasgow City Council had a

triple 'A' rating and there was no chance that the Council would not get its money back;

- A Member queried whether the recent devastating fires across Australia would affect Australia and New Zealand Bank's credit rating. The Head of Finance responded that Link Asset Services provided regular updates around risks related to this together with risk ratings. The Finance Section followed a risk rating standard and if a credit rating fell below this it would be reviewed. Members were further advised that the investment with Australia and New Zealand Bank was short term;
- A Member highlighted the poor performance of M&G UK Property Fund and referred to a recent announcement that it had applied a temporary suspension of dealing in property portfolio. It was requested that M&G be invited to a future meeting of the Committee so that Members were informed of the current and future situation of the Council's investment. The Section 151 Officer considered the Council had a balanced portfolio of investments in property funds and informed Members that he understood that M&G's decision was due to a cash flow issue, however would get the Finance Manager, Treasury to provide more detail to Committee Members and ask for M&G to attend a future meeting. A Member queried whether the portfolio was diverse enough, with the current meltdown in retail, and the difficulty in getting money out of property. The Section 151 Officer responded that at the Committee Meeting held on 13 March 2019, Hermes Property Unit Trust attended and provided Members with a comprehensive review of how funds were invested, Restricted Minute No. 66 refers. The Section 151 Officer considered that there was a wide diverse spread of investment into property funds and that these were a good investment for the Council.

There were no further comments or questions received.

Following which it was,

RESOLVED:

That the report be noted.

N.B. Councillor Terry Knowles and Councillor Richard Fry, Portfolio Holder for Finance left the Meeting at 11.30am.

54. INTERNAL AUDIT PROGRESS REPORT QUARTER 3 - 2019/20:

The Senior Auditor, Assurance Lincolnshire presented Members with the Internal Audit Progress Report for Quarter 3 2019/20, pages 141 to 154 of the Agenda refer.

Members noted that one report had been issued during Quarter 3 as follows:

- Housing Benefits Key Controls – this had received a High Assurance;

A further draft report 'Accounts Payable and Procurement Cards' was expected to receive a Substantial Assurance, this being the indicative opinion until the draft report had been agreed.

Consultancy advice had also been provided for Finance, HR, with the New Finance System and the New Document Management System for Revenues and Benefits.

Members were informed that work was currently underway for the following East Lindsey reviews:

- Accountancy Services Key Controls;
- Revenues Key Controls;
- Corporate Governance, Values and Culture.

It was highlighted to Members that Assurance Lincolnshire had also commenced a full assurance mapping process for this year. By grouping the different sources of assurance in a single model, this provided the basis for Senior Management and Audit and Governance Committee to gain a better understanding of the organisation's assurance status and needs. Once complete, the map would provide an overview of assurance provided across the whole organisation which would make it possible to identify where assurances were present, their source and where there were potential assurance gaps.

The Senior Auditor referred Members to the performance information at Paragraph 6, page 143 of the Agenda refers and was pleased to report that 100% of recommendations had been completed and that the profile targets were either on or ahead of target.

Members were referred to the Revised Internal Audit Plan 2019/20, pages 152 to 154 refer which detailed the following:

- Critical Service Areas;
- Value for Money/Consultancy Work;
- Governance and Risk;
- Due Diligence;
- Other Audit/Additional Work.

Members were invited to put their questions and comments forward.

- A Member congratulated the Internal Audit team on its performance, particularly in those areas that were ahead of target;

- A Member queried how the transition of the internal audit function to Assurance Lincolnshire had gone and whether there had been any affect to the service during this period. The Senior Auditor responded that the 2019/20 Internal Audit Plan had not seen any changes and would remain as is until the end of the financial year, however there may be a change in 2020/21. Members were advised that the assurance mapping process would highlight this. The Monitoring Officer added that there was a service level agreement in place for partnership working with Lincolnshire County Council and from East Lindsey's side this was very positive, highlighting that it was basically the same team but with added value and a bigger base of knowledge for resilience.

The Internal Audit Manager, Assurance Lincolnshire added that it had been a very positive move and the Principal Auditor had brought a fresh perspective and good ideas moving forward for the service.

Following which it was,

RESOLVED:

That the report be noted.

N.B. Councillor Adrian Benjamin and Stacey Richardson, Senior Auditor left the Meeting at 11.34am.

John Medler, Corporate Support Service Manager joined the Meeting at 11.35am.

The Meeting adjourned for a short break at 11.34am and re-convened at 11.39am.

55. RISK MANAGEMENT POSITION STATEMENT:

The Corporate Support Service Manager presented Members with the Risk Management Position Statement (Quarter 3) 2019/20 which provided an update on delivery of the Council's Risk Management Strategy and detailed the Council's Strategic Risk Register, pages 155 to 172 of the Agenda refer.

Under the Committee's Terms of reference, it was required to:

- Consider the adequacy and effectiveness of the Council's risk management arrangements;
- Seek assurance that appropriate action was being taken on risk related issues identified by auditors and inspectors;

- Assess whether the Council's assurance statements, including the Annual Governance Statement, properly reflected the risk environment and any actions required to improve it.

Members were referred to Appendix 1, which detailed the criteria used to assess risk appetite, risk likelihood, risk impact and risk score.

The Corporate Support Service Manager informed Members that with regards to CORP011 'Uncertainty on how exit from the European Union will impact on the Council', page 169 of the Agenda refers, government had lowered the risk status with regards to resilience therefore the risk register would be amended to reflect this.

Members were invited to put their comments and questions forward.

- A Member considered that the Horncastle Project should be included on the risk register. He was aware that government was about to publish a white paper on Devolution, whereby this could lead to an empty building in 5 to 6 years time. As the cost of the project was significant, more consideration should be given to this. The Corporate Support Service Manager responded that he would take this back to Management Team;
- CORP001 – Reduction in government funding to deliver Council services and local priorities, page 162 of the Agenda refers.

A Member commented that government had inferred the era of austerity was over, however referred to the demise of government funding and queried whether the assumptions on deepening austerity was based on evidence. The Section 151 Officer responded that there was no evidence to support that there was an end to austerity within local government.

A Member referred to the Transformation Plan and queried what would happen if the Plan didn't evolve. The Corporate Support Service Manager clarified that the Transformation Plan was put in place in 2017 and the vast majority of the projects had been delivered. Over time it became clear that there were a number of projects on the Plan that were not going to deliver or the Council did not want to progress.

It was highlighted to Members that the 2020/21 budget papers and associated financial documents were being presented to Council at its next meeting to be held on 04 March 2020 where Council would be considering how to generate income to deliver a balanced budget in the long term.

There were no further comments or questions received.

Following which it was,

RESOLVED:

That the report be noted.

56. UPDATE TO CONSTITUTION (PROPOSED AMENDMENTS):

The Monitoring Officer presented Members with a report with proposed amendments to update the Council's Constitution.

Members were informed that the Constitution was regarded as a dynamic document which maintained its currency by incorporating changes to reflect constantly changing circumstances.

The purpose of the report was to seek Members' support to amend the Council's Constitution:

- To amend the Scheme of Delegation and the Financial Procedure Rules so as to remove the inconsistencies in respect of write off limits afforded to the Council's Section 151 Officer, and to bring them all into line with the write off limit contained within the Table at Page 214 at Part 4 - Article 31 (Financial Procedure Rules) of the Council's Constitution as detailed at Appendix A, pages 179 to 180 of the Agenda refer, and
- To provide delegated authority to the Service Manager - Public Protection to be able to immediately suspend or revoke a hackney carriage or private hire vehicle driver's licence where it was considered necessary and appropriate in the interests of public safety. The suspension or revocation process to be in line with the Rapid Response (Fast Track) Procedure was set out at Appendix 2 to this Report.

Members were invited to put their comments and questions forward:

- A Member considered this a very sensible approach and was happy to endorse the proposed changes;
- A Member was surprised that the Service Manager did not presently have the authority to revoke a licence. The Monitoring Officer responded that Service Manager – Public Protection had a number of existing powers but could not use them until the court process had been invoked. It was highlighted that this proposed change made it more robust, the rationale being that it was wrong for a person to continue to be able to carry passengers whilst a serious charge had been made against them.

It was proposed and seconded followed by a unanimous show of hands to support the proposed amendments to the constitution.

Following which it was,

RESOLVED:

- That the amendments to the Scheme of Delegation and the Financial Procedure Rules outlined at Appendix 1 to the report be recommended to Council for approval.

57. MONITORING OFFICER UPDATE:

Members noted that there was no update from the Monitoring Officer.

58. DATE OF NEXT MEETING:

The date of the next Meeting was confirmed as Wednesday 18 March 2020 commencing at 10.15am.

The Acting Chairman thanked the newly appointed Independent Members for their contributions and added that their knowledge and experience would be an asset to the Committee moving forward.

The meeting closed at 11.50 am.