

# **Audit, Governance & Standards Committee**

Thursday, 31 October 2019

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## **MINUTES**

### **Present:**

Councillor John Fisher (Chair), Councillor Mark Shurmer (Vice-Chair) and Councillors Salman Akbar, Peter Fleming, Nyear Nazir, Yvonne Smith and David Thain

### **Also Present:**

Mr R Percival (Grant Thornton)

### **Officers:**

Andy Bromage, Jayne Pickering and David Riley

### **Senior Democratic Services Officer:**

Jess Bayley

## **23. APOLOGIES AND NAMED SUBSTITUTES**

Apologies for absence were received on behalf of Councillors Michael Chalk and Ann Isherwood and it was confirmed that Councillor Peter Fleming was attending as Councillor Chalk's substitute.

## **24. DECLARATIONS OF INTEREST**

There were no declarations of interest.

## **25. MINUTES**

### **RESOLVED that**

**the minutes of the meeting of the Audit, Governance and Standards Committee held on Thursday 26<sup>th</sup> September 2019 be approved as a true and correct record and signed by the Chair.**

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Chair

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## **26. PUBLIC SPEAKING**

The Chair confirmed that there were no registered public speakers on this occasion.

## **27. MONITORING OFFICER'S REPORT - STANDARDS REGIME**

The Principle Solicitor presented the Monitoring Officer's report and in so doing highlighted that the investigation in respect of the complaint which had been reported at the previous meeting of the Committee had been resolved and no breaches had been identified.

The Member Support Steering Group had held a meeting since the previous meeting of the Committee. At this meeting Members had discussed and agreed a draft induction programme for Councillors due to be elected in May 2020. Members' ICT support had also been discussed and progress continued to be made in terms of enabling Councillors to access Committee papers electronically.

### **RESOLVED that**

**the report be noted.**

## **28. LOCAL GOVERNMENT ETHICAL STANDARDS**

The Principle Solicitor presented a report which outlined proposed changes to the Members' Code of Conduct. These changes had been proposed in response to findings in a review of standards in public life that had been conducted by a House of Commons Select Committee. As in previous years the Monitoring Officers for all of the Councils in Worcestershire had collectively reviewed the joint Code of Conduct for the county and the changes presented for Members' consideration had already been agreed by a number of other local authorities. Two changes had been proposed by other Councils to the draft joint code; the inclusion of trolling behaviour as an example of bullying and harassment and agreement that gifts and hospitality should be declared when valued at £15 or over.

Following the presentation of the report Members noted that reference had been made to Bromsgrove District Council in the document rather than to Redditch Borough Council. Officers explained that this was a typographical error and the code remained applicable in Redditch as it was a joint code for the whole of Worcestershire.

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Members questioned the reasons for inclusion of a reference to trolling behaviour within the code of conduct and concerns were raised that the subject was subjective and open to interpretation. Officers explained however, that trolling behaviour was considered to be critical and personal comments about somebody else on social media. This type of behaviour had already been reported to the Monitoring Officer, particularly in relation to comments that had been posted on Facebook. In cases where the Monitoring Officer received reports of trolling behaviour this would be investigated like all other complaints and the context would be taken into account as part of this process.

The Committee also discussed arrangements for Members declaring gifts and hospitality. The £15 threshold for declaring gifts and hospitality had been requested by other local authorities in the county. All gifts and hospitality of this value or above would need to be declared and registered with the Monitoring Officer.

Members noted that the report made reference to the role of the Independent Person. This role had been introduced in the Localism Act 2011. The Independent Person was consulted in relation to complaints and had a key investigative role in cases where a breach of the Council's Code of Conduct was found to have taken place.

## **RECOMMENDED that**

**the changes to the Code of conduct to reflect the CSPL Best Practice Recommendations be approved and that authority be delegated to the Head of Legal, Equalities and Democratic Services to update the constitution accordingly.**

## **29. GRANT THORNTON SECTOR UPDATE**

The Engagement Lead from Grant Thornton presented the external auditor's sector update. The update focused on the financial statement audit and the value for money audit. Members were asked to note that the external auditors were at an early planning stage for these processes, having produced the audit plan, and more detail would be available on the audit findings early in the New Year.

The value for money audit involved a risk based approach to auditing the Council. Following the issuing of the Section 24 Notice

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earlier in the year a key focus of this audit would be on the Council's progress with the Medium Term Financial Plan (MTFP), in respect of achieving a balanced budget.

The external auditors were in the process of reviewing the Council's Housing Benefit subsidy claim for 2018/19. The deadline to complete this work was the end of November 2019 and Members were assured that Grant Thornton was on track to complete this work by the deadline.

Members were advised that an independent review was in the process of being undertaken in respect of the Local Government external audit function. This review had been launched in recognition that the scope of the Local Government external audit process had shrunk since the Audit Commission was disbanded. The Audit Commission had had a number of duties that had not been passed on to the external auditors, including best value audits and service inspections. There appeared to now be a gap between what auditors actually did and what people expected external auditors to do.

The House of Commons Public Accounts Committee had reviewed local government and how the governance role was discharged at local Councils. The Committee had made five recommendations on this subject which highlighted areas of concern. The external auditors were anticipating that as a result of this finding more local oversight would be expected than was currently happening moving forward.

**RESOLVED that**

**the Grant Thornton progress report and updates be noted.**

## **30. GRANT THORNTON AUDIT LETTER**

The Engagement Lead for Grant Thornton presented a report in respect of the Grant Thornton Audit Letter and in so doing highlighted key issues identified in the 2018/19 audit. The external auditors had issued the Council with an unqualified audit opinion on the financial statements. However, the Council had been issued with an adverse value for money statement and subsequently the external auditors had published the Section 24 Notice for the Council.

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Grant Thornton had had concerns about the Council's pension liabilities and the valuation of properties and buildings. The external audit work in 2018/19 had been particularly challenging and more input had been required than had been anticipated. The Value for Money audit had focused on the Council's financial sustainability and the external auditors had concluded that there was a need for action which was why the Section 24 Notice had been issued. Progress had been made by the Council in respect of Housing procurement and contract management. However, there was poor financial resilience in the Council's Housing Revenue Account (HRA) due to there being low levels of reserves.

The audit fee had been £13,000 higher than anticipated largely due to all of the additional work that had been required from the external auditors during the year. In particular, extra work had been required on the Council's property audit and in respect of the 2018/19 accounts.

During consideration of this matter Members noted that the value for money conclusion had highlighted concerns about short-term decision making at the Council and questions were raised about when this process was viewed to have started. The external auditors reported that they had anticipated that Members would make some challenging decisions in 2017/18 which had not materialised. This meant that in 2018/19 the Council's ability to balance the budget using balances became more difficult and some decisions had then been taken which had an impact on the Council's financial sustainability. In addition, at a national level there had been a judgement in respect of pension liabilities which had had significant financial implications for the Council.

**RESOLVED that**

**the Audit Letter be noted.**

## **31. COMPLIANCE TEAM UPDATE**

The Financial Support Manager presented an update in respect of the work of the Council's Compliance Team. The role of the team was to monitor fraud and errors in the Council Tax base. The work of the team had helped to generate income for the Council which was reinvested in services.

Following the presentation of the report Members enquired about the impact that the introduction of Universal Credit had had on the

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work of the Compliance Team. Members were advised that the Council had not analysed the impact of Universal Credit so it was not possible to answer this question. The team was not just required to focus on Council Tax, but also considered areas such as undervalued rates and exemptions from Council Tax so the impact of Universal Credit would need to be assessed across a range of areas.

When the Compliance Team had initially launched there had been a number of examples of fraud and error which had been identified relatively quickly. By October 2019 the majority of mistakes had been identified. There was therefore the possibility that over time the role of the Compliance Team would change to focus on other areas, such as housing benefit fraud.

Members were asked to note that as with Council Tax the Council only retained a proportion of the funding recovered by the team in cases of fraud or where errors were identified. There was also approximately a 50:50 split between local government, including both the Borough and the County Council, and central Government in cases where income was returned where there had been fraud or errors in relation to non-domestic rates.

During consideration of this item Members briefly discussed the extent to which Worcestershire County Council, as the major beneficiary of Council Tax, could provide financial support to Redditch Borough Council in respect of collecting contributions from residents. Members were advised that Officers discussed this on a frequent basis with the County Council and some funding had been provided in previous years for this purpose.

The Committee also debated the reasons why non-banded properties might exist resulting in a failure to charge Council Tax or businesses might not pay non-domestic rates. Officers explained that there could be a variety of causal factors. For example there were building features that could increase the rental value of a retail unit, such as air conditioning, that the local authority might not be aware of and therefore the level of non-domestic rates might be lower than the Council was entitled to charge. Sometimes there were cases of misinformation or human error, such as Officers not identifying new developments that had received planning permission in a timely manner, which could lead to delays in obtaining Council Tax for a property.

**RESOLVED that**

**the report be noted.**

**32. CORPORATE GOVERNANCE AND RISK UPDATE**

The Executive Director of Finance and Corporate Resources presented an update in respect of the Council's approach to risk management. The Council had received a limited assurance assessment from Internal Audit about risk management arrangements. Whilst there were some strengths, such as health and safety arrangements for Rubicon Leisure and Environmental services respectively, there were also weak elements, particularly the authority's approach to managing corporate risks.

The Council had been working with Zurich Insurance to identify risks and to ensure that they were monitored effectively. Zurich Insurance had undertaken a review of the Council's risk management arrangements in June and July 2019 and this investigation had found that there were actions that could be taken to strengthen the Council's arrangements. This included the need for training to be provided to staff and Members in respect of managing risks. The Council had also been found not to have a consistent approach to managing risks.

The Audit, Governance and Standards Committee had an important role to play in managing the Council's risks. Zurich Insurance was aiming to attend a future development session with Members of the Committee to provide further information on risk management.

Departmental risk champions were in place and a corporate register was developed on an annual basis. However, there hadn't been a fundamental review of risks in recent years and there was a need for risk management to be considered more seriously as a corporate priority in future.

Members noted that the Audit, Governance and Standards Committee had received a number of reports over the preceding five to ten years in respect of the action that was being taken to improve risk management arrangements at the Council. Since then serious issues had been identified with the Council's approach first to gas maintenance and later in respect of the Housing Capital Service. Members raised concerns that in this context weaknesses had been found in the local authority's approach to risk management. Officers acknowledged that four years previously the

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Council had introduced a new Risk Management Strategy and there had been a clear focus on compliance in areas such as health and safety and Housing Services. However, there had been less focus on management of corporate risks. Progress was being made and Officers were aiming to provide an update in respect of the corporate risk register to Members together with training at the following meeting of the Committee.

**RESOLVED that**

**the report be noted.**

### **33. SECTION 24 ACTION PLAN UPDATE**

The Executive Director of Finance and Corporate Resources explained that following the Audit, Governance and Standards Committee's agreement of the Section 24 Action Plan the external auditors had been notified of the Council's plans. Grant Thornton had included three recommendations in the Section 24 Notice and an update was provided in the report in respect of progress in relation to each of these recommendations.

The first recommendation focused on the need for the Council to achieve a balanced budget in 2019/20. Specifically the Council needed to be sure about the deliverability of savings proposed for the financial year. Officers were in the process of preparing the financial monitoring reports for the second quarter of the financial year, however, information gathered to date appeared to indicate that the Council was on track to deliver the forecast savings of £1.1 million in the MTFP for the year. In addition, it was anticipated that further savings would be made on top of this figure; any such savings would be returned to balances.

The second recommendation focused on the further savings that needed to be made to address the £1.4 million gap in the budget the following year as well as to balance the HRA. The Executive Committee had recently received an update on the Council's financial position as of October 2019. To date £1 million of savings had been secured for 2020/21. The Council had also secured £450,000 in New Homes Bonus (NHB) funding that year together with £400,000 in savings identified through a review of the Council's capital programme. Unfortunately, the Government had announced that the Council could only increase Council Tax by a maximum of 2 per cent before triggering a referendum, rather than the 2.99 per

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cent that Officers had budgeted for and this would have a negative impact on the Council's finances moving forward.

The Committee discussed the savings that had been secured to date by the Council and the review of the capital programme. Officers explained that the £400,000 savings in the capital programme related to borrowing costs. The Council had also reviewed the £20 million borrowing costs that had been incorporated into the Council's plans in relation to the Investment and Acquisition Strategy. As the Council had not agreed the number of investments that had originally been anticipated the borrowing costs for investments had been re-profiled to a more sensible level.

Members noted that there would be a need in seeking to balance the budget to take decisions that would ensure the Council's financial sustainability. The Section 151 Officer would be looking for a clear steer from Members in respect of balancing the Council's budget and approvals, at least in principle, on spending plans by December 2019.

Concerns were raised that some of the language included in the report was quite vague, such as the suggestion that the Council was anticipating that the unidentified savings included in the budget for 2019/20 would be met. Officers explained that certainty could not yet be provided as the figures from the monitoring report for the second quarter of the financial year had not yet been finalised. However, from the information that had been gathered to date Officers were anticipating that the Council was on track to achieve the savings required.

During consideration of this item Members asked about the inclusion of unidentified savings in the MTFP for 2019/20 and the value of including unidentified savings in a Council budget as these had tended to be delivered by Officers over a number of years. Officers acknowledged that unidentified savings had been delivered in the past. However, the amount of unidentified savings included in the budget in 2018/19, at £770,000 had been relatively high and Officers had not been able to deliver unidentified savings at this level. The Engagement Lead for Grant Thornton explained that whilst external auditors were sceptical about the inclusion of unidentified savings in a budget it was recognised that it was a judgement call and Councils could not always clarify every aspect of the budget in advance.

**RESOLVED that**

**the report be noted.**

**34. FINANCIAL SAVINGS MONITORING REPORT**

The Executive Director of Finance and Corporate Resources presented the Financial Savings Monitoring Report for Members' consideration. The report had been requested by Members and the content focused on progress with the delivery of savings in 2019/20. A number of savings were anticipated, including from Print Services, which were likely to be £14,000 higher than had been originally anticipated. Savings of £206,000 had also been achieved on vacancy management and it was likely that further savings would accrue from posts that were kept vacant. The Council was on track to deliver £1.1 million in savings as budgeted for 2019/20 together with a further £42,000 in savings that had not been anticipated, though Members were advised that this figure might change by the end of the financial year.

The Council's budgeted savings included plans for a decrease in the amount of fee that would need to be paid to the external auditors, despite the fact that an additional fee had been levied on the Council by the external auditors. This was due to the requirement nationally for external audit fees to be reduced for local government.

During consideration of this item concerns were raised that unexpected pressures or delays to progress might occur later in the financial year which would have a negative impact on the savings that the Council achieved. Officers explained that Heads of Service were consistently challenged to deliver savings and any issues would be identified at an early stage.

The reasons for the delay in reporting the figures for the second quarter of the financial year, from July to September, were briefly debated. Members were advised that whilst Heads of Service and managers had access to budget information on a monthly basis it would not be feasible to report to Members on the budget position every month. In the meantime, until the figures were reported to Members in December, any exceptions or areas of concern would be raised with the Section 151 Officer for consideration.

**RESOLVED that**

**the report be noted.**

**35. INTERNAL AUDIT PROGRESS REPORT**

The Head of Worcestershire Internal Audit Shared Service presented the Internal Audit Progress Report for Members' consideration. Several internal audits had identified limited assurance, which was quite unusual, and one for St David's House had found there to be no assurance. Due to the number of audits that had found low or no assurance, greater detail had been included in the report in respect of these audits for Members' consideration.

Action had already been taken to address many of the problems identified in internal audits where there had been limited or no assurance. The audit in respect of the Benefits Service had identified concerns which had resulted in direct intervention from the Department of Work and Pensions (DWP) but subsequently the service had improved. Risk management had been another area where limited assurance had been identified and the Council had since invited Zurich Insurance to undertake investigative work. The issues identified in the internal audit of health and safety had occurred during a transition period prior to the Council's Health and Safety Officer commencing employment with the authority and a lot of progress had been made since then to address those problems. At St David's House a substantial Action Plan had been developed and progress had been made.

In all cases where limited or no assurance had been identified the Internal Audit team would continue to monitor progress until all issues had been resolved. The Audit, Governance and Standards Committee would receive updates on any areas of concern. The Head of the Worcestershire Internal Audit Shared Service had also worked with the Executive Director of Finance and Corporate Resources to ensure that there was better escalation in terms of addressing issues that were not believed to be progressing as well as necessary. Members were also asked to note that all Internal Audit reviews that identified limited or no assurance were being reported to both the Corporate Management Team (CMT) and the Senior Management Team (SMT).

Members discussed the content of the report and concerns were raised that a number of Internal Audit reports had identified limited

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or no assurance. To assess the progress in respect of these areas Members agreed to invite representatives of St David's House, the Health and Safety Officer and representatives of the Benefits Service to attend future meetings of the Committee to provide an update on the action that had been taken to address the problems that had been identified by Internal Audit.

The Committee also discussed the intervention of the DWP in the Benefits Service and the reasons why this intervention had been required. Officers explained that the Benefits team had been restructured resulting in a number of experienced staff securing positions in the Financial Inclusion Team (FIT). The remaining staff in the Benefits team had not had the same level of experience but were still expected to handle complex cases. At this time there had been a number of officers on long term sick and resources in the team were stretched. In this context delays had occurred in the processing times. Since that time a number of changes had been made and the processing times had fallen to a comparable level to the national average. A further review of the service structure would be taking place towards the end of the year.

## **RESOLVED that**

- 1) Officers be invited to attend future meetings of the Committee to provide updates on the action being taken to address the problems identified in the Internal Audits of St David's House, the Benefits Service and Health and Safety; and**
- 2) the report be noted.**

## **36. COMMITTEE WORK PROGRAMME**

The Senior Democratic Services Officer (Redditch) advised that the items that had been requested for consideration at future meetings of the Committee earlier in the meeting would be added to the work programme.

## **RESOLVED that**

**the content of the Audit, Governance and Standards Committee's work programme be noted.**

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The Meeting commenced at 7.00 pm  
and closed at 8.40 pm