

## **NOTTINGHAM CITY COUNCIL**

### **AUDIT COMMITTEE**

**MINUTES of the meeting held at LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG on 27 April 2018 from 2.01 pm - 3.50 pm**

#### **Membership**

##### Present

Councillor Sarah Piper (Chair)  
Councillor Malcolm Wood (Vice Chair)  
Councillor Leslie Ayoola  
Councillor Rosemary Healy  
Councillor John Hartshorne  
Councillor Anne Peach  
Councillor Andrew Rule  
Councillor Adele Williams  
Councillor Steve Young

##### Absent

#### **Colleagues, partners and others in attendance:**

Peter Carroll	- Head of Portfolio Investment and Development
Tony Crawley	- KPMG External Auditor
Glyn Daykin	- Senior Accountant Treasury Management
Sue Risdall	- Finance Analyst
David Rosselli	- Policy and Performance Officer
James Schrodell	- Policy and Performance Manager
Shail Shah	- Head of Audit and Risk
Kevin Shutter	- Director of Strategic Asset and Property Management
John Slater	- Group Auditor
Thomas Tandy	- KPMG External Auditor
Zena West	- Governance Officer

#### **42 APOLOGIES**

Jane O'Leary, Insurance and Risk Manager

#### **43 DECLARATION OF INTEREST**

None.

#### **44 MINUTES OF AUDIT COMMITTEE, 24 NOVEMBER 2017**

The minutes of the meeting held 24 November 2017 were agreed as a correct record and signed by the Chair.

#### **45 MINUTES OF AUDIT COMMITTEE, 22 JANUARY 2018**

Subject to the following change being made, the minutes of the meeting held 22 January 2018 were agreed as a correct record and signed by the Chair:

Change minute 41e from “There has been some criticism of the Non-Treasury Investment Strategy, that it is reliant on commercial and retail property outside the greater Nottingham area. The committee felt that a greater level of scrutiny should be in place around investment decisions” to “There have been some concerns raised following the report by Centre for Cities of the Non-Treasury Investment Strategy, that investments outside of Nottingham should be made in Brexit resilient areas. The committee felt that a greater level of scrutiny should be in place around investment decisions”

#### **46     EXCLUSION OF THE PUBLIC**

**RESOLVED to exclude the public from the meeting.**

#### **47     INVESTMENT REVIEW**

Peter Carroll, Head of Portfolio Investment and Development, and Kevin Shutter, Director of Strategic Asset and Property, gave a presentation on the City Council’s investments properties to the Committee, as per the attached exempt presentation, circulated with the first distribution of the minutes.

**RESOLVED to note the exempt information, and thank Peter Carroll and Kevin Shutter for the presentation.**

#### **48     RE-ADMISSION OF THE PUBLIC**

**RESOLVED to re-admit the public for the remaining agenda items.**

#### **49     TREASURY MANAGEMENT 2018/19 STRATEGY AND REVISION TO 2017/18 DEBT REPAYMENT STRATEGY**

Glyn Daykin, Senior Accountant Treasury Management, presented the Treasury Management 2018/19 Strategy for scrutiny and noting, highlighting the following points:

- (a) the borrowing strategy is for an anticipated at £103,000,000 borrowing requirement in 18/19, the strategy has some flexibility on the mix and timing of new loans due to the volatility in forecast interest rates and the UK economy;
- (b) the investment strategy reflect this as well, with balances of around £30,000,000 due to a difference between long and short term interest rates, limited to £10,000,000 per counterparty. All counterparties are classed as high credit rating, with a minimum rating of A- across the 3 reference agencies;
- (c) appendix 3 to the report shows the prudential indicators;
- (d) there has been a revision to last years’ Minimum Revenue Provision (MRP) policy, as per the presentation (distributed with the original publication of the minutes).

There followed a number of questions and comments from the Committee, and some additional information was provided:

- (e) the rationale behind what is considered prudent involves looking at which assets are on the balance sheet and making sure they have a useful life over the changes required;
- (f) the figures will go from £4,100,000 to £80,000 per year and then revert to a straight line figure: essentially an initial reduction and then an increase for the remainder of the term;
- (g) around £26,000,000 is paid on MRP per year as a whole, the figures in the report refer only to 'Supported Borrowing' element of MRP relating to the pre-2007 debt;
- (h) Committee members felt that it might be useful to add MRP to scheduled training for Audit Committee members later this year;
- (i) the treasury code specifies how to calculate the ratio, looking purely at council tax and revenue support grant, which are dwindling and being replaced with other revenue streams. The total income stream is not shown as it's not used for the calculations. Councillors requested further detail on total income be distributed to them;
- (k) the approved MRP policy each year is based on borrowing at the time going forward, it wouldn't affect how much had been paid in previous years;
- (l) the external auditors requested that it be noted that there will be a big future impact on the MRP to be borne in mind for future administrations.

**RESOLVED to:**

- (1) adopt the current Treasury Management Policy Statement, as contained within appendix 5 to the report;**
- (2) note the contents of the Treasury Management Strategy for 2018/19 (appendix 1 to the report), the Investment and Borrowing Strategies for 2018/19 (appendix 1), and the Prudential Indicators and limits for 2016/17 to 2020/21 (appendix 3);**
- (3) note the contents of and the amendment to the Strategy for Debt Repayment / Minimum Revenue Provision for 2017/18, as contained within appendices 4 and 10.**

**50 CORPORATE PERFORMANCE - UPDATE**

James Schrodell, Policy and Performance Manager, and David Rosselli, Policy and Performance Officer, presented a report on Corporate Performance to the Committee, and they shared performance information from the report. The update related to quarter three, although some changes have occurred in the last three weeks. The Performance team has recently merged with the Policy team, with a corresponding reduction in resource from 3.5 full time equivalent colleagues to 1.5. Processes are now being streamlined, with some progress already evident with a

change of software. Each department's performance information is formally taken to their Leadership Team, and to the Corporate Leadership Team and the wider Executive. Departmental internal performance management runs parallel to corporate performance monitoring, and there are multiple opportunities to flag issues less formally.

**RESOLVED to note:**

- (1) the performance information in relation to the progress made against the priorities set out in the Council Plan 2015-19 as set out in the appendices to the report;**
- (2) the progress made in revising the current Corporate Performance Management Framework.**

**51 EXTERNAL AUDIT UPDATE**

Tony Crawley and Tom Tandy, from external auditors KPMG, gave an update to the Committee on the EU Public Interest Entity (EU PIE) and its implications for Nottingham City Council. This does not usually affect local authorities, but has affected Nottingham City Council as there £600,000 of debt listed on the London Stock Exchange which could be traded. It will impact on how KPMG reports to Nottingham City Council and a long form audit report will be required, with rules designed for the private sector adapted to fit the circumstances of a local authority. There will be an additional fee for the extra detail on the work.

They also gave an update to the Committee on the Audit Plan 2017/18, which was written for the February 2018 meeting of Audit Committee (which was cancelled due to its proximity to a by-election) and a progress report and technical update. They explained that the plan would need to be updated for the EU PIE implications, for example the materiality would reduce from the current level of 1.2% to 1%. They highlighted the following points:

- (a) pages 64-65 of the agenda pack show a summary of significant risks, including valuation of PPE, Pension Liabilities, and an advanced timetable for the production of financial statements. Further information is contained within the plan regarding individual risk;
- (b) as set out on page 83 of the agenda pack, there are no independence or objectivity issues to report;
- (c) procurement services provided by the Council to the Midlands Engine do not count towards the non-audit fee thresholds, as determined by PSAA.
- (d) page 91 of the agenda pack shows general updates on the external audit. KPMG visited the City Council in February 2018, attempting to bring some of the final accounts work forward given the tighter deadlines. The visit went well, with good cooperation between KPMG and the City Council. There is a lot of work still to do on both sides over the next couple of months. In addition there was still work to do to complete the 2016/17 Housing Benefit claim, stemming from an increase to the number of cases being tested as a result of the errors

which occurred last year and a high level of errors in this year's samples. The qualification letter is being finalised;

- (e) page 98 of the agenda pack outlines the statement from the Chartered Institute of Public Finance and Accountancy regarding Northamptonshire County Council issuing a 'section 114 notice'. Page 99 of the agenda pack comments on the financial sustainability of local authorities in 2018 and the tough challenges faced by all.

**RESOLVED to note the information within the reports and thank Tony Crawley and Tom Tandy for their update.**

**52     EXTERNAL AUDIT QUESTIONS TO THOSE CHARGED WITH GOVERNANCE 2017/2018**

**RESOLVED to note the proposed response to be given by the Chair of the Audit Committee to the External Auditor, as contained within appendix 1 to the report.**

**53     REPORTING OF CORPORATE RISK MANAGEMENT FRAMEWORK, STRATEGY AND RISK REGISTER**

Shail Shah, Head of Audit and Risk, updated the Committee on the reporting of Corporate Risk Management Framework and Strategy, and the Risk Register.

**RESOLVED to:**

- (1)     agree the Risk Management Framework and Strategy for 2018/19;**
- (2)     note the risk identified on the quarter three and quarter four Corporate Risk Register.**

**54     ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2016/17 AND PROCESS FOR PRODUCING THE 2017/18 STATEMENT**

Shail Shah, Head of Audit and Risk, presented a report to the Committee on the Annual Governance Statement, detailing progress made to date on issues reported for 2016/17 at the September meeting, and the process for producing the 2017/18 statement. To coincide with production of the Statement of Accounts the 2017/18 final Annual Governance Statement will be reported in July, with an update later in the financial year. An interim Annual Governance Statement will be reported to the Committee in May 2018.

**RESOLVED to note:**

- (1)     the progress made to date in addressing the issues reported in the 2016/17 Annual Governance Statement;**
- (2)     the process and timetable for compiling and completing the 2017/18 Annual Governance Statement, as outlined in appendix 1 to the report.**

**55     BEST PRACTICE FOR THE GOVERNANCE OF CITY COUNCIL COMPANIES**

Shail Shah, Head of Audit and Risk, presented a report to Audit Committee on the best practice for governance of City Council companies. Nottingham City Council now has a complex group structure in terms of City Council owned companies, and a standardised governance approach is required. This will be beneficial not only to Nottingham City Council, but also to the companies, so that there is a standard approach for communicating and interacting with the City Council. The proposals will be going to the Corporate Leadership Team shortly, and an updated version will be presented at a future meeting of Audit Committee. Training will be provided for Councillor board members to clarify their roles.

Following questions and comments from the Committee, additional information was provided:

- (a)     companies will be required to join and attend the shareholder board. It is anticipated that the companies will see the shareholders board as an opportunity for greater communication and realise the benefits of a standardised approach;
- (b)     the External Auditors welcome the proposed standardisation.

**RESOLVED to note the proposed Code of Best Practice for Governance of Companies.**

**56     INTERNAL AUDIT QUARTERLY REPORT (3RD QUARTER 2017/18)**

Shail Shah, Head of Audit and Risk, presented a report to the Committee on the performance of Internal Audit during the third quarter of 2017/18. The plan has been achieved and all performance indicators met. All reports for the year will be presented at the next meeting of Audit Committee for any further scrutiny as required.

**RESOLVED to note the performance of Internal Audit during the third quarter of 2017/18.**