

BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK**AUDIT COMMITTEE**

Minutes from the Meeting of the Audit Committee held on Monday, 11th March, 2024 at 4.30 pm in the Council Chamber, Town Hall, Saturday Market Place, King's Lynn PE30 5DQ

PRESENT: Councillor A Ryves (Chair)
Councillors S Bearshaw, R Coates, T de Winton, P Devulapalli,
S Everett (Vice Chair) and B Jones

Portfolio Holder:
Councillor C Morley, Finance

Under Standing Order 34:
Councillor A Kemp

Officers:
Michelle Drewery, Assistant Director Resources/Management Team Representative
Carl Holland, Financial Services Manager
Wendy Vincent, Democratic Services Officer

A150 **APOLOGIES**

An apology for absence was received from Councillor S Dark.

A151 **MINUTES**

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The minutes for the meeting held on 16 January 2024 were agreed as a correct record, subject to Councillor de Winton's apologies being recorded.

A152 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

A153 **URGENT BUSINESS UNDER STANDING ORDER 7**

There was no urgent business.

A154 **MEMBERS PRESENT PURSUANT TO STANDING ORDER 34**

There were no Members present under Standing Order 34.

A155 **CHAIR'S CORRESPONDENCE (IF ANY)**

There was no Chair's correspondence.

A156 **TREASURY MANAGEMENT QUARTER 3 REPORT 2023/2024**

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The Financial Services Manager explained that the report was for quarter 3 as at the 31 December 2023.

The Committee was advised that the Quarterly Review Report had been prepared in compliance with CIPFA's Code of Practice, and drew attention to the following sections of the report:

- 1: The Treasury Management Quarterly Review 2023/2024.
- 2: Economic Update.
- 3: Annual Investment Strategy - 3.4: Creditworthiness, 3.5: Investment Counterparty Criteria, 3.8: Approved limits.
- 4: Borrowing – 4.2: The Public Works Loan Board (PWLB) lending facility,
- 6: Compliance with Treasury and Prudential Limits.

The Financial Services Manager outlined the supporting information as set out below:

Appendix 1 – Economic Update

Appendix 2 – Interest Rate forecasts.

Appendix 3 – Prudential and Treasury Indications for 2023/24.

Appendix 4 – Investment Portfolio.

Appendix 5 – Approved countries for investment.

Appendix 6 – Glossary.

The Chair thanked the Financial Services Manager for the report.

The Chair reminded the Committee that its role was receive the quarterly report and to scrutinise the Treasury Management Strategy and to confirm that the Council was not borrowing to support its revenue expenditure.

The Chair invited questions and comments, a summary of which is set out below.

In response to comments made by Councillor Coates regarding the abbreviations set out on page 23, the Financial Services Manager explained that they were not included in the Glossary but had been taken verbatim from the documents from the Council's Treasury Advisors, Link and undertook to look at adding a key to include the abbreviations to assist with the interpretation.

The Financial Services Manager and Assistant Director – Resources responded to questions from Councillor de Winton on credit worthiness and local authority lending/ borrowing, investing surplus money within the next quarter, monitoring the cash flow and the capital programme.

In responses to questions from Councillor Bearshaw on surplus being invested, the Assistant Director – Resources explained that the Council worked with brokers to look at options for investment.

Councillor Bearshaw referred to page 23, Appendix 1, second bullet point – A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment had remained low at 4.2%. The Assistant Director – Resources explained that the statistical information was supplied by the Office for National Statistics and added that the UK response to wage increases had impacted on inflation which was why it had taken longer than anticipated to come down. It was noted that even in the fluctuation where it was 3.9% back to 4% had been as a result of the wage growth but had now started to stabilise and was compared year on year.

Councillor Bearshaw drew attention to Appendix 2 – Interest rate forecasts and commented that it was reassuring to see that bank rates had been accessible to the Council since 1 November 2012 and was therefore reassurance that the Council had got it right.

Councillor de Winton drew the Committee’s attention to Appendix 4 – Investment Portfolio and commented that it would be useful to have a graph explaining the level of reserves and trend in the last 5 years and going forward. In response, the Financial Services Manager took the point raised on board and would see how the request could be accommodated in future reports.

Councillor Bearshaw referred to Appendix 2 - Interest Rate Forecasts and asked how often the figures were refreshed. In response, the Financial Services Manager explained that rates had been up and down during the past two years and the information was refreshed on a bi-monthly/quarterly basis.

In response to further questions from Councillor Bearshaw in relation to whether the Council commissioned consultation to carry out the above work, the Financial Services Manager advised that professional indemnity was required and paid a reasonable amount to obtain the advice in relation to borrowing and investment and also assisted with a number of services around the Council’s balance sheet and the capital programme.

Under Standing Order 34, Councillor Kemp addressed the Committee and referred to page 34 and the overspend as at the 31 December 2023 of £1,005,160 and asked what this related to. In response, the

Chair advised Councillor Kemp that this question related to the Budget Monitoring report which was the next agenda item.

Under Standing Order 34, Councillor Kemp referred to the investment programme of £6.3m available for investment and asked what the Council was looking at for maximum return. In response, the Financial Services Manager explained that this was the figure which the Council had already tied up and the authority had cash in and out flows and had a sufficient amount in income at the start of the month which could be invested for a very short time but was paid over the major preceptors and other creditors. In conclusion, the Financial Services Manager explained that the Council took every opportunity to invest where it could.

Councillor Kemp asked further questions in relation to the housing companies and how the Council was accounting for the loss of income in the budget. The Chair advised a response could be given to the question under the next agenda item.

In response to questions from the Chair in relation to the £16.5 m investment and the difference in the figures reported in the budget monitoring report of £21.9 m (page 46 section 7.3) , the Financial Services Manager explained that this was not an error and reflected the highly liquid items, trends and the surplus available to invest. The Financial Services Manager explained that he would revisit the chart at 7.3 and seek to make the information clearer.

Councillor de Winton commented on the running of an overnight deposit account and added that lots of companies used such a facility and there was a system in place. The Financial Services Manager explained that the Council did not have the capacity to make investment decisions on a daily basis and it was normal practice to plan ahead on a two weekly basis.

Following questions from the Chair on the net interest income of £800,000, the cost of loans to the Council of approximately £400,000, the Financial Services Manager drew the Committee's attention to section 6.1 of the report which stated that the Council was mindful of the capital programme and some of the items were listed as intention rather than commitment and work was being undertaken to re-categorising the content of the capital programme and this would be reported in the new financial year. The Committee was informed that paragraph 6.1 stated officers were carrying out that piece of work and with that came the ability to better model the Council's reliance and funding of the capital programme on the cash flows. In relation to borrowing the Council could better profile and programme what the larger capital schemes meant for the availability of financing.

The Chair asked how the authorised borrowing limit of £86m was determined. In response the Assistant Director – Resources explained that £86m was based on the estimate of what the capital programme

would cost and took into account any internal borrowing being applied up to date and there were forecasts in terms of where the Council expected to borrow to support the delivery of the capital programme of £190m over the course of the medium term. The Council would look at the projects and determine how the projects would be funded via reserves, grants, reserves or whether the Council would get any back through capital receipts.

The Chair drew attention to Appendix 6 – Capital Loan – funding that the Borough Council provide to support the transfer of housing to West Norfolk Housing Co Ltd and asked it this meant that the Council had an outstanding loan to West Norfolk Housing Co Ltd. In response, the Assistant Director – Resources explained that it was the capital loan outstanding to West Norfolk Housing Co Ltd and would provide a full response direct to the Audit Committee.

The Chair invited the Portfolio Holder for Finance to address the Committee.

The Portfolio Holder for Finance made comments as a Councillor and not as a Cabinet Member. Councillor Morley referred to the scrutiny undertaken by the Audit Committee under the previous Administration and added that shortly would move into scrutiny over the group accounts as the two housing companies would become more active and would necessitate a change of some description to the traditional way in which the capital and treasury activities had been reported.

The Assistant Director – Resources added that loans were previously reported on and officers would look at how to bring this back to the Audit Committee going forward. The Committee was informed that the previous loan facility to West Norfolk Housing Company was £10m and to date £3m had been drawn down. An update would be forwarded to the Committee when available.

In response to questions from the Chair regarding the credit rating of other local authorities, the Assistant Director – Resources explained that the loan facility of 4.5% above the bank base rate was for the subsidiary companies and the base rate at 0.5% was affordable for the company to repay but when it increased to 4 – 5% it became unviable.

In response to questions from Councillor de Winton as to whether the loans were interest only or repayment mortgages, the Assistant Director – Resources explained that she did not have the information available but would check with the relevant officer and email to the Committee.

Following questions from Councillor Bearshaw on the interest rate being above the base rate for the loan to housing companies, the Assistant Director – Resources explained that this was not a confirmed rate but had obtained a separate piece of advice on what the loan rate

should be based on and would take it into consideration when the Agreement was drawn up with the housing company.

The Chair commented that the Audit Committee should be involved in detail on the arrangements for the 100% subsidiary loans. Councillor de Winton commented that the Committee should focus on this item.

RESOLVED: The Audit Committee noted the report and the treasury activity.

A157 **BUDGET MONITORING REPORT - QUARTER 3 - 2023/2024**

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The Financial Services Manager presented the report and drew the Committee's attention to the following sections of the report:

- Summary.
- Introduction.
- Revenue Budget 2023/2024.
- Budget Summary.
- Turnover Savings.
- Opportunities/Risks
- Capital Budget and Spend 2023/2024.
- Reserves.
- Risk Management Reserves.
- Age Debt Analysis.
- Council Tax and Business Rates..
- Treasury Management 2023/2024.
- Prudential Indicators.
- Conclusion.
- Appendix A – Budget Monitoring Variances December 2023.
- Appendix B – Capital Programme 2023/2027.
- Appendix C – Age Debt Analysis.
- Appendix D – Purpose for Earmarked Reserves.

It was explained that the quarterly report had been prepared in compliance with CIPFAs Code of Practice on Treasury Management, and covered the following:

- An economic update for the first nine months of the 2023/24 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- A review of the Council's Investment portfolio for 2023/24.
- A review of the Council's borrowing strategy for 2023/24.
- A review of any debt rescheduling undertaken during 2023/24,
- A review of compliance with Treasury and Prudential Limits for 2023/24.

Members were advised that the budgeted turnover savings for 2023/2024 was £1,000,000. Cabinet (2 August) and Council (24 August) approved the cost of living pay award, which included £860k provision from reserves to fund the costs. At this stage of the year assumptions for recruitment to vacant posts had to be estimated for the final half of the year along with the impact for reliance on costs of backfilling those vacant posts. With consideration to estimating these costs it was anticipated that the Council would meet the turnover savings target, with the use of £572k from reserves that were approved to fund the pay award.

The Financial Services Manager explained that the impact of inflation on utilities and fuel continued to be highly variable. The price per litre of vehicle fuel increased significantly in quarter 2 but had since reduced and now expected to remain within budget. Gas and electricity costs were monitored on the basis of unit costs and trends in consumptions levels adjusted for energy efficiency measures. This will also be impacted by the effect of the winter. Recent years had been mild making volume difficult to predict. The revised budget for gas and electric combined, in this report, estimated a reduction in cost of £113k from the original budget of £2.8m.

It was noted that the impact of increased interest rates and the cost-of-living crisis had created an environment of continuing uncertainty. This had affected service demand for supporting the vulnerable in services such as Housing Strategy and Lily Services. These variable costs were fully offset by grants from Norfolk County Council towards LILY employee costs and partially met from DLUHC Rough Sleeper funding.

Due to a later than expected announcement from government to increase Planning Fee charges, the expected income this year was forecast to be £550k less than budgeted. This had also been affected by a mix and volume of planning application planning fee income of £1.1m compared to £1.7m in the previous year.

Members were reminded that as reported to Council in February 2023, the budget set out an estimated contribution from the General Fund Reserve of £2,641,520. The position was now a contribution from reserves of £2,441,230 because of the changes set out in this report. The revised impact on balances was detailed at the table in section 4.2 of the report.

It was noted that the projected balance for 2023/2024 remained above the minimum level of £1,114,390 required of the Council. During this reporting period the Council had published its unqualified accounts for 2019/2020. It should be noted that the audit for the financial statements of 2020/2021 through to 2022/2023 were not concluded and a possible outcome could result in a financial adjustment to the accounts which required further drawdown from the General Fund Balance.

The General Fund Balance was held at a higher level than it might normally be, enabling provision for a planned and measured response to the reduction in grant funding that was estimated to occur in the medium term. Significant draws from the general funding balance remained necessary in future years of the medium-term financial plan in order to set a balanced budget.

The Committee was advised that in year movements to/from revenue total £4,403,853 these were movements to and from reserves which were not budgeted for.

Members received an overview of the ring-fenced reserves set out on page 41 of the report.

The graph at 7.3 compared the average interest earned each month to the forecasted budget. The budget was shown on an even twelfth/straight-line basis. Also shown was the bank interest rate for April 2023 to September 2023. It was explained whilst the performance for return on cash investments was below budget, this was a reflection that investment rates had not quickly followed the increase in the Bank of England Base Rate and the recent strategy to seek short term investments in anticipation of better rates being available with each anticipated base rate increase.

The Committee was informed that the monitoring report included prudential indicators, updates on movements in borrowing and investments during the period.

The Chair thanked the Financial Services Manager for the report and invited questions and comments from the Committee, a summary of which is set out below.

Councillor Bearshaw asked where the £3.5m came from the for Ukraine and Afghan accommodation projects. In response, the Financial Services Manager explained that this was from grants from DLUHC and the Borough Council had levered in funding and assets had to be shown on the balance sheet. It was further explained that the Section 106 monies had been set aside for this housing purpose.

Councillor de Winton referred to paragraph 2.4.2 and the rising cost of utilities and asked if the Council had considered installing solar panels on sheds. In response, the Assistant Director – Resources explained that she could not quantify whether the Council had solar panels on all of its buildings but outlined work undertaken to council assets as part of the Refit programme.

Following comments from Councillor de Winton on planning income, and the number of planning applications per month within his parish and finding a way of placing a surcharge to generate income to the Council, the Assistant Director – Resources advised that planning fees

were determined by Government. The Assistant Director explained that there were services which the Council offered to generate income and gave an example of the pre-application planning service prior to a planning application being submitted. The Assistant Director outlined how the planning team had been restructured and created a number of new posts to allow for the increase in planning fees and to facilitate more planning applications. However, it had proved difficult to recruit to some vacant planning posts and a interim resource was being used to fill some of the gap.

The Assistant Director, Resources responded to questions from Councillor Winton on the use of locums, volume of work etc and explained that she did not have information to hand on what the caseload looked like, but would seek feedback the Assistant Director, Environment and Planning.

In response to further questions from Councillor de Winton on the increase in postage costs and using the postal service instead of email, the Assistant Director – Resources explained that there would be some statutory services when it would be necessary to post documents to customers and gave an example of the council tax bill. However, it was highlighted that there would be different requirements in each service area.

The Assistant Director – Resources responded to questions from Councillor de Winton on the New Burdens Funding.

The Chair made a number of comments in relation to his understanding of the budget as at December 2023 and the subsequent budget position in February 2024 and the main causes of the adverse variances – under achievement of turnover savings and leisure and financing, analysis of each cost centre, etc and the net effect of variances being nil balance. The Financial Services Manager confirmed that that the Chair's understanding was correct on the balance being zero and explained that the finance team held a breakdown of those figures by service area and would share the information with the Committee.

Following further questions and comments from the Chair on the external risk of audits being incomplete, etc, the Financial Services Manager explained that in preparing the draft Statement of Accounts officers employed due diligence and financial control so the records should be as expected. The 2019/2020 accounts did not relate to a reserves movement and with regard to the balance sheet and the entry for property, plant and equipment Council officers sometime had a different view on the classification but in relation to reserves there may be a difference in interpretation on how a grant had been accounted for.

In response to questions from the Chair on the New Burdens Funding (4.7(k), page 42), the Assistant Director – Resources explained that the

money was not ring-fenced but was awarded by Government to support specific activities that they had imposed on local authorities.

Following further questions from the Chair, the Assistant Director – Resources provided clarification on ring-fenced grants.

In response to questions from the Chair on drawdown on education, skills and attainment, the Assistant Director – Resources explained that this was part of the review carried out across the Council in looking to reduce earmarked reserves and to fund the £2.9m commitment in the budget approved in February 2023. The Assistant Director – Resources provided background information on the review undertaken.

The Assistant Director – Resources responded to further questions from the Chair on the invest to save reserve which was still within the earmarked reserves and drew attention to the table set out at page 41 – bottom section of grants table.

The Assistant Director – Resources responded to questions from the Chair on note 12 on the holding account £572,000 for cost of living drawdown for the Council and drawdown to Alive West Norfolk and explained that the terms and conditions for staff mirrored the Borough Council. The Assistant Director added that the staff pay award paid to the Borough Council was the same for Alive West Norfolk which was set aside in the earmarked reserves and Alive West Norfolk had requested a draw down against this. At that time the estimates were around £235,000 but they drew down significantly less at £131,000 and this was treated as a grant to Alive West Norfolk and not repayable.

The Financial Services Manager responded to questions from Councillor de Winton on the drawdown for CCTV.

The Chair drew the Committee's attention to page 51 the achieved savings towards turnover target due to vacancies in Food Hygiene, Home Improvement Agency and Environmental Protection £239,470 and commented that this was a large amount of money. In response, the Financial Services Manager explained that during the past three weeks he had spoken to the relevant Assistant Director who had seen the report and questioned the figures and confirmed it was correct. It was noted the money was to be used for a number of services relating to food safety and well-being. A proposal was being prepared to deal with the demand for food safety by the use of agencies and identify a solution.

Under Standing Order 34, Councillor Kemp made a number of observations regarding capital reserves and the climate change budget. In response, the Assistant Director – Resources explained that with in relation to climate change a decision had been made to set aside £1m to deliver the climate change strategy and in 2022/2023 a further £250,000 had been added. To date, £267,000 had been spent. The Portfolio Holder for Finance explained that there was a climate

change Action plan which had been drafted by officers and there would be a further draw down on the budget annually over a number of years.

Under Standing Order 34, Councillor Kemp referred to the reserves and the debt of West Norfolk Housing Company £3.2m and timing of capital receipts to balance the budget, etc. The Chair explained that this talking about events in the future and was outside the budget monitoring report. The Assistant Director – Resources explained that no decision had been made to draw down against the new loan facility and that there would be a process to be followed and due diligence to undertaken and details how this would impact on finances would need to be worked out.

The Portfolio Holder for Finance responded to the comments made in relation to planning applications, shortage of planners, biodiversity, nutrients, surface water, traffic congestion and a range of issues which had to be addressed. The Portfolio Holder added that reserves were reviewed to see the Council's current position. It was explained that the Portfolio Holder would look for an additional appendix setting out the revenues and costs to the Council in a more understandable format in order to make a more informed decision.

The Chair asked what scope there was to present the figures in a more corporate manner. In response, the Financial Services Manager explained that all the figures had been included in the report but it was not explicit on the face of the report and officers would liaise with the Portfolio Holder for Finance to agree a way forward.

In response to a question from Councillor de Winton on the amount of money passing through the Council's books and overnight treasury account/commission, the Financial Services Manager referred to the previous agenda item and explained that the bills that got paid to the Council earlier in the month and then the timeline for paying over precepts and the cashflow situation was not just the Council's money.

In conclusion, the Chair commented that it was difficult to scrutinise in a meaningful way where the figures were and it would be easier if a profit and loss approach was used.

The Chair added that there was an element in the budget monitoring report and commented that in future may be something to be presented jointly to the Audit Committee and the Corporate Performance Panel.

The Portfolio Holder for Finance commented that a joint panel meeting may be the way forward to enable a wider debate.

RESOLVED: The Audit Committee noted the Budget Monitoring Report, Quarter 3, 2023/2024.

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The Committee noted the Cabinet Forward Decision List.

A159 **COMMITTEE WORK PROGRAMME 2023/2024**

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The Committee noted the Work Programme.

The following items were suggested:

- Overview of the Towns Fund.
- Wholly Owned Companies
- Empty Homes Strategy.

Following the meeting the Democratic Services Officer circulated the form – request to add an item to a work programme to the Committee to complete and return to Democratic Services to look at which Panel would be best placed to consider the requests set out above.

A160 **DATE OF NEXT MEETING**

The next meeting of the Audit Committee will be held on 22 April 2024 at 4.30 pm in the Council Chamber, Town Hall, King's Lynn.

The meeting closed at 6.25 pm