AUDIT AND GOVERNANCE COMMITTEE
HELD ON TUESDAY, 2 FEBRUARY 2021
(FROM 5.30 PM – 6.00 PM)

PRESENT: Councillor Steven Jackson in the Chair. Councillor Michael Harrison, Councillor John Ennis, Councillor Alex Raubitschek and Councillor Matthew Webber.

Late Arrivals: None

Early Departures: None

29/20 – **APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE:**
There were no apologies for absence.

(5.34 pm)

30/20 – **DECLARATIONS OF INTEREST:**
There were no declarations of interest made at the meeting.

(5.34 pm)

31/20 – **MINUTES:**
The Minutes of the meeting of the Committee held on 30 November 2020 were unanimously approved as a correct record.

(5.35 pm)

32/20 – **EXEMPT INFORMATION:**
There was no exempt information.

(5.36 pm)

33/20 – **PUBLIC ARRANGEMENTS - QUESTIONS:**
There were no public questions to consider under Standing Order 27.

(5.37 pm)

34/20 – **TREASURY MANAGEMENT ANNUAL STRATEGY, ANNUAL INVESTMENT STRATEGY, PRUDENTIAL AND TREASURY INDICATORS, ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2021/22:**
The Financial Services Manager (FSM) submitted a written report this covered four topics related to treasury management. Reporting on these topics was necessary as part of statutory requirements concerning the Council's financial regulations. Consideration of these matters by the Audit and Governance Committee was also in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice.

The FSM explained that each year the Council was required to approve a Treasury Management Strategy alongside an Annual Investment Strategy, the associated prudential and treasury indicators and minimum revenue provision statement. Referencing the Treasury Management Strategy the FSM explained that it concerned the position in terms of treasury investments, borrowing and funding for capital expenditure. The FSM explained that the strategy looked at the Capital Financing Requirement (CFR). This was the level of capital expenditure that had not been funded from council resources. The CFR included forecasts for three years and was broken down into the General Fund and the Housing Revenue Account (HRA). Overall the CFR was reducing over the next three years. The FSM explained that the General Fund element increased, with borrowing used to fund projects such as Ripon Pool whilst the HRA portion decreased, with £15 million of balance set aside in 2021/22 to pay off the next instalment of loans taken out to fund the self-financing payments in 2012.

The FSM went on to explain that for General Fund borrowing there was a requirement that part of the CFR was paid off each year, through a charge to the revenue budget. This was the Minimum Revenue Provision (MRP) and details of how this was calculated were outlined at Appendix C of the documents submitted. The MRP included a statutory element that related to the General Fund and a voluntary element that related to the HRA.

The Treasury Management Strategy showed the Council's current investments, this included £57 million of cash investments and £5 million in property funds. The FSM highlighted there were fluctuations in the cash balance at present, this was due to funds for COVID-19 related grants being received and distributed.

The underlying cash balances however remained at levels that allowed for internal borrowing to take place. Despite low interest rates being available for external borrowing, internal borrowing remained a better value way of financing capital projects because interest rates were expected to remain low for a number of years meaning investment returns would be low.

The FSM referenced section eight of the report, the Annual Investment Strategy, this set out the framework within which the Council would managed its investments. The fundamental principles guiding the strategy remained the same, these were security, followed by liquidity and finally yield. The strategy also outlined the Creditworthiness Policy, which concerned the management of risk and return when considering where to invest funds and the timescales of investments. The Council was guided by information provided through the Link Group who acted as the Council's treasury management advisors, this advice included a sophisticated creditworthiness service.

The FSM referred to Appendix B of the documents, this contained information relating to prudential and treasury indicators, these inform the Treasury Management Strategy. This also included forecasts for capital expenditure, borrowing and debt levels.

The FSM confirmed the reports would be considered at a meeting of the Cabinet on 3 February 2020, before referral to a meeting of the Council. The timescales allowed for a decision on these matters ahead of the 2021/22 financial year.

The FSM responded to a question about whether the Council had financed capital projects with external borrowing. It was confirmed that there were currently no plans to borrow externally. In terms of historic external borrowing, this was limited to around £100k of historic HRA debt plus the external borrowing that was taken out in 2012 and was associated with the Council buying itself out of the Housing Subsidy system. It was therefore confirmed that projects such as new office accommodation, which had generated significant efficiency savings, had been funded internally.

Internal borrowing was effective as it avoided the cost of external borrowing and mitigated the risks and difficulties associated with investing cash balances.

RECOMMENDED (UNANIMOUSLY):

That (1) the Treasury Management Annual Strategy is recommended to Council for approval (see Section 6 and Section 7);

(2) the Annual Investment Strategy is recommended to Council for approval (see Section 8);

(3) that the Prudential and Treasury Indicators are recommended to Council for approval (see Section 9); and

(4) that the Annual Minimum Revenue Provision Statement is recommended to Council for approval (see Section 6).

(5.37 pm – 5.42 pm)

35/20 – **CAPITAL STRATEGY 2021/22:**

The Financial Services Manager (FSM) submitted a written report, setting out the Capital Strategy 2021/22, which included an investment strategy for non-financial investments. Consideration and agreement of a Capital Strategy was required by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and in accordance with statutory guidance on Local Government Investments was published by the Ministry of Housing, Communities and Local Government (MHCLG)

The Capital Strategy was at Appendix A to the report, the strategy set out the context for investments including risk and reward. CIPFA's Prudential Code was updated in 2018. This required councils to agree a Capital Strategy each year in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and that these decisions properly take into account stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy included non-treasury investments, which for Harrogate Borough Council (HBC) were limited to the share held in and loans granted to Bracewell Homes, HBC's wholly owned housing company, and some assets that were classed as investment properties. It was confirmed that these assets had been held by the council for many years and none of the assets classed as investment properties had been purchased as commercial investments in recent times.

The Capital Strategy also considered proportionality, which was a calculation showing the percentage of the net revenue stream that had been or was forecast to be generated from investment income. This demonstrated how reliant the council was on commercial investment income. For HBC this was not significant, with proportion figures showing investment income at 0.3% (actual 2019/20), 0.3% (forecast 2020/21), 0.3% (budget 2021/22) with an increase to 1.0% included in the projected budget for 2022/23.

The FSM confirmed the report would be considered at a meeting of the Cabinet on 3

February 2021, before referral to a meeting of the Council. The timescales allowed for a decision on these matters ahead of the 2021/22 financial year.

The Committee considered the small number of investment properties held by the council, and with reference to the Victoria Shopping Centre, the impact the COVID-19 pandemic on the value of commercial property. It was confirmed that all investment properties were valued annually, Victoria Shopping Centre had been valued at £2.2 million in March 2020, and the projected decrease in value of Victoria Shopping Centre to 31 March 2021 was £200k, although this figure was subject to review with a revised value expected in the near future. The valuations of council owned investment property and projected increases or decreases were shown in a table at paragraph 52 of the Capital Strategy 2021/22 document.

RECOMMENDED (UNANIMOUSLY):

That the Capital Strategy is recommended to Council for approval.

(5.42 pm - 5.48 pm)

36/20 – **AUDIT PROGRESS REPORT JANUARY 2021 (MAZARS LLP)**
The Chair welcomed Diane Harold the Senior Manager and Mark Kirkham a Partner of Mazars LLP, the Council's external auditor, to the meeting to present an Audit Progress Report, for consideration by the Audit and Governance Committee.

Ms Harold began by providing an update on the 2019/20 Audit Completion Report. It was confirmed that there had been a delay in bringing forward the final report, this was due to some outstanding work involving the valuation of Harrogate Convention Centre and Victoria Shopping Centre. This delay had been reported at the last meeting of the Audit and Governance Committee on 30 November 2020. The Audit Completion Report would be presented to a future meeting of the Committee alongside the revised accounts and Annual Governance Statement.

Referencing the update report that was before the Committee Ms Harold highlighted an area of completed work. This was work in respect of the Pooling of Housing Capital Receipts, the audit found there were no issues arising and Mazars submitted an assurance report to the Ministry of Housing, Communities and Local Government (MHCLG) ahead of deadline.

In terms of future work Ms Harold explained that Mazars would submit an Audit Strategy Memorandum to a future meeting. Planning for this work had begun including working together with the Head of ICT to look at the most efficient approach, recognising that the ICT service was under significant pressure whilst supporting most council staff to work remotely.

Ms Harold updated the Committee on changes to the value for money conclusion, this had followed the publication of updated National Audit Office (NAO) guidance. This change meant that in future years, external Auditors would not issue a qualified or unqualified conclusion, the value for money conclusion would be reported separately in an auditor's letter. The advantage of this change would be there would be less description and more assessment, and the outcome issued to the council could contain more recommendations in terms of any identified weaknesses. Mazars along with other firms involved in public sector audits were developing their own internal guidance in response to the updated Code of Practice and Auditor's Guidance Note issued by the NAO. Ms Harold highlighted national reviews of the audit market, this included the MHCLG response to Sir Tony Redmond's independent review that have been published in December 2020. The Redmond Review had made 23 recommendations relating to the quality, timeliness and sustainability of local audit and the transparency of local authority accounts.

RESOLVED (UNANIMOUSLY):

That the Committee note the content of the report.

(5.43 pm – 5.53 pm)

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