

AUDIT AND STANDARDS COMMITTEE

28 July 2021

Minutes of the Audit and Standards Committee meeting held at the Town Hall, Bexhill-on-Sea on Monday 28 July 2021 at 6:30pm.

Committee Members present: Councillors A.K. Jeeawon (Chairman), P.C. Courtel, Mrs E.M. Kirby-Green, C.A. Madeley and R.B. Thomas.

Audit Independent Person: Mr Patrick Farmer.

Advisory Officers present: Assistant Director Resources, Finance Manager and Democratic Services Officer.

Also Present: : Trevor Greenlee, Grant Thornton and 6 members of the public, via the YouTube live broadcast. .

AS21/12. MINUTES

The Chairman was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 21 June 2021 as a correct record of the proceedings.

AS21/13. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors J. Barnes, Mrs M.L. Barnes and K.M. Harmer.

AS21/14. DISCLOSURE OF INTERESTS

Declarations of interest were made by Councillors in the Minutes as indicated below:

Thomas Agenda Item 7 – Personal Interest as Company Executive Director for Alliance Homes (Rother) Ltd.

PART A – STANDARDS REPORTS – NONE

PART B – AUDIT REPORTS

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

AS21/15. REPORT OF THE EXTERNAL AUDITORS, GRANT THORNTON - AUDIT PLAN 2020/21

The Chairman welcomed Trevor Greenlee from Grant Thornton to the meeting, who proceeded to summarise the External Auditors' Annual Audit Plan report for the year ending 31 March 2021. The purpose of the report was to highlight and explain the key issues which Grant

Thornton believed to be relevant to the audit of the financial statements and use of resources of the Council for the 2020/21 financial year.

The report formed a key part of Grant Thornton's communications strategy with the Council, which was designed to promote effective two-way communications throughout the audit process. Trevor Greenlee guided Members through the comprehensive plan which gave details of: Key Matters Impacting the Audit; Significant Risks Identified; Other Risks Identified; Other Matters; Materiality; Value for Money Arrangements; Audit Logistics and Team; Audit Fees; and Independence and non-audit services. The following points were highlighted for Members' attention:

- the Council's planning materiality had been set at £992,000;
- key risks included management override of controls, valuation of land and buildings and valuation of net pension fund liability;
- significant risks identified were typical for local authorities in general, not specific just to Rother;
- the proposed audit fee was £60,059;
- the impact of the pandemic on the Council's financial position in 2020/21 had been significant, with a loss of income in areas such as car parking and commercial property;
- additional costs incurred included those relating to homelessness and financial support of the De La Warr Pavilion Charitable Trust and the operator of the Council's leisure facilities;
- progress with the Capital Programme had slowed leading to a reduction in the planned level of funding from revenue contributions;
- additional grant funding had been received, totalling £2,813,000, to mitigate the impact of the pandemic. The accounting for grant revenues and expenditure in the accounts had been identified as an 'Other Risk';
- the Council reported a deficit of £1,284,000 for 2020/21 of which £367,000 was unplanned; and
- additional Section 31 support funding had been provided to offset the impact of the Collection Fund deficit (£11,168,000) and this would be spread over a three year period. The need to meet the Council's share of the deficit would be an additional financial pressure in future years.

Grant Thornton's proposed fee reflected the impact of increasing expectations from regulators, changes to accounting standards and the revised approach to Value for Money work. The audit approach was detailed in Appendix A to the report and Grant Thornton were aiming to complete the audit by 30 November 2021.

RESOLVED: That the report be noted.

AS21/16. **STATEMENT OF ACCOUNTS 2020/21**

In accordance with the Accounts and Audit Regulations 2003, the Council's accounts were required to be approved by the Council, or its delegated Committee, each year. The report of the Finance Manager

discussed the main issues affecting the Council's draft Statement of Accounts and provided a full commentary on the core financial statements. The full statement had been circulated to Members as a separate document.

At the time of writing the report, the Council's external auditors, Grant Thornton, were yet to commence their work on the accounts for 2020/21. Grant Thornton would report on the outcome of their work later in the year in line with the revised national timescales, if possible. The draft accounts included the Annual Governance Statement as amended and approved by the Committee at its meeting on 21 June 2021 (Minute AS21/09 refers). The Code of Practice had required no major changes in the presentation of the accounts.

The Finance Manager led Members through the draft Statement of Accounts and drew out the salient points.

The Movement in Reserves statement showed the movement in the year on the different reserves held by the Council (analysed into 'useable' and 'unusable'). The deficit of £1.174m on the provision of services line showed the true economic cost of providing the Council's services. These were different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting.

The Pensions Fund liability of £22.648m was a long term financial assessment of a possible shortfall based on its current performance and therefore no immediate action was required. The net worth of the Council had decreased by £7.651m, largely due to an increase in the Pension Fund liability (£4.8m), Collection Fund deficit (£3.6m) and Revaluation Reserve (£3.4m), partially offset by an increase in usable reserves (£4.9m). The useable cash resources of the Council had increased by £4.9m.

The Collection Fund balance was in deficit for the year by just over £13m; this balance was made up of both Council Tax and Business Rates. For Council Tax, the Fund was in deficit by £1.256m as at 31 March 2021, with East Sussex County Council entitled to the majority of this amount. For business rates, the Fund was in deficit by £11.8m, with the Government paying the highest amount followed by this Council. The majority of the deficit related to the additional rate relief for businesses provided by the Government due to the COVID-19 Pandemic, which halved the amount collectable. The deficit on the Collection Fund would be largely offset by additional s31 grants and spread over three financial years. The estimated net impact is approximately £23,000 per annum and this would be addressed as part of the 2022/23 budget setting process.

Members had the opportunity to ask questions and the following points were noted during the discussion:

- less funds had been taken from the Earmarked Reserves than expected;
- the Council had a track record of delivering on its financial targets in the Medium Term Financial Plan (MTFP) in order to

survive austerity and would continue to be more creative over the coming years, but this would likely involve difficult decisions to be made by Members;

- the biggest issue in recent times had been the renewal of the Waste Contract, at a cost of £2.1m per year extra to the Council;
- the Capital Programme would continue to be reported to Members, with the remit expanded in the next report;
- the two main officers managing the projects in the Capital Programme were trained in project management and a session would be arranged to give Members the opportunity to discuss projects in more detail with the officers; and
- Members were invited to forward any further questions they may have on the draft Statement of Accounts to the Finance Manager, who would share answers with all Committee Members.

It was noted that overall, the balance sheet showed that the financial position of the Council remained sound with an adequate amount of reserves in place to meet short term needs. The COVID-19 pandemic had exacerbated the financial pressure on the Council both in 2020/21 and continuing into the current financial year. It was therefore essential that in the medium term, the Council continued to deliver the target savings set out in the MTFP in order for the Council to balance its budget.

On behalf of the Committee, the Chairman thanked the Finance Manager and his team for their hard work in producing the Statement of Accounts and for their management of the Council's finances.

RESOLVED: That the Council's draft 2020/21 Statement of Accounts be noted.

AS21/17. **TREASURY MANAGEMENT UPDATE**

Council approved the Council's 2021/22 Investment Strategy in February 2021 (Minute CB20/99 refers). The Investment Strategy required regular reports to be presented to this Committee on the Council's treasury management activities. Members were also reminded that investment activity was also reported through the Members' Bulletin. In managing its treasury management activities, the Council followed the Ministry of Housing, Communities and Local Governments' investment guidance and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The report provided an update on a number of areas as follows:

- The Council made its own investments through the use of call and deposit accounts with major financial UK institutions. It also held investments totalling £8 million in Property Funds (£5 million in the Churches, Charities, Local Authorities' (CCLA) Property Investment Fund and £3 million into the HERMES Property Investment Fund).

- The Council held £32.3m of investments at 30 June 2021. The total income from investments was forecast at £350,000, which was £26,000 higher than the budget. The largest returns were from the Council's property funds, which were delivering an average rate of return on investments of between 3.64% and 4.14%. However, Members noted that the ongoing pandemic crisis could adversely affect future returns.
- There was £11.810 million of borrowing at 30 June 2021 and the expected Capital Financing Requirement (CFR) was £66.419 million.
- The Council's capital programme, estimated CFR requirement for 2021/22 and borrowing portfolio were shown in Appendix B to the report. Members noted that the Capital Programme was in the process of being updated to reflect the 2020/21 outturn and other changes.
- The Council invested in the economic regeneration of Rother through its Property Investment Strategy (PIS) and Members were updated with the expected income from the non-Treasury Investments.
- The budget for rental income from all investment properties was £1,766,780. This was made up of £800,480 for the existing assets and £966,300 for the properties purchased through the PIS.
- This equated to a 6.25% gross return on the value of all properties including those purchased under the PIS. Rent arrears arising as a result of the pandemic had so far been minimal, but economic conditions remained challenging and further write-offs could not be ruled out.
- Lockdown restrictions continued to be eased across the country as it returned to economic normality. However, various support packages announced in the budget statement on 3 March 2021 had either finished or were due to finish by October 2021, which could adversely impact the Council's cash position in terms of reduced Council Tax and Business Rates income and increased Housing Benefit claims. The Chancellor's budget statement in March 2021 also indicated a cut of £4 billion on public service expenditure, which could have serious implications for the Council's future financial position.
- The Bank of England base rate remained unchanged at 0.10% and Public Works Loan Board rates had also reduced in recent weeks. Rates were still extremely attractive should the Council need to borrow to finance capital expenditure in the near term.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The investment environment for treasury activities remained difficult with absolute returns continuing to be low. The diversification into Property Funds had increased the net overall return but was less liquid and carried greater capital risk than other investments.

RESOLVED: That the report be noted.

(When it first became apparent, Councillor Thomas declared a Personal Interest in this matter as a Company Executive Director for

Alliance Homes (Rother) Ltd. and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

AS21/18. **WORK PROGRAMME**

Consideration was given to the Work Programme, which contained details of the reports to be considered by the Audit and Standards Committee for the 2021/22 municipal year.

The provisional meeting set for November 2021 would not be required so was removed from the Work Programme.

RESOLVED: That the Work Programme, attached at Appendix A as amended, be approved.

CHAIRMAN

The meeting closed at 7:50pm

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2021 – 2022	
DATE OF COMMITTEE	SUBJECT
Monday 27 September 2021	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Internal Audit Report to 30 June 2021 • Internal Audit Plan Update • Treasury Management Update • Risk Register Update • Service Area Risk Management Update – Environmental Health
Monday 6 December 2021	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring • Local Government Ombudsman Complaints Monitoring and Annual Review 2020-2021 <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Audit Letter 2020-21 • Internal Audit Report to 30 September 2021 • Internal Audit Plan Update • Risk Management Update - TBC • Treasury Management Update
Xx January 2021 (provisional date if required)	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Governance Report 2020/21 • Statement of Accounts 2020/21
Monday 21 March 2022	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Audit Progress Report and Sector Update • Grant Thornton – External Audit Plan 2021-22 • Internal Audit Report to 31 December 2021 • Internal Audit Plan 2022-23 • Review of Internal Audit 2021-22 • Annual Governance Statement • Annual Property Investment Update • Treasury Management Update

WORK PROGRAMME 2021 – 2022

DATE OF COMMITTEE	SUBJECT
	<ul style="list-style-type: none">• Accounting Policies 2021-22• Annual Risk Register Update