

AUDIT AND STANDARDS COMMITTEE

27 July 2022

Minutes of the Audit and Standards Committee meeting held at the Town Hall, Bexhill-on-Sea on Wednesday 27 July 2022 at 6:30pm.

Committee Members present: Councillors B.J. Drayson (Chair), J. Barnes, Mrs M.L. Barnes, P.C. Courtel, Mrs E.M. Kirby-Green (remote), L.M. Langlands and C.A. Madeley.

Audit Independent Person: Mr Patrick Farmer.

Advisory Officers present: Chief Executive, Chief Finance Officer, Head of Housing and Communities (in part) and Democratic Services Officer.

Also present: 11 members of the public via the live webcast.

AS22/16. MINUTES

The Chair was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 20 June 2022 as a correct record of the proceedings.

AS22/17. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Thomas and the Deputy Chief Executive.

AS22/18. DISCLOSURE OF INTERESTS

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

Barnes, J Agenda Item 6 – Personal interest as Vice-Chair and Company Executive Director for Rother DC Housing Company Ltd.

PART A – STANDARDS REPORTS - NONE

PART B – AUDIT REPORTS

PART I – RECOMMENDATIONS TO COUNCIL

AS22/19. REVIEW OF THE CONSTITUTION - PART 3, RESPONSIBILITY FOR FUNCTIONS - RECOMMENDATIONS OF THE CONSTITUTION REVIEW STEERING GROUP

At the Annual Council Meeting in May 2022, full Council approved a revised Constitution following the review undertaken by the Constitution Review Steering Group (CRSG). At that time, it was noted

that Part 3, Responsibility for Functions and Part 8, Delegations to Officers were still to be completed and would follow in the coming months.

The report before Members outlined proposed amendments to the Constitution, Part 3, Responsibility for Functions. Work on Part 8, Delegations to Officers, would commence following conclusion of the management reorganisation that was currently underway and was expected to be reported to Members by the end of year. The responsibility for considering and recommending changes to the Constitution had moved from the Overview and Scrutiny Committee to the Audit and Standards Committee, as set out in Article 15.

The proposed amendments were set out at Appendix 1 to the report and Members' attention was drawn to the salient points. A review of functions of the Planning Committee in comparison with Wealden District Council's Planning Committee functions had been undertaken and this section, with proposed amendments, had been passed to the Council's Legal Service provided by Wealden for their review. It was proposed that the Chief Executive be granted delegated authority to agree the final version of the delegations should there be any changes to that presented to the Committee. It was clarified for Members that this delegation related to the Legal Service's advice on the detail of legislation to be included, or whether more general wording should be adopted.

Members suggested that the HR Committee meetings to be held in April and October should avoid school holidays if possible.

RECOMMENDED: That:

- 1) the proposed amendments to Part 3, Responsibility for Functions of the Council's Constitution be approved and adopted;
- 2) the Chief Executive be granted delegated authority to amend the Planning Committee functions in light of legal advice;
- 3) the Human Resources Committee be scheduled to meet twice per year in April and October;
- 4) the Licensing and General Purposes Committee be scheduled to meet three times per year in January, May and September (a reduction of one); and
- 5) Group Leaders be requested to nominate Members to be appointed to the Human Resources Committee in accordance with the political balance requirements as set out in this report, provided that the Leader of the Council is one of the appointees from the relevant allocation.

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

Members received the report of the Chief Executive and the Chief Operating Officer of Rother DC Housing Company Ltd (RDCHC) which provided an update on the governance arrangements of RDCHC, as well as the Council's arrangements for the governance of RDCHC. The update had been informed by a recent report, 'Local Authority Company Review Guidance (Local Partnerships LLP 2021)'.

The purpose of the governance arrangements were to ensure that RDCHC had enough freedom to achieve its objectives, whilst the Council had enough control to ensure that its investment was protected, returns on investment could be secured and that RDCHC activity was in keeping with the strategic objectives of the Council. The strategic objectives of RDCHC could be found within its published Business Plan 2022-25.

Appendix A to the report provided an overview of the current RDCHC structure, the shareholder's governance arrangements for its company and the interface between the two entities. RDCHC continued to regularly review the Blackfriars scheme with the shareholder representative in order to continue to support the delivery of the Blackfriars project on terms to which all agreed.

RDCHC Articles of Association were produced with Trowers & Hamlins to provide a framework for the governance of RDCHC and the services of a company secretary from the Council's shared legal service with Wealden District Council had been recruited to support compliance with the Articles of Association and the Companies Act 2006.

RDCHC had been reviewing its governance arrangements since the appointment of a new Chief Operating Officer (COO) in January 2022 and had recently appointed an external consultant to undertake a review and position appraisal. The review would focus on governance arrangements, as well as RDCHC's business plan and the performance of the development at Blackfriars.

Appendix B to the report included an outline of the governance arrangements and staffing resources the shareholder and company could adopt; the structure was subject to further refinement by RDCHC and the shareholder representative, following the present review that was being undertaken by RDCHC's external consultant. The review to date had provided assurance to RDCHC's board that the Articles of Association and Shareholder Agreement were broadly effective and fit for purpose, however there were aspects relating to governance that required improvement which included skills and resources, company business plan, Service Level Agreement and internal audit.

RDCHC was not a department of the Council and was a non-contracting entity, albeit one that was wholly owned by the Council. RDCHC and its shareholder was to avoid the risk that RDCHC drifted into the status of a Teckal company. (Teckal companies were subject to complex regulation and were subject to the same procurement regulations as the Council. Therefore, a Teckal company would not

possess the same independence and agility to operate as a non-contracting entity.) RDCHC continued to consult with its legal contractor Trowers & Hamlins to properly ensure the company's non-contracting status was maintained.

The shareholder representative was reviewing how to achieve the requisite resources and structure to ensure RDCHC had enough freedom to operate, while ensuring its investment was protected, returns on investment could be secured and that company activity was in keeping with the strategic objectives of the Council.

Members were given the opportunity to ask questions and the following points were noted during the discussions:

- RDCHC was registered with Companies House and the Council was the Person of Significant Control;
- as the sole shareholder, the Council needed to be satisfied that the required resources and expertise were in place; the position would become clearer after the completion of the review in the autumn;
- RDCHC's initial project was large with high risks;
- the performance of RDCHC would be scrutinised by the Overview and Scrutiny Committee and the governance arrangements monitored by the Audit and Standards Committee. Members commented that as the financial performance was high risk, this should be monitored by a sub-committee of the Audit and Standards Committee, but this would be discussed further after the review was completed;
- the review would highlight the further knowledge and expertise required to staff RDCHC and would look at best practice within other similar companies;
- the Council owned 100,000 shares in RDCHC;
- RDCHC's accounts were separate to the Councils', using different software packages and staff were seconded to RDCHC. A former Section 151 officer was employed by the Council, who had expertise in dealing with Council-owned companies;
- Members were concerned that the role of the Audit and Standards Committee was still unclear and commented that the Council's Internal Audit department should be given a role;
- officers would review how the risks arising from RDCHC projects were presented in the Council's risk register; and
- it was recommended and agreed that the outcome of the review be reported to the Audit and Standards Committee, either to the September or December meeting, depending on the timing of completion.

RESOLVED: That:

- 1) the present governance arrangements of Rother DC Housing Company Ltd and the arrangements of the local authority's governance of its wholly owned company be noted; and
- 2) the outcome of the review and position appraisal of Rother DC Housing Company Ltd be reported to the Audit and Standards Committee at the next available opportunity.

(Councillor J. Barnes declared a Personal Interest in this matter as Vice-Chairman and Company Executive Director for Rother DC Housing Company Ltd. and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

AS22/21. **ANNUAL GOVERNANCE STATEMENT 2021/22**

The Accounts and Audit Regulations required the Council to review, at least annually, its governance arrangements and, following this review, to agree an Annual Governance Statement (AGS). It was also a requirement for the Council to demonstrate awareness of where weaknesses existed within the governance arrangements and to develop and implement appropriate improvement plans.

The AGS appended to the report at Appendix A comprised an assessment of governance arrangements and internal controls across the whole organisation against the Council's Code of Corporate Governance and whether these were supported by robust assurance processes; the Chief Finance Officer highlighted for Members the salient issues. The review included:

- the robustness of the Council's risk management, performance management, financial management, legal and regulatory, IT and human resources processes and having the evidence to support that these were in place;
- the governance arrangements in place for the management of partnerships;
- the work and effectiveness of the internal audit function; and
- assurances from those managing the business that the processes within their areas were robust and complied with.

The outcome of the review was set out in the Statement under the heading of Significant Governance Issues.

There were no outstanding issues from previous years and the work carried out by Internal Audit in 2021/22 did not highlight any significant concerns regarding the internal control environment.

Other issues and areas of emerging risk that might impact on the Council included Local Government Funding Review and Business Rate Retention Scheme reset, achieving a balanced budget, joint working, loss of staff and recruitment, property investment, U4BW ERP Implementation Project, major projects, trading with European Union and Northern Ireland, pandemic, climate change emergency and joint waste collection and street cleaning contract.

The report demonstrated the robust approach the Council took to ensure good governance. The issues highlighted through inspection, both internal and external, provided assurance that the controls and procedures in place provided Members with a high degree of assurance. The report highlighted the areas where improvement was required and the risks to the Council and its partners resulting from the

poor economic climate and the associated impact on funding in the public sector.

As the AGS was for the year 2021/22, governance of the Rother DC Housing Company was not included, but would be for 2022/23. Members suggested that for future years, the AGS could also include details of the risk management framework in addition to a statement of emerging risks.

RESOLVED: That:

- 1) the Annual Governance Statement be approved; and
- 2) the Statement be signed by the Leader of the Council and the Chief Executive.

AS22/22. **TREASURY MANAGEMENT UPDATE REPORT**

The Council's Investment Strategy required regular reports to be presented to the Audit and Standards Committee on its 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 had implemented the Department of Levelling Up, Housing and Communities investment guidance and followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management.

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

- As at 30 June 2022, the Council's total investments were about £37m with £18m invested in short term call accounts and Property Funds. The remaining £19m was held in the General account (a significant element of which related to cash owed to public bodies, e.g. council tax precepts, shares of business rates).
- The total income from investments was forecast at £532,000 in 2022/23, mainly achieved from the Property Funds, yielding returns of between 3.52% and 3.72%.
- Due to the recent increases in interest rates, higher than expected returns (£190,000) were predicted to be gained from call accounts. The investment portfolio and Property Fund values were detailed in Appendix A to the report.
- The pandemic again slowed the pace of programme delivery in 2021/22 however, it had already accelerated in the first quarter of 2022/23 and was expected to continue doing so throughout the year. Members noted that the capital programme would again be reviewed for affordability as part of the Medium-Term Financial Planning process, which was more urgent than in previous years due to the current economic situation.
- The value of outstanding loans was £27.152m of borrowing, well below the Council's forecast CFR of £85.657m; the difference would decrease as the programme delivery accelerated and the Council's borrowing requirement increased.
- The ratio of Net Financing Costs (NFC) to the Net Revenue Stream was predicted to be 5.69% by the end of the financial year, which is

6.13% lower than the original budget. This was due to the delay in the capital programme delivery and the additional investment income achieved from the Property Funds and interest on call accounts, which reduced the NFC.

- The budget for rental income from all investment properties was £1,969,165; the Quarter 1 forecast income was £2,569,865. The additional Non-Property Investment Strategy (PIS) rent income shown in the report was due to the rental income from the second floor of Amherst Road. The additional PIS rent income was due to the purchase of Buckhurst Place. Both leases were agreed after Council had approved its budget. Appendix D to the report gave more detail on those properties purchased as part of the PIS.
- Recent borrowing had been maximised due to the low interest rates rather than to finance specific asset acquisitions.

There had been no significant developments since the draft 2021/22 Treasury Management update reported to the Committee on 20 June 2022. However, the economic outlook remained extremely uncertain and difficult to predict. Officers would continue to monitor closely all economic activity and report any major changes to Members at the earliest opportunity.

The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

RESOLVED: That the report be noted.

AS22/23. **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 2022/23 municipal year and the following additions were made:

- Outcome of the review and position appraisal of Rother DC Housing Company Ltd was added to the meeting scheduled to take place on 26 September but would be confirmed once the review had been completed.

In addition to the Work Programme, a briefing for Members from Zurich Municipal on risk would also be arranged in due course.

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

CHAIR

The meeting closed at 8:19pm

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AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2022 – 2023	
DATE OF COMMITTEE	SUBJECT
Monday 26 September 2022	<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 2022 • Statement of Accounts 2021/22 • Grant Thornton – Audit Progress Report and Sector Update • Treasury Management Update – Quarter 2 • Risk Management Update • Outcome of the review and position appraisal of Rother DC Housing Company Ltd - TBC
Monday 5 December 2022	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring and other Standards Matters • Local Government Ombudsman Complaints Monitoring and Annual Review 2021/2022 <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Internal Audit Report to 30 September 2022 • Treasury Management Update – Quarter 3
Monday 20 March 2023	<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 2022/23 • Internal Audit Report to 31 December 2022 • Internal Audit Plan 2023/24 • Review of Internal Audit 2022/23 • Annual Property Investment Update • Treasury Management Update • Accounting Policies 2022/23 • Risk Management Update

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