

AUDIT AND STANDARDS COMMITTEE

11 April 2022

Minutes of the Audit and Standards Committee meeting held at the Town Hall, Bexhill-on-Sea on Monday 11 April 2022 at 6:30pm.

Committee Members present: Councillors J. Barnes (remote), Mrs M.L. Barnes (remote), P.C. Courtel, K.M. Harmer, C.A. Madeley and R.B. Thomas.

Other Members present: Councillors B.J. Drayson and D.B. Oliver (remote).

Advisory Officers present: Chief Executive, Chief Finance Officer, Economic Development Manager, Principal Accountant and Democratic Services Officer.

Also present: Darren Wells (Grant Thornton), Heather Lamont (Churches, Charities and Local Authorities), Kelly Watson (Churches, Charities and Local Authorities) and 1 member of the public via the live webcast.

AS21/53. ELECTION OF CHAIRMAN

RESOLVED: That Councillor P.C. Courtel be elected Chairman of the Committee for the meeting.

AS21/54. MINUTES

Subject to the following addition at AS21/43, the Chairman was authorised to sign the Minutes of the meeting held on 21 March 2022, as amended, as a correct record of the proceedings:

‘The Audit Independent Person raised the issue of ‘actions arising’ from previous Minutes which were not currently within the procedures for formal Council meetings. Clarification was sought on when the report on the governance monitoring of the wholly owned Council Housing Company would be presented to the Committee; the item had been added to the Work Programme at the previous meeting for March, but it did not appear on the agenda. Members were advised that it had been moved to the June meeting, as officers were still working on the report. Members also requested an update on Recommendation 3 of Minute no AS21/41; a Risk Management Update appeared elsewhere on the agenda.

The Chairman was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 6 December 2021 as a correct record of the proceedings.’

AS21/55. APOLOGIES FOR ABSENCE

Apologies for absence were received from the Chairman of the Committee, Councillor Jeeawon, Councillor Mrs Kirby-Green, Patrick

Farmer, Audit Independent Person, Deputy Chief Executive and Director – Place and Climate Change.

AS21/56. 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-Chairman and Company Executive Director for the Council Housing Company.
Harmer	Agenda Item 8 – Personal Interest as business owner in receipt of a Business Grant.
Thomas	Agenda Item 6 – Personal interest as Chairman and Company Executive Director for the Council Housing Company.

PART A – STANDARDS REPORTS - NONE

PART B – AUDIT REPORTS

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

AS21/57. TREASURY MANAGEMENT PRESENTATION

The Chairman welcomed Heather Lamont and Kelly Watson from the Churches, Charities and Local Authorities (CCLA), who delivered a presentation on the Local Authorities Property Fund that the Council had invested in.

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

- the value of the Council's investments had plummeted during the pandemic, but had since recovered and were at a higher value than the initial investment;
- the CCLA provided investment information but did not give advice;
- over time it had appeared that returns had reduced, but the overall capital value of investments had increased, resulting in the returns appearing lower as a % of the overall value;
- overall capital value was now at £5.6m, income was £187,000 per annum;
- capital values were reported to Members in the quarterly Treasury Management Update (next report in June 2022) in addition to the interest on income received;
- the increase in people working from home due to the pandemic had not had a detrimental effect on the property fund, as there had been evidence already prior to the pandemic of a change in working practices being implemented. As a result, the portfolio of properties had been in the process of reshaping for some time, with different types and locations of office accommodation

being sought after, for example a shift from rural to urban locations;

- demand for retail properties had been declining on the high street, but retail warehouses had been performing fairly well;
- some change of use of warehouses had been evident, from retail units to storage facilities for large trucks to unload goods into, to then be transported via smaller trucks into city and town centres; and
- the CCLA used 'green clauses' within tenancy agreements to increase the use of green initiatives within properties.

The Chairman thanked Heather Lamont and Kelly Watson for their attendance and for their very interesting and informative presentation.

RESOLVED: That the Treasury Management presentation be noted.

AS21/58. **PROPERTY INVESTMENT STRATEGY UPDATE**

Members received the report of the Director – Place and Climate Change which gave an update on the Council's activity in delivery of the Property Investment Strategy (PIS), and commitments against the £35m budget approved in February 2018.

Since the previous report to the Audit and Standards Committee in May 2020, changes to Treasury Guidelines relating to the use of Public Works Loans Board (PWLb) borrowing had had an impact on the opportunities open to the Council in meeting the objectives of the PIS. The COVID pandemic and lockdown had also had a detrimental impact on the Council's ability to purchase suitable properties. Nonetheless, the Council had been successful in several acquisitions in pursuance of both the PIS and the Council's Corporate Plan.

The current PIS, adopted by the Council in June 2020, was attached at Appendix 1 to the report. Its objective was to support and safeguard the economy of the Rother area through the long-term protection of existing and the creation of new employment space, through investment in land and property in the Rother economic area. The PIS set out the types of property that the Council would seek to acquire and the factors that would be considered when assessing the suitability of potential acquisitions. It also described how purchases may be funded and how the Council would manage risk.

The process for identifying investments remained the same as outlined previously; identified opportunities were subject to the seven stage acquisition process outlined at Appendix 3 to the report.

Since the last report, a further three properties had been acquired, namely Land at Mount View Street, Bexhill; 35 Beeching Road, Bexhill (headlease); and 64 Ninfield Road, Sidley. Members noted that, as detailed in confidential Appendix 4 to the report, the Property Investment Panel had also given approval to three further transactions with a total value of £11,697,000; two had yet to complete as they were undergoing the due diligence process, the other had completed in the last few days. Once all completed, these would then take the total

value of purchases and commitments to £30,347,001 against the original £35m budget. Acquisition costs such as stamp duty and professional fees, and the total cost of demolition works at 1-7, Wainwright Road amounted to a further £2,685,503 also met from the original £35m budget. This left a balance of £1,967,496, which would reduce further for the acquisition costs associated with the properties referred to in the confidential Appendix 4. In addition, the Council had approved the sum of £10m borrowing for the development of the site at Barnhorn Green, originally intended to be met from the initial £35m PIS budget. As the PIS budget was almost fully committed, further budget approvals would need to be sought from Cabinet in order to facilitate further activity.

The recent tightening of Treasury Guidelines around the use of borrowing from the PWLB meant that only properties within Rother District could be considered, should the Council wish to borrow from that source and continue to benefit from the 0.2% Certainty discount rate. The regulations explicitly required that a direct local social or economic benefit be demonstrated, rather than acquisition for purely financial gain. The penalties for non-observance were strict, including withdrawal of access to all PWLB funding. Whilst this removed the risk of public borrowing being used for speculative investments, it did push councils towards regeneration-led acquisitions where there was either already market failure or risk of market failure, where the private sector were less likely to invest. These were by their nature higher risk or required additional investment in order to realise a benefit in the longer term.

The Council's PIS was explicit in referencing local economic benefit as the basis for acquiring properties, which pointed towards properties within the district where the case for local economic benefit could be made. Rother did not have a significant commercial property market and in general, transactions were small-scale; the opportunities locally for acquisitions that would make a significant contribution to meeting the Council's income targets were few and far between. Therefore, much of the Council's activity was focused on development projects, such as at Blackfriars and Barnhorn Green, which would yield a return in the longer run but require time and investment to bring to fruition.

Whilst there were likely to be few new acquisition opportunities that would make a significant impact on the Council's revenue income, the Council would continue to explore opportunities within its existing portfolio to re-gear leases, particularly at Beeching Road Industrial Estate. The Council had been successful in enabling regeneration activity through its acquisitions to date and there may be scope to re-gear ground leases elsewhere on the estate in order to generate additional revenue.

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

- two thirds of the Mount View Street, Bexhill site was for an NHS mental health facility, the remaining third had been allocated for new housing;

- Members requested and it was agreed that the quarterly Treasury Management Update report would contain more detailed information on income and costs of property acquired through the PIS, going forward;
- the Council was working closely with Primary Care on a number of projects resulting in future regeneration of the district and a focus on public health;
- the Homelessness budget was separate to the PIS budget;
- the Council were alerted to potential opportunities by local agents and Members were also encouraged to make officers aware of any opportunities they might identify; and
- as the PIS budget had been almost fully allocated, the current position and next steps now required review.

The Council's interest in acquiring properties within the district was now well known by local agents, however opportunities that met both the criteria of the PIS and satisfied treasury regulations around the use of borrowing were likely to be few and far between.

RESOLVED: That:

- 1) the report be noted;
- 2) further information on cost and return on property investments be included in the quarterly Treasury Management Updates; and
- 3) as the Property Investment Strategy budget had been almost fully allocated, a review of the current position and next steps be carried out.

(Appendix 4 to this matter was considered exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended).

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

(Councillor Thomas declared a Personal Interest in this matter as Chairman and Company Executive Director for the Council's Housing Company and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

AS21/59. **REPORT OF THE EXTERNAL AUDITORS , GRANT THORNTON -
AUDIT FINDINGS REPORT 2020/21**

Darren Wells updated Members on the External Auditors' Audit Findings for the Council for the year ending 31 March 2021. The report summarised the key issues arising from the work that had been carried out by Grant Thornton during the year in the areas of Financial Statements, Value for Money (Use of Resources) and Independence and Ethics.

Subject to the completion of some outstanding work, Grant Thornton would be issuing an unqualified audit opinion on the financial statements. One outstanding piece of work involved assessing information provided by management on the measurement of infrastructure assets, which for the Council were material at £11.5m, in light of an issue raised recently by CIPFA.

The Council employed an external valuer to provide yearend valuations supporting the financial statements; for one asset an error had been identified in the external valuer's workings which had resulted in the value of the Council's properties being understated by £1.29m. The accounts had been adjusted accordingly.

The financial statements were prepared using a report from the Council's actuary received in June 2021. An updated report from the actuary had been received in November 2021 and the only substantive change was an increase of £623,000 in the fair value of plan assets, reducing the Council's net pension liability by the same amount. As the change was not material and would have involved a significant number of adjustments, management had decided not to amend the accounts and Grant Thornton sought Members' approval for this, which the Committee were happy to give.

No other issues had been identified requiring an amendment to the primary financial statements. However, a number of changes had been agreed to the disclosure notes.

Grant Thornton had not yet completed all their Value For Money work so were not in a position to issue their Auditor's Annual Report and were expecting it to be issued in line with the National Audit Office's revised deadline, no more than three months after the date of the opinion on the financial statements. There were no significant weaknesses in the Council's arrangements.

RESOLVED: That:

- 1) the report be noted; and
- 2) the accounts not be amended as a result of the updated report from the Council's actuary received in November 2021.

AS21/60. **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 draft Statement of Accounts for 2020/21 was previously reported to and noted by the Audit & Standards Committee on the 28 July 2021 and a copy of the report was included in Appendix A to this report. The draft accounts included a Narrative Report on the Council's financial performance during 2020/21 and the Annual Governance Statement approved by the Committee at its meeting on 21 June 2021. The Council's external auditors, Grant Thornton, had not commenced their audit at that time so the Committee were unable to approve the accounts.

At the time of writing the report, the Council's external auditors, Grant Thornton, had largely completed their work on the accounts for 2020/21. Their Audit Findings Report was shown elsewhere on the agenda and set out any issues arising from the audit.

During their audit, Grant Thornton had identified an error made by the Council's Valuers in respect of the Blackfriars site. The impact was to understate the value of the Council's fixed assets portfolio by £1.29m and the draft accounts shown in Appendix B to the report had been updated to reflect this change. The amendment had no impact on the Council's cash position. Other minor changes to the accounting notes had also been included in Appendix B to the report.

Members' approval of the draft Statement of Accounts for 2020/21 was sought as shown at Appendix B to the report, subject to the opinion of the external auditor. Members were also requested to grant delegated authority to the Chief Finance Officer, in consultation with the Chair of the Audit and Standards Committee, to make minor non-consequential changes to the Statements following final completion of the audit.

The Committee approved the 2020/21 Statement of Accounts and agreed that delegated authority be granted to the Chief Finance Officer, in consultation with the Chairman of the Audit and Standards Committee to make minor non-consequential changes to the Statements. The Committee thanked the Chief Finance Officer and Principal Accountant for their work in producing the Statement of Accounts.

RESOLVED: That:

- 1) the Council's 2020/21 Statement of Accounts be approved; and
- 2) delegated authority be granted to the Chief Finance Officer, in consultation with the Chair of the Audit and Standards Committee, to make minor non-consequential changes to the Statements.

(Councillor Harmer declared a Personal Interest in this matter as a business owner in receipt of a Business Grant and in accordance with the Members' Code of Conduct remained in the meeting during the consideration thereof).

AS21/61. **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.

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

CHAIRMAN

The meeting closed at 8:24pm

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2022 – 2023	
DATE OF COMMITTEE	SUBJECT
Monday 20 June 2022	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring and other Standards Matters • Ombudsman Complaints Monitoring <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Audit Report 2020/21 • Grant Thornton – Audit Progress Report and Sector Update • Grant Thornton – External Audit Plan Year ending March 2022 • Audit Planning Risk Assessment • Internal Audit – Annual Report and Opinion 2021/22 • Treasury Management Update – 2021/22 Outturn • Annual Governance Statement 2021/22 • Wholly owned Council Housing Company Governance Monitoring
Wednesday 27 July 2022	<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 2021/22 • Statement of Accounts 2021/22 • Treasury Management Update
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 • Treasury Management Update • Risk Management Update
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
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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