



## AUDIT AND STANDARDS COMMITTEE

2 October 2023

Minutes of the Audit and Standards Committee meeting held at the Council Chamber, Town Hall, Bexhill-on-Sea on Monday 2 October 2023 at 6:30pm.

Committee Members present: Councillors B.J. Drayson (Chair), J. Barnes (MBE) (Vice-Chair), A.E. Biggs, P.J. Gray, S.B. McGurk (in part) and R.B. Thomas.

Committee Members present remotely: Councillors Mrs V. Cook (ex-officio) and C. Pearce.

Other Members present: Councillor Mrs M.L. Barnes.

Audit Independent Person: Mr Patrick Farmer.

Advisory Officers in attendance: Chief Executive, Interim Deputy Chief Executive, Director - Place and Climate Change, Interim Chief Finance Officer, Head of Digital and Customer Services, Audit Manager, Corporate Programme, Risk and Improvement Manager and Democratic Services Officer.

Also Present: Darren Wells (Grant Thornton) and 10 members of the public via the live broadcast.

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### AS23/25. **MINUTES**

The Chair was authorised to sign the Minutes of the meeting of the Audit and Standards Committee held on 26 July 2023 as a correct record of the proceedings.

### AS23/26. **APOLOGIES FOR ABSENCE**

There were no apologies for absence.

### AS23/27. **DISCLOSURE OF INTERESTS**

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

Barnes J.      Agenda Item 5 - Personal Interest as a founding Member of Rother DC Housing Company Ltd.

Drayson        Agenda Item 6 – Personal Interest as a Member of Bexhill Town Council.

Thomas        Agenda Items 6 and 9 – Personal Interest as Chair of Rother DC Housing Company Ltd.

## **PART A – STANDARDS REPORTS – NONE**

## **PART B – AUDIT REPORTS**

### **PART I – RECOMMENDATIONS TO COUNCIL**

#### **AS23/28. RISK MANAGEMENT UPDATE**

Consideration was given to the report of the Corporate Programme, Risk and Improvement Manager that provided a position update on Risk Management processes and the key strategic risks currently facing the Council. It was essential that the Council adopted a strong approach to Risk Management to ensure good governance, especially given the current backdrop of significant financial pressures.

The new Risk Management Policy was approved by the Audit and Standards Committee in September 2022 and reviewed on an annual basis and the risk appetite statements within it revisited and amended each year (where appropriate) to ensure that they continued to meet the Council's requirements.

The Senior Leadership Team (SLT) had reviewed the Policy and recommended an amendment to a risk appetite (target) score and associated risk appetite statement as detailed in the report, as well as a change in responsibility of the Risk Management Coordinator from the Audit Manager to the Corporate Programme, Risk and Improvement Manager.

The Corporate Risk Register (CRR), attached at Appendix A to the report, had also been reviewed and updated by the Corporate Management Team (CMT). No changes to the format of the risk register had been made. Several existing risks had been amended as stated on the register and these were detailed in the report. Two new risks had been added to the register at numbers 17 and 18. Both these risks concerned partner organisations.

Service Plans had recently been introduced, which required all Heads of Service / Service Managers to record and monitor their operational risks in a risk register. The Service based risks were reviewed by the SLT and formed part of the new draft Performance Framework and would be monitored at the new Performance Boards, which Boards met quarterly to monitor all aspects of performance with a particular emphasis on risk.

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

- Members recommended and agreed that the Senior Leadership Team (SLT) be requested to review Risk 12 (Environmental / Climate Change), to take into account information from the Environment Agency's work on sea defences and that contained within the Rye resilience programme;
- Members recommended and agreed that SLT be requested to review Risk 2 (Social) and consider splitting the risk into three

separate areas: Temporary Accommodation, Affordable Housing and Housing List Reduction;

- the five-year housing land supply needed to be disassociated from Risk 2 as this was a planning issue;
- Risk 14 (Partnership / Contractual) needed to be considered in more depth to ascertain the detailed impact of the failure of a neighbouring authority or other partner and would be taken to the CMT;
- the Corporate Risk Register had become a much more dynamic and live document;
- the Council's Monitoring Officer would also be consulted on Risk 18 (Legal / Compliance and Partnership); and
- Members recommended and agreed that SLT be requested to consider expanding Risk 4 (Economic / Financial) to include the Capital Programme, as all Capital Projects were being reviewed to ascertain their viability.

**RECOMMENDED:** That the updated Risk Management Policy be approved and adopted;

AND

**RESOLVED:** That:

- 1) the Corporate Risk Register be noted; and
- 2) the Senior Leadership Team be requested to give consideration to separating Risk 2 (Social) into the three areas of Temporary Accommodation, Affordable Housing and Housing List Reduction, expanding Risk 4 (Economic / Financial) to include the Capital Programme and reviewing Risk 12 (Environmental / Climate Change).

(Councillor Thomas declared a personal interest in this matter as Chair of Rother DC Housing Company Ltd, and in accordance with the Members' Code of Conduct remained in the room during the consideration thereof).

## **PART II DECISIONS TAKEN UNDER DELEGATED POWERS**

### **AS23/29. REPORT OF THE EXTERNAL AUDITOR GRANT THORNTON - AUDIT PROGRESS REPORT AND SECTOR UPDATE**

Members were led through the report of the External Auditor by Darren Wells, Grant Thornton, on the progress in delivering Grant Thornton's responsibilities to the Council, in addition to a summary of emerging national issues and developments relevant to the Council.

The following points were highlighted for Members' attention:

- work on the 2022/23 audit had not yet started;
- work on assessing the Council's arrangements for Value for Money was in progress and would be reported to the December meeting;

- work on the 2021/22 financial statements was complete except for gaining assurance from East Sussex Pension Fund on the testing of triennial valuation and the challenge on the valuations on land in Blackfriars;
- low capacity in council finance teams and the failure to deal with historic accounting issues meant that the current September deadline for publication of audited local authority accounts in England had not been met;
- a range of proposals and actions to address the backlog of local audits in England had been set out by the Department for Levelling Up, Housing and Communities (DLUHC). These included setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term;
- in addition, DLUHC was considering whether legislative change was needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice;
- the Local Government Pension Scheme was in a stronger position than three years ago to meet future member benefits;
- sustainability reporting (recording and disclosure of an organisation's environmental impact caused by its activities) was in its infancy. It had been widely adopted in the private sector, but take up in the public sector was slow; and
- more than a third of all UK government spending on goods and services was spent by local government, therefore it was important that councils had effective arrangements for procurement and contract management. Grant Thornton had reviewed a number of reports, inspections and interventions issued by a number of firms and issued a report to highlight some common themes for Members and officers to consider.

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

- delays to the East Sussex Pension Fund audit were due to staff shortages at East Sussex, but progress had been made;
- the land at Blackfriars needed to be shown as investment for development purposes rather than as a valuation in the Council's accounts;
- commercial negotiations were underway regarding one of the sites in Mount View Street;
- Grant Thornton advised that the auditing of the Council's 2022/23 accounts should be completed fairly quickly; and
- Rother District Council's accounts audits appeared to be further forward than other local authorities.

**RESOLVED:** That the report be noted.

(When it first became apparent, Councillor J. Barnes declared a personal interest in this matter as a founding Member of the Rother DC Housing Company Ltd, and in accordance with the Members' Code of Conduct remained in the room during the consideration thereof.)

Members were led through the report of the Interim Chief Finance Officer that discussed the main issues affecting the Council's draft Statement of Accounts 2022/23 and provided a commentary on the core financial statements. At the current time, the Council's external auditors, Grant Thornton, were yet to commence their audit of the accounts for 2022/23 but 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 in July 2023.

The following salient points were highlighted for Members' attention:

- the Code of Practice had required no major changes in the presentation of the accounts for this year;
- the Movement in Reserves statement showed the movement in the year on the different reserves held by the Council (analysed between 'usable' and 'unusable'). The deficit of £3.014m (£0.680m surplus in 2021/22) on the provision of services line showed the true economic cost of providing the authority's services;
- the net change of £1.578m before transfers from Earmarked Reserves line showed the statutory General Fund Balance before any discretionary transfers from Earmarked Reserves was made by the Council to balance the accounts;
- a review of Earmarked Reserves was also undertaken and £4.0m was transferred from Treasury Investment Earmarked Reserve to the General Fund, to increase its balance to £5.0m and reinforce the long-standing message that the reserves balance should not go below that level;
- the Balance Sheet showed the balances and reserves at the Council's disposal, its long-term indebtedness, the net current assets employed in its operations and summarised information on the fixed assets held. The net worth of the Council had increased by £26.909m (increase of £9.376m in 2021/22 accounts restated for Pension Fund revaluation), largely due to a to a £28.525m change in the Pension Fund Liability, which shifted from a £18.051m liability into a £10.474m asset, decrease in the value of investment in property funds (£1.452m), £4m increase to Capital receipts and capital grant reserve and £2.3m decrease in unusable reserves;
- the Pension Fund liability of £18,0513m shown in the Balance Sheet at the end of 2021/22 had now changed into an asset of £10.474m. This represented a long-term financial assessment of a possible shortfall or surplus based on the current situation and performance and therefore no immediate action was required; and
- overall, the Collection Fund balance at year end was a deficit of £3.676m (a reduction in deficit by £0.418m from £4.094m the previous year); this balance was made up of both Council Tax and Business Rates. For Council Tax, the Fund was in surplus by £2.600m, with East Sussex County Council entitled to the majority of this amount. For Business Rates, the Fund was in deficit of £6.276m with the Government receiving the highest amount followed by this Council. The deficit arose mainly due to the additional rate relief for businesses provided by the Government in

2020/21, due to the COVID-19 pandemic, which at the time halved the amount collectable. That deficit was spread over three financial years and was still part of the 2022/23 accounts, however had been mitigated through the additional Government grants received and accounted for in year through the General Fund.

The Balance Sheet showed that, overall, the financial position of the Authority remained sound with an adequate amount of reserves in place to meet short term needs. However, the impact of high inflation on operational costs and the worsening economic climate had added to the previous financial pressures of the COVID-19 pandemic and the level of Usable Reserves continued to go down in the year, despite efforts to minimise it. The next Medium Term Financial Plan needed to address that through a robust and ambitious plan of achievable savings to stop the trend, reduce the reliance on reserve balances to support the revenue budget and, in time, replenish these reserves.

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

- four objections to the Statement of Accounts had been received, three of which were eligible for further investigation by Grant Thornton. This would not detract from the timeframe of the audit, but would have cost implications to the Council;
- the audit would take place between October and December, with the auditor's opinion due in January 2024;
- it was important that the Council reverse the trend of using Reserves to balance the budget;
- the Chair congratulated the Interim Deputy Chief Executive and the Interim Chief Finance Officer on the quality of the narrative within the Statement of Accounts;
- suggested grammatical changes to the narrative had been emailed to the Interim Chief Financial Officer;
- the devolution of services had previously underpinned the Financial Stability Programme, a strategy that had not been delivered. The Council was now moving towards a Financial Resilience Programme to ensure its survival;
- the Council's cash balances included funds that did not belong to the Council, for example council tax collected for preceptors; and
- Members requested that a representative from the East Sussex Pension Fund be invited to a Members' Briefing session to address their concerns about the sustainability of the Pension Fund and the Council's impact on the Climate, with a view to divesting from fossil fuels.

**RESOLVED:** That the Council's draft 2022/23 Statement of Accounts be noted.

(Councillor Drayson declared a personal interest in this matter as a Member of Bexhill Town Council and in accordance with the Members' Code of Conduct remained in the room during the consideration thereof.)

(Councillor Thomas declared a personal interest in this matter as Chair of Rother DC Housing Company Ltd, and in accordance with the Members' Code of Conduct remained in the room during the consideration thereof).

AS23/31. **INTERNAL AUDIT REPORT TO 30 JUNE 2023**

The Audit Manager led Members through the internal audit report to 30 June 2023 that gave details of audit matters and any emerging issues, not only in relation to audit but risk management and corporate governance.

Three audit reports were issued in the first quarter of 2023/24, although two of these related to audits brought forward from the previous financial year. All provided substantial assurance. An overview of the findings arising from these audits was given in Appendix A to the report.

Appendix B to the report updated Members on progress made on implementing the audit recommendations reported at the previous meetings. Five of the 'old years' recommendations now remained, which was a reduction of two since the previous quarter and progress was now being made in most of the remaining cases. The only recommendation that had not moved forward this quarter was the Procurement recommendation.

The Head of Digital and Customer Services updated Members on the ICT Governance recommendation from 2018/19 and the Data Protection recommendation from 2021/22, both of which were almost complete.

Good progress continued to be made on the 2022/23 recommendations, with over three quarters of the issues raised resolved.

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

- the Procurement recommendation from 2018/19 was being delayed by Legal Services. The Chair and Vice-Chair of the Committee would discuss how the Committee could assist with the completion;
- Members requested further information from the Audit Manager as to how he determined the assurance rating at the end of each audit, which would be circulated after the meeting; and
- Members requested further information concerning upcoming audits and whether the Committee could suggest other areas to audit. The Audit Manager confirmed that a brief outline of the plan could be included in future reports, but if any additional areas to audit were requested by the Committee, then other audits would need to be removed from the programme.

**RESOLVED:** That the Internal Audit report to 30 June 2023 be noted.

The Council's Investment Strategy required regular reports to be presented to the Audit and Standards Committee on the Council's treasury management activities. In managing these, 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 investment activity to date conformed to the approved strategy and the Council had had no liquidity difficulties. Investment activity was also reported to Members through the monthly Members' Bulletin. Members noted that that the figures quoted within the report were either actuals or estimates as stated and the outturn position at year end was draft subject to change following completion of the audit of 2022/23 accounts.

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

- As at 30 June 2023, the Council's total investments were around £22.5 million with £14.5m invested in short term call accounts (£20.6m and £12.6m respectively at Quarter 4 2022/23) and £8 million in Property Funds. Members were asked to note that a significant element of this balance related to cash owed to other public bodies, e.g. council tax precepts and shares of business rates.
- The Council's investments were currently predicted to have yielded interest income of £232,000 in Quarter 1 of this financial year, including income generated by the property funds (CCLA and Hermes). The budget for the year was £586,000 so the Council was likely to have already achieved 39% of it. This was mainly due to an increased focus on treasury management activities and the incremental Bank of England interest rates increases. This amount could be inflated by a further £38,000 for the interest accruing on the loan provided so far to the Rother DC Housing Company Ltd.
- It was highly likely that the budget would be achieved, but the range of possible outcomes was expected to be in excess of £510,000 surplus, as the Council looked to diversify its treasury deposits.
- The total variance (surplus) estimated in the Revenue and Capital Monitoring report for Quarter 1 was £710,000, as it included interest accruing on the Housing Company loan (estimated to be around £200,000 for the year).
- The Council's Capital Financing Requirement (CFR) showed how much of its capital expenditure was financed by borrowing, summarised in Appendix B to the report. The capital programme budget had been reviewed during Quarter 1 in view of the complexity of several of the proposed schemes and the rapidly changing financial landscape in terms of inflationary pressures, interest and borrowing rate changes; the CFR position had changed as a result. The forecast outturn for the year was now £57.0 million. Members noted that the capital programme continued to be reviewed for affordability as part of ongoing monitoring of the capital



programme and a revised budget for the CFR would be developed as part of this work.

- The value of outstanding loans as at 30 June 2023 was £31.8m. This was £11.6m lower than the CFR meaning the Council was 'under-borrowed,' and effectively borrowed internally using up its cash balances rather than borrowing when interest rates were high.
- The ratio of Net Financing Costs (NFC) to the Net Revenue Stream in the original budget was to be 5.06% but was now predicted to be -0.99%. This was both due to the review of and subsequent delay in the capital programme delivery and the additional investment income received, which reduced the NFC.
- The Council's non-treasury investments were detailed in the report and split between existing assets and those purchased through the Property Investment Strategy (PIS). Non-PIS assets yielded a 5.26% return on investment and PIS assets a 5.29% return.
- The ongoing impact on the UK from the war in Ukraine, together with the highest inflation for the last 40 years, rising interest rates, uncertainties over government policy, and an uncertain economic outlook, continued to impact on current treasury management activities. At the recent meeting of the Bank of England's MPC in August 2023, it was agreed to increase the bank base rate by a further 0.25% to 5.25% to help control inflation. For comparison, in December 2021 it was 0.1%. It was the fourteenth rise in interest rates since then and the Council's Treasury advisers predicted that the Bank rate was likely to peak between 5.50% and 6%.
- Forecasting economic activity in the current climate was fraught with difficulties. Officers would continue to monitor closely any future changes and would factor them into the Council's next update of the Medium-Term Financial Plan in due course.
- The impacts on the Council of the factors outlined to Members were higher costs of providing services, higher potential borrowing costs, which may render some capital projects unviable and have a possible negative impact on council tax collection rates, as the cost-of-living crisis hits thousands of families across the district.
- The value of investments in Property Funds had remained stable since the end of the last financial year and was £7.457m. The value was therefore currently £542,596 less than originally invested. Members were reminded that any gains or losses on such long-term investments would only be realised at the point of withdrawal from the fund.

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

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

- the extension of the IFRS9 statutory override, which allowed councils to override fair value movements on pooled investments (such as the Council's Property Fund investments), was due to cease in March 2025. Members recommended and agreed that officers explore the possibility of setting aside Earmarked Reserves to support any losses that may be realised in the future, should the Council be in the position to have to withdraw from the fund;

- Members raised concerns that accrued interest from the loan to the Rother DC Housing Company (estimated to be approximately £200k for the year) had been included as revenue rather than converted to capital, as the Company was not generating any income; and
- Members wished to congratulate the Interim Deputy Chief Executive and the Interim Chief Finance Officer on their use of the Council's funds to generate income, which would assist with preserving services.

**RESOLVED:** That:

- 1) the report be noted; and
- 2) officers explore the possibility of setting aside Earmarked Reserves to support any losses that may be realised in the future, should the Council be in the position to have to withdraw from the Property Fund.

AS23/33. **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 2023/24 municipal year. The following points were noted:

- Risk Appetite Statements contained within the Risk Management Policy would be considered by Members when completing their self-assessment later in the year;
- the audit report on Blackfriars would be contained within the Audit Manager's next Internal Audit Report to be considered at the December meeting; and
- officers would consider when the review of the Capital Programme projects would be reported to the Audit and Standards Committee and the Overview and Scrutiny Committee.

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

**CHAIR**

The meeting closed at 9:00pm

**AUDIT AND STANDARDS COMMITTEE**

**WORK PROGRAMME 2023 – 2024**

DATE OF COMMITTEE	SUBJECT
<p><b>Monday 4 December 2023</b></p>	<p><b>Part A – Standards Reports</b></p> <ul style="list-style-type: none"> <li>• Local Government and Social Care Ombudsman Complaints Monitoring</li> <li>• Code of Conduct Complaints Monitoring and other Standards Matters</li> <li>• Self-Assessment of Rother District Council Owned/Leased Accommodation Complaints Handling</li> <li>• Debate Not Hate: Ending Abuse in Public Life for Councillors</li> <li>• Dispensation Policy</li> </ul> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Audit Findings Report 2022/23</li> <li>• Internal Audit Report to 30 September 2023</li> </ul>
<p><b>Monday 25 March 2024</b></p>	<p><b>Part A – Standards Reports (none scheduled)</b></p> <p><b>Part B – Audit Reports</b></p> <ul style="list-style-type: none"> <li>• Grant Thornton – Audit Progress Report and Sector Update</li> <li>• Grant Thornton – Annual Audit Report 2022/23</li> <li>• External Auditor - External Audit Plan 2023/24</li> <li>• Internal Audit Report to 31 December 2023</li> <li>• Internal Audit Plan 2024/25</li> <li>• Review of Internal Audit 2023/24</li> <li>• Risk Management Update</li> <li>• Property Investment Strategy Update</li> <li>• Treasury Management Update</li> <li>• Self-Assessment Annual Review</li> </ul>

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