

# Public Document Pack

Subject to approval at the next Audit and Governance Committee meeting

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## AUDIT AND GOVERNANCE COMMITTEE

19 February 2024 at 6.00 pm

Present: Councillors Dr Walsh (Chair), O'Neill (Vice-Chair), P. Bower, Goodheart, Haywood, Jones, May, Oppler, Purser, Turner and Wallsgrave

Also present were members of the Independent Remuneration Panel (IRP) John Thompson, Alan Ladley, Andrew Kelly, Celia Thomson-Hitchcock (present in the Chamber) and Sarah Miles (in attendance virtually)

### 641. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

### 642. MINUTES

The Minutes of the meeting held on 30 November 2023 were approved by the Committee. These would be signed after the meeting.

### 643. ITEMS ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCE

There were no urgent matters for this meeting.

### 644. PUBLIC QUESTION TIME

No public questions had been submitted for this meeting.

### 645. REVIEW OF THE MEMBERS' ALLOWANCES SCHEME - REPORT OF THE INDEPENDENT REMUNERATION PANEL

The Chair thanked the Independent Remuneration Panel (IRP) for their hard work, and then invited the Group Head of Law and Governance to introduce the report. Appendix 1 contained the report and completed by the Panel, the work for which had commenced in July 2023. The last full review of the Members' Allowances Scheme had been approved by Council in July 2019. An interim review had been undertaken by the IRP in November 2020 which had reviewed the Special Responsibility Allowances (SRAs) of the Leader and Deputy Leader of the Council and Cabinet Members in preparing for the Council's move from a Leader and Cabinet form of governance over to a Committee system. It was acknowledged at that time that a full review would be

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required in subsequent years. The Group Head of Law and Governance thanked each of the Panel members for the huge amount of work they had undertaken, the quality of their report, and the clarity of analysis. He also thanked the Committee Services Manager for her work in supporting the Panel and the process. The Panel's report provided sound evidence based analysis and conclusion that took into account the experience of the Council and Councillors since the move to the Committee system, and data from a range of sources. He explained that it was within the power of the Committee to ask for the Panel to carry out further work. In that scenario the Committee would need to extend the terms of office for the Panel, to allow time for this work to be carried out.

The Chair then invited the Chair of the Panel, John Thompson to present the Panel's report. He explained the role of the IRP was to make recommendations to the Local Authority, which only needed to take account of them. What tended to happen with IRP reports was that most recommendations were accepted, few were amended and very occasionally some were rejected. He highlighted that the SRA for the Leader of the Council had been low, and they aimed to increase this to a level that was fair but not over-generous. He highlighted that one Member had asked questions in advance of the meeting around this, and answers had been provided. The Panel had undertaken an extensive amount of work around SRAs for the Chair's and Vice-Chairs of Service Committees, looking at workloads and responsibilities, comparing these to both previous Cabinet and current Statutory Committees. The recommendation was to bring the SRA for these broadly in line with the Statutory Committees, as the workload was comparable. They noted the workload of all Councillors had increased and it was felt the savings from the reduction of Chair and Vice-Chair of Service Committees SRAs should be added to the basic allowance. The Planning Committee remained very busy, and it was felt a small increase for the Chair and Vice-Chair of Planning was justified. They felt the SRA for the Leader of the Opposition should be broadly in line of that paid to Chairs of the Service Committees.

The recommendations were proposed by Councillor Wallsgrove and seconded by Councillor Turner.

The Chair then invited questions and debate from Members. It was observed that there was an error in the report on page 12 in that the Chair of Planning Committee should show £7500, not £8000, which had been clarified by the Group Head of Law and Governance prior to the meeting.

A number of questions had been raised prior to the meeting, for which answers had been provided. One of these related to the figures that underpinned the report relating to the Leader's allowance in comparable districts. The nearest commensurate council was Mid-Sussex, where the leader received £20,000. It was thought Arun was at the lower end for SRA for the Leader. It was asked whether in future a table could be provided with such figures, which would add depth to the report. The Chair of the Panel explained they would be happy to provide these figures in future, however, it should be noted that the source of the figures was not always kept fully updated, and there may be some errors if placing too much reliance on data that could be out of date.

Support was offered for the Panel's report, which was felt fair and balanced. Sound reasoning had been provided for the recommended changes. Support was offered for the reduction in SRA for Service Committee Chairs.

The Committee

RESOLVED that

- 1 It had considered the report of the Independent Remuneration Panel on its tenth review of the Members' Allowances Scheme, together with the financial appraisal set out in Paragraphs 4.4 to 4.8, read in conjunction with the Panel's report and recommendations.

RECOMMEND TO FULL COUNCIL that

- 2 The new scheme be approved for final adoption.

#### 646. INTERNAL AUDIT ANNUAL PLAN 2024/25

The Chair welcomed Iona Bond, Senior Audit and Counter Fraud Manager, from Southern Internal Audit Partnership (SIAP), who then presented the report to the Committee. Pages 46 – 48 contained general information around the role of SIAP. Page 48 showed the Council Vision and how SIAP took this into consideration. Page 49 set out the key strategic risks at the time of producing the draft plan. Page 50 contained more detail of processes they followed when formulating the audit plan, which showed the substance behind the finished plan. Page 51 – 54 set out areas identified through the planning process that they aimed to cover in 2024-25 and the indicative proposed timings. The Senior Audit and Counter Fraud Manager attended the Corporate Management Team (CMT) meeting in advance of each quarter to revisit those audits coming up, and to make sure the timings were still appropriate. The Internal Audit Plan was a fluid document, and would most likely be subject to changes during the year. If any such changes were made, the Committee would be updated through the progress reports, highlighting the rationale for the changes.

The recommendations were proposed by Councillor Purser and seconded by Councillor Goodheart.

The Chair thanked the Senior Audit and Counter Fraud Manager for her report, and invited questions and debate from the Committee. It was asked whether Climate Change was the only audited area that was not a statutory requirement of the Council, as there was concern around the cost of this. It was confirmed that SIAP audited the areas adopted by Council as its key aims and strategies.

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One Member advised he had submitted a question in advance of the meeting regarding page 53, repairs and maintenance Quarter 2 and responsive and emergency repairs Quarter 3. This was whether the internal auditors (for their 2024-25 Internal Audit Plan) were aware of the very recent decision to cease the OPSL contract with effect from 30 April 2024 and instigate a new delivery service delivery from May 2024. It was suggested this may require a review of their audit plan for housing. The Senior Audit and Counter Fraud Manager explained SIAP had been aware of likely changes at a high level. The initial timing of the housing reviews had been factored in, and in advance of each audit quarter they had discussed with CMT the timing of each review to determine that it was still appropriate. With the transitioning of arrangements, this audit may be moved back, however they would also look at whether it would be beneficial to do an audit earlier to assess the transitioning and ensure it was not having a detrimental impact on service provision for residents. This would be discussed at the time of scoping the audit with senior management. The Member felt comforted that the audit plan was so agile, and CMT were engaged in discussion about this.

The Committee

RESOLVED

That the internal audit plan 2024-25, as attached, be approved.

#### 647. INTERNAL AUDIT CHARTER 2024/25

Upon the invitation of the Chair, the Senior Audit and Counter Fraud Manager presented the report to the Committee. The Internal Audit Charter was a formal document that defined the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards required the Charter to be reviewed and approved annually. There had been no material changes since the 2023/24 Charter had been presented last year.

The recommendations were proposed by Councillor May and seconded by Councillor Turner.

The Chair invited questions and debate from Members. Clarification was sought on paragraph 4, page 64 regarding 'Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest'. It was asked who would be responsible for this, and whether it would be the Chief Executive Officer (CEO) or Group Heads. The Senior Audit and Counter Fraud Manager explained it was the internal auditors that would be alert to the possibility, and they would take into account the areas fraud may be more likely. If Officers identified areas of irregularity the onus would be on management to make internal audit aware of these. The Chair also advised that the Monitoring Officer ensured statutory compliance in matters, and there was also an open door to whistle-blowers in the authority.

The Committee

RESOLVED

That the internal audit charter, as attached, be approved.

648. INTERNAL AUDIT PROGRESS REPORT DECEMBER 2023

Upon the invitation of the Chair, the Senior Audit and Counter Fraud Manager presented the report to the Committee. The report outlined the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2023/24 from 1 April 2023. Very good progress was being made and they were on track to deliver all audit work as scheduled, which would be incorporated into the 2023/24 Audit Opinion. This strong position reflected the work of staff and managers across the Council. Section 4 of the report showed the analysis of live audit reports, where there were outstanding management actions. The Senior Audit and Counter Fraud Manager was satisfied progress was being made on these outstanding actions. There were 2 audits effecting the medium priority actions overdue, which were the decision making audit and the fraud framework audit. This was due to capacity and resourcing within the 2 teams of the Council dealing with those management actions. Section 5 showed there were no audit reports concluded with a 'limited' or 'no assurance' since the last progress report in November. All quarter 4 work had now been scoped and all work scheduled throughout the year that remained outstanding was underway, which was very positive. Page 79 showed no further adjustments had been made to the plan since last reported to Committee. A full summary of audit work would be presented to the Committee as part of the Annual Opinion report for the June/July meeting. Page 80 onwards contained a summary of overdue high priority management actions, and a tally of overdue low and high priority actions. One overdue high priority action had been added for Information Governance since the last report, however 2 high priority actions for Business Continuity had been cleared.

The Chair invited questions and debate from Members. One Member had submitted two questions in advance, the first being around Information Governance and 'Reasonable Assurance' (page 80). He was concerned about the lack of focus on Councillors GDPR Data Management. Councillors were Data Controllers, however there was no plan to map and audit Councillors' data practices and holdings. Until the delayed Data Protection training has been conducted, he felt Councillors may be breaching legislation. He asked whether a grading of 'Reasonable' was appropriate or whether this should be 'Limited'. The Group Head of Law and Governance explained the Data Protection training was something he was seeking to deliver as soon as possible. Training would be provided to enable Councillors to consider their obligations under the act. He confirmed that mapping would be for Councillors to carry out themselves, however this could be included in the training.

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Another question was around Business Continuity on page 82 regarding 'Limited Assurance'. It was felt training was a recurring issue possibly made worse by staffing gaps, reliance on agencies, working from home and staff over-stretch. It was feared this would worsen following the announcement of recent staff reduction measures. The Group Head of Finance and Section 151 Officer updated that CMT had recently discussed this. CMT were aware of Member concerns around this and were drawing up a plan to address this, which would be shared with Committee when complete. He suggested an update on this be brought to Committee at the next meeting by the risk owner.

It was asked why the audit for IT disaster Recovery Planning had been deferred until early 2024/25. Officers confirmed that they were reviewing the disaster recovery procedures and had wanted to delay the audit so the changes, once implemented, could be reviewed.

The Committee noted the report.

#### 649. CORPORATE RISK REGISTER UPDATE

Upon the invitation of the Chair, the Finance & Risk Manager introduced the report explaining it provided the quarterly update on the Corporate Risk Register. High risks were reviewed quarterly, and there had also been some updates to the medium risks. Appendix 3 contained the Corporate Risk Register Summary, which highlighted any changes to the scores and any additions to the register. Pages 92 – 112 contained the detailed risk register entries, where updates were also highlighted. At its meeting in November, the Committee requested an enhanced update on 3 of the risks, which was included as Appendix 4.

On behalf of the Group Head of Housing, who was unable to be at the meeting, the Group Head of Finance and Section 151 Officer presented the CRR1-B Balance of Housing Revenue Account (HRA) written update (page 113). He explained that a report to the Housing and Wellbeing Committee in November had forecasted that the HRA reserve balance would fall to under £1million by the end of the financial year, however this situation had now worsened and it was forecast to fall to around £550k. This reserve was expected to build up to around £1million by the end of 2024/25, however there was clearly risk involved with this. Members would receive frequent updates around this, and the risk would remain on the Corporate Risk Register and be discussed by CMT until it was resolved. Several action plans had been put into place including generating more income from service charges; an ongoing review of some of the financing costs charged to the HRAs; looking to improve the procurement processes around housing that would achieve a better value for money service. There was money in the proposed budget for planned and cyclical maintenance which was hoped would offer better value for money for customers and reduce repair costs in the long term.

Members were invited to ask questions and it was asked whether Officers had confidence the reserves would rise up to £1million by the end of the financial year. The Group Head of Finance and Section 151 Officer thought this was achievable and felt it was a robust budget, however acknowledged there were elements of risk, as they were working to financial forecasts which were subject to change. The Group Head of Housing was aware of all issues and was reporting regularly to Housing and Wellbeing Committee and Policy and Finance Committee.

A verbal update on CRR2 - Organisational Capacity to Deliver was deferred to the next Committee meeting. One Member wished it to be recorded that he was awaiting a response from the Group Head of Environment and Climate Change regarding concerns around Business Continuity, and he wished CMT to consider whether Business Continuity failure should be added as an effect of the issue of training, within CRR2.

Another Member highlighted that flexible working (page 94) should be encouraged and it was felt this attract many talented working parents.

The Climate Change and Sustainability Manager went through his enhanced written update on CRR7 – Climate Change, highlighting that Supporting Our Environment to Support Us was one of the four pillars of the Council Vision.

Members were then invited to ask questions and the following points were raised:

- Page 100 mentioned providing support for the Sussex Kelp Project, and an update was requested on this and whether there was opportunity to engage with the development of this. An update would be provided to the Member after the meeting.
- Page 98 talked about development of climate related training for Officers which was mandatory, and one Member felt this should be mandatory for Members as well as Officers.
- Page 100 talked about vehicle charging points and it was noted it was becoming difficult for electricity suppliers to provide power to these, and suggested Officers liaise with these companies regarding the infrastructure. An update would be provided to the Member after the meeting.

The Committee noted the report.

#### 650. STATEMENT OF ACCOUNTS - ACCOUNTING POLICIES 2023/24

Upon the invitation of the Chair, the Group Head of Finance introduced the report. The report allowed the Audit and Governance Committee to consider and note the accounting policies that would be applied to the Statement of Accounts 2023/24 for approval by the Committee. The accounting policies for 2023/24 remained substantially unchanged from 2022/23.

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There were no questions from Members.

The Committee noted the report.

651. TREASURY MANAGEMENT STRATEGY & ANNUAL INVESTMENT STRATEGY 2024/25

Upon the invitation of the Chair, the Senior Accountant (Treasury) introduced the report, which was the annual Treasury Management Strategy Statement, and explained there were few changes from the 2023-24 Strategy. It was a requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management that this document be produced and presented to Members each year.

The table on page 150 included an additional column for estimated outturn as per Quarter 3 budget monitoring. There was an increase from 2022-23 largely due to the Bognor Regis Arcade, the Levelling Up Fund, Alexandra Theatre, Sheltered Accommodation and Stock Development.

Paragraph 2.2 on page 150 stated the Council's Capital Financing Requirement (CFR) could not rise indefinitely, so minimum revenue provision (MRP) charges had to be made to the revenue and HRA budget. MRP was a statutory charge that the Council were required to set aside from the budget to repay loan debt. The table on page 154 showed how much of Arun's budgets were used for loan repayments. The Council's MRP policy remained unchanged from 2023/24 and was Option 3 as detailed in Appendix 3, page 172.

Page 154 - 155 showed the investments and borrowing, which was almost £14m more in December than at 2022-23 year end. This was largely due to: the timing of the precept payment (January); a levy still not paid to WSCC regarding non-domestic rates (awaiting confirmation of when this will be paid); grants totalling £1.1m only repaid in January 2024.

Some investments have been placed with other local councils for diversification, and all investments held at the end of December 2023 could be seen in appendix 4 on page 175.

Page 156, paragraph 3.2 detailed the Operational Boundary and the Authorised Limit. The Authorised Limit represented a legal limit beyond which external debt was prohibited and this limit needed to be set or revised by Full Council and kept under review. For 2024-25 the Operational Borrowing Limit had been set at £78m and the Authorised Limit had been set at £83m. The Authorised Limit must not be breached. These limits were shown in the chart on page 157, paragraph 3.2.3, along with the CFR and borrowing levels which were below the Operational Boundary and the Authorised Limit.



Page 157 - 158, paragraph 3.3 and appendix 5 showed that the treasury management advisors, LINK, still expected interest rates to fall steadily over the next 3 years, from 5.25 to 3%, which theoretically would make borrowing more affordable.

Page 162, paragraph 4.1 explained the Council's investment order of priorities would be security first, then liquidity and then yield. Appendix 7 on page 179-180 showed the quality counterparties available to invest with.

Paragraph 4.1 on page 163-164 detailed International Financial Reporting Standards (IFRS 9). Appendix 11 (page 184) had been added to this report to provide the valuation positions of the CCLA Diversified Income Fund and Property Fund at the end of December 2023, the current capital losses and the dividends from inception of Arun's investment with the funds.

Paragraph 4.5 on page 168 detailed some changes from the 2023-24 strategy. These included the addition of State Street Global (Money Market Fund)) as discussed at the last meeting. It also reduced the limits in categories 1-3 as there were less funds available to invest in, and the reduced amounts would encourage better diversification and spreading of any risk of default.

The Council's investments were set out in Appendices 4 and 6, which gave details about investment limits. This was about spreading the risk and ensuring that the Council has sufficient liquidity. Appendices 7 and 8 listed counterparties and the approved countries with whom we invest with. It also set out their current ratings.

The Group Head of Finance and Section 151 Officer thanked the Senior Accountant (Treasury) for her work on the report. He explained the Treasury Management Strategy set out how the Council managed its cash and cash-flow balances. The Annual Investment Strategy detailed who Arun invested with. Within the strategies were the prudential indicators, designed for the Committee to gain reassurance over the cash-flow activities. He explained the borrowing limits were there to ensure that borrowing was kept to a level permitted by Members. Borrowing was nowhere near the Operational Boundary limit at present, however this was something he suggested Members monitored.

The recommendations were proposed by Councillor Wallsgrove and seconded by Councillor Turner.

The Chair then invited questions and debate and the following points were raised:

- Concern was raised about the graph on page 157, and it was asked whether Arun's borrowing was increasing. It was confirmed this was not the case and the rising line on the graph showed increased Authorised Borrowing Limit.
- It was asked whether Officers had information regarding borrowing from the green bonds and local climate bonds (page 161, paragraph 3.7). Officers confirmed Arun did not currently have any external borrowing, and were not currently at the stage of needing to borrow. Due diligence would be carried out prior to entering into any borrowing agreements.

- It was asked whether investments could be removed from banks that were currently closing high street branches. Officers explained that security, investment, yield and spreading risk were the most important things to consider regarding investments. Removing counterparties made spreading the risk more difficult.
- Clarification was requested on the relationship between the Municipal Bonds Agency and the Public Works Loan Board (PWLB). Officers confirmed Arun had HRA loans with PWLB, as they offered fairly competitive rates. Arun had Capital Plans which they submitted to the Debt Management Office each year, which enabled a 0.2% certainty rate (discount), on top of that there was an additional 0.2% discount for HRA accounts. The Municipal Bonds Agency (MBA) dealt with organisations with larger borrowing needs, which Arun were unlikely to need unless combined with other local authorities.
- Page 163, paragraph 4.1 contained a statement that 'some form of due diligence' would take place and paragraph 12 contained a statement 'does not strictly adhere to the advisor's suggested lending list'. It was felt those statements gave the impression the Council were lax. Officers confirmed due diligence was taken very seriously, and this was laid out in the strategy. Advice was taken on board from LINK, however it was not a requirement to take this advice on each occasion. It was suggested next time this be worded as 'appropriate form of due diligence' instead of 'some'.
- Clarification was requested on the MRP Policy on page 173 and whether this was a deviation from or continuation of the current policy. Officers confirmed this had been the same for a number of years and there had been no change to last year's policy.
- The CIPFA self-assessment had been distributed to Members and there was concern Members may not be fully aware of everything they should be scrutinising. A suggestion was put forward that a briefing be provided to Members in advance of Audit and Governance meetings, where time was spent on the key treasury management skills Members should be aware of, and then an update on the areas relevant to the specific report. The Group Head of Finance and Section 151 Officer felt this was an excellent suggestion and was happy to organise such briefing sessions. The Chair also thought this was an excellent suggestion, and felt it would be most appropriate for these briefings to take place virtually over Teams. The Chair agreed to liaise with the Group Head of Finance and Section 151 Officer regarding the setting up of these meetings.
- There was concern that the United Kingdom was at the bottom of the list for investments on page 181, and it was asked whether Arun would be unable to invest in the United Kingdom should this drop off the list. Officers explained that although this looked concerning, the rating was still very solid, and they would still have confidence investing in the United Kingdom. It was highlighted that the report stated 'it has been determined that the UK will remain an approved country for investments regardless of its sovereign rating if after careful consideration, it is deemed appropriate to do so'.

The Committee

RECOMMEND TO FULL COUNCIL that

1. The Treasury Management Strategy Statement for 2024/25 be approved and adopted.
2. The Annual Investment Strategy for 2024/25 be approved and adopted.
3. The Prudential Indicators within the TMSS and AIS for 2024/25 be approved.
4. An operational boundary borrowing limit of £78M for 2024/25, as shown in Appendix 2, be approved.
5. An Authorised Borrowing Limit of £83M for 2024/25, as shown in Appendix 2, be approved.

652. USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA) ANNUAL REPORT 2023

Upon the invitation of the Chair, the Group Head of Law and Governance presented the report. The Regulation of Investigatory Powers Act 2000 (RIPA) governed the acquisition and disclosure of communications data and the use of covert surveillance by local authorities. The Council had the ability to use powers under RIPA to support its core functions for the purpose of the prevention and detection of crime. He explained some time ago there had been publicity around local authorities' use of the powers, and it was determined some councils were using these incorrectly. The Act and its Codes of Practice set out the procedures that local authorities must follow when undertaking surveillance. The Council was required to have a Senior Responsible Officer (SRO) to maintain oversight of the RIPA arrangements, procedures and operations. The Group Head of Law & Governance performed this function and was responsible for the integrity of the Council's processes for managing the requirements under RIPA. The Investigatory Powers Commissioner's Office (IPCO) was responsible for the judicial oversight of the use of covert surveillance by public authorities throughout the United Kingdom. The last inspection had concluded positively, and although there were comments on Arun's RIPA policies and procedures, there was nothing fundamental that undermined the Councils use (or not) of the powers. The Council did not use these powers last year, and had not used them for some time. Officers had received training and he highlighted that these powers could sometimes be necessary to aid in criminal investigations. There would be a subsequent report coming to the Committee regarding the RIPA Policy. He had received a Member question in advance of the meeting regarding whether the new CEO would receive training. This was something the Group Head of Law and Governance would be speaking to the new Chief Executive about once they had started in post, to determine whether they would need the training, or whether they had recently completed it.

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There were no questions from Members.

The Committee noted the report.

653. WORK PROGRAMME

The Committee noted the Work Programme.

(The meeting concluded at 7.50 pm)