

AUDIT & GOVERNANCE COMMITTEE

13 February 2020 at 6.00 pm

Present: Councillors Mrs Haywood (Vice-Chair, in the Chair), Bennett, Bicknell, Brooks, Chapman, Clayden, Dendle, Ms Thurston and Tilbrook

Councillors Bower, Charles, Coster and Edwards were also in attendance for all or part of the meeting.

[Note: The following Councillors were absent from the meeting during consideration of the matters detailed in the Minutes indicated: - Councillors Bicknell, Chapman, Clayden and Dendle - Minute 439 to Minute 450].

Apologies: Councillor Mrs Erskine

437. DECLARATIONS OF INTEREST

There were no declarations of interest made.

438. MINUTES

The Minutes of the Special Audit & Governance Meeting held on 19 December were approved, subject to a single correction as requested by Councillor Chapman, on page 255 the first line read that Councillor Chapman spoke from the public gallery, this was incorrect as he was a Member of the Committee.

Councillor Chapman then sought permission from the Chairman to read a statement out to the Committee in relation to the minutes of the Special meeting held on 19 December 2019. He told Members that it was his view that this Committee's function to provide, independent assurance of the adequacy of the governance and risk management framework, so as best to protect the Council's reputation had been undermined at the Full Council meeting on 15 January 2020. It was on this basis he then advised that he declined to serve further on this Committee and left the meeting.

Councillors Dendle, Clayden and Bicknell also left the meeting in support of Councillor Chapman's statement to the Committee.

439. ERNST & YOUNG - AUDIT PLANNING REPORT

The Manager from Ernst & Young LLP (E&Y) advised the Committee that the report communicates E&Y's responsibilities as auditors in planning for the audit of the Council's 2019/20 Accounts. In turning to the overview of the report he highlighted the following;

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- Inappropriate capitalisation of revenue expenditure – No change in risk or focus from the previous year
- Misstatements due to fraud or error – No change in risk or focus
- Pension Liability Valuation & Valuation of Land and Buildings - These were highlighted as two of the biggest balances therefore was an inherently risky area for the Council - No change in risk or focus
- New Accounting Standards in respect of leases (IFRS16) – would be applicable from 1 April 2020 and work was required to prepare during this financial year including disclosures in the 19/20 accounts.

For planning purposes materiality had been set at £2.091m (2018/19: £2.07m) which represented a 2% of the prior year's gross expenditure on provision of services/ Performance materiality had been set at £1.568m (2018/19: £1.553m) which represented 75% of planning materiality. Audit differences threshold £0.105m, E&Y would report all uncorrected misstatements relating to the primary statements greater than £0.105m (2018/19 £0.104m). Other misstatements identified would be communicated to the extent that they merit the attention of this Committee.

E&Y are required to consider whether the Council had put in place 'proper arrangements' to secure economy efficiency and effectiveness on its use of resources. The audit for 2019/20 would look to confirm that in all significant respects the Council had proper arrangements in place to ensure that it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. It was confirmed that proper arrangements were defined by the statutory guidance issued by the National Audit Office (NAO) as:

- Take informed decisions;
- Deploy resources in a sustainable manner: and
- Work with partners and other third parties.

The risk assessment at the time of planning had resulted in no significant risks relevant to E&Y's value for money conclusion.

The Committee had a full discussion around the points raised by E&Y's Manager specifically focusing on possible costs to the Council in relation to the new risk identified under the New Accounting Standards area regarding leases. It was explained that at this time the preliminary assessment was that any cost would be split over the life of the lease and therefore would have a minimal impact.

The Committee then noted the report update.

#### 440. HOUSING BENEFIT SUBSIDY CLAIM 2018/19 CERTIFICATION

The Internal Audit Manager advised the Committee that the Council was required to submit a certified claim to the Department of Works & Pensions (DWP) on an annual basis in respect of the Housing Benefit Subsidy that had been paid out. He explained that the Council engaged with Ernst & Young (E&Y) to perform the certification for a 5-

year period. In previous years the Committee would have received a summarised certification report, however that report was no longer a requirement and therefore an Officer report summarising the results of the certification work had been prepared instead. It notified them that as a result of errors identified that the claim submitted to the DWP was adjusted by £1695. Further errors resulted in an extrapolated understatement figure of £15470 reported to the DWP for a decision on any action to be taken, however this adjustment was within the allowable local authority error threshold and the Council would not lose money on this.

The Committee congratulated the team for another successful year and noted the report.

#### 441. ACCOUNTING POLICIES FOR 2019/20 ACCOUNTS

The Financial Services Manager advised the Committee that the Accounting policies were the specific principle, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. They are based on the code of practice for Local Authority Accounting in the United Kingdom which defines proper accounting practices. The code is supported by International Financial Reporting Standards (IFRS) and the objective of it was to specify the principles and practices of accounting required to give a 'true and fair view' of the financial position.

There were no changes to draw the Committee's attention to from the Accounting Policies used for 2018/19. In practice they were only limited opportunities for an authority to choose an accounting policy as opposed to a basis for estimating figures that would satisfy that policy.

The Committee then

#### RESOLVED

That the accounting policies could be applied to the Statement of Accounts for 2019/20

#### 442. CAPITAL STRATEGY

The Financial Services Manager explained that the adoption of a Capital Strategy was a requirement introduced by the 2017 Prudential Code and that this had been introduced in 2019 and would continue to develop over time.

She highlighted the following areas:

- The aim of the strategy was to balance Capital Expenditure needs and expectations with the limited resources available to the Council
- Members approved the strategic direction of the Council and those priorities should be reflected on the Capital Expenditure decision

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- It was good practice to adopt whole life costing to make decisions
- Capital Expenditure was funded through a variety of sources that were extremely limited. E.g. Capital receipts had been used to fund the General Fund (GF) for housing and the Wave in the past and Capital Expenditure associated with the GF assets e.g. potentially Fizzleet carpark.

There was a separate programme for the Housing Revenue Account (HRA) and the GF, because they were totally separate funds.

The HRA Business Plan was driven by the aim of acquiring 250 new dwellings over the next 10 years and that would be funded by 30% Right to Buy (RTB) receipts and 70% borrowing. It would need to be kept under review for affordability and potential changes in government legislation. However, RTB sales have dried up which means potentially 100% borrowing for future schemes which would have implications for the HRA. The completed Stock Condition survey had also identified the need for significant investment in the existing housing.

The Annual core programme included Essential I.T, Asset Management and Disabled Facilities Grants (DFG). The DFG programme would be entirely funded from the Capital Grant. The remainder would mainly be funded from revenue contributions.

The prioritisation of any new schemes would need to show a clear benefit to the Council if it were to use limited resources, demonstration of a sound business case and be linked to the Council's strategic direction.

In summary the Capital Strategy:

- Would sit above other more detailed policies, procedures and plans and references them to allow for more detail if needed
- Shows how the Council determines its priorities for capital investment decisions
- Clearly set out how capital would be funded
- The Council needed to adopt a strategic approach for its capital planning based on sound principles, the plans were, affordable, prudent, sustainable and in line with service objectives.

The Committee had a full discussion based on the information presented to them, the key points raised were;

- How would a joint partnership or venture be assessed – where would the risk lie? This would be down to the prudent assessment that would take place prior to entering such a partnership.
- Concern was raised regarding staffing levels to support the Digital agenda
- The budget for future essential schemes and projects and where this money would come from. This was explained as effectively being a balancing figure that was flexible and would change.

The Chairman with the agreement of the Committee then invited Councillor Coster to ask a question from the public gallery. He asked what was the update regarding the Property Investment Fund (PIF) and would the Council consider more investment in property in the future? The Financial Services Manager advised that since the purchase of the Arcade in Bognor Regis there were no capital receipts in the PIF and until the Council sold something it would remain that way. The Group Head of Corporate Support then advised that there was nothing to stop the Council investing in property, it would require a full governance process and a business case as well as possible borrowing of monies as we have little or no capital receipts as earlier explained.

The Committee expressed their thanks to the Group Head of Corporate Support, the Financial Services Manager and their teams for their continued hard work.

The Committee

RECOMMEND to Full Council – That

1. the Capital Strategy 2020/21 to 2022/23 be approved

443. TREASURY MANAGEMENT STRATEGY STATEMENT & ANNUAL INVESTMENT STRATEGY

The Committee received the Treasury Management Strategy Statement and Annual Investment Strategy 2020/2021 report from the Senior Accountant which it was required to consider prior to making recommendations to the next meeting of Full Council.

In presenting this report, the Senior Accountant drew Members' attention to the following key points:

- Treasury management is the management of borrowing, investments and cashflows, it's banking and control of associated risks.
- The report was forward looking and set out parameters for the year ahead.
- The majority of investments were in highly rated banks
- Section 3.3 – The chart was updated by our advisors on 31 January 2020 and showed the next bank rate increase to be in June 2021 not March 2021.
- It had been recommended that the Council may invest in diversified funds subject to due diligence and some further research.
- The Money Market Funds (MMF) were 'triple A' rated, liquid and are all Low Volatility Net Asset Value (LVNAV)

In reviewing the report, the Committee asked questions with regard to the impact on a Brexit deal eventually being agreed and what implications that would have. It was advised that the situation was being monitored closely and working on advice that had

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been provided so far. Members also wanted to know if the Council had entered into any diversified fund agreements it was advised no.

The Committee then

RECOMMEND TO FULL COUNCIL – That

1. the Treasury Management Strategy for 2020/21 be approved
2. the Annual Investment Strategy for 2020/21 be approved; and
3. the Prudential Indicators for 2020/21, 2021/22 and 2022/23 be approved.

444. UPDATE ON THE STATUS OF THE COUNCIL'S BUSINESS CONTINUITY (BCP) ARRANGEMENTS

The Committee received the update on the Council's Business Continuity arrangements from the Group Head of Neighbourhood Services.

In presenting this update, he drew Members attention to the following key points;

- The objectives of the corporate business continuity plan (BCP)
- The objective outcome of any incident was to ensure all services were able to return to normal functions as soon as possible
- Each service area had produced a BCP and business impact assessment (BIA) and the format of these were reviewed and improved working alongside Zurich Insurance Company Ltd
- An exercise was completed in October 2019 and, whilst some recommendations were identified, it was made clear that the Council had a much-improved response from the previous exercising and had demonstrated clear leadership and coordination with the scenario presented.
- Next steps included an exercise with several service areas to take place in February 2020, it would test the service area BCPs and BIAs as well as the response to any presented scenario.

In reviewing the report, the Committee asked questions with regard to the plans that had been put in place, reviewed and tested for officers, but where would Members fit in? it was explained that these plans were focused on the organisation and the priority needs to ensuring the day to day running of the business was in place with minimal disruption to public, e.g. if the Civic Centre was out of action, what services needed to be up and running first and foremost. In terms of Members being informed of any incident there would be a communication plan executed by the Corporate Management Team.

A request was made that a further briefing for Members on the BCP for the Council be considered, to ensure that Members were fully informed on the topic.

The Committee then noted the report.

445. UPDATE ON PROGRESS AGAINST THE RECOMMENDATIONS OF THE PARTNERSHIPS AUDIT

The Committee received the update on the progress made against the recommendations of the Partnerships Audit from the Group Head of Policy.

In presenting this update, she drew Members attention to the following key points;

- The agreed definition of what a working partnership was and the clarification that the definition did not cover contractual arrangements
- Some Partnerships are listed in the Constitution, but this would not necessarily be appropriate for the full register.
- Once a final list of partnerships had been agreed, Members would then need to decide how they would want to manage the review process, a suggestion of a regular review period being followed was made
- A number of partnerships were already scrutinised elsewhere at the Council (although these arrangements might change from 2021 when the revised Committees governance structure would be introduced) and it was suggested that a focus on those who were not currently subject to scrutiny would be recommended
- Any agreement for review periods would need consideration of the service manager workload to be taken into account.

In reviewing the report and having heard the update from the Group Head of Policy the Committee asked questions with regard to the following;

- Where the requirement for this work originated from, it was confirmed by the Internal Audit Manager that the CIPFA guidance advises that the A&G Committee should have a good overview of governance arrangements for partnerships (as identified in the agreed register) and ensure they are functioning effectively and benefit the Council.
- Clarity on when the next update would be brought to the Committee was sought and it was advised that this would be expected in the Autumn of 2020.
- There was a suggestion to include Parish/Town and County Council partnerships, however it was advised that this would not fit with the agreed definition.

In summarising the Group Head of Policy advised she would be meeting with all the Group Heads after the PCC Election in May 2020 to obtain more information from them, which would then be included in her next report update.

The Committee noted the report and were in agreement with the proposed approach to developing an up-to-date partnership register.

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446. UPDATED STRATEGIC RISK REGISTER

The Committee received an update on the strategic risk register from the Internal Audit Manager.

In presenting the update, he drew Members attention to following changes that had been made since the last update in November 2019;

- The review of the Local Plan had been put back on the register
- Climate Change had been added to the register
- The score for the risk covering Elections had been increased at the request of the Committee

In reviewing the update that had been presented the Committee asked questions with regard to the following;

- The Amber Risk for Coastal Protection and the requirement for a future review of this risk

The Committee noted the report and;

RESOLVED – That

1. the Strategic Risk Register be approved

447. ANNUAL INTERNAL AUDIT PLAN

The Committee was advised by the Internal Audit Manager that each year the audit team is required to develop an annual audit plan for the following financial year. Should resource of the section, or work priorities alter then a revised plan would be brought to the Committee at a future meeting.

The Committee noted the update and report provided and;

RESOLVED – That

1. the outline Annual Internal Report be approved.

448. PROGRESS AGAINST THE AUDIT PLAN

The Committee received and noted the update on the progress against the audit plan from the Internal Audit Manager.



449. INFORMATION / ADVISORY DOCUMENTS RECEIVED

The Committee were advised by the Internal Audit Manager that there were no new findings to report.

The Committee noted this update.

450. WORK PLAN REVIEW 2020/21

The Committee received an update on the future work plan for 2020/21 from the Internal Audit Manager who advised that this would be updated once the Committee Calendar of meetings had been presented at the Full Council meeting on 19 February 2020 for approval. He also advised Members that a Special Meeting of the Committee would be required in order for the Independent Panel to complete their remuneration work based on the Governance changes agreed at the Full Council meeting on 15 January 2020.

The Committee noted the update.

(The meeting concluded at 7.58 pm)