



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Rooms, East Pallant House on Monday 22 January 2024 at 2.00 pm

Members Present: Mr R Bates (Chairman), Mr I Ballantyne, Mr J Brown, Mr M Chilton and Ms M Corfield

Members not present: Mr T O'Kelly, Mr F Hobbs and Mr T Johnson

In attendance by invitation:

Officers present: Mr A Alempour (Democratic Services Officer), Mrs H Belenger (Divisional Manager for Financial Services), Mr K Gillett (Valuation and Estates Manager), Mr S James (Principal Auditor) and Mr J Ward (Director of Corporate Services)

36 Chairman's Announcements

Apologies were received from Cllr O'Kelly & Cllr Johnson.

37 Approval of Minutes

The minutes of the meeting on 30 October 2023 were agreed as the correct record.

38 Urgent items

There were no urgent items.

39 Declarations of Interest

There were no declarations of interest.

40 Public Question Time

No public questions were received.

41 Draft Capital Strategy 2024-25 to 2028-29

Mrs Belenger introduced the item and briefed Members on the Strategy's' objectives and function. In addition to the draft Capital Strategy document, Members were to consider the Treasury Management & Investment Strategies for 2024-25 to 2028-29 also on this meeting's agenda, as these strategies are all interlinked.

The Chairman was pleased to note that the strategy outlines the importance of developing sustainable changes, across all Council projects in the district.

The Chairman asked Senior Officers whether the strategy in place is adequate to achieve the goal of reducing climate change and to provide further information on why this is the case.

Mrs Belenger advised that the Council has declared a climate emergency and has set up targets to reduce its own impact on the environment. This has been addressed in several ways, such as the decarbonisation of the Westgate Leisure Facility. Freeland Close and Westwood House have also undergone improvements to improve their energy efficiency.

Another key development is the trial of electric refuse freighters. Once this trial has concluded, the Council will be able to determine the most appropriate way to proceed. The local plan also plays an important role in maintaining the environment and areas of natural beauty.

Mrs Belenger added that the Treasury Management document provides further information on best practice and guidance in relation to Environmental, Social and Governance (ESG) considerations for the Council's cashflow management.

The Capital strategy gives information on the funding of the capital programme and asset replacement programme including the use of external grants and contributions plus the Council's own resources.

The Chairman noted that the Commercial Services Division now includes electric waste collection vehicles in the fleet.

Mr Ward added that the trial period for electric refuse freighters had highlighted several areas of improvement. There are a range of other vehicles which are due to be replaced, additional information regarding these replacements will be provided at the next Cabinet meeting.

The 10% reduction in carbon omissions per annum target is monitored by the Environment Panel and the Climate Change Action Plan. In order to achieve this, the Council has to reduce its own carbon footprint, whilst also monitoring the public's carbon footprint and behaviour. Mr Ward highlighted that the Council's vehicle fleet has the largest impact on the Council's carbon footprint, therefore addressing this area is of crucial importance. It's always important for the Council to balance impact against cost, as the Council has finite resources.

The Chairman highlighted the Capital Expenditure table illustrating CIL monies. The Chairman asked Senior Officers whether the data for the total receipt of CIL monies has been published.

Mrs Belenger advised that Mr Davis previously reported on S106 & CIL monies to the Committee, and that this report includes this data.

The Chairman thanked the Senior Officers for answering questions.

RESOLVED:

The Committee is requested to consider the report and its appendix and make the following recommendation:

That the Committee considers the Council's draft Capital Strategy for 2024-25 to 2028-29 and recommends it to Cabinet for onward approval at Council.

42 Draft Treasury Management and Investment Strategy

Mrs Belenger introduced the item and advised Members that the Council is required by the Chartered Institute of Public Finance and Accountancy's (CIPFA) and by the Department of Levelling up Housing Communities (DLUHC) to approve a Treasury Management and Investment Strategy each year.

As the Council is compliant with the Code of Practice 2021, this has resulted in only a small number of changes to the strategy this year. Mrs Belenger confirmed that the Draft Strategy is fully compliant with the Treasury and Management Code, and the most recent revisions to this code in 2021. The key focus behind these changes was to reinforce the matters of proportionality, risk management and the skills and governance framework necessary, given the ever-increasing complexity of treasury and investment matters.

Mrs Belenger confirmed that the treasury and commercial investment sections of the strategy are relatively unchanged and have been updated in line with the latest position statement. There are no fundamental changes which have altered the general approach taken by the Council in previous years.

Mrs Belenger advised that the document also outlines the requirement for Members to receive training, the most recent training sessions being held during December 2023.

This document, in addition to the Corporate Plan and Capital Investment Strategy, all work in cohesion as part of the Council's risk management and governance function.

Cllr Ballantyne highlighted the behavioural aspect of governance, stating that it's important for governments to behave ethically.

Cllr Ballantyne asked what measures are in place to ensure that Members behave ethically and to take this into consideration when making financial decisions.

Mrs Belenger advised that the Constitution plays a key role in setting out the rules, functions and authority by which the Council operates as a public sector organisation. There are also financial regulations within the Constitution, such as s.4.8, which sets out the rules of delegation to Officers and what Chief Officers are allowed to do. In addition to this, each Council's Chief Finance Officer has specific responsibilities relating to spending plans, as per Section 25 Declaration of the Budget Report regarding Section 25 of the Local Government Act 2003. In this

report, Mr Ward is confirming that the spending plans included are robust, affordable and sustainable.

Mrs Belenger added that it's also important to ensure the appropriate agreements are in place between the Council and external organisations, an example of this would be the s.101 agreement between the Council and South Downs National Park in relation to the Council acting as their agent for planning. These agreements set out clear roles, responsibilities, and procedures for all the relevant parties.

Cllr Ballantyne asked if there is any risk that the Council's reputation can be damaged due to financial mismanagement, such as is the case with Birmingham Council.

Mrs Belenger advised that every action carries inherent risks, certainly in relation to financial management. As the Council is currently in a surplus cash position, members and staff must be careful to maintain this position and their choice of counterparties.

Mrs Belenger stated that Chichester District Council does have investments with Birmingham City Council. Their s.151 officer has given assurances to Mr Ward that the money invested will be returned and that they will adhere to their contractual obligations.

As there are several local authorities at financial risk, it's prudent for the Council to conduct additional checks. These checks include reviewing whether the authority has declared a s.114. The Council now has additional in-house analysis on balance sheets, which the Council can use to assess the authorities' financial capability. If the Council in question has not published their 2022-23 accounts, Chichester District Council will not invest in these authorities. These extra measures have been implemented as a result of the issues other Councils have experienced in the last 6 months.

Cllr Chilton noted that similar asset-based finance has been added to the list of methods on page 57 of the Committee papers that are not classed as borrowing, but may be classed as other liabilities.

Cllr Chilton asked why this method has been added to the list.

Mrs Belenger confirmed that advisors have made this recommendation to Council, to ensure that the full range of options are included. As an authority which has not borrowed, this has been included for this reason only.

Cllr Chilton referred to page 57 of the agenda, where it states that PWLB Loans are no longer available to local authorities planning to buy investment assets primarily for yield.

Cllr Chilton asked for clarification on whether this means that public work loans are not available to local authorities who use these loans to buy investment assets, or rather that the local authority using another source of finance to buy investment assets can no longer claim a public works loan.

Mrs Belenger advised that PWLB have tightened their lending criteria for local authorities, this has subsequently removed the ability to borrow from them to invest in commercial activities. DLUHC and CIPFA are trying to prevent authorities using this public source of borrowing to fund riskier activities.

Mr Ward added that PWLB take other factors into account when lending, as they will review the Council's Capital Programme and if the Council is using its internal resources to finance a potentially commercial operation. If this is the case, they will not lend money for any other purposes.

Cllr Brown asked whether Councils are allowed to invest their own money for commercial purposes.

Mr Ward advised that Councils are allowed to invest their own money, but there are several checks that must be met to ensure that there is a robust business case and justification for doing so. Councils cannot access government borrowing to undertake commercial ventures.

Mrs Belenger added that in addition to this, the Council also has an investment protocol, which is linked to the Council's finance and estates services. The Treasury Management Report presented to Members sets out the key issues regarding these commercial activities and highlights proportionality. The income from these commercial activities must be set at a level which is appropriate for the size of the District Council, to further minimise the risk to the taxpayer in the district.

Cllr Brown stated that the Council has historically invested for commercial returns.

Cllr Brown asked if it's acceptable to retain these assets, and whether it's strictly new investments which are discouraged.

Mr Ward advised that new commercial investments are not what is being discouraged, but new commercial investments where an authority is asking the government for funding. The Council has its own reserves, so if there is justification to pursue commercial investments then it is free to do so, but the Council cannot access Government debt in order to pursue these commercial investments.

Cllr Brown asked if the Council were to use its own reserves for commercial investment, would this prevent the Council from borrowing public money for a completely non-commercial purpose.

Mr Ward confirmed that this would prevent the Council from borrowing money for a non-commercial purpose, as the PWLB would review the Council's Capital Investment Programme. If there are any activities that are commercial in nature, the PWLB would withhold funding for any other activities.

Cllr Brown asked the Senior Officers whether the PWLB would deem this to be the case with Chichester District Council, due to the Council's existing commercial investments.

Mr Ward stated that he does not believe this to be the case, as there are no new commercial only activities in the Council's current capital programme. The Council

has conducted capital acquisitions in the past, however PWLB would not review historic decisions, but monitor current and future decisions made by authorities.

Mrs Belenger confirmed that page 65 onwards of the agenda details the commercial investments and risks that the Council is managing. Income from commercial investment is set to remain below 10% of the Council's net revenue stream. Page 68 of the agenda sets out the proportionality of the Council's current investments.

The Chairman referred to the section of the report that states that property can be difficult to convert to cash at short notice and noted the property market's current volatility.

The Chairman asked Mr Gillett if the Council should need to sell any of its existing investment properties, in the event that the properties are vacant for a prolonged period, how the Council determines the appropriate time to sell those properties and whether there's been a loss in their value.

Mr Gillett advised that whether the loss is recovered is largely determined by the sale and purchase prices at the time of transaction. If a property is vacant, this will be detrimental to the value of that property. Potential investors would also review how long it takes to re-rent that property.

Mr Gillett noted that it also depends on market conditions at the time, highlighting that there are a variety of commercial investments, and each of these perform differently throughout different points in time. Each of these factors would be reviewed when determining whether it's an appropriate time to sell and whether to absorb potential losses.

The Chairman asked Mr Gillett how many of the properties owned by Chichester District Council in Chichester are currently vacant, or where he could access this data.

Mr Gillett advised that this data is reported quarterly against performance indicators. At present, there are 5 units vacant from the Council's investment portfolio. Mr Gillett added that there are other units present as part of the Council's other property holdings and that he will confirm these figures following the Committee.

The Chairman stated the current vacancy level on the high street in Chichester can seem alarming and although these may not be commercial properties owned by the Council, it would be prudent to assist in regenerating the city.

The Chairman asked Mr Gillett whether the Council considers reducing the rent due when a property is vacant.

Mr Gillett confirmed that this is one of the key factors that the Council considers when marketing a property. There have been several premises that have been difficult to utilise, and the Council have employed agencies to look for tenants. Historically, the Council has preferred to search for tenants inhouse, however, this change is necessary in the current, difficult market. Mr Gillett noted that adjusting prices is also key to adapting.

RESOLVED:

The Committee is requested to consider the report and its appendices and make the following resolution and recommendation:

1. That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy, and relevant Indicators for 2024-25; and,
2. That the documents in 2.1 are recommended to Cabinet and Council for approval.

43 Progress Report - Audit Plan for 2023/24

Mr James introduced the item and updated Members on the internal audit reports completed since the previous Committee. A position statement has also been issued to confirm the reasons for Audit Plan's delay, with further details contained in Appendix 1 of the report.

The Chairman asked when the Committee can expect to receive further updates on the Audit Plan.

Mr James advised that the plan is set to conclude in March 2024. If there is a shortfall, this will be reported to the Corporate Governance & Audit Committee in March 2024.

Cllr Chilton asked if Mr James could summarise from the report, what action needs to be taken with regards to disabled services grants.

Mr James advised that disabled service grants are within the Housing Department's remit, who have informed him that these recommendations are due to record keeping. Mr James stated that the Housing Department have worked hard to ensure that the recommendations being made in the report are sufficient and that the areas of improvement are being addressed. Mr James highlighted that the department has also undergone data retention refresher training and are making good progress with regards to data retention.

RESOLVED:

That the Committee notes performance against the Audit Plan for 2023/24.

44 Draft - Internal Audit Charter

Mr James introduced the item and briefed Members on the charter's function and objectives. Mr James confirmed that the Internal Audit Charter has been updated to account for changes made by the Public Sector Internal Audits Standard (PSIAS).

The Chairman asked what advantage the accreditation offers.

Mr James advised that accreditation demonstrates that the decisions included have been made to the necessary standard, this is the standard by which every authority

is measured. PSIAS is making changes. He was confident the Council would be able to make the changes to achieve that standard.

Cllr Chilton asked whether the Internal Audit Charter would be written by PSIAS.

Mr James replied that it would be written by Chichester District Council Officers, not by PSIAS.

Mrs Belenger added that once this document is complete it will be reviewed by another internal audit service manager from an external local authority. If PSIAS believe that there are any shortcomings, feedback will be provided in their review.

Mr James stated that Chichester District Council's documentation will be reviewed by Rother District Council.

Cllr Ballantyne asked whether there is an external audit procedure in place for Chichester District Council.

Mrs Belenger confirmed that there is and that auditors will provide their feedback to this Committee. The Council has published their draft accounts for 2022-23, however these are yet to be reviewed by auditors. The number of outstanding audits across England stands at approximately 1,000 audits. Mrs Belenger added that whilst EY are awaiting guidance from DLUHC and CIPFA regarding outstanding audits, both organisations are preparing for the 2023-24 audit. Mrs Belenger expects these external audit reviews to be conducted between July and August 2024.

Cllr Ballantyne asked whether the presence of this accreditation can help streamline the internal audit procedure.

Mrs Belenger advised that DLUHC and CIPFA both place reliance on the work conducted by the Internal Audit Team and the accreditations. However, they also review and have access to all of Council's reports, so these also play an important role in the audit.

RESOLVED:

That the Committee notes the Draft – Internal Audit Charter.

45 **Verbal update from members of the Annual Budget Scrutiny Group**

Cllr Ballantyne introduced the item and briefed Members on the progress made by the Annual Budget Scrutiny Group when it met on 11 January 2024. Mrs Belenger provided Members with further information on the Group's objectives and function.

RESOLVED:

The Committee is requested to note the feedback provided from the Members appointed to the Group.

46 **Late items**

There were no late items.

47 **Exclusion of the Press and Public**

There was no requirement to exclude the press or public.

The meeting ended at 3.04 pm

CHAIRMAN

Date: