



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Virtually on Thursday 2 July 2020 at 9.30 am

Members Present: Mr A Dignum (Chairman), Dr K O'Kelly (Vice-Chairman), Mr T Johnson, Miss H Barrie, Mr J Brown, Mr F Hobbs, Mr D Palmer and Mr P Wilding

Members not present:

In attendance by invitation: Mr K Suter (Ernst & Young LLP)

Officers present: Mrs H Belenger (Divisional Manager for Financial Services), Mr N Bennett (Divisional Manager for Democratic Services), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mrs M Rogers (Benefits Manager), Mr J Ward (Director of Corporate Services) and Mr K Gillett (Valuation and Estates Manager)

1 **Chairman's Announcements**

The Chairman thanked Dr O'Kelly for her previous chairmanship of the Committee. He was pleased that she was his Vice-Chairman.

2 **Approval of Minutes**

RESOLVED

The minutes of the meeting held on 23 January 2020 were agreed as a correct record.

3 **Urgent items**

There were no late items for urgent consideration at this meeting.

4 **Declarations of Interest**

There were no declarations of interests.

5 **Public Question Time**

There were no public questions.

6 **Financial Impact of Covid-19**

Mr Ward introduced the report. The Committee was asked to risk assess the financial impact of Covid 19 to the Council and make a recommendation to Cabinet who would then make a recommendation to Council.

It was noted that the Covid 19 Recovery Plan had been debated and endorsed by the Overview and Scrutiny Committee on 30 June 2020 and recommended to Cabinet who would then make a recommendation to Council. He reminded the Committee of the exempt element of the report, concerning the Council's 5 year financial model at Appendix 1.

Earlier in the day the Government had announced a further round of financial assistance to councils specifically aimed at those losing income, which included this Council. The allocations to each individual Council were yet to be announced. However, the Government had advised that councils would pay the first 5% of any reduction in income and receive compensation at a rate of 75p in the pound for the remaining losses, which would assist the Council in the current financial year.

During the discussion Mr Ward responded to members' questions and comments:

- Insert "up to" before "£8,070,000" in recommendation 2.1 (b)
- With regard to the income generation, since the 2008 banking crisis the Council had taken more of a commercial approach. A lot of work had been undertaken to generate income and because the Council had been so successful in this approach this additional income generated from fees and charges was now under threat. This year's efficiency review with managers would look at ways to reduce the budget by identifying ways to reduce costs and increase income. It was unlikely that generating income on its own would solve the issue.
- The intention was to pause, not cancel, the capital programme for schemes funded by the Council only. Concern was raised by a member about the rationale for pausing these schemes as it would result in a decrease in investment in the community. Mr Ward confirmed that it was correct that these schemes would not impact the Council's £22.8 million reserves. He explained the reason for pausing was because the financial implications of Covid 19 were not currently known and could be worse than anticipated in the Council's financial model. It protected the Council's reserves beyond the £22.8 million until the exact financial implications were known.
- A list of paused projects was requested for circulation to members, as there may be some that members considered should not be delayed. Members were advised that the Accountancy Service was currently working on a definitive list of schemes.
- It was confirmed that the financial model was flexible and allowed the Council to match priorities against any level of resources available to determine the future shape of the Council. It would be for members to determine the amount of time available to implement a balanced budget when the future services framework was brought before Council during 2021. However, if the adjustment period were extended beyond the proposed five years it would run down reserves further.
- With regard to paragraph 12.1, clarification had been received from CIPFA who had advised that the Council has powers to borrow short term for cash management purposes. It could also borrow for the longer term, taking the Council into debt, and must be for a capital scheme, not as a way to manage the

Council's budget. It was unlawful to borrow for revenue or speculative purposes to generate a return. The revenue consequences of borrowing were explained, which would bring the revenue budget further into deficit if the Council borrows instead of using reserves.

- The financial model assumed a £5 council tax increase, the maximum amount currently permitted by the Government announced annually.
- With regard to the Economic Impact study, recommended by the Overview and Scrutiny Committee to Council, Mr Ward undertook to provide a written answer concerning the need to use consultants.
- It was agreed that a paper on the Council's borrowing would be produced for all members of the Council. The report should include advice on the rules, the repayment schedules, how they could be applied in the context of the Council and whether or not a commitment to borrowing fit with the Council's overall structure and what it would mean for finances, including the minimum revenue provision requirement. It should also include examples for members. Mr Ward undertook to produce a paper on the Council's borrowing to the next meeting of the Corporate Governance and Audit Committee.

A proposal to include a further recommendation to Cabinet that the Council should prioritise the identification and development of new income generation ideas was made. Mr Ward advised that the proposal was straying into the Council's Recovery Plan. The point was well made but the Council had always had a focus on income generation. If a sound and robust business case for any income generating scheme was made, members would be asked if they wanted to implement it or not. If capital investment was required to fund such a scheme in order to generate revenue it would either be via borrowing with revenue consequences or by liquidating the Council's investments resulting in lost interest. Risk mitigation would need to be taken into account. However, if members felt such a recommendation should be made to Cabinet they could do so and in any case officers were already considering new income generating ideas.

A vote to include a further recommendation to Cabinet that the Council should prioritise the identification and development of new income generation ideas, as set out above, was carried.

RESOLVED

That the financial situation facing the Council be noted.

RECOMMENDATION TO CABINET

That the Corporate Governance and Audit Committee:

- 1) Recommend to Cabinet that up to £8,070,000 be released from reserves to meet the in-year cost of the pandemic.
- 2) Recommend to Cabinet that in the current circumstances the minimum level of reserves be reduced from £6.3m to £4m.
- 3) Recommend to Cabinet that the Council should work towards achieving a balanced budget over the next 5 years, using reserves to help balance the intervening years.

- 4) Recommend to Cabinet that the Council should prioritise the identification and development of new income generation ideas.

7 **Audit Planning Report Update Year Ended 31 March 2020 - EY**

Mr Suter of Ernst & Young LLP presented this report, which was an update to the report prepared for the cancelled March meeting before the Covid 19 pandemic.

He advised that with regard to the Financial Impact of Covid 19 report considered by the Committee earlier in the meeting, EY did not have any concerns with the Council continuing to look over the medium term in respect of its finances. He drew members' attention to page 27 of the report. EY considered that Covid 19 would impact its audit concerning the fair value of Property, Plant and Equipment. In particular the Council's land and buildings, and investment properties. This had resulted in a greater of uncertainty and therefore a need to increase the audit risk to significant and for EY to instruct their expert valuers, as the valuation could be materially wrong. The current position was that EY was waiting for the Council's valuers to complete a review of the valuations to enable EY to determine whether or not there is an impact. With regard to the concept of going concern in relation to disclosure, EY would have to ascertain whether or not the Council had looked at the assessment of its going concern arrangements, in particular around the level of reserves and cash flow liquidity. Cipfa had delayed the introduction of new accounting standards for IRS16 relating to leases due to Covid 19, identified as a risk in the original report.

In response Mr Gillett reported that the provision of a valuation by 31 March 2020 had been difficult due to the Covid 19 outbreak. The Council's position was to report the valuations as they were with material valuation uncertainty, in keeping with the Royal Chartered Institute of Surveyors (RCIS) guidance. The Council was comfortable that this position should still remain. Applying evidence not available at the valuation date went against valuation principles and at 31 March 2020 there was no new evidence available to suggest what impact the pandemic would have on the valuations. The RCIS was still updating its recommendations up to mid-June. His recommendation was that the council should undertake a further valuation exercise later in the year when more evidence is known and could better understand the impact of not only the Council's own portfolio but generally the impact on property values. He had addressed further questions from EY on the matter in a supplemental report, with evidence to support the Council's position, which had not yet been seen by Mr Suter.

Mrs Belenger confirmed that any adjustments would impact the declaration on the balance sheet, but the accounting treatment applied would negate it into an unusable reserve. Any changes to the asset values would go into the capital adjustment account with no impact to the Council Tax payer.

Mr Suter confirmed that he had no issue with the Councils concept, but his position was that he was required to give an opinion as at 31 March 2020.

RESOLVED

That Ernst & Young LLP's Audit Planning Report update for the year ending 31 March 2020 be noted.

8 2019-2020 Accounting Policies

Mr Catlow introduced this report.

RESOLVED

That the accounting policies to be applied to prepare the Council's 2019-20 financial statements be approved.

9 Housing Benefit Subsidy Audit Position

Mrs Rogers presented this report.

The Committee expressed their thanks to the Benefits Team for the amount of work achieved over the last two years to resolve the issues.

RESOLVED

- 1) That the outcome of the 2018/19 Audit report be noted; and
- 2) That the final outcome of the 2017/18 Housing Benefit audit be noted.

10 Motions Procedure

The Chairman of the Motion Task and Finish Group, Mr Brown presented the draft amended Motions procedure for consideration.

Mr Bennett advised that the mechanism to be followed was similar to the previous procedure but included improved clarity and timelines, and greater scope for Chairmen to take the debate fully to enable free speech, whilst keeping the meeting effective. It was particularly important to have discipline in relation to remote meetings.

In advance of the meeting, Mr Johnson had submitted an amendment to 4.2 of the procedure. Mr Johnson advised that he had since made a further amendment as follows: "Should one or more political groups have not had the chance to speak they will be entitled to nominate, in keeping with "Wall and Exchange in 1981", one speaker to close the debate".

Mr Bennett provided legal advice with regard to Mr Johnson's further amendment. He advised that the ability to use a closure motion was narrow. The case law relating to "Wall and Exchange 1981" advised that once a closure motion was put the chairman has one decisions to make, which was, has there been sufficient debate?, and if so will move to closure. The Task and Finish Group had received advice on this matter. The wording in the Task and Finish Group's procedure before members today attempted to be clear. Retaining the ability for the Chairman to decide whether or not there had been enough speakers, but did not obligate anyone to speak if they did not feel the need to. His advice was that Mr Johnson's amendment did not do that and was not clearly within the legal requirement of a

closure motion. It created additional requirement for there to be further debate and did not fit in with the aim of the procedure, which gave the Chairman a general responsibility for the control of the meeting.

The Chairman of the Task and Finish Group asked that the advice notes include additional pointers to the Chairman to ask the Chairman have the different political viewpoints been represented, which would achieve Mr Johnsons request.

Mr Johnson withdrew his amendment to paragraph 4.2, subject to the inclusion of additional pointers to the Chairman on this matter in the advice note. He withdrew his amendment to paragraph 3.1, to clarify the meaning of “significantly change”, on the same basis.

Mr Bennett confirmed that once the procedure was adopted, advice notes on the procedure would be produced for members and training given to committee chairmen

The Committee agreed that “At the end of the debate or...” to be added to the beginning of paragraph 4.11.

The Chairman congratulated Mr Brown on how he had chaired the Task and Finish Group, which led to a good consensus.

RECOMMENDATION COUNCIL

That the Motions procedure be recommended for adoption by Council.

11 Internal Audit - Individual Reports and Audit Plan Progress and New Audit Plan 2020-21

Mr James introduced this report.

Mr James outlined the final audits undertaken since the previous meeting, in particular the Travel and Subsistence Audit that had received “limited assurance”, as well as setting out the impact of Covid-19 on the Audit Plan for 2020-21.

RESOLVED

That the performance against the 2019/20 audit plan, and also the audit plan for 2020/21 be noted

12 Updates to the Constitution - Verbal report

Mr Bennett presented the verbal report and outlined the amendments made to the Constitution. Details of the amendments were available to view on the Council’s website.

It was agreed that a summary of changes made to the Constitution would be produced on an annual basis for all members of the Council.

RESOLVED

That the amendments to the Constitution made by the Monitoring Officer be noted.

13 **Amendment to Corporate Governance and Audit Committee Timings**

Miss Davis presented the report.

The proposed new date for the October meeting was corrected to read "Monday 19 October 2020".

Mr Johnson's additional recommendation that "The Committee requests Officers investigate the feasibility of: -

- Private Meetings, e.g. Panels, Task & Finish groups, continuing to be entirely held remotely or at least allowing participants the choice to take part in this way;
- Public Meetings, e.g. Full Council, Committees, being held on fewer different weekdays to increase the future letting potential if physical meetings resume in a building owned by the Council."

Mr Bennett advised members of the legal position concerning hybrid/blended meetings, which were currently unlawful. A meeting was due to take place on 7 July 2020 between the Association of Democratic Services Officers and the Local Government Lawyer on the legality of these types of meetings.

On being put to a vote, Mr Johnson's additional recommendation was carried.

RESOLVED

- 1) That the proposed afternoon meeting start times, of 2.00pm for future Corporate Governance and Audit Committee to take place on Mondays be agreed; and
- 2) The Corporate Governance and Audit Committee requests Officers investigate the feasibility of: -
 - Private Meetings, e.g. Panels, Task & Finish groups, continuing to be entirely held remotely or at least allowing participants the choice to take part in this way;
 - Public Meetings, e.g. Full Council, Committees, being held on fewer different weekdays to increase the future letting potential if physical meetings resume in a building owned by the Council."

14 **Late items**

There were no late items.

The meeting ended at 11.55 am

CHAIRMAN

Date:

