



Minutes of the meeting of the **Corporate Governance & Audit Committee** held virtually on Monday 25 October 2021 at 2.00 pm

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

Members not present:

In attendance by invitation:

Officers present: Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S Davies (Planning Obligations Monitoring and Implementation Officer) and Mr J Ward (Director of Corporate Services)

107 **Chairman's Announcements**

There were no apologies received.

108 **Approval of Minutes**

The minutes of the meeting held on 27 September 2021 were agreed as a correct record.

109 **Urgent items**

There were no urgent items.

110 **Declarations of Interest**

There were no declarations of interest made.

111 **Public Question Time**

There were no public questions.

112 **Progress Report - Update on Audit Plan 2021/22**

Mr James presented his report to members and the Committee noted the performance against the audit plan for 2021/22.

113 2021-2022 Treasury Management half-yearly update

Mr Catlow provided members with an overview of the report as well as providing a verbal update regarding the liquidity figures (Appendix B). A summary of key points highlighted is below;

- The balance's in table one remain high, this is due to the temporary liquidity provided from the government related to the Covid pandemic and will start to be repaid at the beginning 2022.
- Section 4 of the report, there are no reportable exceptions for the period. Because of the increase in funds the Council are using money market funds to a much greater extent. During the last 6 months the Council have implemented the 'comply or explain' approach to ESG investing. In July 2021 there was a significant fair value loss, however since then the markets have continued to recover and continued to recover until the end of August. Market sentiment has turned against some of the sectors from September on fears of inflation and interest rate rises. Overall, the long-term trend is to recover the fair value losses related to the pandemic over the medium term.
- Section 5, non-treasury activity this specifically relates to the Council's direct investments in properties.
- Section 6 compliance report, paragraph 7 sets out the area that is likely to change the most year on year, there is a focus on credential borrowing and the purposes that local authorities use it for. CIPFA will address this in the new code they are consulting on, which is due to be completed in November 2021.
- The update on the liquidity table figures from 31 September are, 7-day liquidity 49% against a benchmark of 48%, 100-day liquidity is 62% against a benchmark of 65% and the maturity is now 29 days against a benchmark of 32 days

The Chairman then invited questions from members, a summary of those asked are below;

- What was the upper financial limit that the Council could invest in strategic investments, £34million currently in invested? The limit was confirmed as £40million.
- Appendix C, regarding the compliance report it was asked why the Council have a time limit on investments. It was explained that this was to do with risk horizon.
- Paragraph 7.4 CIPFA policy changes, it was queried what principal changes were expected? It was advised that the changes were expected to be wide ranging. Highlighting one area Mr Catlow explained that the Council will need to focus its attention on the risks of borrowing to fund investment properties and non-treasury investments.
- It was queried what was the update from CIPFA on the ESG investments? It was confirmed that a consultation update from CIPFA last week stated that, CIPFA are expecting Council's to set out their approach in terms of assessing risk for ESG as part of future arrangements. A further update on this would be delivered to members after the consultation had been completed.

Cllr Palmer arrived at the meeting.

- Concerns were raised regarding CIPFA to require the Council to recognise capital losses and gains through the income and expenditure account.
- A query regarding investments using monies from the Public Works Loans Board was raised, specifically it was wanted to be known was this a complete ban or may there be some leeway on this? It was confirmed that currently it states that you don't borrow above your projected need, in terms of the changes and messages they are not keen on Council's borrowing for any investment purposes..

The Chairman then clarified with Mr Catlow that an update on the CIPFA consultation regarding the new codes would be provided to the Committee. Mr Catlow confirmed the Code updates would be confirmed in the upcoming Treasury workshop in December.

The Committee considered and noted the Treasury activity summarised in the report.

114 **S106 and CIL Annual Monitoring Report**

Mr Davies provided members with a detailed overview of his report. He reminded members that the annual report was a requirement of the Council's s106 and CIL protocol. He then drew members attention to a number of highlights within his report, of which have been summarised below;

- There were 112 new s106 agreements signed in the last year. That secured a total of £333,975.00. 96 of these were unilateral undertakings providing mitigation contributions for Pagham Harbour and Chichester & Langstone Harbours.
- The expected trend in the reduction of s106 contributions since the implementation of CIL and highlighted in table one on page 24 of the agenda.
- s106 agreements are now used for onsite provision such as, open space, play areas, affordable housing and contributions to A27 mitigation where appropriate
- The value of contributions received in the year was £429,488.00 and these are detailed in appendix 5.
- Table 2 provides a summary of the funds that are held by each service as at 31 March 2021, along a summary of the funds still to be received. Appendix 6 provides an update on the status of the s106 the Council are holding.
- Contributions that are within 2 years of their expenditure date needs additional focus a copy of the latest report produced for SLT is shown at appendix 1.
- No monies have had to be returned to developers in the last year
- The total value of CIL contributions collected was £2,624,868.00 and the expenditure on projects was £53,372.00. During the last year we passed over £263,000.00 to local Council's to spend on their priorities.
- There was an amendment to the CIL regulations in September 2019 and the Council are now required to publish an annual infrastructure funding statement, the latest statement can be found in appendix 3.

- He reminded members that the most update to date developer contributions are always available on the public facings module that can be found on the Council's website.

The Chairman then invited questions from the Committee as there were no members with questions at that time, Cllr Oakley was invited to receive answers to the questions he had circulated to officers and members prior to the meeting. In response to his questions Mr Davies stated:

- that funds held by National Highways for A27 junction improvements at Chichester our understanding is that as at 31 August 2021 this amounted to £1.1M but they have undertaken to check that figure and report back.
- With regards to funds from Arun DC they have confirmed that they do not hold any funds, but that s106 agreements in respect of their Pagham strategic sites should provide £888,250 to improve capacity at Whyke junction. It is understood that similar arrangements are, or will be in place for their Land West of Bersted strategic site for improvements to the Bognor Road junction. Monies will be collected by National Highways.
- In response to a question regarding a specific contribution from Land East of Barton Way site, our legal advice is that this money should be handed over to National Highways now in order to fulfil our obligations under the relevant s106 and doing so would secure the funds.
- With regards to questions around the additional focus on contributions that are within 2 years of expiry and whether this is sufficient, Mr Davies explained that all contributions are reviewed on a quarterly basis with spending officers. The two-year report and other monitoring undertaken has proved to be sufficient in the past but will be kept under review.

Cllr Dignum then asked for clarification regarding monies that had been allocated by the Council but had not been spent at expiry and if it could be clawed back from the developers? Mr Davies explained that there were clauses within the s106 agreement that allow the Council to hold the monies beyond the spend deadline, providing the spend has been approved and we are just waiting for the project to be delivered. Cllr Dignum then asked who decides where the community monies are spent and who makes those decisions. Mr Davies advised that it was generally CDC officers in conjunction with local parishes and organisations. He further clarified that up to £50,000 was the spending decision that can be approved by the Cabinet Member and Service Director and consulting with the Ward Member. Larger sums are approved by Cabinet and Council in accordance with the s106 and CIL protocol.

The Committee noted;

1. The income and expenditure between 1 April 2020 and 31 March 2021 in respect of s106 contributions and from CIL;
2. The information on s106 agreements within 2 years of the expenditure target date as set out in Appendix 1; and;
3. The details of non-financial s106 obligations set out in Appendix 2; and 3.4 The CIL monitoring information as set out in Appendix 3.

115 **Financial Strategy and Plan 2022-23 to 2026-27**

The Chairman drew members attention to a proposed amendment to the recommendations that had been circulated by Cllr Brown shortly before the start of the meeting, stating he wanted to ensure that the Committee had enough time to properly reflect on any implications there may be in considering this amendment.

Mr Ward presented the report to members where he advised it contained the strategy to underpin the Budget for the next financial year. As a result of the financial impacts of the pandemic, the current year's (2021/22) budget was set for the first time using the General Fund reserves to help balance the budget, just over £2million was used for this purpose. The use of the future services framework is intended to gradually bring this back to a balanced position over the medium term but was likely the Council would be using the reserves over the next couple of years. To help the Council cope with the financial impact of Covid, he reminded members of the report taken to Council last July (2020), which approved the release of £8million from the reserves. At the current time only £2million of this has been used.

Drawing members attention to appendix 1 where the strategy is set out including the guiding principles which are fundamental to the Council's resilience. The confidential appendix (appendix 2) has been updated to reflect the current assumptions, however he stressed to members that there was a huge amount of uncertainty within those assumptions. He explained that the Government had deferred the Fair Funding Review and was still waiting for the Annual Spending Assessment, the distribution of finances would be impacted after that review. There was a lot of cost growth within the model, the two big ticket items, members should be aware of are, separate food waste collection service and a potential to have to make the green waste collection service free of charge, the cost pressures of these alone could add over £1.5million to the Council's annual revenue budget. In summing up he confirmed that it was expected that it will be necessary to use reserves to balance the budget for next year (2022/23) and the year after (2023/24), whilst the efficiency review is concluded. This year (2021/22) is the first year of the three-year efficiency saving period, of which we are expected to over deliver on this first year's target. However, current projections indicate, even with the efficiency review the Council will still have a residual deficit in the budget at the end of the 5-year period, if, all of the projections within the model are implemented and impact on the Council's financial position.

Moving to appendix 3, Mr Ward confirmed there was an inaccuracy within paragraph 6.12 he confirmed that the capital receipts had been excluded so the figures in appendix 3 were the actual cashable amounts of investment available to use regardless of whether asset sales proceed or not. He addressed that long term use of the reserves would be contrary to the financial principals of not using reserves to fund recurring shortfalls by reminding members that they approved the approach of balancing the budget over the medium-term, whilst the Council works through the efficiency review and the service prioritisation exercise. A report will be brought back to members in January 2022 on the outcomes of this work. He confirmed that a budget briefing task and finish group will be created and will meet after the Christmas break, when hopefully the draft settlement will have been received. It is unclear currently to know whether this would be a 1-year or a 3-year settlement. In appendix 1, he highlighted that the savings to date for the efficiency review are

expected to be over £980,000. The Policy options included in the model are still yet to be fully considered as part of the future services framework, however, those that are likely to be considered as low priority may be removed from the model, which would assist the financial position. The approved 5-year capital programme remains fully funded without the need to borrow.

The Chairman then invited members to ask any questions which are summarised below;

- It was asked what the Council's underlying reserve position was, as concern was raised on the revised reserve position detailed in appendix 2. It was confirmed that if you remove all other commitments such as the Capital Programme, any monies set aside for specific purposes, there is still £10.6million available, however the recommendation before members today is to maintain a minimum balance of no less than £4million, so the Council would only be able to spend £6.6million of the £10.6million. The Gross reserves are £66.9million, but only £6.6million (over the next 5-years) is available to spend as the remaining funds have commitments attached to them.
- Clarification was sought on the assumptions of the car park income, compared with the year 2019/20, as the Council are currently running at 10% down on pay and display income, season ticket income is down 60%. It was confirmed that the income had been based on the current year 2020/21. Appendix one sets out the inflationary increases and next year is set at 3% inflation on costs and income for next year, but this was an adjusted figure.
- It was asked when would the Council have a definitive answer regarding possibly paying for food and garden waste? It was confirmed that it is expected a clearer indication would be given or a decision next year (2022).
- It was queried where do we see the effect of not making any attempt to close the budget? It was confirmed that this could be seen at the projected deficit (surplus) figures in appendix 2.

Cllr Brown was invited to present his proposed amendment to the Committee. The amendments and additions are highlighted in bold;

The Committee recommend to Cabinet that:

*3.1 The key financial principles **(as amended)** which underpin the financial management of the Council, and the 5 year Financial Strategy set out in Appendix 1 Annex A to the agenda report.*

3.2 That the Council maintains a minimum level of reserves of £4m for general purposes.

3.3 That, with expert professional advice, the Council creates a new Commercial Property Investment Strategy that would take advantage of the preferential long term lending rates of the Public Works Loan Board (PWLB) to generate additional income, avoid the need for service cuts and, where possible, to improve the public realm.

That the Committee:

3.4 Notes the updated 5 year Financial Model in appendix 2 (Part 2) and the resources statement in appendix 3 to the agenda report.

3.5 Nominates 3 members of the Committee to attend the Budget Briefing Task and Finish Group.

3.6 Tasks the Economic Development Panel with overseeing the writing of the new Commercial Property Investment Strategy.

The Chairman expressed his dissatisfaction regarding the amendment proposed given its timing, he then sought advice from Mr Ward regarding the options to defer this proposal, where Mr Ward advised that he would be within his right as Chairman to reject this proposal as it had not followed the Motions protocol or he could defer it to another meeting of the Committee for consideration at a future meeting. The Chairman then asked Cllr Brown if he would consider withdrawing his proposal on the basis that it goes through the Economic Development Panel (EDP) first and then comes back to this Committee as formal proposal. Cllr Brown stated he would consider withdrawing his proposal but wanted to hear comments from this Committee today. Members then took part in a full debate on the proposal, officer advice was provided in response to the points raised. It was then agreed with Cllr Brown that his proposal would be withdrawn and deferred to a future meeting of the EDP with agreement from the Chairman of the EDP. Some members of the Committee were keen to ensure that their concerns were passed to Cabinet that consideration be given in the financial strategy for opportunities to invest to create additional revenue. The Chairman then advised Cllr Brown no further amendments would be considered and referred members to the original recommendation's detailed in the report.

Cllr Johnson left the meeting.

In the vote the Committee agreed the following recommendations and resolutions;

The Committee RECOMMEND to Cabinet

1. that the key financial principles which underpin the financial management of the Council, and the 5-year Financial Strategy set out in Appendix 1 Annex A to the agenda report.
2. that the Council maintains a minimum level of reserves of £4m for general purposes.

The Committee RESOLVED to

3. note the updated 5-year Financial Model in appendix 2 (Part 2) and the resources statement in appendix 3 to the agenda report; and,
4. nominate Cllr Barrie, Cllr Brown and Cllr Palmer of the Committee to attend the Budget Briefing Task and Finish Group.

Cllr Palmer left the meeting.

116 **Update on the Strategic Risk Register**

Mr Ward was invited to present the report to members, where he advised that the Strategic Risk Group (SRG) met on 14 October 2021 and the report contained the latest update. He advised members that the Council's insurance contract was progressing well, and the new providers are due to commence their contract next week. He then referred members to sections 6.2 in the report where it showed 3 risks in the red area, financial resilience, Southern Gateway and Changing use of the Highstreet and rural towns.

There are 13 strategic risks, 7 of which are deemed as under control and the remaining 6 have controls pending. This quarter saw the following risks status change;

- Risk 178 – Covid 19, reduced from 6 to 3,
- Risk 189 – Crouchlands Lagoon reduced to 3, the SRG requested that the responsible officers attend today's meeting to provide an update to the committee on this risk.
- Risk 148 also saw a request for the responsible officer to attend today's meeting and provide members with an update.

Cllr Brown advised the Committee that the view of the SRG for risk 189 - Crouchlands Lagoon was that if something should happen, the impact of this would be significant and therefore the group was surprised that the risks had, had its risk level reduced. Mrs Stevens clarified she wanted to correct a point at paragraph 6.4 in the report, where it read that "*the score decreased from 9 as the likelihood reduced from probable to possible as a result of the recent monitoring on 9 September*". She advised that this wasn't the reason for the change in likelihood, this rose from the planning element, the non-compliance in terms of pollution of the site had been very stable since the Council had been monitoring it and there had been no change on the likelihood of a pollution occurring. As a result of this officers have decided that we need to give greater clarification to the description in the risk table, to explain that the risk arises from both a planning and a pollution factor, the Council would incur significant costs, throughout works in default or a possible clear up and recovery if a pollution incident occurred. The risk from a planning perspective was from a non-compliance notice.

The Committee noted the updated Strategic Risk Register and the internal controls in place, including associated action plans to manage those risks.

117 **Exclusion of the Press and Public**

There was no need to move into Part 2.

118 **Late items**

There were no late items.

The meeting ended at 4.11 pm

CHAIRMAN

Date: