

BRIGHTON & HOVE CITY COUNCIL

AUDIT & STANDARDS COMMITTEE

4.00pm 27 SEPTEMBER 2016

COUNCIL CHAMBER, HOVE TOWN HALL, NORTON ROAD, HOVE, BN3 4AH

MINUTES

Present: Councillors A Norman (Chair) Chapman, Cobb, Druitt, Morris, Robins (Group Spokesperson), Sykes (Group Spokesperson) and Taylor

PART ONE

23 PROCEDURAL BUSINESS

23a Declarations of substitutes

23.1 There were none.

23b Declarations of interests

23.2 Councillor Druitt declared a non-pecuniary interest in Item 36 as one of the complaints related to his partner and business.

23c Exclusion of the press and public

23.3 In accordance with Section 100A of the Local Government Act 1972 ("the Act"), the Committee considered whether the public should be excluded from the meeting during consideration of any item of business on the grounds that it is likely in view of the business to be transacted or the nature of the proceedings, that if members of the public were present during it, there would be disclosure to them of confidential information as defined in Section 100A (3) of the Act.

23.4 **RESOLVED** - That the press and public not be excluded from the meeting.

24 MINUTES

24.1 **RESOLVED** – That the minutes of the previous meeting held on 21 June be approved and signed as the correct record.

25 CHAIR'S COMMUNICATIONS

25.1 The Chair stated there would be a change to the order to the agenda with the reports: *2015/16 financial statements and annual governance statement, Ernst & Young Audit results report 2015/16 and Targetted Budget Management (TBM) 2016/17 Month 2* taken as the first three items of business.

26 CALL OVER

26.1 All items on the agenda were reserved for discussion.

27 PUBLIC INVOLVEMENT

27.1 There were none.

28 MEMBER INVOLVEMENT

28.1 There were none.

29 2015/16 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT

29.1 The Committee considered a report of the Executive Director, Finance & Resources that that provided information about the audit of the council's 2015/16 Statement of Accounts and recommended approval of the 2015/16 audited accounts and the Letter of Representation on behalf of the council. The report also provided information about the Annual Governance Statement.

29.2 Councillor Druitt asked if there was opportunity to redirect lender option borrower option (LOBO) loans to a better arrangement for the council.

29.3 The Assistant Director- Finance stated that finance officers were always looking for restructuring opportunities but with regard to its existing LOBO loans, the council would have to pay an exit penalty to terminate the loan early that would equate to approximately the same amount as fulfilling the loan to maturity. This was the same as all other types of loans that the council held.

29.4 Councillor Taylor asked whether any decline in interest rate, partially related to the current fortunes of Deutsche Bank and declining exchange rates would present unfavourable risk to the council.

29.5 The Assistant Director, Finance stated that he believed it unlikely and that Deutsche Bank was registered in the UK and that transactions were in sterling but would confirm the position to Members subsequent to the meeting.

29.6 The Head of Internal Audit informed Members that there were minor changes to the Annual Governance Statement as attached at Appendix 5. These were approved by the Chief Executive and the Leader of the Council prior to their signature, and these minor amendments would be reflected in the published Annual Governance Statement on the council website.

29.7 **RESOLVED-** That the Audit & Standards Committee:

- 1) Notes the findings of Ernst & Young in their Audit Results Report (ARR). The ARR is a separate item on this agenda.

- 2) Notes the outcome of the ongoing work on the valuation of property, plant and equipment and any related misstatement / adjustment to the 2015/16 accounts (paragraph 3.19 and Appendix 4).
- 3) Notes the results of the public inspection of the accounts (Section 9).
- 4) Approves the Letter of Representation on behalf of the council (Appendix 1).
- 5) Approves the audited Statement of Accounts for 2015/16.
- 6) Note the Annual Governance Statement (Appendix 5).

30 ERNST & YOUNG AUDIT RESULTS REPORT 2015/16

- 30.1 The Committee considered a report of Ernst & Young that summarised the findings of the 2015/16 audit and included key messages arising from the audit of the financial statements and the results of work undertaken to assess the council's arrangements to secure value for money on its use of resources. Representatives from Ernst & Young stated that they were in a position to give an unqualified opinion of the council's financial statements subject to full completion of outstanding areas of work. A unqualified opinion would be issued for the council's value for money arrangements as Ernst & Young were satisfied that the council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.
- 30.2 Councillor Robins enquired as to when the council had entered into its LOBO loan agreements, what constituted plant and equipment and how EY arrived at its property valuation figures.
- 30.3 Paul King stated the council had entered into its LOBO loan agreements approximately ten years ago, plant and equipment related to items used across council departments for example, schools and leisure centres and property valuation was related to the value of land and could be dependent on location.
- 30.4 The Assistant Director, Finance supplemented that the council's LOBO loans had been agreed between 2002 and 2012 and equated to £75 million of the council's £240 million loan portfolio. Furthermore, £25 million of these loans had recently been converted from LOBO's to regular loans with the outlook for long-term loan rates being very stable.
- 30.5 Councillor Sykes asked if the rate of interest of the loans were re-negotiated during the conversion to regular loans.
- 30.6 The Assistant Director, Finance stated that this was not an option and the interest rate applied was that of the original agreed LOBO rate. The nature of a conversion meant that the interest rate cannot be changed by lender or borrower.
- 30.7 Councillor Morris asked for details of the level of interest on LOBO loans.
- 30.8 The Assistant Director, Finance clarified that the loans had an interest rate of between 3.7% and 4.8%. Recent loans made by the council had lower interest rates that reflected the current economic climate.

- 30.9 Councillor Morris asked if land valuation represented the re-build price of an asset.
- 30.10 Paul King stated the cost to build or re-build was an element of the valuation but also reflected the value of the land that could vary significantly depending on location.
- 30.11 Councillor Chapman asked what the likely consequences were in the delay in issuing the Audit Certificate.
- 30.12 Paul King explained that the EY could not formally conclude the audit and issue the audit certificate until the objection regarding the LOBO loans was resolved. Delays were not uncommon and there would be no further penalty in relation to the resolution of the objection. Furthermore, Brighton & Hove City Council was one of a number of authorities where similar objections had been made.
- 30.13 Councillor Taylor noted that an unqualified opinion had been issued for budgetary planning and asked if that meant the council had moved forward from the issue highlighted in the previous years audit of high unit cost in children and adults services.
- 30.14 Ian Young stated that the issue related more to a longer term planning, understanding and awareness of financial risk rather than unit cost reduction.
- 30.15 In reference to the objection made regarding LOBO loans, Councillor Druitt stated that he did not understand how the objection was valid if the council could not take any reasonable action to resolve it.
- 30.16 Paul King explained that the contention of the objection made was that the action taken was irrational and unreasonable and therefore unlawful which would be a matter for the courts to decide upon who would examine the nature of the decision and the terms and conditions of the loans in examining whether the objection should be upheld. Whilst it was lawful for the council to undertake borrowing, a decision would be made on whether that was irrational or unreasonable in this instance.
- 30.17 Councillor Druitt enquired as to the implication for the council if the courts did determine that the action was irrational and/or unreasonable and queried how a loan agreement from several years ago, related to the audit of the 2015/16 accounts.
- 30.18 Paul King explained the objection related to the legality of the accounts rather than the 2015/16 audit. Ian Young added that the procedure followed set criteria as there was no opportunity to object to previous year's accounts.
- 30.19 **RESOLVED-** That the Committee notes the findings set out in the 2015/16 Audit Results Report.

31 TARGETTED BUDGET MANAGEMENT (TBM) 2016/17 MONTH 2

- 31.1 The Committee considered a report of the Executive Director, Finance & Resources that provided the Targeted Budget Management (TBM) Month 2 report and an extract of proceedings of the Policy, Resources & Growth Committee held on 14 July 2016 from

which the report had been referred; together with a specific report to the Audit & Standards Committee.

- 31.2 Councillor Taylor noted that the forecast outturn for the Dedicated Schools Grant was an overspend of £97,000 and asked for the reasons behind that overspend and how the overspend would be accounted for if the position was the same at the end of the financial year.
- 31.3 The Assistant Director, Finance explained that this was a ring-fenced fund and underspend or overspend would be carried forward to the next year although it was very likely that there were plans to address this relatively small overspend in the short-term.
- 31.4 Councillor Druitt noted that the report highlighted overspending in adults and children's service which reflected a similar position to the previous year. Councillor Druitt noted that the council was better now at managing these services but it was clear that demand continued to increase meaning continued budgetary pressures. Councillor Druitt asked if the council should be more realistic in its financial forecasting and if increased budgets and variance should be introduced for these services.
- 31.5 The Assistant Director, Finance stated that such decisions were always part of budget forward planning adding that both services were relatively volatile and demand led and there was a need for understanding of the reasons and implications of that in both the short and long-term.
- 31.6 **RESOLVED-** That the Audit & Standards Committee notes the update on the council's in-year financial position and the continuing actions taken to address forecast overspend risks.

32 STRATEGIC RISK MAP FOCUS

- 32.1 The Assistant Director, Adult Social Care provided a verbal update and answered Members questions for SR13: Keeping Vulnerable Adults Safe; SR20 Better Care Fund. The Executive Director, Finance & Resources provided a verbal update and answered Members questions for SR10: Information Governance Management and SR18 Transition to modern, digital ICT.
- 32.2 Councillor Sykes asked if Adult Social Care experienced problems with recruitment and retention.
- 32.3 The Assistant Director, Adult Social Care stated that the service did not experience severe issues on recruitment and retention adding that agency staff were used where any critical short-term vacancies arose.
- 32.4 Councillor Sykes enquired as to when there would be an indication of the urgent need for Better Care Funds.
- 32.5 The Assistant Director, Adult Social Care clarified that funds were available and discussions underway with the Clinical Commissioning Group (CCG) on a decision on how to allocate those funds.

- 32.6 The Chair asked if there was any update available on delayed discharges as she had received a lot of correspondence on the matter of late.
- 32.7 The Assistant Director, Adult Social Care clarified that a key part of the strategy to address this issue would be use of the social care precept in order to broaden the availability of packages of care.
- 32.8 Councillor Sykes noted that the Digital First programme was being rebooted and asked if it was sufficiently resourced.
- 32.9 The Executive Director, Finance & Resources stated that £6m had been invested in stabilising IT infrastructure and a more settled human resource was now in place to take that forward. Furthermore, the existing and prominent digital sector based in the city was being used to undertake targeted pieces of work.
- 32.10 Councillor Sykes noted that when the programme had been originally agreed, there was consensus that the Digital First programme would use small start-ups based in the city rather than larger companies and asked if that remained the case.
- 32.11 The Executive Director, Finance & Resources confirmed that principle remained and that the focus now would be on effective delivery of the programme.
- 32.12 Councillor Druitt noted that some of the Risk ratings had not been reviewed since 2014.
- 32.13 The Risk Management Lead clarified that this had arisen from an error in the software used to create the document and whilst the last review date was recorded clearly, this specific section would be corrected for subsequent versions.
- 32.14 **RESOLVED-** That the Audit & Standards Committee notes the Strategic Risk Assessment Report at Appendix 1.

33 INTERNAL AUDIT AND CORPORATE FRAUD PROGRESS REPORT

- 33.1 The Committee considered a report of the Executive Director, Finance & Resources that summarised the progress made against the Internal Audit and Corporate Fraud Plan, the key issues identified and action being taken and progress made by management in implementing audit recommendations.
- 33.2 Councillor Sykes noted that the capacity of the audit team had been reduced for a number of reasons and asked for reassurance that Internal Audit was sufficiently resourced.
- 33.3 The Head of Internal Audit stated that in circumstances of diminishing resources, it was natural to reduce workloads and whilst there was a reduction in the number of audit days, he could provide assurance that the service could work effectively within those.
- 33.4 Councillor Druitt asked if the increase in the number of unplanned audits was due to investigation into the Mears contract, when the remaining 10% of audits would be scheduled to be completed and if there was a prioritisation system to those and if the service would have reached 100% completion if there had been no unplanned audits.

33.5 The Head of Internal Audit stated that in cases on unplanned audits, it was important to start work straight away, that the scheduling of audit work was determined by individual risk assessment and frontloaded so the 10% of audits outstanding were relatively low risk and that 100% completion was never expected as some items become redundant through the period of the audit plan and from his experience, a completion rate of 90-95% was the standard.

33.6 **RESOLVED-** That the Audit & Standards Committee notes the report.

34 DUE DILIGENCE IMPLICATIONS FOR AUDIT AND CORPORATE FRAUD JOINING ORBIS

34.1 The Committee considered a report of the Executive Director, Finance & Resources that updated Members on the progress made in carrying out due diligence for assessing the effectiveness of audit at Brighton & Hove City Council provided through Orbis.

34.2 Councillor Sykes asked how Brighton & Hove City Council compared to the other partner authorities in terms of internal audit workload and productivity.

34.3 The Head of Internal Audit stated that the three councils were broadly similar in terms of workload and productivity and the partnership would allow for the sharing of best practice and specialisation.

34.4 Councillor Morris noted that paragraph 4.3 of the report set out that Orbis would be subject to external assessment against professional standards in 2017/18 and asked who this assessor would be.

34.5 The Head of Internal Audit clarified that this would typically be a choice between a fellow auditor or a professional body such as The Chartered Institute of Public Finance Accountants (CIPFA) or a the Chartered Institute of Internal Auditors (CIAA).

34.6 **RESOLVED-** That the Committee notes that Orbis is capable of delivering an effective internal audit function at Brighton & Hove City Council.

35 CUSTOMER FEEDBACK REPORT

35.1 The Committee considered a report of the Executive Lead Officer- Strategy, Governance & Law that provided assurance to the Committee that the Council has an effective Customer Feedback system that included detail and analysis of the complaints received.

35.2 Councillor DrUITT asked if the rise in complaints could be related to diminishing council resources.

35.3 The Customer Experience Lead stated that it was essential to manage customer expectation and communicate effectively. Understanding the data was also important as a rise in complaints could be sometimes be related to isolated circumstances such as the introduction of new parking schemes.

35.4 Councillor Morris stated that he was unsurprised at the high number of complaints related to Housing services as there was no clear information about how to make contact. Councillor Morris noted that the Housing Repairs Handbook was currently being revised and he hoped that clearer information could be given in the Handbook on procedures.

35.5 The Customer Experience Lead thanked Councillor Morris for his suggestion that he would relay to colleagues.

35.6 RESOLVED-

- 1) That the Committee note the report.
- 2) That the Committee agree to receive a similar report four times a year.

36 STANDARDS UPDATE

36.1 The Committee considered a report of the Head of Law & Monitoring Officer that updated Members on Standards related matters since the previous meeting.

36.2 Councillor Druitt asked if comprehensive information on the requirements of being a councillor could be provided to prospective candidates in the 2019 local elections.

36.3 The Head of Law & Monitoring Officer answered that the Council provided a number of induction sessions and training for prospective Members and encouragement was given to the political parties to promote these events to their candidates.

36.4 **RESOLVED-** That Members note the report.

37 ITEMS REFERRED FOR COUNCIL

37.1 No items were referred to Full Council for information.

The meeting concluded at 6.25pm

Signed

Chair

Dated this

day of