

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

Minutes of the meeting of the **JOINT AUDIT AND STANDARDS COMMITTEE** held in the Elisabeth Room - Endeavour House, 8 Russell Road, Ipswich on Monday, 14 January 2019

PRESENT:

Councillor: Dave Muller (Chair)

Councillors:	Tony Bavington	Peter Beer
	Michael Creffield	Derek Davis
	Jennie Jenkins (Co-Chair)	John Levantis
	Lesley Mayes	Suzie Morley
	Mike Norris	Nick Ridley
	Peter Patrick (Vice-Chair)	Kevin Welsby

In attendance:

Councillor(s): John Whitehead
Guest(s): Melanie Richardson from Ernst Young
Officers: Strategic Director (JS)
Assistant Director – Corporate Services (KS)
Corporate Manager – Financial Services (ME)
Senior Financial Services Officer (SP)
Acting Senior Governance Support Officer (HH)

Apologies:

Councillors: Tom Burrows
John Hinton
Frank Lawrenson
Andrew Stringer

One minutes silence was held in remembrance of Councillor Michael Burke.

22 SUBSTITUTES AND APOLOGIES

22.1 Councillor Nick Ridley substituted for Councillor Burrows and Councillor Peter Beer substituted for Councillor Frank Lawrenson.

23 DECLARATION OF INTERESTS BY COUNCILLORS

23.1 Declarations for local non-pecuniary interests were received from Councillors Jennie Jenkins and Nick Ridley for being Board Members of BDC (Suffolk holdings) Ltd.

24 JAC/18/12 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 12 NOVEMBER 2018

It was RESOLVED: -

24.1 The minutes of the meeting held on the 12 November 2018 be confirmed as a correct record.

25 PETITIONS

25.1 There were no petitions received.

26 QUESTIONS BY THE PUBLIC

26.1 None received.

27 QUESTIONS BY COUNCILLORS

Questions from Councillor Matthissen to the Joint Audit and Standard Committee 14 January 2019 and responses from The Assistant Director – Assets and Investments and the Corporate Manager – Finance

Question:

11.1 Should environmental implications not be considered and reported for each investment, as measured by the Energy Performance certificates of properties compared to the average for the sector?

Response from the Assistant Director for Assets and Investments:

EPC ratings are considered for purchases but there isn't an average EPC benchmark that they can be assessed against. It is also important to consider what the property is being purchased for- if it is for significant refurbishment/ redevelopment the EPC will be irrelevant (as the lighting/ heating is likely to be replaced which will result in a new EPC being prepared.).

Question:

I cannot see any reference to the purchase of Paddock House in Eye and Needham Market Middle School –

Response from the Corporate Manager for Finance:

These assets are housing development and the guidance/code state that these should not be included within the strategies.

Question:

6.1 What is the status of the government guidance which councils have chosen not to follow?

Response form the Corporate Manager for Finance:

The extract from the guidance is as follows:

46. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and - as set out in paragraph 6.1
- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing – as shown in the strategies.

Question:

9.3 This paragraph is in similar terms to the verbal answer to a question I put at the December full Council meeting.

My request remains however - to see the amount of borrowing secured upon each of the individual property assets that we have funded through borrowing whether for development or purely for income.

Response from the Corporate Manager for Finance:

The Council has borrowed £16m for GW14 and in December the Council borrowed £22.5m for CIFCO, specific loans have not been secured for any other property assets.

28 EXTERNAL AUDIT REPORTS

28a JAC/18/13 CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18

28a.1 Melanie Richardson from Ernst Young presented the Report JAC/18/13 Certification of Claims and Returns Annual Report 2017/18 and made the following points:

- There were some amendments for the both Councils
- The 2017 – 18 fees were in the report
- Housing Benefits Subsidy Claim was outside the PSAA and the fee for this was £2000 – £3000.
- PHSA were to be considered
- The reports were positive for both Councils.

28a.2 Members enquired why the fee for Babergh was larger than the Mid Suffolk fee. It was explained that the fee was based on the 2015 – 2016 actual fee and that Babergh's fee for that period had included more testing. The fee schedule was set up by the PSAA. In addition, the 40+ testing was different for the year on year in 2017 – 2018 and in 2015 -2016 there had been a high number of 40+ cases.

28a.3 The fees were based on figures from two years ago explained the reason for the difference between the fees for the two Councils.

28a.4 Members requested if the fee figures for 2015/16 could be included in the papers in the future.

28b JAC/18/14 JOINT ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018

28b.1 Melanie Richardson introduced the Joint Annual Audit Letter for the Year Ended 31 March 2018 report JAC/18/14 and explained that the Certificate for the completed Audit had not been issued until 27 September 2018, as detailed in the report on page 26 of the report.

28b.2 She outlined the fee as £1.1m for Babergh District Council (page 36) and added that a fee of £7,500 would be charged to each Council for additional work.

28b.3 Members asked question of the Auditor and officers, who responded including:

- Whether the issued with completing to the deadlines had been resolved and Officers responded that the financial team was working on the issues.
- Questions regarding risk as outlined on page 31 in the conclusion. The response was that risk was included in the plan and that it included the journal testing, reviewing expenditure, transactions at the year end, to select samples to test to.
- If the Senior Management Team had to take a compulsory two week leave to allow for the possible detection any fraud, similar to the private sector. It was confirmed by the Strategic Director that this was currently not the case for either Councils.
- Councillor Morley asked if this could be raised with the Audit Manager for the future.

28c JAC/18/15 JOINT AUDIT PLANNING REPORT YEAR ENDED 31 MARCH 2019

28c.1 Melanie Richardson introduced report JAS/18/15 Joint Audit Planning Report Year Ended 31 March 2019 and drew Members' attention to two new risks identified under 'New area of focus' (page 54).

28c.2 She said that the fees remained the same as in 2018 and that the fees for Group Auditing would be between £3,000 to £5,000.

28c.3 Questions were raised regarding the financial difficulties that the Babergh Council faced, and if a higher level of interest would affect the Audit plan in relation to the commercial assets.

- 28c.4 Melanie Richardson responded that an audit review had been conducted of the commercial investments to consider the financial position of the Council.
- 28c.5 Some Members queried the financial position of the Babergh Council and how this was reflected in the audit plan.
- 28c.6 It was explained that a review of the going concern was part of the standard audit procedures. Consideration of the standard procedures was included in the audit plan to identify any risk. This would also reveal if further investigation should to be conducted. It was confirmed that there had been no indication that this was required.
- 28c.7 It was clarified how the material levels had be identified and set. This was based on the fact the Council was small. The level had been set to 75%, which was very positive level for the Council to be at.

29 JAC/18/16 JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES

- 29.1 Sue Palmer, Senior Financial Service Officer, introduced the report and provided a summary of the report content and the appendices.
- 29.2 She then drew Members' attention to the tabled paper: Note to Members of Changes at JASC Report since issues on 9/1/19.
- 29.3 Councillor Mayes stated that she felt it was not possible for her to vote on this report because of the lateness of the report. She felt this had not provided enough time for her to consider the paper properly.
- 29.4 Members asked questions including:

The structure of borrowing

Officers responded that work had been conducted round maximising the best borrowing rate to achieve the best interest rates for the Councils. Most of the borrowing had been for Gateway 14 for Mid Suffolk. The housing debt remained the same for both Councils.

Compliance for CIFCO

Most of the financial advice was received from Arlingtonclose, who researched the CIFCO code and provided the Council with a template that ensured that the Council was compliant. Draft reports were supplied to Arlingtonclose for evaluation and independent advisors were also consulted to ensure compliance. The Code of practice was a new requirement provided in the Guidance Borrowing to Invest in Commercial Property. The code of practice was not statutory but a guidance and if the Council decided to go against the guidance, reasons had to be explicitly stated.

Purchase of the Aldi site

The purchase of the Aldi site in Stowmarket included a carpark. There had already been interest in the site. The carpark would generate an income stream which would partly pay for the borrowing for the purchase of the site. However, this was not just a project for generating income but to help commercial regeneration in the town.

The Funding Circle

The funding Circle had made a small profit which was set out in the Treasury Management report. In the first half of this year £1/4 million was repaid, but that would decrease as the loans got repaid.

Borrowing for CIFCO

It was clarified that the borrowing would not take place until the funds were required. The net return for Babergh was about £1/2 million which would support the General fund. The Council had to borrowing to enable investments to support services and to attempt to keep Council Tax down. A combination of income streams was required, included council tax to balance the budget. The Councils had to borrow to invest in income generating projects so that it would be possible to maintain a reasonable Council Tax level.

The recommendations 3.1 to 3.6 page were proposed by Councillor Ridley and seconded by Councillor Morley.

By 11 votes to 0, 1 abstention

It was RESOLVED: -

That the following be approved:

- 1.1 The Joint Capital Strategy for 2019/20, including the Prudential Indicators, as set out in Appendix A**
- 1.2 The Joint Investment Strategy for 2019/20, as set out in Appendix B.**
- 1.3 The Joint Treasury Management Strategy for 2019/20, including the Joint Annual Investment Strategy as set out in Appendix C.**
- 1.4 The Joint Treasury Management Indicators as set out in Appendix D.**
- 1.5 The Joint Treasury Management Policy Statement as set out in Appendix G.**
- 1.6 The Joint Minimum Revenue Provision Statement as set out in Appendix H.**
- 1.7 That the key factors and information relating to and affecting treasury management activities set out in Appendices E, F, and I be noted.**

30 JAC/18/17 FORWARD PLAN

30.1 Members requested that the Forward Plan was updated to show the rolling year for 2019-2020.

It was RESOLVED: -

That the Committee Forward Plan set out in Paper JAC/18/17 be updated to show the rolling year for 2019 - 2020.

The business of the meeting was concluded at 10:31 am.

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Chair