

**Minutes of a Meeting of the
Joint Governance Committee of
Adur District and Worthing Borough Councils**

Gordon Room, Town Hall, Worthing

26 March 2019

Councillor Lionel Harman (Chairman)

Adur District Council:

Councillor George Barton
Councillor Kevin Boram
Councillor David Balfe
Councillor Debs Stainforth
Councillor Andy McGregor
Councillor Paul Mansfield
*Councillor Barry Mear
*Councillor Peter Metcalfe

Worthing Borough Council:

Councillor Nigel Morgan
Councillor Mike Barrett
Councillor Louise Murphy
Councillor Jane Sim
Councillor Bryan Turner
Councillor Steve Waight
Councillor Steve Wills

*Absent

JGC/058/18-19 Substitute Members

There were no substitute Members.

JGC/059/18-19 Declarations of Interest

There were no declarations of interest.

JGC/060/18-19 Minutes

The minutes of the Joint Governance Committee meeting held on 22 January 2019, were agreed as a correct record.

JGC/061/18-19 Public Question Time

There were no questions from the public.

JGC/062/18-19 Items Raised Under Urgency Provisions

There were no urgent items raised.

JGC/063/18-19 Certification of claims and returns annual reports 2017-18 for Adur District and Worthing Borough Councils

Before the Committee were the certification of claims and returns annual reports 2017-18 for Adur and Worthing Councils from the External Auditor, copies of which had been circulated to all Members and are attached to the signed copy of these Minutes as item 6.

Mr King from Ernst & Young LSP presented the reports highlighting that these were the results of certifications not audits.

It was noted that for Adur District Council, the value of claim presented for certification was £18,809,230 with an amended subsidy increase by £351 and that in the initial sample of rent rebates (HRA), no errors had been identified. The Committee was advised that the PSAA had determined an indicative fee for the certification of the housing benefits subsidy claim of £14,506 for 2017/18. The actual certification fee for 2017/18 was £14,506.

For Worthing Borough Council, the value of the claim presented for certification was £35,043,753 with an amended subsidy increased by £1,594. In the initial sample of rent rebated (non HRA), 3 errors had been identified. Due to an error in using an incorrect property size to generate the eligible rent for a claim, additional testing had been performed. This meant that the actual fee for certification had been £12,858, higher than the indicative fee of £8,184.

Resolved

That the Joint Governance Committee considered and noted the contents of the reports.

JGC/064/18-19 Local Government Audit Committee Briefing

Before the Committee was a report by the External Auditor, copies of which had been circulated to all Members and copies are attached to the signed copy of these Minutes as Item 7.

The briefing report informed the Joint Governance Committee of issues which may have an impact on the Councils, the Local Government sector, and the audits undertaken by the external auditor. The Committee was advised that Local Authorities that had embarked enthusiastically on commercial property investments may be impacted more directly.

A Member questioned whether the External Auditor would be looking at capitalisation of revenue expenditure in future? The Committee was informed that it would be audited and that valuations of properties would be obtained as at 31 March.

Resolved

That the Joint Governance Committee considered and noted the contents of the report.

JGC/065/18-19 Internal Audit Progress Report

Before the Committee was a report by the Acting Head of Internal Audit, copies of which had been circulated to all Members and copies are attached to the signed copy of these Minutes as Item 8.

The report sought to update the Committee regarding:-

- the current performance of the Internal Audit Section;
- summary information on the key issues raised in final audit reports issued since the last report to the Committee;
- the current status on the implementation of agreed audit recommendations.

The Committee noted that there were 4 audits that due to timing and resources would need to be completed in early 2019/20.

A Member sought clarification regarding the speed of response to audit recommendations in comparison to other authorities. Officers advised that the implementation of recommendations was a difficult area in most authorities. However, the Committee needed to maintain vigilance in this area as the length of time to implement outstanding recommendations was still a concern.

A Member sought an update on the Gas Safety Inspections audit work. Officers advised that the report had been completed in July 2018 and the target date for the implementation of recommendations was the 31 December 2018. The priority one recommendation from this audit was 'the escalation procedure for no access to properties should be reviewed and if necessary, penalties applied to the contractor where action was not taken early enough to allow for the legal process to complete before the current LGSR expires'. It was noted that the deadline for implementation of this recommendation had been extended to the 1st April.

The Committee sought clarification of the reasons provided by management for not implementing priority recommendations. Officers advised that where management have said they cannot implement either priority 1 or priority 2 recommendations, these would be brought to the Committee for consideration.

Resolved

That the Joint Governance Committee noted the contents of the report.

JGC/066/18-19 2019/20 Internal Audit Plan

Before the Committee was a report by the Acting Head of Internal Audit, copies of which had been circulated to all Members and copies are attached to the signed copy of these Minutes as Item 9.

The Committee was asked to consider and approve the 2019/20 Internal Audit Plan.

A Member asked whether the findings of the LGA Peer Review in relation to the Councils Financial Management Strategy had been considered. Officers advised that a Budget Development audit had been added to the plan which should address a number of the points raised in terms of strategic finance. It was noted that Budget Monitoring did not appear on the audit plan at this time but some improvement work had been undertaken in this area.

A Member highlighted the proposed audit of the Councils preparedness for EU exit and questioned whether the 10 days allocated for the audit was sufficient. Officers advised that the 10 days allocated for the audit was a standard figure. It was noted that when officers prepared to carry out an audit, more detailed work was undertaken to identify the areas that need to be covered. The Committee was informed that this was something that would appear on most authorities audit plans and that the auditors hoped that there would be some sort of preparedness for an EU exit. This was a reason for audit providing an assurance to Committee to say whether this was the case or not.

The timing of the audit of the Councils preparedness for EU exit was also considered.

Resolved

The Joint Governance Committee considered the report and approved the 2019/20 Internal Audit Plan.

JGC/067/18-19 Strategic Property Investment Fund 2019 (SPIF) The Commercial Property Investment Strategy (CPIS) 2019/20

Before the Committee was a report by the Director for the Economy, copies of which had been circulated to all Members and copies are also attached to the signed copy of these Minutes as Item 10.

The report set out a proposed commercial property investment strategy, building upon the existing portfolio, 2018/19 CPIS (link provided under background documents) and previous Strategic Property Investment Fund (SPIF) reports.

In accordance with the statutory guidance on investment strategy, the councils were required to prepare an annual investment strategy which needed to be approved before the start of the forthcoming financial year by full Council.

The proposals supported the Councils' Medium Term Financial Strategy, providing a basis for expansion and management of each Council's portfolio, by setting:-

- Robust parameters to guide and support the development of risk managed, financially resilient, income generating commercial property portfolios;
- Governance criteria to facilitate the purchase of investment property, ensuring diligent analysis and transparency, supporting an informed decision making process. This remained unchanged from last year's CPIS;
- Governance criteria to facilitate a commercial approach to the asset management of the investment properties, supporting proactive management, analysis and forecasting, in order to support strategic decisions, whilst qualifying risk and opportunity. This remained unchanged from last years CPIS.

A Member questioned how the proposed Asset Portfolio Manager post would align with the Head of Major Projects & Investment. Officers advised that the role would provide asset strategy, managing the SPIF properties, including forecasting cash flows, reviewing and identifying value added opportunities such as re-gearing and repurposing assets. The role would also include an 'intelligent client' inhouse function to monitor and oversee external managing agents, as well as reporting internally, reviewing the councils non-operational portfolio to drive income generating Opportunities and recommending operational and strategic actions.

The Committee discussed the contents of the report, considering a number of key issues including:-

- 1) the need to manage risks when borrowing money on behalf of the public;
- 2) the need for diversification in the property portfolios and the risk of a concentration of properties in a limited number of sectors;
- 3) the risks associated with Brexit and the possible effects this could have on property values;
- 4) the use of permitted development rights on properties purchased in the portfolios;
- 5) the need to actively manage property portfolios;
- 6) the level of income generated by the Adur and Worthing investment portfolios.

A Member sought clarification as to whether the aim of achieving a 20% annual set aside over a 5 year period, was realistic with an increased level of investment. Officers replied that the active management of the fund by an Asset Portfolio Manager was critical to this. The Committee was advised that the portfolios, if increased to £250m as proposed, would deliver a gross yield of £12.5m per year. The net yield, after taking into account the cost of borrowing and asset management would be about £6.5m per year with the requirement of the financial strategy being £4m per year. The fiscal difference between the net income and requirements of the financial strategy would enable the 20% set aside to be built up. It was also noted that the Councils had accelerated their rate of acquisitions which would deliver

underspends in both the current and 2019/20 financial years creating capacity to put money into reserves and build up the Councils financial capacity to manage property in the future.

The Committee raised concerns about the possible impacts of Brexit, particularly predictions from the Bank of England Governor, Mark Carney, that UK house prices could fall by up to a third in the event of a 'no-deal' Brexit. Members questioned whether such reductions in the value of property would prove to be cataclysmic to the Councils investment portfolios. Officers advised that the loss of value of assets did not affect the general fund but the Councils did need to be able to sell assets at a value to cover borrowing. It was noted that rental yields were quite stable in relation to property values so it would not be an immediate problem. However, it could cause problems when the Councils wished to realise the value of an asset.

A Member highlighted that local authorities had adopted similar strategies for acquiring well-secured investments on an income yield model targeting returns of between 5% and 6%. He questioned whether this was the same as the targeted returns of a commercial investor. Officers advised that the rate of return sought by commercial investors varied and was based on the risks and terms associated with their investments. A targeted return of between 5% and 6% seemed to be about right for the Councils at the current time.

A Member asked whether Ernst & Young had looked at the safeguards the Councils had in place. Officers advised that both external and internal audit would be looking at the investment funds.

The following recommendations were proposed and seconded:-

1. That the Joint Strategic Committee agree the policy to set aside 20% of the gross revenue income to the Capital Reserve, over a 5 year period.
2. That until a 'no deal Brexit' had been ruled out, or for a maximum of 6 months, the Councils cease investing in property.
3. That until a 'no deal Brexit' had been ruled out, or for a maximum of 6 months, Adur District Council cease investing in property.

Members sought clarification to the impacts of recommendations 2 and 3 on budgets and cashflow and stated that Brexit would also provide opportunities as well as risks.

Resolved

The Joint Governance Committee:-

- (i) noted the contents of the report; and
- (ii) commented that the Joint Strategic Committee agree within the strategy to set aside 20% of the gross revenue income to the Capital Reserve, over a 5 year period.

JGC/068/18-19 Financial Regulations

Before the Committee was a report by the Director for Digital & Resources, copies of which had been circulated to all Members and copies are attached to the signed copy of these Minutes as Item 11.

The report proposed a revision to the financial regulations used by both Adur District Council and Worthing Borough Council. The revised financial regulations would form part of the Constitutions of both Councils.

The revision had been prompted by the recent LGA Peer Review which recommended that the Councils modernise the Financial Regulations.

The aims of the review were to:

- update the financial regulations for new job titles, Executive Member titles and new Committee names;
- simplify the current regulations to make them more understandable to both Officers and Members of the Councils
- consider revised approval processes with a view to reducing unnecessary bureaucracy in the light of the streamlined democratic processes;
- consider the approved virement limits; and
- address any recommendations raised by internal audit in the course of their work.

It was noted that the provisions had been the subject of consultation with both Executive Members for Resources, and the points raised to date had been built into the proposed financial regulations.

Resolved

The Joint Governance Committee:-

- I. recommended to both Adur and Worthing Councils that the revised Financial Regulations be approved; and
- II. delegated authority to the Chief Financial Officer to make any minor amendments to the regulations for items such as changed job titles.

JGC/069/18-19 Local Government Ombudsman Complaints and Annual Monitoring Letters

Before the Committee was a report by the Director for Digital & Resources, copies of which had been circulated to all Members and copies are attached to the signed copy of these Minutes as Item 12.

The report provided further analysis on the most recent Local Government Ombudsman complaints that had been received by the Councils.

The Committee was advised that since the report had been published, the Ombudsman did not uphold the following complaints (as outlined in the report):-

- 739995 - Adur District Council
- 770133 - Worthing Borough Council

Members welcomed the update and acknowledged that the number of complaints was very small given the large populations of Adur and Worthing and the number of interactions between the Councils and residents.

Resolved

That the Committee noted the contents of the report and agreed to receive a further report on the analysis of Local Government Ombudsman complaints in September 2019.

The meeting was declared closed by the Chairman at 8.34pm, having commenced at 6.30pm.

Chairman