

AUDIT AND GOVERNANCE COMMITTEE

MONDAY, 14 SEPTEMBER 2020

PRESENT: Councillors Christine Bateson (Chairman), John Bowden, Lynne Jones (Vice-Chairman), Julian Sharpe and Simon Werner

Also in attendance: Councillors Gurpreet Bhangra, Simon Bond, Jon Davey, David Hilton, Andrew Johnson, Helen Price, Samantha Rayner, Shamsul Shelim and Donna Stimson

Officers: Mark Beeley, David Cook, Catherine Hickman, Russell O'Keefe, Barbara Richardson (RBWM Property Company Ltd), Duncan Sharkey, Adele Taylor, Andrew Vallance, Aron Kleiman (Deloitte), Jonathan Gooding (Deloitte) and David McConnell (Deloitte)

APOLOGIES FOR ABSENCE

Apologies were received from Councillor Story, Councillor Bowden attended the meeting as substitute.

DECLARATIONS OF INTEREST

There were no declarations of interest received.

DRAFT STATEMENT OF ACCOUNTS

Adele Taylor, Director of Resources, explained that the accounts included the period up until 31st March 2020. The report gave an indication of where RBWM was, while the accounts had been published on the website since early August so that the public could inspect them. Deloitte, the external auditors, had also provided an update at the end of the report.

Andrew Vallance, Head of Finance, said that RBWM had been rated to provide high quality services whilst providing one of the lowest council tax bands outside London. Overspend was mainly due to parking shortages and a decline in parking income, while revenue and benefits had overspend due to Covid and the need for additional housing benefits. There had been an increased cost of temporary accommodation and RBWM had received grants totalling £8 million, with around £1 million of this being used to cover the costs of Covid. In the general fund, money was moved from the budget into the reserves, RBWM had to take money out of the reserves last year to balance the budget.

On the expenditure statements, there had been a revaluation as there had been a change in the fair value of investment properties. Every three years, the pension fund was reviewed and this year the fund had been reviewed; there was a slight improvement as a result. Short term borrowing had increased to cover and fund the capital programme while there had been a positive increase in cash flow, which had increased to over £7 million.

Councillor L Jones raised a number of points, she said that in the report it was claimed that 74% residents were satisfied but the last survey was conducted in 2018. There was a lot of narrative about the 20/21 financial year, but she was interested to know how RBWM would have got to this point without Covid. She asked how much the grant was and how this had affected cash flow. Councillor Jones noted that RBWM was its own insurer and whether this meant that the figures detailing this in the report were a risk. Councillor Jones also queried about risk assessments; how each risk was managed, the processes and procedures, and how does a risk come about.

Adele Taylor said that she would check the date regarding the resident satisfaction survey. For Covid, it was about understanding the impact and the need to identify the significant effects it would have on future finances. The Medium Term Financial Plan was being revised and once this was complete it would form part of the accounts. There were a number of claims outstanding on the insurance but RBWM would not necessarily pay out in these areas. An item on Risk Management would be coming to the next meeting of the Audit and Governance Committee.

Andrew Vallance said that RBWM had insurance for high value losses, which did defer some risk. Ruth Watkins, Chief Accountant, said that the first Covid grant had been received in-year, with £1.8 million of that grant being spent.

Adele Taylor said that revaluations happened on a regular basis and that she would be happy to do a briefing note on how revaluations worked.

Councillor L Jones asked if it would also be possible to have a note on RBWM waste and also if Panel members were able to see the accounts before they were published.

Councillor Sharpe asked what checks were in place to ensure that improvements were happening.

He was informed that budget monitoring reports would be going to Cabinet regularly and officers would be looking at ways to improve how the accounts were presented as they wanted them to be as easy to understand and accessible as possible. Corporate Overview and Scrutiny would see the progress being made on the CIPFA action plan. Adele Taylor passed on her thanks to the team who had put together the Statement of Accounts for all their hard work. She also thanked the external auditors for their work and the robust working relationship.

Councillor Shape further asked if officers were receiving information in a timely manner and on a regular basis. Adele Taylor said that they were and that she hoped that officers would providing the information to Members in a good way.

Councillor Werner said that Covid was an issue for the last month of the accounts but formed a big part of them. He was interested to know what position the accounts would be in without the impact of Covid. The new waste contract had recently been implemented and there had been a number of issues, but Councillor Werner did not believe this had been reflected in the accounts. Savings were required as there were no reserves after last year's budget and three blank boxes were part of the report, he asked if they would have been negative figures. Regarding the budget, he said that it was a 'big mountain' to sort and asked if officers felt that the levels proposed were achievable.

Adele Taylor said that the blank boxes were due to the Medium Term Financial Strategy being revised and that the updated version would be included in the final accounts. It was not going to be easy to find savings but a comprehensive spending review would be happening to see where these savings could happen. Regarding the waste contract, Adele Taylor said that she could not comment on the contract but it fell under the current financial year and the accounts that the Committee were looking at were for the previous financial year.

Councillor Bhangra joined the meeting.

Councillor Price said that she understood the RBWM Property Company was not included in the accounts as it was its own separate subsidiary. She said that she did not understand why investment income from the company was not part of the RBWM accounts.

Adele Taylor explained that the property company was separate and had its own set of accounts as a result. Regarding the question of why it was not part of the accounts, she said

that it depended on the size of the company and RBWM Property Company did not have a high enough turnover to be part of the accounts.

Councillor Hilton, Lead Member for Finance and Ascot, said that Covid costs had been offset at the start of the year. Financial difficulties were mostly associated with the loss of income but he believed that without the impact of Covid, the financial position of RBWM would have been 'very good'.

Councillor L Jones disagreed with these comments and said that she did not think RBWM would have been in a good position, it would be in a better position but she would not regard it as good. Councillor Hilton accepted this statement.

The Committee then considered the update from the external auditors on the accounts. Jonathan Gooding, Deloitte, explained that the audit was ongoing with the deadline set for completion by the end of November. A good proportion of the work had been completed, but the pension fund side was less progressed as there had been issues receiving information due to the current situation.

Councillor L Jones said that Committee members needed to have training around the pension fund as she did not know where to go when she required some answers on this area. Adele Taylor said that training or a briefing on the pension fund could be provided.

Councillor Hilton said that a paper would be coming to the next Berkshire Pension Fund Panel. Councillor Sharpe, who chaired the Panel, said that it would be good to understand more about the pension fund, how it works and also how it was governed.

Councillor Bowden asked if the pension fund was amalgamated. Councillor Hilton explained that there were two schemes, with the Berkshire pension fund managed by LPB.

Councillor Rayner, Deputy Leader of the Council and Lead Member for Resident & Leisure Services, HR, IT, Legal, Performance Management & Windsor, said that there were 30 to 40 funds with outstanding queries and asked if this was normal.

Jonathan Gooding said that it was a combination of factors that had caused this, he had hoped that progress would be further than what it is but outstanding issues would be completed within the next few weeks.

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee noted the report.

2019/20 AUDIT AND INVESTIGATION ANNUAL REPORT

Andrew Moulton, Assistant Director of Governance at Wokingham Borough Council, explained that the report would normally come earlier in the year but it was important to consider with the accounts. There was a shared audit service between RBWM and WBC, which provided audit services across the two councils. Andrew Moulton hoped for a positive relationship with the committee so that the service could continually improve.

Catherine Hickman, Lead Specialist Audit and Investigation, explained that the report summarised the work of the Shared Audit and Investigation Service (SAIS) for the 2019/20 financial year. The purpose of the report was for the Head of Internal Audit to report annually on the council's internal control framework. The report summarised the key headlines arising from work during the year and Appendix A(I) listed the audits undertaken to form the overall opinion, the position of the audits at 31 March, the audit opinions given and with those audits falling into the second lowest category of audit opinion being summarised in the main report. Catherine Hickman summarised the work of investigations which included a successful Business Rate/Exemption Relief exercise where over £174k was identified as being billable to the charge payer. A recent Regulation of Investigatory Powers Inspection by the

Investigatory Power's Commissioners Office resulted in a positive outcome for the council. A review of the SAIS's conformance with their professional body's Public Sector Internal Audit Standards (PSIAS), undertaken by CIPFA in 2018 resulted in the Service achieving the highest category of opinion and this had been maintained through annual self-assessments against the Standards. The recommendation for members to consider was to note the progress that had been made in achieving the 2019/20 Audit and Investigation Plan.

A resident had requested to speak on the item. Mr Hill noted that there had no instances of fraud or irregularity but asked what would a member of staff or resident do if they suspected fraud.

Catherine Hickman explained that there was a whistleblowing process in place which was there to be used if it was needed.

Councillor L Jones asked if there was a timetable for the actions that were outstanding on full compliance with the PSIAS. Regarding the audit plan, she asked if it was the right mix and also questioned a number of deferments that were stated in the report and the reason for them.

Catherine Hickman said that there was an action plan produced each year with regard to the PSIAS through an annual self-assessment process, and Andrew Moulton added that the Committee may want to consider an item on compliance as part of their Work Programme.

Councillor Price said that one of the key implications of the report was that there was confidence that public funds were being used effectively. She believed that this had not happened and asked what lessons had been learnt by the shared audit service.

Andrew Moulton said that the team were committed to learning and wanted the service to provide reassurance to both members and residents. Adele Taylor said that the new Audit and Governance Committee had been created to provide the assurances that members were looking for and would allow members to feel like they had the chance to part of the audit plan and process.

Councillor Rayner said that it was a robust report and said that as resources had been reduced a number of audits had been deferred. Andrew Moulton said that the expectation was to have it complete on time but Covid delayed the report. The next item on the agenda looked at this year's audit plan and showed that the teams capacity was being used in the best way possible.

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee noted:

- i) The SAIS activity for the financial year end 31 March 2020**
- ii) Progress in achieving the 2019/20 Internal Audit and Investigation Plan**

2020/21 AUDIT AND INVESTIGATION PLAN - IN YEAR REVIEW

Andrew Moulton explained that the committee had an opportunity to shape the work of the team as the 2021/22 plan would be coming to the committee for consideration early next year.

Catherine Hickman said that the 2021/21 audit plan was approved by the Corporate Overview and Scrutiny Panel in February 2020. With Covid having an impact this plan had been put forward to refocus audit and investigation activity over the remainder of the financial year. The report contained the original plan along with the revised areas, and the team were seeking approval from the Committee for the revised plan.

Councillor L Jones said that there were deferments of key partners detailed in the plan and believed that their viability could be a risk. She wanted to understand the decision making process which led to a deferral.

Catherine Hickman said that if the Committee felt that the team had not got the right balance then this was their opportunity to be involved in the process.

Councillor Sharpe said that the Serco contract needed to be reviewed by internal audit.

Catherine Hickman said that all these areas could be taken into account but if new audits were to be added into the plan, then other audits would need to be taken out as the team are working within their capacity.

Councillor Hilton said that to him the deferrals made sense, the CIPFA report that was brought to Corporate Overview and Scrutiny had an action plan in place.

Adele Taylor said that officers would be able to take away the suggestions from the Committee.

A named vote was taken to approve the plan along with the suggestions that the Committee had made to officers on the revised plan.

RESOLVED UNANIMOUSLY; That the Audit and Governance Committee approved the updated 2020/21 Audit and Investigation Plan.

VALUATION OF THE NICHOLSON'S CENTRE

Russell O'Keefe, Executive Director – Place, said that members had requested this item on the Nicholson's Shopping Centre valuation was added to the agenda. RBWM owned approximately 50% of the freehold on the centre site. In 1985 RBWM let a 150 year lease on its freehold, because of the terms of that lease in addition to the poor performance of shopping centres over the last few years the ground rent the Council had received on that lease had been very poor including as low as zero in recent years. In regards to the lease over the Council's part of the freehold and the freehold on the rest of the site (the other approximately 50%) that had changed hands a number of times. In February 2019, Tikehau Capital in partnership with Areli Real Estate purchased the lease that the Council originally let in 1985 and the other half of the freehold that the Council does not own from the receivers of the previous owners. The lease that was originally let includes the ability for the person who holds the lease to redevelop the site without approval being unreasonably withheld by the freeholder (the Council on its part of the site). That ability to not unreasonably withhold approval is as the Council as a freeholder, that does not affect its ability as a planning authority. The Council also owned a building called Central House, which was a vacant 1970s office building, the Council bought back the leasehold in 2017 for approximately £2.5 million. This was done to facilitate the redevelopment of the car park and regeneration of the surrounding area.

Following negotiations with Tikehau Capital and Areli Real Estate and the relevant approvals the Council entered into a conditional sale agreement with their company called Denhead for the sale of its freehold interest in the shopping centre site, (the part they didn't own as they already had a long lease over the Council's freehold and the other half of the freehold), and also Central House. That was for a combined fee of £6 million (£1 million for the Council's part of the freehold for the shopping centre and £5 million for Central House). Those negotiations and that decision were informed by an independent valuation, a section 123 report, carried out by Lambert Smith Hampton. That was to ensure the Council got best consideration for its interests.

A valuation was carried out by another set of surveyors, called Knight Frank, which was referenced in the planning information submitted by Denhead, the company owned by Tikehau and Areli, as part of the financial viability assessment. That valuation was an existing use valuation that covered the shopping centre as a going concern, the whole site including the lease the Council let in 1985 as well as the freehold they had already bought from the receivers. In regards to the Council's interests they were valued by the section 123 report by Lambert Smith Hampton which values the Council's interest not the rest of the site and

interests. From what the Council had seen of the Knight Frank valuation it was in line with the Lambert Smith Hampton valuation. The two valuations were valuing different elements, one was valuing the whole site as a going concern, the valuation by Knight Frank, whereas the Council's valuation carried out by Lambert Smith Hampton was just valuing the Council's interest in the site.

A member of the public had requested to speak on the item. Mr Hill noted that the valuation document was not included as part of the report for the meeting and asked if all members were given the valuation document at the time, along with the final contract that was entered into. He also noted that the original valuation on the freehold was 0.75m to £1 million, but in the Council report it expressed a value of £1-2m so therefore asked if Lambert Smith Hampton revised their valuation. The life span of Central House was originally listed as 'at least 50 years', but the report referred to 40 years. The decision was not on the Cabinet Forward Plan as a key decision. Mr Hill asked whether the different valuations raised the prospect of state aid issues. He asked about Denhead Sarl which were not referred to in the public report and whether it could have increased risks. Valuations had been requested on the current site and future development potential, as this was when the site became very valuable. However, the valuator did not include the potential valuation in their report and so how could the Council be sure that they had not triggered state aid limits. He went on to say the rental income on the lease the Council received was around £200-300k per year.

Russell O'Keefe said that the Council's ground rent that it received under that long lease was based on a percentage of the overall income generated by the centre and it had not been at the figures Mr Hill was referencing for quite a number of years, with all payments being well under £100,000 a year for some years due to terms the Council entered into in 1985 and the poor performance of the centre. The section 123 report set out a very poor outlook for this for the future. The existing use valuation was carried out by Denhead, RBWM got a market valuation which looked at existing use and development potential, a section 123 report. As the Council got a section 123 report to ensure it got best consideration for its interest there could be no issue with state aid as it was a market value. The report went to Full Council and all members got a copy of the section 123 report, it was one of the appendices to the report which informed the decision, along with a copy of the head of terms which informed the future contract RBWM entered into. The building life span of Central House was 40-50 years.

Mr Hill further asked for clarification on whether LSH asked the Council to change the valuation from less than £1 million to between £1-2 million. He was informed that they did not, the section 123 report was with the report with the full methodology.

Councillor L Jones asked if a market valuation considered development potential, and if the contract would be made public, with confidential elements redacted, once signed.

Russell O'Keefe confirmed a market valuation considered existing use and development potential. Regarding the contract, if the conditional contract was completed and became unconditional then some of that information would be able to be published but some of the information would remain Part II.

Councillor Werner asked what alternative strategies were looked at for the site, with RBWM having ownership of Central House, and could therefore have been given more control over the future of the site.

Russell O'Keefe said that alternative strategies were considered, for example there could have been a joint venture which RBWM would have been involved in but this would have likely involved the Council putting significant amounts of money at risk. The conditional land sale agreement meant that the Council was not exposed to significant risk as a result.

Councillor L Jones asked if RBWM took the offer with best value in mind as people were looking for reassurance.

Russell O'Keefe confirmed that the Council decision was taken on the basis of a section 123 report, which was an independent valuation to demonstrate the Council achieved best consideration, in line with the legal requirements for property and land sales.

WORK PROGRAMME

Adele Taylor said that the Redmond Review had been recently published, which was a review on local authorities internal and external audit. It had also been suggested that an update on the internal audit action plan could be added to the programme. Adele Taylor said that agenda balancing would be looked at as the programme for the November had a significant number of items.

Councillor Price said that as the RBWM Property Company was only incorporated once it was a certain size that it may be something the committee would want to look at later in the year. Adele Taylor said that in the CIPFA action plan this was mentioned and was therefore something that Corporate Overview and Scrutiny could pick up.

Councillor Sharpe said that the Fraud Policies Refresh item could be moved to February along with the Key Risk Report. The Chairman said that officers would go away and look at the agenda for November.

The meeting, which began at 6.15 pm, finished at 8.50 pm

CHAIRMAN.....

DATE.....