AUDIT COMMITTEE
Wednesday, 21st November, 2012

Present:- Councillor Sangster (in the Chair); Councillors Kaye.

Also in attendance were: - Martin Kimber, Colin Earl, Dave Richmond, Jon Baggaley, Derek Gaffney, Rashpal Khangura and Steve Eling.

Apologies for absence were received from Councillors License and Sims.

P24. MINUTES OF THE PREVIOUS MEETING HELD ON 24TH OCTOBER, 2012.

Consideration was given to the minutes of the previous meeting of the Audit Committee, held on 24th October, 2012.

Resolved:- That the minutes of the previous meeting be agreed as a correct record for signature by the Chairman.

P25. RISK MANAGEMENT AND MITIGATION IN THE HOUSING REVENUE ACCOUNT 30 YEAR BUSINESS PLAN.

Consideration was given to a report presented by the Director of Housing and Neighbourhoods, Neighbourhood and Adult Services, and the Financial Strategy Finance Manager, Resources Directorate, which stated that the implementation of Housing Revenue Account Self-Financing Initiative, from April 2012, presented the Council with significant investment opportunities. The report stated that, under this arrangement, Councils would be allocated a proportion of the national housing debt, and would, in return, be allowed to collect and retain all housing income. All risk was transferred from the Government Department for Communities and Local Government to local authorities who would have to utilise the income to manage debt, repair and maintain housing stock and estate infrastructure and provide housing management services to ensure a sustainable business in the future.

Members noted that changes in inflation, local rent policy, interest rates and investment and debt management decisions would impact on the financial viability of the Council's Business Plan. Robust, proactive management of all aspects of the Plan will be essential throughout the thirty-year Business Plan. The submitted report demonstrated how the risks identified within the Business Planning process were being managed and mitigated by Neighbourhood and Adult Services and Financial Services.

Within the Business Plan, the following factors were represented: -

- Current costs of delivering housing services as per the 2012/13 revenue budget;
- Current treasury management assumptions and forecasts associated wit h servicing existing debt;
- The thirty-year capital investment requirements of the existing stock as identified from the APEX stock condition survey;
- The Authority would work towards rent convergence by 2016/17.

The Business Plan was made on a number of key assumptions. It was imperative that they were based upon sound knowledge, were robustly challenged, monitored and updated on an ongoing basis in order that the self-financing initiative in Rotherham realised maximum benefits so that local and national policies were fulfilled and first-class housing services were provided.

Key Assumptions included: -

- General inflation based on Retail Price Index. Based on 3.2% for 2013/14.
- Interest rates – applied to the outstanding HRA debt of £304 million, were based on 4.71% for 2012/13, rising to 5% in 2016/17 and rising to 6% thereafter.
- Rent convergence – the Business Plan had the Authority working towards convergence in 2015/16, with actual convergence being achieved in 2016/17.
- Capital Investment Requirements – an extensive data cleanse and detailed survey exercise was being undertaken to ensure that all information incorporated into the Asset Management Strategy was robust.

Quarterly performance monitoring and annual updates would ensure that the key assumptions, risks and mitigation actions remained up to date and risk managed.

In addition to internal key assumptions, there were a number of national policy issues that could also impact on the Business Plan: -

- Right to Buy receipts;
- Welfare Reform.

Discussion ensued, and the following issues were raised by members of the Audit Committee: -

- Changing housing landscape and how the thirty year-business plan would reflect onooing changes.
- Investment;
- Renegotiation of debt.

The Chair of the Audit Committee thanked the officers for their presentation of a comprehensive report.

Resolved:- (1) That the report be received and its contents noted.

(2) That the steps being taken to manage and mitigate risk to this Council of the Housing Revenue Account Self-Financing Initiative be noted.

P26. LOCALISM ACT UPDATE.

Consideration was given to a report presented by the Policy Officer, Commissioning, Policy and Performance, Resources Directorate, which outlined the specific provisions of the Localism Act, 2011, the ways in which these had been implemented and the risks arising to the Council.

The Policy Officer informed the Audit Committee that a number of these risks had been well embedded into the Directorate Risk Registers. There remained some risks that could not be quantified, for example, risks relating to community interests would only become 'risks' following expressions of interest.

The risks to the Council under the provisions of the Localism Act, 2011 included: -

- **Council tax –** 'excessive' proposed increases would be subject to a referendum. This included the setting of the precept by a 'major precepting authority' (Fire or Police) and a local precepting authority' (parish Council). As the billing authority, Councils would have responsibility for arranging referendums.
    - The Council would need to be aware of the trigger percentage for a referendum set by the Government when setting the annual Council tax level.

- **Community Right to Challenge: -** The Commissioning and Procurement Team had been preparing a Forward Plan / Contracts Register that demonstrated all existing contracted services, the nature of the commissioned / procured business and the expiry date of the contract. This formed part of the key data set that would allow potential suppliers / providers to express interest in delivering future services for the Council.

- **Development of Neighbourhood Plans: -** The Local Authority may wish, or be required, to support the financing of Neighbourhood Plans. Pilots had demonstrated that the cost of producing an Order to be at least £20k, which would be met through existing budgets as local authorities could not bid for Central Government funding.

- **Community Right to Build: -** Under this provision, certain community organisations, along with a developer, had the right to bring forward small scale developments on specific sites without the need for planning permission. Local referendums would establish whether members of defined neighbourhoods supported the Community Right to Build Order. If more than 50% were in favour, the Planning Authority must grant permission. Where there were designated business areas covered by the proposed Neighbourhood Plan or Community Right to Build Order, an additional business rate referendum would take place.

- **Housing: -** A thirty-year investment strategy was required and had been put into place by the Local Authority. The Local Authority was also undertaking consultation in relation to the Housing Allocation and Tenure Reform policies.

- **Assets of Community Value: -** The Local Authority was charged with maintaining a list of assets of community value, which could include buildings or land. Parish Councils and community and voluntary organisations could nominate assets to be included on the list. Assets may be removed from the list after a period of five years. There was a risk that this provision may become confused with local policies relating to asset transfer. Risks relating to this provision would be commensurate with the number of nominations to the list, together with the number and complexity of appeals from the nominated asset's owner and the number of assets that were offered for sale that community organisations would have the right to buy before the asset was placed on the open market.

Discussion ensued and the following issues were raised by members of the Audit Committee: -

- Arrangements for appeals to be heard;
- Liability of the Local Authority in relation to compensation claims arising under through the assets of community value list.

Resolved: - (1) That the report be received and its content noted.

(2) That the Council's risk management approach to certain provisions of the Localism Act, 2011, be noted.

P27. MID-YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING REPORT 2012/13.

Further to Minute Number 16 of the meeting of the Audit Committee held on 26th September, 2012, consideration was given to a report presented by the Chief Accountant, Financial Services, Resources Directorate, which outlined that the regulatory framework of treasury management included a requirement that the Council receive a mid-year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report.

The submitted report met that requirement and incorporated the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators. The report was structured to highlight the key changes to the Council's capital activity (the prudential indicators), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

Resolved:- (1) That the report be received and the details of treasury activity noted.

(2) That the Audit Committee refers the report to Cabinet to consider recommending the Council approves changes to the prudential indicators.

P28. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER 2011/12.

Consideration was given to a report presented by the Director of Audit and Asset Management, Resources Directorate, concerning the Annual Audit Letter 2011/12 from the Council's external auditors KPMG LLP, which summarised the external audit work in relation to the 2011/12 audit plan and highlighted the findings in relation to the following matters:-

- Audit of accounts 2011/12;

- Value for money conclusion;
- Other reviews completed.

A copy of the Annual Audit Letter from KPMG LLP was appended to the submitted report.

The Committee noted that the purpose of the Annual Audit Letter was to communicate to the Council and key external stakeholders, including members of the public, in a clear and concise manner, the key issues arising from the audit which the external auditor considered should be brought to the attention of the Council. The letter briefly summarises of the results of the external auditor's work which had previously been reported to Audit Committee in more detail in the form of, for example:

(i) the Annual Governance Report presented to this Committee on 26th September 2012 immediately prior to the 2011/12 Statement of Accounts being approved; and

(ii) the Interim Audit Report presented to this Committee on 25th April 2012

The main issues from the Annual Audit Letter included:-

(a) the Council's financial statements were produced to a good standard without the need for audit adjustment and were given an unqualified audit opinion before the statutory deadline of 30th September, 2012; KPMG LLP complimented officers on the proactive approach taken in dealing with complex accounting issues and in providing working papers to the expected standard and timely responses to audit queries; and

(ii) the Council had put in place proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness in the use of its finite resources.

The Annual Audit Letter also confirmed that no high priority recommendations were made in relation to the 2011/12 audit and that there are no other matters that needed to be brought to the attention of the Audit Committee. Members noted that this was a very positive audit assessment for the 2011/12 year.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Audit Committee notes the very positive Annual Audit Letter 2011/12 presented to the Council by its external auditors, KPMG LLP.

P29. EXTERNAL AUDIT FEES LETTER 2012/13.

Consideration was given to a report presented by the Director of Audit and Asset Management, Resources Directorate, which outlined what the Council's external auditor, KPMG LLP, had set out in its Annual Audit Fees Letter for 2012/13, including the proposed external audit work to be undertaken in 2012/13 and the indicative fee for carrying out this work.

A copy of the External Audit Fees Letter for 2012/2013, from KPMG LLP, was appended to the submitted report. The report and letter summarised the scope of the external audit for the 2012/2013 financial year.

Members were informed that, after a procurement exercise conducted as a result of HM Government's decision to abolish the Audit Commission, KPMG's appointment as the Council's external auditor was confirmed for a further five years from 2012/13 until 2016/17. The current audit arrangements had been fixed for the duration of the contract, with the aim of keeping audit fees as low as possible. The Committee noted that the indicative fee for 2012/13 represented a substantial reduction of 40%, compared to the 2011/12 financial year and was a welcome contribution towards the budget reductions the Council must to make. The indicative fee reflected the high quality internal audit work involved in producing the Local Authority's accounts. If this quality was reduced, it would follow that there would be an increase in KPMG's fees to cover the additional work they were required to carry out.

Resolved:- (1) That the report be received and its contents noted.

(2) That the Audit Committee notes the scope of the 2012/2013 audit and indicative fee for carrying out this work, as set out in the External Auditor's Annual Audit Fees Letter.

P30. DATE AND TIME OF THE NEXT MEETING: -

Resolved: - That the next meeting of the Audit Committee be held on Wednesday, 19th December, 2012, to start at 4.00 pm in the Rotherham Town Hall.