

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT FOLLATON HOUSE, TOTNES ON THURSDAY 20 JULY 2017**

Members in attendance			
* Denotes attendance			
∅ Denotes apology for absence			
*	Cllr I Bramble	*	Cllr J A Pearce (Chairman)
*	Cllr J Brazil	*	Cllr J T Pennington (Vice-Chairman)
*	Cllr T R Holway		

Members also in attendance:
Cllrs H D Bastone, M J Hicks, R J Tucker and K R H Wingate

Item No	Minute Ref No below refers	Officers and Visitors in attendance
All Items		Head of Paid Service; Section 151 Officer; Group Manager – Business Development; Solicitor (Commercial Contracts and Procurement); Finance Business Partner; and Senior Specialist – Democratic Services

A.10/17 MINUTES

The minutes of the meeting held on 22 June 2017 were confirmed as a correct record and signed by the Chairman.

A.11/17 DECLARATIONS OF INTEREST

Members and officers were invited to declare any interests in the items of business to be considered during the course of the meeting, but none were made.

A.12/17 URGENT BUSINESS

The Chairman advised that she had agreed for one item of urgent business to be raised at this meeting that was entitled: 'Treasury Management Strategy 2017/18'. This item had been deemed urgent in light of the matter being scheduled for consideration at the Special Council meeting on 27 July 2017 and would be considered as agenda item 7 (Minute A.15/17 below refers).

A.13/17 DRAFT STATEMENT OF ACCOUNTS 2016/17

The Committee considered a report that advised of an overspend amounting to £45,000 that was generated in 2016/17 and that had been funded from the General Fund Balance.

In discussion, the following points were raised:-

- (a) When analysing the budget variations, Members were of the view that it would be beneficial for the headings to be indicatively split into those that were associated with statutory services and those linked to discretionary services;
- (b) A Member reiterated previously raised concerns in relation to the size of the variations arising from the Council's waste service. In wishing to put down a marker, the Committee stated the importance of the service issues being resolved by the Council;
- (c) With regard to the impairment and downward book valuations reducing by £448,000, the Committee requested a more detailed breakdown of this total;
- (d) Officers confirmed that the amendments that were initially suggested by the Committee to the draft Annual Government Statement at its last meeting (Minute A.6/17 refers) had been included in this updated version.

It was then:

RESOLVED

That the Draft Statement of Accounts and the Draft Annual Governance Statement for the financial year ended 31 March 2017 be endorsed.

A.14/17

GOVERNANCE AND RISK ASPECTS OF THE PROPOSED COMMERCIAL PROPERTY ACQUISITION STRATEGY

Following a request made by the Committee (Minute A.7/17 refers), Members considered a report that outlined the risk and governance aspects associated with the proposed Commercial Property Acquisition Strategy.

In discussion, it was apparent that the Committee had serious reservations over these aspects of the proposed Strategy and, in so doing, Members made particular reference to:-

- (a) the lack of adequate provision for investment in a variety of differing asset classes. A Member stated his view that the Strategy was not sufficiently addressing the need to invest in a spread of different asset classes in order to ensure that risk was mitigated as far as was practically possible. The Committee also requested that it be in receipt of the research paper produced by CBRE Global that was referred to in the presented agenda report entitled: '*What's in a number? How to achieve the optimum portfolio size?*';

- (b) skills and capacity. In light of the competitive nature of the industry, Members sought reassurance and an explanation on the statement in the presented agenda report that '*South Hams benefits from employing several officers who have significant experience of acquiring, managing and disposing of multi-million pound commercial properties, both in the private and public sector.*' Furthermore, Members queried the appointments process adhered to for the Invest to Earn Working Group and felt that, in the event of the Strategy being approved, the Terms of Reference and the Composition of the Group should be reviewed. Once this review had been undertaken, the Committee was also strongly of the view that its membership should then be revisited and determined on a 'fit for purpose' basis akin to the process adopted by the Salcombe Harbour Board;
- (c) the risk of legal challenge. Whilst the report highlighted that there was a risk of legal challenge, the view was expressed that the emphasis on this particular risk had been significantly underplayed;
- (d) the risk associated with a drop in capital value (e.g. Brexit impact, local economy implosion and market downturn). Such was the climate of uncertainty at present, that Members were adamant that the score associated with this risk should be increased from a definition of 'manage' to 'escalate'. As a general point on the risk analysis of the Strategy, the Committee raised further queries over some of the associated scores. As a consequence, the Committee concluded that these changes would necessitate an updated Risk Analysis being produced and circulated to all Members of the Council before the Special meeting on 27 July 2017;
- (e) the anticipated low profit margins when comparing costs with yields. A Member highlighted the risk associated with a reduction in rental income (void / tenant default / tenant liquidation) and was of the view that such an income stream was too unpredictable to warrant his support of the Strategy;
- (f) the exit strategies. Members were also dissatisfied at the lack of information concerning exit strategies arising from both the purchase of each individual Commercial Property and the loan commitment;
- (g) regular reviews of the Strategy. In the event of the Strategy being approved by the Council, Members emphasised the importance of regular reviews being undertaken during each tranche of the project.

In response to these reservations, officers attempted to allay a number of the concerns expressed and reminded the Committee that the Strategy had been designed to provide a sufficient income stream to cover a meaningful proportion of the Council's predicted budget gap. Nonetheless, Committee Members remained unanimous in their concerns over the risk and governance aspects of the proposed Strategy and wished for these views to be reflected in a resolution that would be presented to the Special Council meeting on 27 July 2017 and it was consequently **PROPOSED** and **SECONDED** and put to the vote declared **CARRIED**:

RESOLVED

That the Audit Committee:

1. has considered the Council's draft Commercial Property Acquisition Strategy and expresses its particular concerns that the risks attached to the following areas have not been adequately addressed or mitigated:
 - (a) The Exit Strategies arising from both the purchase of each individual Commercial Property and the loan commitment;
 - (b) The Strategy not making adequate provision for investment in a variety of different asset classes; and
 - (c) The anticipated low profit margins when comparing costs with yields;
2. requests that an updated Risk Analysis of the Strategy be produced and circulated to all Members of the Council before its meeting on 27 July 2017; and
3. **RECOMMEND** to Council that the Terms of Reference and Composition of the Council's Invest to Earn Member Working Group be reviewed, with Working Group Members then being appointed to serve on a newly constituted Group on a 'fit for purpose' basis.

A.15/17

TREASURY MANAGEMENT STRATEGY 2017/18

As previously advised (Minute A.12/17 above refers), the Committee considered (for information purposes) an urgent report that sought ultimate Council approval of a revised Treasury Management and Investment Strategies for 2017/18 together with their associated prudential indicators.

In discussion, the following points were raised:-

- (a) Members acknowledged that the proposed revisions to these Strategies were wholly dependent upon the approval of the Commercial Property Acquisition Strategy;
- (b) In light of inflation rising, some surprise was expressed at the interest rate forecast figures contained in the agenda report. In response, the Section 151 Officer advised that the published figures had been obtained by Capita Asset Services (the Council's appointed Treasury Advisor) only the day before this Committee meeting.

It was then:

RESOLVED

That the report be noted.

(Meeting commenced at 2.00 pm and finished at 4.40 pm)

Chairman