

MINUTES of a **MEETING** of the **AUDIT COMMITTEE** held on 25 June 2024 at 5.00 pm

Present

Councillors

L Knight (Chairman)
D Broom, E Buczkowski, G Czapiewski
(Vice-Chair), B Holdman, R Roberts,
Paul Deal (Spare1) and Matthew Page
(Spare1)

Apologies

Councillors

A Cuddy and B Fish

Also Present

Councillors

J Buczkowski and L Taylor

Also Present

Officers

Andrew Jarrett (Deputy Chief Executive (S151)), Paul Deal
(Head of Finance, Property and Climate Resilience),
Matthew Page (Head of People, Governance and Waste)
and Sarah Lees (Democratic Services Officer)

Councillors

Online

S Robinson and D Wulff

Officers Online

S Carr, D Emery and L Woon

Also in

Attendance

Tony Rose (Devon Assurance Partnership)

1. **ELECTION OF CHAIRMAN**

RESOLVED that Cllr L Knight be elected Chair of the Audit Committee for the municipal year 2024/2025.

2. **ELECTION OF VICE CHAIRMAN**

RESOLVED that Cllr G Czapiewski be elected Vice Chair of the Audit Committee for the municipal year 2024/2025.

3. **START TIME OF MEETINGS**

It was **AGREED** to continue to commence Audit Committee meetings at 5.00pm on Tuesday evenings for the remainder of the municipal year 2024/2025.

4. **APOLOGIES**

Apologies were received from Cllr A Cuddy and B Fish who was substituted by Cllr B Holdman.

5. **PUBLIC QUESTION TIME**

The following questions were received from members of the public:

Mr Nick Quinn

Addressing the Draft Statement of Accounts and the 3 Rivers closure:

Q1. On page 79 of the accounts, there is a list of the assets bought from 3 Rivers and the amounts paid for each - but the Halberton Car Parking spaces and the Architectural drawings for the failed Park Nursery development, both bought from 3 Rivers, are not on the list. Why are these purchases and amounts not listed?

Q2. How much was paid for the Park Nursery Architectural drawings? and on what date?

Q3. The Council paid £3.66M for the Knowle Lane land, which was valued at only £1.66M. It was already known that this land was not worth £3.66M - so this purchase breached the Council's Financial Regulations on the Acquisition of Assets, which state that: "*All purchases or leasing of land and buildings shall be on the best financial terms that can be obtained for the Council*". Will Audit Committee please look into this breach?

Q4. On page 62 of the accounts, it says that the loss on 3 Rivers loans was £6.8M but also "*the revaluation of assets purchased... resulted in a 'notional' loss of £2M*". **This is not a 'notional' loss – it is real.** This Council overpayment for assets, allowed 3 Rivers to repay loans which it would not otherwise have been able to do. Will Audit Committee agree that if this £2M overpayment had not been made, the total loss of loans to 3 Rivers would have been £8.8M?

Q5. A Revenue and Capital Outturn report went to Cabinet on 4 June 2024. In that report, the loan loss figure, shown as £6.8M, was 'reduced' to 'only' £3.384M by subtracting all the Interest and Recharge payments ever received from 3 Rivers during the whole of the previous six years. I understand that this declared income was spent in each of those years, therefore it cannot be 'resurrected and reused' to discount a very real monetary loss in this year. Will Audit Committee confirm that this attempt to 'reduce' these real losses in this year, is not acceptable?

Barry Warren

My observations and questions are stimulated by Item 10 on your agenda – in particular the Annual Governance Statement and the principles listed in paragraph 1.5 [pages 209/210] covering Codes of Practice and Ethical Aims.

At the Annual General Meeting of the Council on the 22nd May 2024 the Leader gave a report, which is minuted, and the relevant point stated: *“The 2024/25 budget was set without any use of reserves, was fully balanced and was unanimously supported across the political spectrum.”*

In a report to Cabinet on 6th February 2024 headed **2024/25 Budget** at paragraph 4.2. the Cabinet Member for Finance states: *“Appendix 1 (p39) shows in detail which amounts are being contributed to, or drawn down from, various earmarked reserves in 2024/25. This totals a net reduction in Earmarked Reserves of £840k.”*

Paragraphs 4.3 and 4.4 describe in detail how this net reduction in Earmarked reserves of £840k is arrived at.

Paragraph 4.7 states *“No draw on General Reserves is required to support the 2024/25 Budget”*.

Having previously been accused by the Leader of using “reserves” to balance the budget, I felt that the I should question his unqualified statement to the Council AGM.

At the Cabinet meeting on 4th June 2024 I asked public questions regarding the use of reserves. The answer I received differentiated between “Reserves” and “Earmarked Reserves” and was further complicated by referring to their use being dependent on specific one-off situations or on-going expenditure nature, etc.

Question 1.

In the interests of openness and honesty; will the Audit Committee please look into the preparation of the 2024/25 budget and make a statement on whether ‘Reserves’, of any description, have been used in setting it?

Question 2.

In the interests of openness and honesty; if the Audit Committee find that ‘Reserves’, of any type, have been used in the setting of the 2024/25 budget, will they ask the Leader to make a public correction to his statement to the Council AGM on the 22nd May 2024?

Paul Elstone

**My questions relate to Agenda Item 9 Corporate Risk
Specifically CR 7 Financial Sustainability and CR 12.5 and 12.6 Housing Crisis**

QUESTION 1

Industry Data published in April 2024 reveals that the relative mid-range building cost for the South West of England is £1,860 per square metre.

Also data available that shows the additional cost increment for Nett Zero builds is only around 4 percent and for the Passivhaus between 6 and 8 percent. A standard that ZED PODS modules do not meet.

Yet the total building cost for the ZED PODS modular homes for St Andrew Cullompton was £4,778 per square metre or put another way it cost £155,000 per bedroom. This for a simple to develop brownfield site with little ground works.

For Shapland Place the cost was a massive £170,000 per bedroom

For the avoidance of doubt the current per bedroom selling price of Commercial new builds are:

Persimmon, in Cullompton, is £95,000

Bellway, in Willand, is £103,000

David Wilson – upmarket- Homes in Tiverton are £110,000

Unlike the ZED PODS developments, these are Greenfield developments where the developer needs to purchase the land and build the infrastructure plus pay very substantial S106 and affordable home costs.

The cost of each bedroom at St Andrews, Cullompton is £60,000 more than a Persimmon bedroom.

Under no circumstances can the modular home developments being built for this Council be called “Best Value”. In fact this Council could have nearly two (2) houses for every one (1) they are currently getting and to the same or higher energy and sustainable standards.

Will this Audit Committee urgently investigate the full circumstances involving the grossly excessive expenditure on modular homes - before this Council commits to further purchases?

QUESTION 2

Evidence available reveals the following potential modular build risk.

1. It is widely reported that there is a suppressed UK Government Report which has identified potential fire and structural integrity risk with modular homes.
2. The UK National Fire Chiefs Council have raised fire risk concerns, referencing that they consider the current Building Regulations are not tight enough including a lack of modular home fire testing.

This should be of particular concern with modular homes built over car parking - like Shapland Place.

3. The life of modular homes estimated at 60 years, to 100 years maximum, against over 150 years for conventional builds. Impacting on insurance.
4. Wind loading and snow loading risks have caused modular builds in Cornwall to be shut down.
5. Overheating risk and with internal temperatures in excess of 36 Degrees C being reached in the ZED POD'S modules in Bristol.
6. Mould risk.

Given these modular home risks, coupled with excessively high expenditure, Is this not a case of Double Jeopardy for this Council. Will this committee call for an expert and fully independent investigation?

Hannah Kearns (questions received in advance)

Question 1

In the Draft Accounts, on page 147, is an Earnings table. I am interested in the figures for the Managing Director of 3 Rivers for 2023/24.

Note 7 to that table says the Managing Director was made redundant on 31 March 2024 and received the redundancy package commensurate with the length of service. Given it is known that the Managing Director was only directly employed by 3 Rivers from 1st April 2021, that is only three years service with the Company before he resigned.

The Compensation and Pension Contribution figures seem excessive for someone with only three years of service and at £143,264

Was three years the length of service used in the calculation of the redundancy package?

Response from the Cabinet Member for Governance, Finance & Risk:

No

Question 2

If not, what was the length of service used?

Response from the Cabinet Member for Governance, Finance & Risk:

The applicable length of service included the previous service at Mid Devon District Council in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006.

Question 3

Was some other 'special arrangement' made to arrive at these figures?

Response from the Cabinet Member for Governance, Finance & Risk:

No – This was the contractually due settlement and confirmed by external legal advice.

Question 4

What was the total cost of the 2023/24 Salaries, Compensation and Pension Contributions for all the 3 Rivers Directors put together?

Response from the Cabinet Member for Governance, Finance & Risk:

From the company's draft accounts, the Directors' remuneration for the year was £347k.

Question 5

Where any redundancy payments made to the employees of 3 Rivers?

Response from the Cabinet Member for Governance, Finance & Risk:

Yes, three further employees were also made redundant in line with their contractual entitlement.

Question 6

If so what was the total amount?

Response from the Cabinet Member for Governance, Finance & Risk:

The total cost was less than £10k.

The Chairman stated that those questions which had not been received in advance would be responded to in writing within 10 days and attached to the minutes.

6. **DECLARATION OF INTERESTS UNDER THE CODE OF CONDUCT**

No interests were declared under this item.

7. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 26 March 2024 were confirmed as a true and accurate record and **SIGNED** by the Chair.

8. **CHAIRMAN'S ANNOUNCEMENTS**

The Chair thanked Paul Middlemass (Devon Assurance Partnership) for his service to the Audit Committee over recent years and wished him a long and happy retirement.

He also thanked the Committee for electing him.

9. CORPORATE RISK Q4 (00:20:00)

The Committee had before it, and **NOTED**, a report * from the Corporate Performance and Improvement Manager and the Head of People, Performance and Waste providing Members with a quarterly update on the Corporate Risk Register.

The contents of the report were outlined with particular reference to the following:

- This was the usual quarterly report presented to the Committee and now included target risk ratings for all Corporate Risks.
- Any significant changes which had been made to the corporate risks since the last meeting were listed in section 2.3 of the report.

Discussion took place regarding:

- The risk ratings relating to the delivery of the closedown of 3Rivers. This had reduced from 8 to 3. However, it was felt that the reputational risk in relation to 3Rivers was still quite significant. It was explained that all the timelines in the closedown plan had been met and the Council would be applying to Companies House in the next three weeks for 3Rivers to be struck off. Whilst there would still be some reputational risk, all the management actions that could have been taken had been delivered. The Committee requested that this continue to be monitored.
- A view was expressed that the risk ratings in relation to the Culm Garden Village and the Cullompton Relief Road needed to be the same as they were interdependent. The officer stated that he would refer these comments back to the Director of Place & Economy.
- It was confirmed that in the initial stages risks were assessed by the risk owners and then assessed by the Corporate Management team.
- Concern continued to be expressed around Cyber Security and it was requested that this particular issue receive a specific agenda item at the next meeting so that the Committee could be reassured all that could be done to mitigate risk was being done or was planned to be done. This was **AGREED**.

Note: * Report previously circulated.

10. DRAFT STATEMENT OF ACCOUNTS FOR 2023/2024 (00:30:00)

The Committee had before it, and **NOTED** a report * from the Deputy Chief Executive (S151) presenting the draft version of the annual Statement of Accounts and Annual Governance Statement to Members published on the website and presented for external audit.

The Committee was informed that it was not expected to approve the Statement of Accounts this evening, it would be asked to do this after they had been audited, finalised and brought before it at the October Committee meeting. As a helpful aid in trying to understand what the role of the Committee was in the process a presentation was delivered that provided the following summary information:

- The role of the Audit Committee in relation to the Annual Accounts and the Annual Governance Statement.
- Things the Committee needed to consider, for example, previous assurance reports from internal and external audit.
- Financial performance.
- Was the Council a 'Going concern'?
- How well did the accounts 'tell the story'?
- What were the 'Financial Statements'?
- Timeframes.
- Regulations.
- Accounting policies.
- Main aspects of the Accounts.
- Main Financial Statements.
- Key issues being:
 - The soft closure of 3 Rivers Development Ltd.
 - District Council election.
 - Cost of Living Crisis.
 - Patronage levels.
 - Bin-It 123 performance.
- Audit Annual Report and the Audit Opinion.
- The Annual Governance Statement.
- External Audit outputs.

It was hoped that when the Accounts came back to the Committee in October Members would have a better understanding of their role in approving them. Members were asked to contact officers if there was anything they needed clarification on. No question was a stupid question.

Discussion took place regarding:

- The Accounts made no mention of the upcoming General Election and this was because they represented a true and fair reflection of the Council's finances as at 31 March 2024. There was no way of knowing what a new Government would do with regards to local authority funding in the future.
- Several auditing firms were mentioned in the Accounts, for example, Grant Thornton, Bishop Fleming and KPMG. The role of each was explained.
- A Committee member had recently attended a DAP event and informed the Committee that DAP now stood for 'Devon Assurance Partnership'.

Note: * Report previously circulated.

11. **DAP INTERNAL AUDIT ANNUAL REPORT FOR 2023/24 (01:05:00)**

The Committee had before it, and **NOTED**, a report * from the Devon Assurance Partnership (DAP) presenting their annual Outturn report for 2024/2025.

The following was highlighted within the report:

- This was the end of year summary report and reflected back on all of the work that had taken place set against their Internal Audit Plan for 2023/2024.
- The different types of assurance opinion were explained.
- The Committees attention was drawn to the management actions listed under each summary report.
- The Assurance Map was referred to.
- The internal framework for auditors had been revised.
- There was a 96% satisfaction rate for the audits undertaken by DAP.

Discussion took place with regard to:

- The fact that no evidence of fraud had been detected in relation to 3Rivers, therefore it was now hoped those allegations would cease.
- A Phoenix House fire drill had been undertaken in the previous month, therefore the report needed updating.

Note: * Report previously circulated.

12. **DAP MANAGEMENT ACTIONS UPDATE REPORT (01:14:00)**

The Committee had before it, and **NOTED**, a report * from the Devon Assurance Partnership (DAP) presenting the actions needing to be addressed by Management.

The contents of the report were outlined with particular reference to the following:

- Any high risk areas had an agreed timeframe for action to resolve identified issues of concern.
- On the face of it, one high level risk in relation to Cyber Security was seen as very good when compared to other local authorities.

Discussion took place with regard to:

- It was explained that there were 3 levels of risk identified in each audit, high, medium and low. The process needed to be very robust and whilst there was an element of subjectivity there was a framework underpinning all decisions.
- It was confirmed that the Leadership Team looked at the Audit Recommendations on a regular basis making sure that 'check' and 'challenge' was cascaded down to the managers. Given resource levels within the Council the high risk recommendation were given priority. It was further confirmed that if the Committee were concerned about a particular service area it could call the manager to a meeting of the Committee to question them on their audit and service area.

Note: * Report previously circulated.

13. **IDENTIFICATION OF ITEMS FOR THE NEXT MEETING (01:22:00)**

The Committee had before it, and **NOTED**, the items identified in the work programme for the next meeting. The following was also requested to be on the agenda:

- Appointment of an Independent Person to the Audit Committee

- Appointment of representatives to the Devon Assurance Partnership (DAP) Committee
- An update on the Cyber Security arrangements

(The meeting ended at 18:25pm)

CHAIRMAN