

Audit and Governance Committee

MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ON 19 SEPTEMBER 2023 AT KENNET ROOM - COUNTY HALL, BYTHESEA ROAD, TROWBRIDGE, BA14 8JN.

Present:

Cllr Iain Wallis (Chairman), Cllr Chuck Berry, Cllr Adrian Foster, Cllr Gavin Grant, Cllr George Jeans, Cllr Antonio Piazza, Cllr Pip Ridout, Cllr Mike Sankey, Cllr Martin Smith and Cllr Howard Greenman

Also Present:

Cllr Matthew Dean

39 **Apologies**

Apologies were received from Cllr Stuart Wheeler and Cllr Nick Botterill (Cabinet Member for Finance – non voting Member of the Committee).

40 **Minutes of the Previous Meeting**

The minutes of the last meeting held on 25 July 2023 were presented for consideration.

The Chairman stated that regarding minute 26, he had requested that thanks be passed to the former Chairman Cllr Mark Connolly and to Cllr Edward Kirk for their work on the Committee. It was,

Resolved:

To approve and sign minutes of the last meeting as a true and correct record, following the addition of thanks to Cllr Mark Connolly and Cllr Edward Kirk to minute 26.

41 **Declarations of Interests**

There were no declarations of interest.

42 **Chairman's Announcements**

There were no Chairman's announcements.

43 **Public Participation**

There were no public questions or statements received.

44 **Accounts and Audit Update**

Lizzie Watkin, Director of Finance and Deputy Section 151 Officer, presented the Accounts and Audit update.

The update was being provided following the briefing note sent to Members after the July meeting of the Committee. As Members were aware there had been delays to the audit process and in getting the Statements of Accounts (SoA) 2019/20 signed off. There were national issues regarding the completion of accounts which had been discussed at length at previous meetings of the Committee.

The backstop date to sign off the SoA 2019/20 was 31 December 2023. The focus remained on getting those accounts through the process and there would need to be a push to draw those to a close. A more in-depth report would come to the November meeting of the Committee, and it was hoped that at that meeting the Committee could accept the audit opinion, otherwise a delegation may be required.

The backstop dates for the other outstanding accounts were as follows:

- Statement of Accounts 2020/21 and 2021/22 – 31 March 2024
- Statement of Accounts 2022/23 – 30 August 2024

For the SoA 2023/24 the council would have new auditors (Grant Thornton) and the finance team were already planning with them how the process for those would work. The backstop date for the SoA 2023/24 was 31 March 2025.

At present it was not entirely clear how the whole process regarding backstop dates and future accounts would work, so the Committee would be kept updated.

Ian Howse, Deloitte, agreed with the officer and hoped to complete the audit for the 2019/20 accounts by the backstop date of 31 December 2023. The backstop dates were a practical expediency to the situation that Wiltshire Council, and many other local authorities found themselves in. What would be as important would be what happened to prevent the backlog occurring again. Mr Howse was very encouraged by the work of the National Audit Office (NAO) who were revising the code of practise. However, he felt that the Chartered Institute of Public Finance and Accountancy (CIPFA) codes should also be reviewed. Whilst encouraged by the backstop positions, it was stated that it would likely lead to a disclaimer opinion for SoA 2019/20. The aim for both Deloitte and Wiltshire Council was to avoid the backstop dates. However, there was a lot of work for both the auditors and the finance team to get all the audits completed by 30 August 2024.

In response to a question regarding whether there were sufficient human resources to meet the backstop dates, for both the auditors and the council, the officer explained that the council had additional resources in place to deliver all the sets of accounts by the end of August 2024. However, in the officer's opinion it may not be possible to achieve as robust a set of accounts as one would wish, due to the timescales involved. There were concerns regarding

completing the 2020/21 and 2021/2022 accounts by 31 March 2024, as it would be hard to ensure they were up to standard and robust. Officers would consider what it would mean for future sets of accounts if those accounts were not as robust as one would like. Mr Howse stated that Deloitte had the resources to deal with as much of the backlog as they could, he felt that completing the 2022/23 audit would be more challenging.

Members queried the risks involved and highlighted the recent news regarding Birmingham City Council issuing a section 114 notice.

Mr Howse stated that many councils would likely not meet the backstop dates. There were few companies that undertook local authority audits, and one supplier had approximately 100 councils in a similar situation to Wiltshire Council. However, it was rare for this to happen. His understanding was that if an audit was not complete by the time of a backstop date, then auditors would report everything they knew at that time. They could highlight any issues, detail unfinished work and would try to give as much assurance as possible. Mr Howse further explained that at no stage in the 2019/20 audit had Deloitte raised issues with Wiltshire Council's general fund provision. It was however the auditors work in Birmingham that highlighted the issues and led to the section 114. In terms of risk, there was some risk in not having audited financial statements as auditors did not look at the revenue outturn report, which was what councils relied on for budget setting. There was also some political risk. Otherwise, essentially, the accounts were just a bit late.

Andy Brown, Corporate Director Resources & Deputy Chief Executive (S 151 Officer), stated that Wiltshire Council was not in the same bracket as Birmingham City Council. It was explained that our accounts were compiled at the end of the financial year and estimates made in terms of any provisions that may be required to deal with issues, for example equal pay claims. These would then be tested by the external auditors. The officer felt that our provisions were accurate. Not having a signed off set of accounts did cause some unease as there was no external clarification that these provisions have been tested. However, the issues the council were dealing with in the 2019/20 accounts related to non-cash assets, and it was the cash reserves that mattered in terms of the council continuing to be able to deliver services. The Committee had discussed on many occasions the previous misstatements and errors that required correction. There was a slight disagreement with the auditors in terms of financial stability through the value for money judgement. However, fundamentally, given the length of time if the council was unsustainable that would have come up by now and the council has a balanced three year budget.

The officer further explained that there could be something left field or unknown which came up due to the council not having signed off accounts, but the accounts sign off in itself was no guarantee due to the sample, risk nature approach. However, Birmingham City Council would have been aware of the issues they were facing at the time of closing their accounts (in respect of their equal pay claims), but had not put or estimated provisions to deal with them appropriately. The officer was hopeful that the NAO was progressing the situation and drawing a line under it.

Members sought further clarification on what the backstop dates actually meant and whether the new regulatory framework would take account of the asset valuation issues that had caused many of the problems.

Mr Howse explained that at the backstop date, if the audit was incomplete, then you would draw a line under it and reach a conclusion. This would likely lead to a more verbose audit opinion than usual as the auditors would try to give as much assurance as possible. What still needed to be worked through was what that would then mean for the next set of accounts. If the previous set of accounts were unfinished or there was a disclaimer opinion, then how would one know that the opening balances on the next set of accounts were sound.

In relation to the new regulatory framework Mr Howse stated that he hoped that it would tackle asset valuations. An awful lot of time had been spent on the asset valuations, which were of little value to a member of the public. The NAO would tell auditors what to do, but this could mean that they were not compliant with International Financial Reporting Standards (IFRS), which was what they aimed for.

Lizzie Watkin stated that conversations so far had been focused on audit regulations. She had not been party to any conversations regarding financial reporting or accounting regulations. The officer felt that technical accounting regulations for local authorities should be changed. The council would push for change in terms of the reporting requirements for local authorities.

Members highlighted that there were 24 local authorities on the brink of issuing section 114 notices and that Wiltshire Council was not one of them. Members felt that there was nothing sinister in the failing to sign off the accounts and the likelihood of something unknown lurking in the unsigned off accounts was low. Many people were concerned about these matters instead of focusing on the council's available funds to provide services and deal with issues. Members were concerned that their colleagues who were not part of the Audit and Governance Committee were not aware of these matters and that a briefing note for them would be helpful.

Members queried the scale of the longer term change required and what the implications on staff, resources and costs would be.

Mr Howse stated that widespread change was required. There was a significant shortage of audit partners who could undertake local authority accounts. More trainers for auditors were required, or accreditation needed to be made easier to achieve. There was a requirement to review the code and to work through the CIPFA codes. Another issue was financial reporting for councils as the regulators kept raising the bar which had a knock-on impact on terms of cost.

Andy Brown explained that from Wiltshire Council's perspective we were already over and above in terms of staffing to get all the accounts to a point where we could get an audit opinion. There was a balancing act in terms of the resources allocated as that came with additional costs. The Director of Finance

was managing an overspend related to this. However, the council was committed to additional resources as described. The local government finance sector needed to undertake work on resources, training and succession planning. The council was part of Public Sector Audit Appointments (PSAA) who set audit fees. The council were currently in talks with Deloitte regarding additional fee costs. The council still needed to ensure that they had the right skills and capabilities to close the accounts and they had struggled with this in the past and may well do so again.

Members expressed a degree of concern that part of the issues faced by Birmingham City Council were caused by them changing to new Enterprise Resource Planning (ERP) software, Oracle, which Wiltshire Council were in the process of doing.

Members highlighted again that colleagues and residents needed to understand the situation regarding the accounts. In particular that there was nothing catastrophic or criminal in this. It was a common situation being faced by many local authorities and was related to obscure technical accounting regulations. The Chairman agreed that a briefing note was a very good idea and asked officers if they could provide one.

Andy Brown stated that officers would be happy to provide a briefing or briefing note. He explained that the accounts issues had been reported to the Audit and Governance Committee as it was their responsibility. However, due to the national issues and in particular the recent section 114 notice issued by Birmingham City Council a wider Member briefing would be helpful. It was also important to keep the public informed, which Members could help with once briefed. It was stressed that there was nothing in the accounts that raised concerns regarding the sustainability of the council, which had in fact improved since 2019/20.

In relation to Oracle, Birmingham City Council had an original budget of £20 million, and had faced many issues which cost £100 million to correct. At Wiltshire Council the Evolve Scrutiny Task Group had been involved throughout the whole process. The plan was to go live with Oracle in November 2023 and for payroll in April 2024. Wiltshire Council had learned from mistakes made at other councils. There were controls in place, assessments would be made, and they would not go live unless everything was ready.

At the Chairman's discretion, Cllr Matthew Dean (Westbury West Division) spoke as a guest. He raised many concerns in relation to the situation. This included disappointment that all Members had not been briefed in relation to the accounts. He had voted on financial matters at Full Council without ever having been aware of the situation. He felt that something this serious should have been reported by the Section 151 Officer, the Monitoring Officer, or Cabinet Members at Full Council. He would also have expected the external auditors, especially if they were in dispute with officers, to have drawn this to the attention of Full Council. He felt that even if there were good reasons for the delays this should have been reported.

Cllr Dean detailed the issues which had affected Birmingham City Council and raised concerns that we could face some of the same issues, such as equal pay claims and changing the ERP to Oracle. He was worried that the accounts may not be signed off by backstop dates and what impact this would have of the Council's ability to borrow. He felt there should be a political debate with senior management to assess the staffing situation. In his opinion he felt that we should front load resources to clear the backlog, despite the increased costs this would incur.

Furthermore, Cllr Dean raised concerns about transparency, and felt there was a lack of interest and willingness to share the details further than the Audit and Governance Committee. He felt it was incorrect that Members would find out about the situation by reading about it in the press.

Cllr Dean stated that he was concerned that we were changing auditors and that this added another level of complexity. He also queried the relationship between financial officers and the current auditors.

The Chairman explained that the Audit and Governance was handling these issues in the first instance as it was their responsibility. However, he did agree that a briefing for all Members was a good idea, as discussed earlier. He stated that he had also been unaware of the situation prior to joining the Committee. The Chairman highlighted that the press had picked up on the situation from the minutes of the last meeting. However, they would work to address the issue going forward.

Andy Brown explained that this Committee was charged with governance and signing off the accounts. The Committee were aware of all the details and the national issue with local authority audits and accounts. Discussions regarding this had been taking place at Audit and Governance since he joined the council in 2020 and all agendas and minutes were in the public domain. It was highlighted that the appointment of auditors was outside our control. The council were part of the PSAA who appointed auditors. The decision to be part of the PSAA had been made by [Full Council in February 2022](#). He agreed that conversations should be had regarding any big issues. The problems faced at present were technical accounting issues.

Perry Holmes, Director Legal and Governance and Monitoring Officer thanked Cllr Dean for his comments and felt it was unfortunate that Cllr Dean had been unaware. He stated that it was a matter for all councillors on how they informed themselves on the activity of the council. The officer explained that there had been many hours of discussion at Audit and Governance regarding the technical accounting issues which were a national problem. He had raised the issue within the Annual Governance Statement which had been to the [July meeting of the Committee](#) so felt that the council had been transparent. The officer stated that he had never worked at a council that was as transparent as Wiltshire Council and the recent Corporate Peer Challenge had found there to be high levels of transparency and strong levels of governance.

Mr Howse felt that it was good that councillors who were not part of the Committee could attend and raise questions. He explained that Deloitte could report to Full Council if they needed to. However, at the Audit and Governance Committee, Deloitte had reported extensively over a number of years on the situation. Members had asked appropriate questions regarding the external audit reports. Had the Committee not listened, he would have reported to Full Council. He understood Cllr Dean's frustration and felt that it was disappointing that not all Members were aware.

Cllr Dean highlighted that so much information was imparted to councillors, and there were so many agendas and minutes, he felt it was impossible to keep abreast of it all. Particularly as many Members also worked full time. He therefore thought that this should have been brought to Members attention and requested that in future the Monitoring Officer, S151 Officer and finance team let him, and all councillors know when there was an issue of this nature. Cllr Dean highlighted government regulations which put requirements on him as an elected Member. Cllr Dean also expressed disappointment that the Cabinet Member for Finance was not in attendance. Cllr Dean queried asset transfers to Town and Parish Councils whether there would be liabilities to those organisations in relation to assets.

The Chairman explained that the Cabinet Member for Finance had been due to attend but had tendered apologies due to a medical emergency. The Chairman stated that Cllr Dean's points about important issues being raised with all Members would be taken on board.

Some Members stated that they were fairly certain that the situation had been mentioned at Full Council.

Andy Brown stated that Town and Parish Councils were responsible for any liabilities regarding their assets.

The Chairman proposed the recommendation within the report to note the update and added an additional proposal that officers should produce an appropriate briefing on the current issues for Members. This was seconded by Cllr Gavin Grant. It was,

Resolved:

- **To note the update on the Accounts and Audit backstop dates for the outstanding accounts.**
- **To ask officers to produce an appropriate briefing on the current issues for members.**

NB: An administrative note has been prepared and appended to these minutes, which provides for ease of reference details of meetings at which the accounts and audit situation has been discussed.

Perry Holmes, Director Legal and Governance and Monitoring Officer presented the Stone Circle Annual Governance Update.

The officer explained that Stone Circle was set up in 2019. In 2021 he and Andy Brown, Corporate Director Resources & Deputy Chief Executive (S151 Officer) had undertaken a governance review to see if best practice was being adhered to. The report set out the recommendations approved by [Cabinet in September 2021](#) and the activity that had occurred. Five of the seven recommendations were complete. Stone Circle had been set up with the principal idea to rent out houses above council house rates but below market value rates. The council invested in the company by loaning money to it. The model was similar to a housing association return model, with returns made in approximately 50 years.

The governance structure was highlighted, including the Shareholder Group, Overview and Scrutiny and Audit and Governance.

The Local Partnerships guide mentioned in the report published an update in 2023, and Wiltshire Council was broadly in compliance with this. Lizzie Watkin, Director of Finance and Deputy S151 Officer, was a director of the company so we had clear line of sight.

In terms of whether the council's money was safe it was highlighted that there was a capital value to offset the loan arrangement. In relation to the development company, there was slightly more risk as a lot of money was loaned upfront and the money not returned until the houses were sold. However, this was the lesser activity of the company. The officer felt that when we looked at best practice we were in a very good place and that risks were minimised.

During debate it was stated by Members that they were not seeing the assurances they wanted within the report. It was questioned when we would break even. Financial concerns were raised regarding the housing and rental markets and concerns were raised regarding the risk to the council of this project. A loss was being made at present and it was felt this should be quantified and assessed. Millions of pounds were invested and many Members were unaware. Whether there was an exit strategy in place if things did not go to plan was questioned, and what the cost to the council would be if that happened. It was requested that quarterly finance reports for Stone Circle come to the Audit and Governance Committee.

The officer explained that one needed to remember who was responsible for what under the governance arrangements. It was acknowledged that there was a lack of financial detail in the report, as the Audit and Governance Committee were responsible for looking at the governance framework. Detailed financial information such as how much we had lent, how much risk was involved, when would you get the return and whether there was a loss or profit were all matters for the Overview and Scrutiny Management Committee (OSMC). However, the officer would take away that the Committee would like more detail. It was

acknowledged that there had to be an exit strategy in place and that may need more work.

Andy Brown echoed the points made regarding roles and responsibilities. It was highlighted that in the report were improvements that were still to be made. The shareholders needed to get information from the companies and then determine which meeting was appropriate for it to go to. In relation to some of the financial points raised it was explained that due to the economic conditions, they had gone beyond the original 50 year terms, so the long term viability of the company would be looked at. At the [September 2023 meeting of Cabinet](#) the Financial Year 2023/24 - Quarter One Capital Budget Monitoring report contained details on Stone Circle and it was noted that Minimum Revenue Payments (MRP) would be set aside from 2023/24 for the capital plan. So, the council would be setting aside money to cover the debt if needed, which was the right thing to do. The officer would be looking in the future for a Stone Circle Business Plan that does pay the money back.

Members raised concerns that the OSMC had not formed a task group to look at Stone Circle so there was a lack of oversight.

Members of the Committee that were also Members of the Financial Planning Task Group (FPTG) made it clear that they did not have the capacity to look at Stone Circle finances, due to an already very heavy workload. The Members suggested that some of the points raised in discussion and the lack of oversight, which was a concern to them, be raised with the OSMC.

Officers concurred that scrutiny did need to take place and that they would take that forward.

Members raised environmental and climate considerations in relation to Stone Circle and queried whether the standards within the draft Local Plan could be adopted.

Officers explained that the Stone Circle Board had set out climate / environmental aspirations in their Business Plan. The Shareholder group should hold the company to account in terms of whether they are meeting the requirements. The council owned Stone Circle so it could state that the operation should be zero carbon, however, it was a startup company and was growing slowly, and there had been problems in the economy. We did want them to be above current building regulations.

Mr Howse of Deloitte stated that at some point the Stone Circle group accounts would form part of the audit. Officers had suggested this, but Deloitte had requested that this be delayed until the backlog of accounts had been cleared.

Members queried the progress against recommendations and in particular why the Stone Circle Business Plan had not been in the new format. Officers explained that the new format was to include performance indicators such as loan exposure and number of properties, as well as covering longer term financial stability. The new format Business Plan had been deferred to 2024/25

as the company had been proposing a 5% increase in rent each year. Wiltshire Council asked them to lower this to 2% as they wanted to help provide affordable housing and were nominating tenants in need of accommodation. The company had raised concerns around that. The new format Business Plan would likely be considered early in 2024.

Members queried why the site purchased in Ashton Street, Trowbridge had been identified as unviable by the company. Members also questioned the governance relationship between the company in determining that the site was unavailable and Wiltshire Council deciding to take on the site as 100% affordable housing.

Officers explained that the development company paid a higher rate on the loan, so on their modelling, they would make a loss. This issue came to the Shareholder group, following which an asset gateway officer group was gathered to look options for the site. The options included a potential Social, Emotional, Mental Health (SEMH) school site, affordable housing and selling the site. It was determined that the best option was to use the site for affordable housing.

Members applauded the fact that we were working to increase housing. They felt that it should be emphasised to the public that we are determined to house people, but that there was risk involved. Likewise, all councillors should be kept informed.

Officer stated that they would review the situation, to see if there were additional ways that transparency could be increased, and communications improved so that these matters were brought to attention of Members and the public.

The Chairman, seconded by Cllr Gavin Grant proposed the recommended proposals in the report, which were:

- To note the updates to governance arrangements for the Stone Circle companies since the previous report to the committee in September 2022
- The Committee is also asked to comment and make suggestions on future governance for the Stone Circle companies as they see fit.

The Chairman asked Members to detail the comments/suggestions they would like to recommend. Following debate on those matters and approval from the proposer and seconder regarding the amendments, it was,

Resolved:

- **To note the updates to governance arrangements for the Stone Circle companies since the previous report to the committee in September 2022.**
- **To request OSMC set up a relevant body to scrutinise Stone Circle.**
- **That officers would review the lines of responsibility to ensure that Members were appropriately informed.**

- **That the two outstanding recommendations would be addressed by the end of the year, and appropriate KPI's would be developed as part of regular reporting.**

46 **Service update on S106 financial controls audit**

Nic Thomas, Director of Planning and Sally Canter, Head of Building Control and Technical Support presented the service update on the S106 financial controls audit.

The internal audit had looked at how S106 should be applied, how they were recorded, triggers and how they were reported. The Community Infrastructure Levy (CIL) had not been included in the audit.

This audit built on a 2019 audit looking at the collection of funds, overall results had been positive, but some issues had been identified.

The findings of the internal audit and the actions being taken to address them were detailed in the agenda report.

Additional resources had been allocated and additional training had been given. The team were committed to reviewing policies and guidance on how monies would be requested, this work was going on in parallel with the Local Plan. The internal audit had picked up on anticipated issues and the team were confident that they could implement the actions to improve.

Members stated that occasionally Wiltshire Council paid S106 monies that were due to town and parish council's late and did not pass on any interest that would have been accrued whilst holding the funds. This could sometimes amount to large sums and when paying parishes 2 or 3 months late it could have a really big impact on them, sometimes rendering the schemes they had planned unviable. Therefore, it was requested that monies be passed on more quickly.

The officers explained that when transferring funds this was done in line with signed agreements, which could take some time. Legal agreements also had to be in place, and these could also take time. Officers stated that it would be good to have standard agreements to make the process quicker, and they would pick that up with the legal team.

Members expressed concerns about the pressure of S106 agreements on the legal team and wanted to ensure that there were adequate resources in place. Officers agreed that the pressure on the legal team could be an issue and that it was difficult to get suitably qualified solicitors. The agreements also took a long time to negotiate. It was stated that it might be possible to ask for funding to recoup legal costs which could be sued to help bolster the team.

Members also raised concerns regarding ecological offsets and art gain. It was hoped that people could be engaged earlier in the process to ensure that funds were used correctly and to the maximum benefit of the community. Officers stated that the directorate was reviewing the public art strategy and considering

how it could be taken forward, although this work was at an early stage in the process. Working out the schemes with the community was essential and they would try to include that in the revised policy. Officers explained that they also wanted to roll out training and engagement for parishes regarding S106 agreements.

Members highlighted that solar farm companies often gave sums of money to parish councils where they were building solar farms. This did not seem to be governed by any kind of policy. Members queried whether a model could be agreed and applied. Officers stated that there very strict rules regarding S106 payments, and this was not covered, so sometimes developers of solar farms made their own arrangements with parish councils.

Regarding the reporting actions detailed at finding 10, Members asked if reports could be generated by division, so that Members could get all the information on S106 agreements in their division. Officers confirmed that this was possible. Reports could be generated by parish, division and geographical areas. Members could ask for these reports by contacting the planning team and advising of the date parameters and area.

Members queried whether Oracle would help with monitoring S106 monies and chasing delays. Officers explained that all monitoring would take place using the new planning database (Arcus) and that the internal auditors had felt that was appropriate. Officers had not yet looked at the interface between Oracle and Arcus, but they would work closely with finance officers to reconcile and track funds.

Members highlighted the affordable housing requirements in the new draft Local Plan and the impact that would have on CIL and S106 monies, as S106 did not apply to affordable housing. Officers explained that the affordable housing requirements would increase. In the main it would be 40% across the board and on brownfield sites 10%. However, developers could request a reduction. Viability of sites could be an issue, and comments to that effect had already been received from developers.

Members asked how S106 monies were included in an audit and accounts perspective. Officers explained that as part of the audit process they shared information on money in the bank and money for each service area. Different services spent the S106 monies at different rates. However, it was part the audit process.

All Members welcomed the report and the work that had been done to improve.

At the conclusion of the debate, it was,

Resolved:

To note the update.

The Forward Work Plan for the Committee was presented for consideration, and it was,

Resolved:

To note the FWP.

48 **Date of Next Meeting**

It was announced that the next regular meeting of the Committee would be held on 22 November 2023 at 10.30am.

49 **Urgent Items**

There were no urgent items.

(Duration of meeting: 2.30 - 5.20 pm)

The Officer who has produced these minutes is Tara Hunt of Democratic Services, direct line 01225 718352, e-mail tara.hunt@wiltshire.gov.uk

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