

Present: Councillor Tom Ashton (Chairman), Councillor Martin Howard MSc. PCGM, Cert Ed (Vice-Chairman), Councillors Alison Austin, George Cornah, Anton Dani, Anne Dorrian, Frank Pickett, Peter Watson and Mr Alan Pickering

In attendance:

Officers –

Section 151 Officer, Audit Director (Mazars), Head of Internal Audit (City of Lincoln Council), Principal Auditor (City of Lincoln Council) and Senior Democratic Services Officer

44 MINUTES

The minutes of the meeting held on 27th January 2020 were agreed as a correct record, to be signed by the Chairman.

45 APOLOGIES

There were apologies for absence from Councillor Martin Howard.

46 DECLARATION OF INTERESTS

None.

47 PUBLIC QUESTIONS

None.

48 FUND MANAGER PRESENTATION

Mrs Kay Akast, the manager responsible for investor relations, and Jon Rowley, Fund Manager, of M&G UK Property Fund gave a presentation, which gave an update on the real estate market and the fund in which the Council had invested with a projected outlook, and then answered a range of questions from Members.

The presentation is available in PDF format and shown in detail on the YouTube recording of the meeting at [Audit & Governance Committee - YouTube](#)

Mrs Akast gave details of the highly experienced and well-resourced UK property fund team under Jon Rowley, as Fund Manager.

Mr Rowley detailed property returns, making the key point that, despite the negative impact of the pandemic, total returns for the three months to September 2020 were positive, at +0.7%. In terms of yield spread, when compare with bonds, property yields were looking more attractive at the current time. Rental returns from retail were declining; however, returns from industrial were increasing.

Describing the size of the property fund, Mrs Akast highlighted the vacancy rate, which at 1.3% was extremely low against the benchmark of 9%, and was actually lower than

when the Council entered the fund. It had been more challenging to meet targets since the start of the pandemic, but they continued to work towards them.

The key objectives of the investment strategy remained the same. In terms of performance, Mr Rowley explained that there had been some underperformance, but more recently, the fund was performing well and was above the benchmark. The Council's annualised performance since September 2018 was -3.3%, but this was significantly better than others.

Rent collections had been affected by the pandemic, due to the Government's moratorium on paying rents, but it was expected that levels would improve significantly as agreements for payment were reached. The fund had very limited exposure, just 1.2%, to retail Company Voluntary Arrangements (CVAs) and administration. Mr Rowley gave details of the fund's income profile; sector allocation; the use of deferrals to manage liquidity; and asset management, reporting a positive impact from rent review, lease renewals and new lettings.

Mr Rowley concluded by outlining the fund's performance against the Global Real Estate Sustainability Benchmark (GRESB), which had awarded the fund 4 out of 5 'green stars' and rated it in terms of peer comparison as 5th out of 79.

In summary, the team would continue to focus on a reduction in retail allocation as the key action in the short term and continue to actively manage the portfolio to maximise distribution yield, add value and mitigate risks. The fund had high quality, low risk assets, a secure income profile, low vacancy rate, good tenant quality, active management and an experienced investment team.

In response to a range of questions, Mr Rowley explained that a key strategy of the fund was to reduce its retail exposure and increase its exposure to other sectors.

Members were assured that tenants were contracted to pay their rents and once the Government's moratorium on rents had ended, appropriate action would be taken to obtain payment, though lack of trade during the lockdown would be taken into account and some rent free weeks allowed.

It was possible that there would be an adverse impact on the economy, but this had not been factored into projections due to the assistance offered to businesses by the Government and focus would continue to reduce retail allocation within the fund.

Members were also reassured that it was not generally advisable to sell up in a depression; instead, they should hold firm and see the situation through. The fund had a very strong industrial portfolio as well as alternative portfolios.

In response to concern about investment in student accommodation, with more students learning online, it was confirmed that this was a small element of the portfolio and was high quality property.

The team were very conscious of the trend to turn empty shops into residential properties and alternative uses a property could be put to were taken into consideration. Risks were always attached to investment, so total assurance could not be given, but they were doing all they could to mitigate them. It was also advantageous that the

majority of the fund's retail units were in retail parks, which had withstood the lockdown very well.

The Chairman thanked Mr Rowley and Mrs Akast for their presentation and for reassuring Members about the fund, particularly in terms of the balance of the portfolio, the low exposure to retail, and low vacancy rate, and reiterated the view that the Council's investment was for the long-term.

49 MONITORING OFFICER CONFERENCE

The Monitoring Officer gave Members a verbal update on the conference, which had taken place since the publication of the agenda pack.

The Monitoring Officer reported that the Local Government Association's emerging new Code Of Conduct had been discussed at the conference and the final version was likely to be published in early December following the summer consultation exercise. A detailed report would be submitted to the Committee following the code's publication.

The Monitoring Officer then detailed the key points made at the conference. The code had received all-party and all-sector support and was considered a very strong code, designed to improve ethics and probity in local government.

The Monitoring Officer then went through the main sections of the code.

Respect/Civility

The word respect would be contained in the code. This related to respect for the role as well as the individual to protect against bullying and harassment. This was especially important for parishes where, in some instances, relations between parish councillors and clerks had deteriorated.

Equalities

Reference to equality duty was essential and would be included, and there would be further distinction between bullying and harassment.

Social Media

It was essential for a new code to cover social media, which was not as prevalent when the last code was published in 2011, as well as conduct in virtual meetings.

Acting as a Councillor

This related to the distinction between acting as a Councillor as opposed to acting as a private individual.

Members had to make clear when they were not working as a Councillor at the time of an issue, e.g. "I am not working at the moment". Then, if there was a complaint, it would be clear that a boundary had been set. If, during a discussion, a Member declared "I am a Councillor" then that would invoke "acting as a Councillor" and the code of conduct would be engaged.

Disrepute

The code would give a clear explanation of the meaning of disrepute and it was expected that this would cover instances where, for example, a Councillor had in the past been convicted of benefit fraud against their own authority, but were still allowed to continue to serve as Councillors.

Another situation related to Article 10 of the Freedom of Speech. The new code would include reference to *respect*, and a case would be considered as to whether it amounted to personal abuse or political comment. If it was personal abuse, it would be disrespect. For political comment there would be some protection, though it had to be proportionate and reasonable.

Sanctions

The new code would make provision for local informal resolution, which would include informal discussion with the Monitoring Officer or appropriate senior officer; discussion with affected parties; written apology; mediation; peer support; and training. For more serious cases, it would involve non-attendance at meetings or contact with affected officer etc.

There would be a series of training sessions for Members on each individual section of the new code of conduct before the code's adoption and this would involve the Local Government Association, as the changes were quite significant. This would be discussed with the Councillor Development Group at its next meeting.

The Chairman welcomed the new code of conduct; it had broad support and it would be beneficial to having various different versions of a code.

Mr Pickering expressed satisfaction that the new code would soon to be published and hoped it would be nationally accepted.

50 AUDIT COMPLETION REPORT 2019/20

Mark Surridge of Mazars presented the Audit Completion Report for 2019/20, which set out the company's findings from its audit of the Council for the year ending 31st March 2020.

Mr Surridge reported that the pandemic had had a significant impact on finance teams; it had been a very challenging period for staff and Mazars expressed sincere thanks to the Council's finance team for their hard work. The report was very good and there were no real issues, with the only matters raised being national points.

The audit work was almost complete; there had been pressures to complete it by the deadline of 30th November due to sickness absence etc. Very few adjustments needed to be made to the financial statements and none needed to be brought to the Committee's attention.

An issue for Members to consider was that the significant audit risks were unchanged, but the pandemic had had an impact on the valuation of land and buildings, and

investment properties. This meant there needed to be a small disclosure note in the financial statements regarding material valuation uncertainty; however, the valuation in the statements was still the best estimate at the year-end.

The assurance letter from the pension fund was still awaited. The material valuation uncertainty disclosure would probably also reference the pension assets. However, it was reiterated that this was still the best estimate.

An unqualified opinion would be issued on the accounts and an unmodified opinion would be issued with respect to the value for money conclusion.

It was noted that Covid-19 was an issue for 2020/21, not 2019/20, and the impact on the medium term financial plan would be subject to continuous review.

Members commented that the audit gave the Council a clean bill of health.

Mr Surridge and his team were thanked for completing the work in very difficult circumstances.

51 INTERNAL AUDIT UPDATE

John Scott, Audit Manager, presented the progress report on Internal Audit work for the year 2020/21, as at November 2020.

Mr Scott outlined the key messages of the report. During the period 1st April to 31st August, Internal Audit had not completed any assurance reviews due to the COVID pandemic. They had revised the Internal Audit Plan presented to the Committee in January 2020 to take account of reduced resources for the remainder of 2020/21, commencing from 1st September 2020.

A revised plan to deliver 75% of standard audit days had been agreed with management and was set out in Appendix 4. The revised plan was focused on core financial audits and other key areas, including COVID assurance, to enable Internal Audit to provide an annual opinion on the governance, risk and control environment at the year-end. Work on the revised plan had begun as planned in September.

There were four audit reports in progress:

- Alliance Governance Arrangements
- Covid-19 Assurance (an initial assessment to determine what changes were caused by the initial lockdown and subsequent restrictions and if they had any significant impacts on the risk and control environment)
- National Non-Domestic Rates (NNDR) Risk Based Audit
- ICT security assurance

A summary of progress made by management in response to recommendations from previous audit reports were set out in Appendix 3.

In addition, Internal Audit had completed a consultancy piece of work it had been asked to carry out. This involved reviewing the decision-making process around the

suspension of car parking charges since March 2020 to ensure it was in line with the Council's constitution. The key points of the review were set out in the report.

During debate, a Member made the following points:

- Decision notices about car parking charges should be clearly visible and accessible to the public so that decisions were transparent.
- The Council could be vulnerable to cyber-attacks; Internal Audit should examine this and inform Members of the measures the Council was taking to mitigate the risks.
- Internal Audit should consult Scrutiny Members on the Strategic Alliance when undertaking this audit.
- Committee Members should receive a copy of the Council's response to the draft Code of Conduct consultation.

In response to these points and other comments, Mr Scott explained that Internal Audit was examining the Strategic Alliance's memorandum of agreement and looking to benchmark against it. Internal Audit would speak to the Local Government Association with respect to good governance for Councillors.

The Section 151 Officer explained that the IT Manager was responsible for the Code of Connection measures with respect to cyber-attacks. Mr Scott reported that they had they were not aware of any specific fraudulent targeting of the Council recently though thousands were attempted every day. The Section 151 Officer confirmed this and pointed out that Internal Audit looked at hundreds of controls every year and the work was always contained in the plan.

The Chairman thanked the Internal Auditors for their work in very challenging times.

52 DRAFT STATEMENT OF ACCOUNTS

The Committee considered a report, which updated Members on the outcome of the audit of the Financial Report 2019/20, and sought formal approval prior to its publication.

There were some outstanding issues yet to resolve, notably the pensions statements and property valuations. Therefore, it was requested that delegated authority be given to the Chairman of the Committee in conjunction with the Section 151 Officer to make the required changes if any figures materially changed as a result of the finalisation of the accounts.

The Section 151 Officer extended thanks to the Accountancy Manager (Revenues & Systems) for the significant amount of work undertaken during the process. Mazars' report, considered earlier in the meeting, had given a glowing verdict on the accounts. Expenditure had been within budget, reserve levels were healthy and the Council was in a good position.

The Committee was asked to approve the Financial Statements 2019/20 and Annual Governance Statement for publication as set out in Appendix A to the report. In addition, if no adjustments were required as a result of the ongoing audit by Mazars, the Committee was asked to agree that the Chairman and the Section 151 Officer should sign the Letter of Representation, a copy of which was attached at Appendix B.

Following some points of clarification requested by Members, the Committee agreed unanimously that the accounts and the AGS be approved, and the Letter of Representation be signed.

The Chairman thanked the Finance Team for their extensive work

RESOLVED: That the Financial Statements 2019/20 and Annual Governance Statement for publication, as set out in Appendix A, be approved and, if no adjustments are required as a result of the ongoing audit by Mazars, that the Chairman of the Committee and the Section 151 Officer sign the Letter of Representation at Appendix B.

53 WORK PROGRAMME

The Committee considered the work programme and noted the addition of consideration of the Local Government Association's Code of Conduct when it was released.

The Meeting ended at 8.30 pm