

BRECKLAND COUNCIL

At a Meeting of the

AUDIT COMMITTEE

**Held on Friday, 19 November 2010 at 2.30 pm in
St George's Room, Elizabeth House, Dereham**

PRESENT

Mr G.P. Balaam
Mr R.P. Childerhouse
Mr P.J. Hewett

Mr C.R. Jordan (Chairman)
Mr R.G. Kybird (Vice-Chairman)

Also Present

Mr P.J. Duigan

Mr M.A. Kiddle-Morris

In Attendance

Margaret Bailey
Kevin Sharman
Chris Brooks
Mark Finch
Julie Britton
Lloyd Gibson
Mark Stokes
Steve Udberg

- Senior Accountant Capital and Treasury
- Audit Manager
- Governance and Performance Accountant
- Head of Finance
- Senior Committee Officer
- Commercial Solicitor
- Deputy Chief Executive
- Head of Asset Management

71/10 APOLOGIES (AGENDA ITEM 1)

There were no apologies for absence.

72/10 URGENT BUSINESS (AGENDA ITEM 2)

None.

73/10 DECLARATION OF INTEREST (AGENDA ITEM 3)

None.

74/10 NON-MEMBERS WISHING TO ADDRESS THE MEETING (AGENDA ITEM 4)

Mr P Duigan and Mr M Kiddle-Morris.

75/10 EXCLUSION OF PRESS AND PUBLIC (AGENDA ITEM 5)

RESOLVED that under Section 100(A)(4) of the Local Government Act 1972, the press and the public be excluded for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A to the Act.

76/10 PROPOSED INVESTMENT PROPERTY ACQUISITION (AGENDA ITEM 6)

The Executive Member for the Economic & Commercial Portfolio thanked

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the Chairman for bringing the item to this an emergency meeting. He advised that since the publication of the agenda, a number of the risks on the Risk Register had changed and a further risk had been added (see Risk Ref No. 17).

The Head of Asset Management provided Members with a verbal update to confirm that due diligence had been completed following Council's approval to the acquisition of an investment for inclusion in Breckland Council's property portfolio.

Following the Council's approval, Breckland Council had been able to enter into a formal 'lock out' period which expired on Wednesday, 24 November 2010; therefore, the timing of this meeting had been pertinent and crucial.

The report that had been presented to Full Council had set out Breckland Council's position on the matter subsequently this report provided Members with a written update on the due diligence process.

The property would not be a risk free investment and the role of Asset, Legal and Finance had been to identify risks and present to the Committee with any findings.

Each risk on the revised Risk Register was explained in detail.

A Member felt that an "exposure draft" would be pertinent to Risk 1 and therefore felt that the risk should be scored higher than one. He explained that such a draft was supposed to come into effect sometime in 2011/12 and this lease would extend into that time period.

Questions were asked about business risk failure. Members were content with the response.

A Member had taken an interest in the environmental risks highlighted in the report as it suggested that the property had some environmental issues. The Head of Asset Management advised that the site check report had been based on a desk top analysis, since then, a specialist Phase 1 report had confirmed that there were no contamination issues. Members were pleased to note that a formal assignment for Breckland would be obtained.

Referring to Risk no. 12, the Chairman felt that this should be scored as a bigger risk to take into account the current economic climate. Members were informed that the Council had relied on the reputation of the valuer and the purchase amount had been based on current market prices.

In response to a concern, it was noted that the car park was included in the Head Lease.

The Commercial Solicitor addressed the matters that had been set out in the memo attached to the report.

Members were encouraged to ask questions.

A Member wished to know why the current owner had chosen this particular time to sell. The Head of Asset Management advised that the Council had asked the vendors this question and the answer was still awaited. He put forward his thoughts and beliefs on the matter in question.

A question was asked as to why the previous buyers had decided not to proceed. Members were informed that the previous buyers had been unable to perform within the timescale as they had been reliant on financial assistance from the banks. The Chairman felt that this should

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put the Council in a better position to negotiate a lower price as no financial assistance would be required. The Head of Asset Management agreed that there were limited cash buyers in the market but there had been other offers on the property. Negotiating a lower asking price could put the Council at risk of losing the deal altogether as well as putting the Council up against other competition.

Previous fire damage and the builder's warranties for the work that had been undertaken were discussed.

The Head of Finance provided Members with the financial aspects of the acquisition. Most points had been covered in the risk register and in the Commercial Solicitor's verbal update but he summarised the 'base', 'reasonable' and 'optimistic' scenarios and confirmed the key financial risks that would remain. It was noted that the 'base' scenario had been based on the current rental income.

In response to a question about what Asset, Finance and Legal felt was the biggest financial downside, the Head of Asset Management stated that, in his opinion, the downside revolved around the tenant's covenant, otherwise, the acquisition was categorised as a low risk, the property was well located, had good sub-tenants and a had long lease.

Members unanimously agreed this would be a good investment opportunity for the Council and confirmed that due-diligence had been satisfactorily completed.

77/10 NEXT MEETING (AGENDA ITEM 7)

The arrangements for the next ordinary meeting of the Audit Committee on 14 January 2011 were noted.

78/10 BUDGET PRESENTATION (AGENDA ITEM 8)

The Head of Finance provided Members with an overview of the spending review and covered the key aspects that had been presented to Executive Board meetings throughout the year.

A presentation was provided.

The comprehensive spending review headlines for receipts and expenditure were explained.

Part of the grant that the Council received relating to concessionary fares would be moved to County Councils in 2011. This would have implications to local authorities as it would affect the Formula Grant. The Head of Finance was unsure what would happen to district funding as the paper that had been promised following the CSR announcement detailing the consultation outcome had not been published.

A 2 + 2 year settlement, which used to be a 3 year settlement, was expected to be announced in early December; however, there had been some speculation on this being delayed which could have an impact on Committee dates, meaning the Budget Settlement report may have to skip a Committee cycle.

The assumptions in preparing the revenue budget were explained and the Estimated Settlement chart from 2011/12 to 2015/16 was shown.

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The efficiency requirement of £328k would increase by this amount year on year but would partly be off-set by the projected New Homes Bonus. This new reward would more than cover the efficiency requirements as the Council moved forward; however, it was emphasised that it only related to new additional homes and not existing and there was a risk associated with relying on this Bonus as the details would not be confirmed until the New Year.

The interest earned would return to more 'normal' market levels by 2012/13.

Costs saved through the new shared management and ICT structure were highlighted, as well as the RSV risks.

A Member congratulated the Finance Team for being prudent enough in preparing for these budgetary changes and cuts far enough ahead.

The Chairman agreed with the aforementioned comment, Breckland Council was in a very good financial position compared to many other authorities.

The meeting closed at 4.30 pm

CHAIRMAN