BRIGHTON & HOVE CITY COUNCIL

AUDIT, STANDARDS & GENERAL PURPOSES COMMITTEE

4.00pm 28 JANUARY 2025

COUNCIL CHAMBER, HOVE TOWN HALL

MINUTES

Present: Councillor West (Chair) Guilmant (Group Spokesperson), Atkinson, Baghoth, Grimshaw, Mackey and Meadows

Other Members present: Councillors

PART ONE

28 PROCEDURAL BUSINESS

28a Declarations of substitutes

28.1 There were none.

28b Declarations of interests

28.2 There were none.

28c Exclusion of the press and public

28.3 In accordance with Section 100A of the Local Government Act 1972 ("the Act"), the Committee considered whether the public should be excluded from the meeting during consideration of any item of business on the grounds that it is likely in view of the business to be transacted or the nature of the proceedings, that if members of the public were present during it, there would be disclosure to them of confidential information as defined in Section 100A (3) of the Act.

28.4 **RESOLVED** - That the press and public not be excluded from the meeting.

29 MINUTES

29.1 **RESOLVED** – That the minutes of the previous meeting held on 24 September 2024 be approved and signed as the correct record.

30 CHAIR'S COMMUNICATIONS

30.1 The Chair provided the following communications:

“Earlier this month, I attended a webinar provided by Grant Thornton, our external auditors, which was delivered for Audit and Standards chairs. There was a lot of ground covered from the challenges that local authorities continue to experience with austerity through to the national audit backlog, Audit reform and local government reform. As we know, austerity has left council budgets 40% smaller and there is apparently a £3 billion shortfall predicted for 2025. This is nationally. Part of the impact has been the erosion of local governance structures and internal audit capacity, which in turn effects integrity and hampers improvement. Drawing lessons from recent unitarisations, Grant Thornton was keen to stress the considerable capacity and cost challenges authorities faced with local government reform, and how it can take time to realize any financial benefits. Another key point made was the need to increase public accessibility of council financial information, the complexity of which for many people proves impenetrable, and this erodes public trust. It was noted that a number of Audit Annual Report key recommendations issued for improvement in cases of significant weakness has more than doubled since 2021. There was also discussions of the local audit reform green paper published just before Christmas, which includes a proposal to establish a local audit office, this will be an interesting one for us in time to come. Grant Thornton have made a number of insightful recommendations to government seeking greater financial sustainability for local government through multiyear settlements and a more collaborative approach that would assist national mission delivery. This all makes huge sense to me and I’m sure to yourselves, we just need the government to grasp the nettle too. I will ensure that Members receive a link to the slides which also sign-post a number of other useful publications. I hope Members will it find of value.

Internal audit training, just to remind Members that internal audit officers are providing a session on the 11th of February. This is an opportunity for committee members to learn more about the internal audit planning process and to provide input into the 25/26 audit plan. Unfortunately, I am now unable to attend the session myself, but I need to catch up with officers to understand what proposals have been made and their response to them. So, I hope other Members will be able to attend that session.

Members will also be aware the recent government consultations, there have been plenty of them, on the future shape of the standards framework. It will be interesting to see the next steps flowing from this. I myself responded. I'm sure others did as well. As the standard updates report on our agenda mentions, the Monitoring Officer recently consulted me as chair on the extension of David Bradly's appointment as an Independent Member. David has a wealth of experience and remains enthusiastic and committed through his work with us, and I think we're very fortunate to have his support.

We have a number of significant areas before us on the agenda. In particular, we will be reviewing receiving the external audit value for money report, considering changes to contract standing orders, and I've asked officers to share one page summary on that with all members, and we'll be taking that paper again at full Council on Thursday. And it is pretty hard to understand it all. I haven't heard news on whether that summary is yet available, but that would be useful, if not before Thursday, certainly afterwards. We've also got the code of Code of Corporate Governance and Risk Management Framework paper before us, and this proposes adding risk implications to Cabinet reports. Which is a significant addition to documentation. I think, and I've asked if it might be possible for all Members to receive training on risk management. So you know, because we've got a paper before us, I've seen these things plenty of times. But if you're unfamiliar, it's hard

to get the best out of it. And if we're going to have the implications reported at Cabinet, then all members need to know how to best engage with that."

31 CALL OVER

31.1 The Democratic Services Officer called the agenda items to the committee. All items were reserved for discussion.

32 PUBLIC INVOLVEMENT

32.1 No public representations were received.

33 MEMBER INVOLVEMENT

33.1 Councillor Sykes read the following question:

"The i360 ceased operating as a visitor attraction in December 2024 when the company filed to enter administration. Financial details concerning options and liabilities are kept hidden from public and member scrutiny, ostensibly because they immediately concern a private company. Does this committee consider that it needs better sight of options and potential future additional liabilities associated with the i360, exercising the Council's rights as a creditor, as these options and liabilities are likely to impact on our council, and in terms of scale may exceed our external auditors' reporting threshold concerning 'triviliality'?"

33.2 The Chair provided the following reply:

"As a UK company, the i360's accounts are lodged with Companies House as for all companies. Its external auditor is Kreston Reeves LLP. Please see the .gov.uk website: BRIGHTON I-360 LIMITED filing history - Find and update company information - GOV.UK. The council has no ability to publish unaudited information from a private company. The last audited accounts are to June 2023. The council understands that it is unlikely that accounts to June 2024 or later will be posted as the company insolvency process (Administration) has now taken precedence.

I am informed that the council has provided information about the impact on its finances through numerous press releases, freedom of information requests and publicly available budget setting and budget monitoring reports to Committees, Cabinet and Full Council. Some information about the debt and ongoing financial impact has therefore seems to have been provided.

In summary, the i360 company owes the council £51 million under the terms of its financing agreement. However, this includes commercial terms and a Coast to Capital loan. The underlying loss to the council is actually £32 million, being the sum owed to the government for the underlying loans.

The cost of servicing the government loans is £2.2 million per annum until maturity in 2041. Due to the i360's inability to make full repayments and to allow it to remodel its business, the council reduced their repayment requirement to £1 million per annum until further notice as approved by Full Council in February 2023. Further budget provision of

£1 million per annum is therefore required from 2024/25 to fully service the government loan repayments (Minimum Revenue Provision).

In terms of options, I'm informed the council's only direct option would have been to exercise its 'step in' rights allowing it to either:

i) Find an alternative operator. However, I'm told no operator would have taken the business on with the debt. This scenario would therefore have resulted in the same loss with the added risk that the council would have taken over liability for redundancy costs, payments to other creditors and legal costs to exit the business if an alternative operator were not found.

ii) Take over the direct running of the attraction. However, the Council's administration saw that there are many reasons why this was not a viable option including:

- The council would have had to commission commercial expertise and appoint a commercially experienced management team to remodel the business. This would be at significant expense with no guarantee of success given that the i360 company had commercial expertise on its board of directors and had engaged commercial consultants over the last few years.

- The venue needs significant investment to change the business model and remodel the venue but again, with no guarantee of success. The i360 company was not able to raise further commercial finance and the council is felt to not be in a financial position to take such a risk given its severe financial challenges. Regarding the latter point, the council has had to make savings of £175 million since 2014 when the i360 decision was made. The i360 debt is not therefore the substantial driver of the council's financial challenges which have been caused by reducing government grant funding and significant growth in social care and homelessness demands. The main advantage of sale in administration is the hope that a new operator will purchase the business unencumbered by the debt and therefore willing and able to invest directly or raise finance for investment to make the site a success for the area and city.

- Very significantly, the administration saw that the council would have had to take over the staff, running costs and other liabilities of the business. Staff would be entitled to local government pay, conditions and pensions, immediately increasing costs significantly and leaving the council liable for any redundancy costs for the restructuring of the staffing. Other creditors including HMRC, business suppliers and the landlord of the site would have had claims on the council which, as a large public authority, could not be waived or disregarded. It would also be paying the full business rates and would lose 50% of these to government.

- There would also be substantial legal costs in effecting the transfer of the business.

These options were discussed in previous committee reports as the i360's financial performance deteriorated, particularly the Special Policy & Resources Committee on 27 February 2023. They were dismissed for the same reasons with restructuring of the i360's financing arrangement the only potentially workable option while it remained cash solvent but recent events meant this was no longer a viable option.

The accounting treatment of the government debt repayable in respect of i360 loans has been tested with the external auditor in previous years and is in line with the council's approved repayment plan (known as MRP) and is not expected to change significantly

On a final note, I would like to remind us that as a visitor economy, it has always been vital for the city to continually reinvent and up its offer. The Victorians built two Piers, Madeira terraces, the Volks Railway and even the fabulous Daddy Longlegs. The i360 was conceived as an attraction, but also unlocked significant investment in the redevelopment of the Sea Front area.

I feel it is a great shame that the i360 has faced the challenges that it has, but who could have predicted the calamity of Brexit and the way COVID would alter behaviour across the whole of the hospitality and visitor sector? So, it is heartening that a new operator now sees a future for the attraction and is willing to give it a go.

I think that we all need to now get behind the i360 and help it succeed for the city.

Thank you again for your question, Councillor Sykes."

34 EXTERNAL AUDITOR'S ANNUAL REPORT 2023-24

34.1 The committee considered the external auditor's (Grant Thornton's) Annual Report for the year ending 31 March 2024 reports on the council's value for money arrangements including an assessment of financial and governance arrangements. It should be noted that the report is an interim report at this time and will be issued as final on completion of the parallel financial statement audit.

34.2 Councillors Atkinson, Baghoth, Guilmant, Grimshaw, Mackey, Meadows, and West asked questions and contributed to the debate of the report.

34.3 **RESOLVED –**

That the Audit, Standards and General Purposes Committee note the Auditor's Annual Report (Value For Money) for the financial year ending 31 March 2024.

35 ANNUAL SURVEILLANCE REPORT 2024

35.1 The committee considered the Annual Surveillance report to appraise the committee of the activities that have been undertaken utilising the powers under the Regulation of Investigatory Powers Act 2000 (RIPA) since the last report to Committee in January 2024

35.2 Councillors Guilmant and Meadows asked questions and contributed to the debate of the report.

35.3 **RESOLVED –**

That the Audit, Standards and General Purposes Committee:

1) Approves the continued use of covert surveillance as an enforcement tool to prevent and detect crime and disorder investigated by its officers, providing the activity is in line with the Council's Policy and Guidance and the necessity and proportionality rules are stringently applied.

2) Notes the surveillance activity undertaken by the authority since the report to Committee in January 2024 as set out in paragraph 3.3 in the report.

3) Approves the continued use of the Policy and Guidance document as set out in Appendix 1 in its updated form.

36 INTERNAL AUDIT AND COUNTER FRAUD QUARTER 2 PROGRESS REPORT 2024-25

36.1 The committee considered the Internal Audit and Counter Fraud Quarter 2 Progress Report to provide Members with an update on all internal audit and counter fraud activity completed during quarter 2 (2024/25), including a summary of all key audit findings. The report also included an update on the performance of the Internal Audit Service during the period.

36.2 Councillors Atkinson, Guilmant, Grimshaw, and West asked questions and contributed to the debate of the report.

36.3 **RESOLVED –**

That the Audit, Standards and General Purposes Committee note the report.

37 CHANGES TO CONTRACT STANDING ORDERS

37.1 The committee considered the Contract Standing Orders report setting out the significant changes to the Council's Contract Standing Orders that are required and includes as Annexes a copy of the new Contract Standing Orders and an Appendix to the Contract Standing Orders for approval by Full Council.

37.2 Councillors Baghoth and Grimshaw asked questions and contributed to the debate of the report.

37.3 **RESOLVED –**

That the Audit, Standards & General Purposes Committee:

1) Note the proposed changes to Contract Standing Orders.

2) Recommends the updated Contract Standing Orders at Annex 1 to full Council for approval.

38 CODE OF CORPORATE GOVERNANCE AND RISK MANAGEMENT FRAMEWORK

38.1 The committee considered the Code of Corporate Governance and Risk Management Framework report providing key details on the Council's governance and risk arrangements that underpin delivery of the Council Plan.

38.2 Councillors Guilmant, Grimshaw, Mackey, Meadows, and West asked questions and contributed to the debate of the report.

38.3 **RESOLVED –**

That the Audit, Standards and General Purposes Committee:

1) Approve the updated Code of Corporate Governance as included in appendix 1.

2) Note the current Risk Management Framework as included in appendix 2. Any feedback from the committee will be taken into account when refreshing the Risk Management Framework for approval by Cabinet.

39 STANDARDS UPDATE - ANNUAL REVIEW

39.1 The committee considered the Standards Update, providing members an update on Standards-related matters, including a review of complaints received in during 2024 alleging that Members have breached the Council's Code of Conduct for Members.

39.2 Councillors Guilmant, Meadows, and West asked questions and contributed to the debate of the report.

39.3 **RESOLVED –**

That the Audit, Standards and General Purposes Committee note the report.

40 ITEMS REFERRED FOR COUNCIL

40.1 No items were referred to Full Council for information.

41 ITEMS FOR THE NEXT MEETING

41.1 No items were requested for the next meeting.

The meeting concluded at 7.10pm

Signed Chair

Dated this day of