

# Leicester City Council 2022-23 Audit

**Related Parties – Consideration of Enquiry**

April 2024



# Related Parties – consideration of enquiry

## Background

We were contacted via email by an interested party, setting out concerns relating to the transaction entered into by the Council to grant an “interest and security free loan of £600k”, to Haymarket Consortium Limited (HCL). Of particular concern for the correspondent was that the transaction should have been disclosed as a related party transaction (RPT) by the City Mayor. The correspondent had already sought assurances from the Council but was not satisfied with the response received.

Our response was to consider whether:

- this transaction should have been disclosed under accounting standards as an RPT, and,
- to consider if the Council’s constitution may have disclosure of interest requirements wider than those under accounting standards.

We also undertook to review the transaction from an audit perspective and therefore the reporting below includes consideration of additional questions that we have asked which were not part of the original inquiry.

## Were the loan agreements made on commercial terms?

We have reviewed the agreements and are satisfied that the loans were given at rates in excess of prevailing bank rates at that time. This is indicative of the loans being made on commercial terms.

## Consideration of IAS24 – Related Parties

The view put forward by the correspondent is that the City Mayor did not declare a related party transaction when he should have done so, on the grounds that the lead director of HCL shared another directorship with the City Mayor’s daughter.

IAS 24 requires the disclosure of related party relationships, transactions and outstanding balances, including commitments. In order, to determine therefore whether disclosure is required, it is necessary to consider what defines a related party.

The definition, as set out in IAS24 is set out in the left-hand column of the table below with our consideration of how that applies in this situation on the right-hand column:

IAS 24 definition	Application
<b>A person or a close member of that person’s family is related to a reporting entity if that person:</b>	
- <b>Has control or joint control of the reporting entity;</b>	<p>The Council is led by a City Mayor elected directly by the people of Leicester for a fixed four-year term. The City Mayor is personally responsible for taking major decisions about many aspects of what the Council does. He can either take these decisions himself, delegate these to other Councillors on the Executive or to officers or take them collectively with Executive colleagues.</p> <p>On these grounds we are satisfied that the Mayor is considered to be a related party of the Council.</p> <p>The four active officers (company directors) associated with Haymarket Consortium Ltd per Companies House:</p> <ul style="list-style-type: none"> <li>- John Jenkins</li> <li>- Ellyn Phillips</li> <li>- Jeremy Spittle</li> <li>- Sandra Vernon</li> </ul> <p>There is one other resigned officer listed which is Christopher Knight.</p>
- <b>Has significant influence over the reporting entity; or</b>	City Mayor considered to have significant influence.
- <b>Is a member of the key personnel of the reporting entity or of a parent of the reporting entity</b>	City Mayor considered to be key personnel.

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An entity is related to a reporting entity if any of the following conditions applies	
- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).	HCL and Leicester City Council are not members of the same group.
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).	HCL and Leicester City Council are not connected by means of association or joint venture.
- Both entities are joint ventures of the same third party.	N/A as noted above.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.	N/A
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.	N/A
- The entity is controlled or jointly controlled by a person identified above.	HCL is jointly controlled by the four directors listed above. Leicester City Council is led by the City Mayor.
- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).	As noted above.
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.	N/A

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## Consideration of IAS24 – Related Parties (continued)

From the tables we can conclude that:

- The City Mayor is a related party to the Council
- The four directors listed are a related party to HCL
- Leicester City Council is not a related party of HCL

IAS 24 goes on to say that close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- a) that person's children and spouse or domestic partner;
- b) children of that person's spouse or domestic partner; and
- c) dependants of that person or that person's spouse or domestic partner.

The daughter of the Mayor is therefore considered to be a close family member of the City Mayor and her dealings therefore need to be taken into account to determine if the City Mayor should be disclosing a related party.

A related party transaction would need to be disclosed if a person with control or joint control of the Council (ie the City Mayor) or a close family member (ie his daughter) has significant influence over HCL.

Significant influence, as defined by paragraph 6.10 of IAS 24 is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control of those policies. Given these definitions, neither the City Mayor or his daughter is considered to have significant influence over HCL.

Through a review of Companies House and HCL's latest records on Companies House, we have not identified a direct link between the daughter of the City Mayor and directors of HCL other than through common directorship of another organisation i.e. one Director of HCL was on the Board of Cultural Quarter (Leicester) CIC. IAS 24, paragraph 11a, notes that two entities are not related parties, simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

## Conclusion – IAS24 Related Parties

**For the purposes of IAS24 we are therefore satisfied that a related party transaction does not need to be disclosed within the City Council's financial statements.**

However, as well as considering the transaction from an accounting point of view, we have also considered it from a constitutional point of view, which is the topic of the next section.

## Disclosable interests

Categories of disclosable pecuniary interests, according to Table 1 of the Council's [constitution](#) (which is consistent with [The Relevant Authorities \(Disclosable Pecuniary Interests\) Regulations 2012](#) ('the regulations'), fall under the subject headings of:

- Employment, office, trade, profession or vacation
- Sponsorship
- Contracts
- Land
- Licences
- Corporate tenancies
- Securities

The subject heading which most closely applies here is "Contracts", description for which is: whereby the authority enters a contract with a "body in which the relevant person has a beneficial interest". For this to be disclosable, the relevant person (ie the City Mayor) would have to have a beneficial interest. It has been demonstrated above through consideration of relevant IAS 24 criteria, that the City Mayor would not be considered to have a beneficial interest in HCL.

It should also be noted that the requirements for DPI's cover the Mayor and any other "relevant person". Under the regulations a "relevant person" is defined as spouse/civil partner, or someone with whom the Member is living as though they were a spouse or civil partner. The Mayor's daughter would therefore not fall within this definition.

On the evidence we have seen it would therefore appear that there is no such interest to disclose.

We do, however, need to consider Other Disclosable Interest (ODI) which are where:

*A decision in relation to that business might reasonably be regarded as affecting the well-being or financial standing of you, or a member of your family or a person with whom you have a close association (see below), to a greater extent than it would affect the majority of Council Tax payers, ratepayers or inhabitants of the Ward or electoral area.*

The Constitution then goes on to refer to Prejudicial ODIs:

*Where your ODI is of a nature where a member of the public, who knows the relevant facts, would reasonably think your "other disclosable interest" is so significant that it is likely to prejudice your judgement of the public interest you should disclose and withdraw from participating in respect of that matter.*

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## Disclosable interests (continued)

Further, that:

*“close association” is not defined in law but would reasonably include someone with whom you are in regular or irregular contact over a period of time, who is more than an acquaintance, and is someone whom a reasonable member of the public might think you were prepared to favour or disadvantage when discussing a matter that affects them.*

In our view, “Close association” would clearly apply to the City Mayor’s daughter in this instance. However, while the correspondent believes there to be an ODI in place (implicit in their correspondence), we have concluded from our work that under the terms of the City Council’s constitution there is not. The loan given to HCL did not directly affect the personal well-being or financial standing of the close family member to a greater extent than it would affect the majority of Council Tax payers, ratepayers or inhabitants of the Ward or electoral area as far as we can ascertain: her being a co-director in a different company, alongside a director of a company which was a recipient of a loan is not considered to trigger such an interest.

We acknowledge there are wider principles in play and the Constitution considers them as follows:

*However, you might be predetermined over a matter in a way which does not translate into a registerable or a declarable “interest” (e.g. you are a member of the Licensing Committee and have an ethical objection to the consumption of alcohol and a closed mind to the granting of any/all Liquor Licensing applications). Whilst this (i) will not constitute a DPI; (ii) may not constitute an ODI; it will (iii) constitute bias in law and breach the Nolan principles of objectivity, openness and upholding the law. You could therefore breach the Code of Conduct even though you strictly had no “interest” to declare/register.*

We have considered whether a potential breach of the Nolan principles apply to our scenario, but it is difficult to see a predetermination and what interest would be declared, given the lack of related parties in question.

## Conclusion – Disclosable Interests

**Given the information at hand and the wording of the approved Constitution, we do not consider that the granting of a loan from Leicester City Council to Haymarket Consortium Limited would constitute a disclosable interest on the part of the City Mayor under the City’s current constitution.**

## Summary

This is a difficult area in respect of the level of knowledge and awareness an individual could reasonably be expected to have of another individual’s business relationships. It does have some parallels to the Financial Reporting Council’s Ethical Standard for auditors and the concept that an objective, reasonable and informed third party may perceive certain relationships as causing a self-interest threat, when in practice they may not or are unlikely to do so.

It is therefore also relevant to note that the City Mayor’s Register of Interests has in the past (2014) listed a debenture made to his daughter’s business in the City Centre and therefore it can be evidenced that the Mayor is aware of their reporting obligations under the Code of Conduct (the debenture is now discharged, so it no longer appears).

Our overall conclusions, based upon the evidence, we have seen is that for the purposes of IAS24 there was no required related party disclosures needed within the City Council’s financial statements and that under the wording of the approved Constitution it can be concluded that the granting of a loan from Leicester City Council to Haymarket Consortium Limited would not constitute a disclosable interest on the part of the City Mayor.

