

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Wednesday, 15th December, 2021, 4.00 pm

Councillors: Mark Elliott (Chair), Andrew Furse, Colin Blackburn and Lucy Hodge

Independent Member: John Barker

Officers in attendance: Jeff Wring (Service Director - One West), Andy Rothery (Chief Finance Officer (S151)), Gary Adams (Head of Financial Management), Andy Cox (Head of Audit and Assurance (One West)) and Andrea Frow (Landlord and Tenant Team Manager)

Guests in attendance: Peter Barber and Liam Royle (Grant Thornton external auditors)

12 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the emergency evacuation procedure.

13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Brian Simmons sent apologies for the meeting.

Councillor Lucy Hodge was late attending due to an overlap with the Planning Committee on which she was also a member.

14 DECLARATIONS OF INTEREST

There were none.

15 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

16 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

17 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

18 MINUTES - 23RD SEPTEMBER 2021

RESOLVED that the minutes of the meeting held on 23 September 2021 were confirmed and signed as a correct record.

19 GOVERNANCE REPORTS FOR COUNCIL AND AVON PENSION FUND AND AUDITED STATEMENT OF ACCOUNTS 2020/21

The Head of Financial Management Gary Adams gave a presentation on the report. He explained it would cover the areas of change, future changes, the main statements, the annual governance statement and audit findings. The main change was in response to the Redmond Review which had extended deadlines for the 2020-21 and 2021-22 accounts. Future changes to IFRS16 accounting for leases were delayed until 2022-23 due to resourcing and Covid.

As regards the main statements, the main changes in expenditure and income were related to the impacts of Covid. The Original estimate of Covid pressures (before any government funding) was £42m, with significant impacts on Heritage, Parking and Commercial Estate Income. In response, a Financial Recovery report was approved by Cabinet including recovery measures of £20.7m, of which £14.8m was delivered in full. Government grant funding of nearly £12m was received in respect of general Covid Support and £17.7m from the Sales, Fees and Charges income compensation grant. Other specific Covid grants came to £14m and the Council also distributed Covid Business Support grants totalling £69m during the financial year. The capital spend was £62m which represented 63% of budget, primarily reflecting the delivery time to complete projects requiring re-phasing of budgets to future financial years.

In respect of the Movement in Reserves Statement, it showed a net transfer of £55m to earmarked reserves. This included a technical accounting adjustment in respect of s31 Business Rate Retail Relief Compensation Grant of £39m to offset the Collection Fund deficit that accrued from granting these reliefs in year as well as transfers of some Covid funding for use in 2022/23. There was a decrease in Unusable Reserves of £132m, relating to statutory accounting movements which included £42m in respect of the Business Rate Collection Fund, £38m increase in future Pensions Liabilities and £47m of capital accounting movements relating to valuation changes.

He explained the key balance sheet movement, including: –

- Land and Buildings value reduction of £5m
- Assets Under Construction increase of £13m
- Investment Properties reduction of £48m, due to revaluation losses
- Long-Term Debtors reduction of £6.5m
- Short-Term Debtors increase of £30m
- Reserves Movements in line with the Movement in Reserves Statement

The Cashflow Statement showed the level of cash and cash equivalents had increased by £26m, reflecting the maturity profile of investments held at 31st March 2021.

The Collection Fund Statement showed a deficit on Business Rates of £42m, mainly due to the accounting impacts of the Retail Relief granted to businesses due to Covid and a small surplus on Council Tax of £0.2m.

It was the second year that Group Accounts had been produced to incorporate Aequus, the Council's owned housing company. The impact of income and expenditure and consolidated movement in reserves showed a net increase in Aequus' reserves of £3.1m, taking their reserves to £3.2m.

The Annual Governance Statement came to this Committee so that Corporate Audit could oversee the process. The Council Leader and Chief Executive had reviewed and signed the statement. In outline, there were no failings but there were significant risks with the Covid pandemic – these included the impact on public health, the local economy, financial/organisational resilience, safeguarding and democracy.

During questions the following issues were raised:

- In response to a question from Councillor Andy Furse about fraud in respect of business grants, it was stated that 0.3% of the total amount of grant funding issued to businesses was subject to recovery action and some of that had already been recovered
- A question was asked in respect of the unspent Covid grants balance of £4.85m which had gone to reserves, whether this was in effect profit. It was stated that this was not a profit, the funding was transferred to reserves so it was available to fund pressures in 2021/22.
- A question was asked on what the level of reserves would be this year. The level of reserves would depend on actual specific use during the year, but it was highlighted that the £39m increase due to 2020/21 Business Rate Retail Relief grant treatment was used in 2021/22 to offset the Collection Fund deficit.
- Following a question from Councillor Colin Blackburn, the statement that Commercial Estate income was down 42% but this was only a snapshot in time, what is the movement over 5 years? The Section 151 Officer explained income had been impacted in 2020-21 and the 2021-22 budget had been rebased to align the budget with the forecast position for future years. Bounce back to pre-Covid income levels will take some time, this is not anticipated before 2025. There would be a period of uncertainty now with the new variant, however there has been a good level of market interest on the Estate. Andrea Frow Property Services envisaged a rebalancing of rents over the next few years and she could foresee levels stabilising not growing. It was agreed that a 5 year view of these figures would be useful.
- It was helpful for Councillors to see the trends (Councillor Mark Elliott)
- John Barker (Independent Member) stated that the purpose of the Annual Governance Statement was to look back over the last year so it would be appropriate to record that the Committee recognised best endeavours
- In response to Councillor Lucy Hodge, it was explained that there two main types of Covid grants – one was ring-fenced and conditions on what money could be spent on were specifically set out by Government, non ring-fenced grants were for services under pressure and could be bid for.

Peter Barber (Grant Thornton external auditors) explained that progress on the audit was impacted by resourcing issues. The Pension Fund audit was now completed, and the Council's was well progressed. Subject to approval at this Committee, unqualified opinions would be issued on both the Council and the Pension Fund accounts, he highlighted that the timeline had improved since last year. He outlined that no material errors had been identified that impact on the outturn position and that the Council accounts were complex with the large number of investment properties.

In respect of the Council's Audit Findings Report, he highlighted the following two areas which were included in the Action plan following issues identified during the audit.

For the Group Accounts, Aequus' accounts had been consolidated into the Council accounts. The CIPFA Accounting Code of Practice requires that the valuation of the company's investment properties are carried out by a qualified valuer each year. This requirement would be put in place for future years and further testing by the auditors had confirmed that there was not a material difference arising from the 2020/21 valuation treatment. The impact of ADL operating under commercial principles and the valuation of properties was explained.

In respect of the valuation of land and buildings, an adjustment was required in relation to 7 assets due to the double counting of componentised assets, and 2 assets had been included on the valuation report where no valuation had been undertaken.

One updated page was circulated to the Committee, Section C Audit Adjustments.

The following updates were provided, including in relation to further audit work that had completed since the draft Audit Finding's report in respect of the Council's Accounts had been issued:

- Journals were an important area, all had been completed and there were no further findings
- The pension fund was complete with no issues arising
- Minimum Revenue Provision (MRP) – this was calculated every year and had previously been below materiality. Some councils had calculated this incorrectly. B&NES MRP calculation had been reviewed and it fairly reflects the position of the Council
- Expectation that Council services would continue to be delivered over the next 12 months so the Council was a going concern
- An area of focus was the valuation of property, plant and equipment as B&NES has a large asset base

In response to a question from Councillor Elliott on the timing of signing off next year's accounts, Peter Barber explained that the statutory deadline was September 2022. He reported that, in relation to the 2020/21 accounts, only 9% of audits were completed by the September date and it would again be incredibly challenging to meet these timescales. The aspiration was to improve on this year's date.

The External Auditor moved on to the Pension Fund Accounts audit and reported that the accounts had been presented earlier and good progress was made. There were no material errors and a small number of narrative clarifications were recommended in respect of the estimation and uncertainty notes to the accounts.

The Service Director – Commercial and Governance, Jeff Wring explained that VFM was a new process and was well under way with a deadline for it to be completed by mid March 2022. The report would be shared with this Committee for information and consideration but did not require Committee approval.

RESOLVED that

- 1) the issues contained within the Audit Findings Reports for the Council and Avon Pension Fund are noted; and
- 2) the audited Statement of Accounts, including the Letters of Representation for both Bath & North East Somerset Council and the Avon Pension Fund for 2020/21, are approved.

20 PROCUREMENT OPTIONS - EXTERNAL AUDIT

The Service Director – Commercial and Governance Jeff Wring explained that the Council had been written to by PSAA in respect of the procurement of external auditors from 2023-24 to 2026-27. 95% of local authorities had joined this national exercise and there were benefits to BANES to join.

During discussion the following points were raised:

- This was a pragmatic solution (John Barker, Independent member)
- No other local authorities wanted to do it themselves joining with BANES so there was no other option (Section 151 Officer)

RESOLVED that the Audit Committee recommend to full Council that they approve the use of (PSAA) to carry out the re-procurement of External Auditors to the Council (all agreed).

21 TREASURY MANAGEMENT PERFORMANCE REPORT TO 30TH SEPTEMBER 2021

The Head of Financial Management Gary Adams presented the report. He explained that the report had already been to Council and Cabinet in November. He outlined the main highlights – the average rate for investment performance was 0.27%, this was above the benchmark and reflected the low interest rates. The average investment balance over the period was £80 million and the forecast investment income was estimated at £30k above budget.

In line with the Environmental, Sustainability and Governance Investment policy included in the Treasury Management Strategy, £5m was deposited in the Lloyd's Sustainability 95 day notice investment account and investment in the two selected LT ESG focussed investment funds was made at the end of November.

In respect of borrowings, the total at the end of the period was £226m, which reflected the repayment of a £15m 1 year fixed loan that was taken at the start of the Covid pandemic in response to potential liquidity concerns. There was no further borrowing in the period. The forecast borrowing costs are £630k below budget as a result of the delayed borrowing need. In respect of the potential LOBO refinancing mentioned in the report, the projected savings have been impacted by interest rate movements so this is currently being kept under review. The Bank of England was meeting shortly to review interest rates, the decision on whether to increase rates was finely balanced as the Bank needs to consider both the impact of the Omicron variant on the economy and the current high level of inflation.

During questions the following issue was raised:

- in respect of the £630k underspend, various capital projects were being re-phased due to Covid delay including Bath Quays North, this resulted in savings on borrowings.

RESOLVED that

- 1) the Treasury Management Report to 30th September 2021, prepared in accordance with the CIPFA Treasury Code of Practice, is noted; and
- 2) the Treasury Management Indicators to 30th September 2021 are noted.

22 INTERNAL AUDIT - UPDATE REPORT

The Head of Audit & Assurance Andy Cox presented the report. He stated that the majority of audit reviews that were carried forward at the last meeting were now completed. In the 2021-22 audit plan there were 36 to review, as of 19th November, 22 were a work in progress, 10 were finalised, 8 had an assurance rating of level 3 or above. 7 of the 36 related to Covid government funding – Adult Social Care, Supplier Relief, DWP Winter Support and the Emergency Assistance Grant. He was about to issue the draft report for which they used data analysis to review the payments made and the recovery of £240,000. Internal audit had contributed £100,000. He commented it had been well administered.

He explained that £1.7 million had been received for next debtor accommodation, relating to rough sleepers and one of two properties had been purchased. All 7 of the funding reviews would be completed by February. The grant certification provided independent assurance to the Chief Executive. In relation to anti-fraud work, 8 follow-up reviews were identified as good implementation and 2 were for further monitoring. In respect of property compliance the Chief Operating Officer would attend the next Committee to give a further update.

RESOLVED that

- 1) the Corporate Audit Committee notes the progress in delivery of the 2021/22 Annual Audit Assurance Plan; and
- 2) the Corporate Audit Committee requests the attendance of the Chief Operating Officer and other Officers to a meeting of the Committee in early 2022 to provide an update report on progress related to implementation of recommendations in response to the weaknesses highlighted by the 2021 Property Compliance Audit.

The meeting ended at 5.39 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services