

MEETING:	Audit and Governance Committee
DATE:	Thursday, 25 June 2020
TIME:	4.00 pm
VENUE:	THIS MEETING WILL BE HELD VIRTUALLY

MINUTES

Present Councillors Richardson (Chair), Barnard, P. Birkinshaw and Lofts together with Independent Members - Ms K Armitage, Ms D Brown, Mr S Gill, Mr P Johnson and Mr M Marks

66. DECLARATIONS OF PECUNIARY AND NON-PECUNIARY INTEREST

There were no declarations of interest from Members in respect of items on the agenda.

67. DRAFT 2019/20 STATEMENT OF ACCOUNTS

The Service Director Finance submitted a report presenting the 2019/20 Statement of Accounts, the Council's tenth set of accounts prepared in accordance with International Financing Reporting Standards.

The Committee also received a presentation from Mr P Danforth (Strategic Finance Manager) on the background and legislative requirements to be adhered to in the preparation of the Statement of Accounts.

He made specific reference to the following matters which he put in the context of and, cross referenced to, the current Statement of Accounts:

- The Statement of Accounts Process and the impact of Covid 19 including
 - The legislative drivers
 - The International Financial Reporting Standards
 - The particular impact of Covid 19 in relation to the preparation of the Accounts, the timeframe changes required under the Accounts and Audit (Coronavirus) Amendment Act 2020, the use of estimates and logistics
- The role of this Committee with particular reference to
 - The Authority's Financial Reporting and Accounting Policies
 - The Risk Management and Governance Arrangements
 - The arrangements in place to identify and tackle fraud
- The Statement of Accounts. The following matters were particularly highlighted
 - The Funding Basis Position (Management Accounts) vs Accounting Basis Position (Financial Accounts)
 - The Management Accounts – Revenue including the Net Revenue Expenditure 2019/20 and Accounting Adjustments
 - The Structure of the Statement of Accounts – the Narrative Report, the four Core Statements, the Disclosure Notes and the Technical Annexes

- The Financial Accounts including the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement and the Balance Sheet (Net Worth)
- Next Steps – following discussion at this meeting further discussions would progress with the External Auditors during the rest of June through to mid October following which the External Auditors would submit their ISO 260 Report on their findings to this Committee

The report and presentation engendered a full and frank discussion during which matters of a general and detailed nature were raised and answers were given to Members questions where appropriate. The following matters were amongst those raised:

- The Service Director Finance reported that the overspend on Looked After Children had been anticipated at the beginning of the year. This was not due to an underestimation in demand as this had been estimated quite closely and the number of placements had been fairly consistent for a number of years. The increase in costs was largely in relation to the complexity of the cases presented. Government grant had been received in the sum of £1m in the last financial year the concern was, however, moving forward and the state of public finances and whether or not the Government would continue to provide these funds
- It was noted that Public Health had an underspend throughout the year of £3m of which £1m had been allocated to continue with public health priorities in future years
- There had been a significant underspend in the Adults and Communities budget and to a large extent this had been forecast due to the early delivery of planned efficiencies from previous years. In addition, the demand for services had not been as significant as had been anticipated and there had also been increased income received from the Health Service
- It was noted that the Council held a level of general HRA reserves as a contingency for unforeseen events. This totalled £7m which had been increased during 2019/20 from £5m which the Service Director Finance felt was appropriate and more than sufficient to meet any risks encountered
- The Head of Finance commented on the level of insurance cover both held internally and held with the Council's brokers. This was regularly reviewed and adapted accordingly if required.
 - The major insurance policies were due for renewal this year and an increase in premium was anticipated in view of the Covid pandemic. This situation was being monitored.
 - To offer some protection, however, the Authority had ensured that all Government Guidelines were followed including ensuring that the public were widely communicated with in terms of social distancing and the appropriate use of PPE he therefore felt that there should be no major concerns in terms of potential insurance claims
- In response to specific questioning, the Service Director Finance commented that he anticipated that the collection of Council Tax would be a major risk. He stated that he was now the Chair of the Yorkshire and Humber Director of Finance Association and every one of the 21 Authorities across the region was concerned about Council Tax and Council Tax collection. The issues were, however, two fold. There had been a huge increase in the number of

Universal Credit Claimants as a result of the Covid 19 impact on employment and the economy. This meant that thousands of households who had been anticipated would have been paying Council Tax in full were no longer liable and, therefore, a significant income had been lost from the tax base. In addition, many households were suffering general financial hardship and were unable to keep up with Council Tax payments. These issues were likely to create an ongoing risk into 2020/21 dependent upon the timing of the financial recovery

- The Service Director Finance anticipated a significant financial shortfall of around £20m in the current financial year largely associated with the costs of dealing with the emergency response combined with the income losses referred to above which were not offset by the government grant received. Hopefully this might change but currently there was an anticipated shortfall in 2020/21 but plans were in place to deal with this including a general moratorium on spending and planned investments in the current financial year had all of which been put on hold. It was anticipated that these proposals would be enough to ensure that there were sufficient funds to meet planned budgetary expenditure. In terms of the reserves this was a similar picture to the HRA as the emergency reserves had been increased from £15m to £20m which was felt to be appropriate to the risks
- It was noted that there wasn't a large dedicated Team preparing the accounts but the approach was to supplement the resources by using the wider Business Unit, together with Procurement and Benefits and Taxation Teams and other colleagues to support work on the financial statements
- The Council had sophisticated systems in place to pull the accounts together, but this relied on the people delivering front line services appropriately and effectively receipting goods and services and ensuring that payments were attributed to the correct financial year. These staff had, during the current climate, been allocated to different tasks and this had meant that there had had to be a number of manual interventions in what would usually have been an automated process. The Service Director Finance was, however, satisfied that this had been undertaken appropriately
- It was noted that the External audit work was to commence next week. A number of planning meetings were held between the Finance Team and External Audit colleagues and this year there had been significantly more than in previous years. To date there had been no disagreements about the approach taken in relation to the preparation of the accounts
- It was noted that 19 Performance Indicator targets had been missed by more than 10% and a report on this could be brought to a future meeting of the Committee. Indeed, a link to that report was included within the Statement of Accounts if Members wished to access it that way
- In relation to the Governments Business Support Grant it was noted that the £40m distributed had now been reimbursed. Some of the money had been distributed prior to the receipt of the grant from the Government which had caused some cash flow issues but these were not considered to be significant and the Government's view was that these costs had been more than covered via other grants that had been issued to the authority. It should be noted that these grants did not cover all the costs and income losses being experienced
- It was not anticipated that current situation would impact on the Council's current borrowing plans or levels of debt and there were no plans to undertake additional borrowing as a result of the pandemic

- The Strategic Finance Manager commented on the actuarial gains/losses on the Pension assets/liabilities which were as a direct result of the changes of the assumptions of the actuary in regard to the CPI rate, pension increases coupled with life expectancy increasing. This had resulted in a decrease in the expected future liabilities
- Arising out of the above, reference was made to the need to provide a narrative to explain the actuarial gains/losses on the Pension assets/liabilities
- Further information could be provided on the governance arrangements of the Joint Ventures referred to within the Statement of Accounts. In general terms, each one of these had their own governance arrangements in place and quite often Elected Members and Officers were represented thereon. In addition, Client Liaison Boards existed within the Council to ensure that the Joint Ventures were performance managed appropriately. The Service Director Finance was confident that the governance arrangements were robust and the Finance Service involvement ensured that the authority was protected, as far as was possible, from any potential risk
- The Council had provided substantial funding in a timely manner to the Care Sector throughout the pandemic and this had been acknowledged by that sector. The ways in which this funding had been utilised was outlined
- The Strategic Finance Manager commented that there were no charges for leases of buildings to Academy Trusts on school buildings that they occupied and controlled. The Council would revalue the assets at the end of the lease period once they transferred back to the ownership of the authority. The Academy Trusts were expected to record the value of the leased assets on their charity accounts and revalue regularly in accordance with normal accounting principles and policies
- The Director of Finance accepted the need to amend the narrative of the performance section and include a link to the Councils Threat and Risk Assessment particularly in relation to the Glassworks and the public realm regeneration
- The Committee would be kept informed of any post balance sheet events. If there were any material issues arising these would be included within the Statement of Accounts. Any adjustments would be seen within the External Auditors final report but if anything of significance was identified before then, the Committee would be informed
- The Head of Internal Audit, Anti-Fraud and Assurance had been asked to prepare a report on governance and the internal control arrangements within the context of the Council's response to the Covid pandemic. This report would be submitted to this Committee in due course. It was likely that any issues identified would be picked up within the Annual Governance Statement
- The Strategic Finance Manager commented on the valuation of assets particularly in relation to the Glassworks and public realm regeneration works. It was noted that works that were completed were valued at current value as they became operative. Those works which were incomplete were valued as an asset under construction at cost
- It was noted that general repairs and maintenance on the highway network was charged to the income and expenditure account whilst major infrastructure works were classed as Capital Expenditure
- The Group accounts including the consolidation of the Bernesali Homes account and the Pension scheme deficit were included within the pack of documents submitted. This also included the full Berneslai Homes Pension

Fund deficit. This was not being treated as a contingent liability and was recorded as a Council liability within the Group

- Information in relation to the breakdown of the re-valuation of the Library and the Markets could be provided. Arising out of this there was a discussion of the property portfolio valuations which it was noted was under constant review to the end of the audit of the accounts. If there were any material changes these would be picked up as part of the post balance sheet events previously referred to. Members were also reminded that for the first time ever, the External Auditor had appointed their own external valuer
- In response to specific questioning, the Service Director Finance commented that the Authority had not been subject to any Ministerial Directives
- The Service Director Finance briefly commented on the arrangements in place to complete the audit given that most staff, including the staff of the External Auditor, were working remotely. It was felt that this would not have a significant impact given that such approaches had been adopted, albeit to a lesser degree, in previous few years

RESOLVED

- (i) that the Service Director Finance and his Team be thanked for their hard work and dedication in producing the accounts in challenging circumstances and a changed and restricted timeframe; and
- (ii) that the work that has taken place to prepare the Authority's Draft 2019/20 Statement of Accounts on an International Financial Reporting Standards basis be noted.

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Chair