

Minutes

REGULATORY AND AUDIT COMMITTEE

MINUTES OF THE MEETING OF THE REGULATORY AND AUDIT COMMITTEE HELD ON THURSDAY 31 MAY 2018 IN MEZZANINE ROOM 1, COUNTY HALL, AYLESBURY, COMMENCING AT 9.00 AM AND CONCLUDING AT TIME NOT SPECIFIED.

MEMBERS PRESENT

Mr M Farrow
Mr D Martin (Chairman)
Mr P Martin
Mr D Watson

OTHERS IN ATTENDANCE

Mr R Ambrose, Director of Finance & Procurement, Service Director, Finance and Commercial Services
Miss L Dale, Committee Assistant, Buckinghamshire County Council
Ms J Edwards, Pensions and Investments Manager
Ms L Forsythe, Deputy Monitoring Officer and Corporate Governance Lawyer
Mr P Grady, Engagement Lead, Grant Thornton Auditors
Ms S Harlock, Audit Manager
Ms R Martinig, Financial Accountant
Mr P McGovern, Senior Finance Officer
Mr T Slaughter, Executive, Grant Thornton Auditors
Mr M Ward, Manager, Grant Thornton Auditors
Mr L Whitehead, Finance Accountancy Lead, Buckinghamshire County Council

1 ELECTION OF CHAIRMAN

Mr D Watson welcomed the attendees to the meeting and introduced the first item of the agenda; Election of Chairman. Mr Watson proposed Mr D Martin as Chairman. Mr P Martin seconded this proposal. There were no other candidates.

It was resolved that Mr D Martin would be Chairman for the ensuing year.

Mr D Martin took the Chair and thanked the Committee Members.

2 APPOINTMENT OF VICE CHAIRMAN

The Chairman appointed Mr T Butcher to continue in his role as Vice-Chairman for the ensuing year

3 APOLOGIES FOR ABSENCE / CHANGES IN MEMBERSHIP

The Chairman welcomed new Member Ms P Birchley.

Members noted that Ms N Glover had stepped down from the Committee.

4 DECLARATIONS OF INTEREST

There were none.

5 MINUTES

The minutes of the meeting held on 31 January 2018 were agreed as an accurate record and signed by the Chairman.

6 DRAFT STATEMENT OF ACCOUNTS

The Chairman welcomed Mr R Ambrose, Director of Finance and Procurement.

Mr Ambrose introduced the Draft Statement of accounts during which the following key points were highlighted:

- The Council was ahead of the deadline for providing the Draft Statement of Accounts.
- Once the accounts had been audited, the Statement of Accounts would be provided to the Committee on 25 July 2018 alongside the Annual Governance Statement.
- 2017-2018 was the final year that the Council would be in receipt of the Revenue Support Grant. Going forward the Council would receive negative funding, commencing at £10.5m 2018-2019, reducing thereafter.
- There was a £2.9M underspend against budget forecast, last year despite pressures, in particular from Adults and Children's Social Care. This underspend aided the increase of general fund reserves which currently stood at £27.4M.
- The slippage in the capital fund would be reviewed with the aim of reducing this in the future.
- Mr Ambrose thanked Ms R Martinig, Mr L Whitehead, Ms Julie Edwards, Mr P McGovern and all the finance team/ budget managers for their hard work.

The Chairman thanked Mr Ambrose for his presentation.

Mr L Whitehead presented the main accounts and highlighted the following points:

- There would be two major changes to accounting standards for 2018-2019 but neither would have an impact on the statement of accounts.
- The accounts for 2017-2018 were prepared in accordance with the statutory framework.

- Investments in property were diversified with £34.75M invested in commercial properties including Clarion House in Maidenhead and the retail park in High Wycombe.
- The fair value of the investment portfolio had increased by £9M.
- Pension liability had seen a slight decrease from £753.9M to £743.4M.
- The pension fund had an increased net growth of in excess of £24.1M
- A review of the employer contributions took place in 2016-2017 and the employer contribution increased to 26.4% from 22.8%. This would be part of a plan to reduce the underlying deficit over a 15 year period; hence the reduction in liability in the current year
- The Revenue Support Grant (RSG) was at £8M and this year there would be no RSG.

The Chairman thanked Mr Whitehead for his presentation and invited questions from Members.

The Committee raised and discussed the following points:

- A Member asked how the Council would calculate the income that would be set aside for when properties were vacant. Members were advised that 5% of income was set aside and earmarked for such costs including landlord's fees.
- A Member highlighted that the Capital Budget had missed every target and raised concerns relating to the commercial property investments given current market conditions. Members were informed that due diligence would be carried out on all potential investments including the financial standing of tenants, diversifying investments along with involvement from Carter Jonas and the Cabinet Member. The properties had provided a yield of roughly 6.5% which had exceeded the anticipated yield of 6%. Further discussion took place relating to Members concerns about the investment in commercial property. **Mr Ambrose agreed to provide Members with statistics and analysis on this matter in order to provide reassurance.**

ACTION: Mr Ambrose

The Chairman agreed that an update on commercial properties would be a useful item for a future agenda as Members were keen to know what provisions were in place to effectively manage the risk of borrowing.

ACTION: Ms L Dale

- A Member made the following observations:
 - Page 35: It was unclear what measure was being used: millions or billions.
 - Page 49: it was suggested that the wording for unitary reserve should be changed in light of the Council's current position.
 - Page 51: there was an increase in smaller grants and the Member was keen to know more about this.
 - Page 65-69: the information relating to the Energy from Waste plant should be clearer to inform readers as it made up a third of the Councils assets.

The Chairman noted the points raised by the Member and asked the further detail and fuller notes be provided for the meeting to be held on 25 July 2018.

ACTION: Mr Whitehead

- A Member raised concerns about the grouping of the Council's assets and the valuation against the asset types.
- Level 1 assets were quoted prices, level 2 were observable assets and Level 3 were significant unobservable assets. The Council had available assets at levels 1 and 2 and did not currently hold any assets at level 3. A further discussion took place regarding the classification and valuation of assets and it was agreed that a piece of work would be done to provide Members with further reassurance on this matter.

ACTION: Mr Ambrose

- A Member asked to know more about the movement in the reserve statement and why there had been substantial adjustments. It was clarified that the statement included increases and decreases in valuation as part of a summary of movements but that the net movement had not changed significantly.

The Chairman thanked officers and said that he looked forward to seeing the final accounts. The Chairman requested oversight of any significant changes to the draft accounts prior to the meeting on 25 July.

ACTION: Mr Ambrose

The Chairman welcomed Ms J Edwards, Pensions and Investments Manager. Ms Edwards presented the Pensions Statement of accounts during which the following points were highlighted:

- There had been a change in custodians
- The fund had increase by £127M partly as a result of income £151m. Benefits paid included £85M of pensions, £22M lump sums.
- Net returns on investments totalled £118m.
- Expenses of £19M were incurred.

The Chairman thanked Ms Edwards for her summary and invited questions from Members:

- Members asked for further commentary on the change in figures between 2017 and 2018. A discussion took place regarding the lack of buoyancy in the market which had resulted in a reduction on returns.
- A Member asked about the substantial increase in the recharge from the Council. An increase in staffing levels would account for some of this increase. **It was agreed that further information on the increased operational costs to the fund would be circulated to Members.**

ACTION: Ms J Edwards

- In answer to a Member's query about the potential risks in relation to final salary pensions, Members were informed that only benefits accrued before March 2014 would be final salary pensions; and those accrued after that date would be career average pensions.
- Those who chose to retire early would receive an actuarially reduced amount.
- It was clarified that the Council was the administering authority and that scheduled bodies were other employers enrolled in the scheme, for example Milton Keynes Council, Parish Councils and non-teaching staff in schools and academies.
- A number of the bodies had chosen to make lump sum contributions towards their deficits and while the Council could not encourage lump sum payments the scheduled and admitted bodies have the option to do this.

The Chairman thanked Ms Edwards and the finance officers on behalf of the Committee for the hard work that had gone into the accounts.

7 TREASURY MANAGEMENT ANNUAL REPORT 2017/18

The Chairman thanked Mr G Williams for his past work and welcomed Mr A Hussain as Deputy Cabinet Member for Resources.

Mr Hussain presented the Treasury Management Annual Report during which the following points were noted:

- Following the payment for the Energy from Waste plan the Council changed from a net positive cash position to a net borrower.
- The net borrowing position was £213M at year's end.
- Projected net savings over 25 years of around £10M will be achieved through the prepayment of £48M Lenders Option Borrowers Option (LOBO) loans and replacing the borrowing with Public Works Loan Board (PWLB) loans.

The Chairman thanked Mr Hussein for his summary and invited questions from Members.

The Committee raised and discussed the following points:

- Members were keen to know more about the Council's borrowing for the Energy from Waste Plant. The asset was deemed to have a life of 35 years.
- An in depth discussion took place regarding the structuring and repayment of the loans taken out for the Energy from Waste Plant.
- Members were keen to know more about the strategy between the Public Works Loan Board (PWLB) and lender's option borrower's option (LOBO). The Council would be replacing LOBOs with PWLB loans where savings could be achieved.
- The Chairman highlighted the difference in Capital Expenditure on page 107. £82.68M had been approved at Full Council in February 2017 and the increase was due to commercial acquisitions and carry-forwards from 2016-17. It was noted that there had been an under-spend overall.

The Chairman thanked the officers and Mr Hussain for their report.

RESOLVED

The Committee RECOMMENDED the Treasury Management Annual Report and the Annual Prudential Indicators for 2017-18 to Council.

8 GRANT THORNTON AUDIT PLAN

The Chairman welcomed representatives from Grant Thornton.

Mr Paul Grady explained the Audit Plan which set out the general value for money work, key areas of risk and the work proposed in response to risk.

Page 118 - 112 summarised key challenges for the Council which included Adult Social Care Transformation Plans and the response to the Ofsted rating of Children's Social Care.

Mr Grady reported that page 123 contained a typographical error: the chart should read £16.5M as opposed to £16.5.

Page 124 was an examination of the Council's value for money arrangements, ensuring that these would be fit for purpose. This included a review of the Council's medium to long term ambitions and the assumptions in place to satisfy financial viability, including those built on strategic work.

The Chairman thanked Mr Grady for this overview and invited questions from Members.

- A Member raised a query regarding audit quality and asked whether there would be any changes in the approach to accounting practices in relation to the move to a more commercialised style environment. It was confirmed that this change would be taken into account but that the audit would be in line with international financial reporting standards which would be the same as any large commercial entity.
- In relation to the accruals provisions that the Council had been making regarding Bucks Care, Members asked whether there would be any residual challenges in 2018-19. Members were told that, while there would still be some considerations in this respect from the auditors perspective and there were still balances on the Council's books, there would be no further transactions and as such there should be no residual challenges in 2018-19.
- An in depth discussion took place in relation to the risks associated with possible conflicts of interest for Members on external bodies. While this had not been flagged up as one of the four main risks, this was taken into account as part of the governance issues that the Council would need to monitor. The audit would look at the provisions the Council had in place to mitigate this risk.

- Ms Forsyth highlighted that any conflict should be reported to the Monitoring Officer and in turn this would be reported to internal audit. Ms Harlock went into further detail to explain this process to Members.
- Members were concerned about IT security and whether extra scrutiny would be in place to mitigate any risks. Ms Harlock explained that the Council had software access rights in place. However, there would still be some residual risks around poor use. Mr Grady added that there would be other controls in place to minimise the impact should an incident arise.
- A Member raised a quality issue in relation to the aforementioned typographical error on page 123. Mr Grady explained that any errors would be recorded and monitored to see if there was a cumulative impact and subsequently would look at whether any errors were intentional or accidental.

The Chairman thanked the representatives from Grant Thornton for their report.

9 GRANT THORNTON PENSION FUND AUDIT PLAN

The Chairman welcomed Thomas Slaughter, Grant Thornton who presented the Pension Fund Audit Plan.

The following points were highlighted:

- The audit plan for the Pension Fund would be similar to that for the Council's Statement of Accounts and would show the key headlines and focus on the risk areas for audit.
- There would be a risk in the Council's valuation of Level 3 investments which would be a standard for all pension funds.
- There would also be a risk in the change of custodian and work would be completed on the transfer of data.
- Planning materiality had been calculated at £27M which equated to 1% of the net asset of the fund.
- Grant Thornton would report back to the Committee in July.
- An in depth discussion took place regarding the autonomy of fund managers to terminate their relationship with the fund. This would be for the Pension Fund Committee to monitor.
- The Chairman raised a query asking if there had been a change in the audit approach to the Level 3 investments. Mr Slaughter confirmed that there would be no significant change in their approach to audit but would review any changes compared to previous years.
- The pooling arrangement would not make a huge difference to underlying work but would lead to changes in how the investments would be managed.

The Chairman sought feedback from Mr Grady on how the Committee could continue to work effectively and collaboratively with Grant Thornton and encourage the active promotion of the values of the audit process. Mr Grady reported that the Committee does achieve this. The Committee had demonstrated a high level of interest in comparison with other Local Authorities and commended Members for their perseverance. Mr Grady believed that the

questions asked were relevant and that Members treated the matters raised with the appropriate seriousness.

- In response to a question from the chairman, despite the reduction in fees, the level of service provided will continue. That being said, authorities that performed well would incur lower fees than those who required more concentrated auditing.

The Chairman thanked Grant Thornton on behalf of the Committee and on behalf of the County Council.

10 FORWARD PLAN

There was nothing to add.

11 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following item which is exempt by virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local Government Act 1972 because it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)

12 CONFIDENTIAL MINUTES

The minutes of the meeting held on 31 January 2018 were agreed as an accurate record and signed by the Chairman.

13 DATE AND TIME OF NEXT MEETING

25 July 2018, 09:00, Mezzanine Room 1, County Hall, Aylesbury

CHAIRMAN