

Audit Committee

Wednesday, 21st September, 2011
6.00 - 8.25 pm

Attendees	
Councillors:	Andrew Wall (Chairman), Pat Thornton, Rowena Hay and Paul Wheeldon
Also in attendance:	Sarah Didcote (Group Accountant), Sara Freckleton (Borough Solicitor and Monitoring Officer), Jan Griffiths (Director of Commissioning), Rob Milford (Audit Partnership Manager), Ian Pennington (Director – KPMG), Martyn Scull (Group Accountant), Mark Sheldon (Director of Resources), Rachael Tonkin (Auditor – KPMG) and Shirin Wotherspoon (Corporate Solicitor Manager – One Legal)

Minutes

1. APOLOGIES

Councillors Fisher, Massey and MacDonald had given their apologies. Councillor Thornton was a substitute for Councillor Massey.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. MINUTES

The minutes of the last meeting had been circulated with the agenda.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 22 June 2011 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

No public questions were received.

5. PROGRESS IN DELIVERING KPMG ACTION PLAN

The Borough Solicitor and Monitoring Officer informed members that both of the approved action plans were now substantially complete.

The action plan had last been reviewed by Audit Committee in April when there was a discussion with regard to monitoring and logging decisions. Whilst the Modern.gov system had a facility to update a decision status this was not widely used by other councils and not cost-effective in terms of the Democratic Services resource that would be needed to monitor decisions. Implementation of decisions was instead the responsibility of Directors and these would be reviewed with members via 1-1s.

In terms of mandatory risk management training the Borough Solicitor and Monitoring Officer reported that the risk management e-learning module had been completed and was loaded on the Learning Gateway. When asked whether there was a log of who had completed the learning the Director Human Resources and Organisational Development explained that the online system did have a reporting facility. Members were surveyed about their skills and learning requirements and they were encouraged to use online learning but it was recognised that there were varying degrees of user competence.

Members requested an information note to be attached to the Audit Committee papers at its next meeting on the outstanding action point (R10).

Having considered the information set out in the Report and Appendices and having monitored the implementation of the action plans Members

Resolved

That it was satisfied that all specified actions had been fully addressed.

6. REVISED FINANCIAL RULES

Sarah Didcote, Group Accountant, introduced the item explaining that the draft updated financial rules had been compiled for use in each of the Authorities forming the GO Shared Services, subject to approval by each Council. They had been discussed and agreed in principal by Officers representing the Shared Services (Cheltenham, Cotswold, Forest of Dean and West Oxfordshire), subject to some further consideration of the suggested financial limits, as indicated on the documents.

The draft documents had also been reviewed by members of the Constitution working group, Internal Audit and One-Legal.

The Audit Committee was invited to consider the documents prior to the final revised financial rules being considered by Full Council in October as part of the review of the Constitution.

Members examined the draft financial rules in detail and the main points they raised included :

- Limits and relevant approvals should be consistent throughout the document i.e. above £100k would require Council approval
- For virements up to £5000 the virement level had been removed in order to give more freedom and flexibility to budget holders without the accompanying bureaucracy
- Put a value on the ICT assets and set limits accordingly
- Questioned the 30 day period for all certified accounts for payment to be paid. CBC had signed up to the Prompt Payment Code and most payments were made between 15 and 20 days.
- Certification of purchase invoice as correct for payment-remove percentage and maintain a value instead
- Treat car parking debt the same way as normal debt

When asked whether he was confident with the proposed new set of rules the S151 Officer confirmed that the rules were comprehensive and had been simplified as far as possible. Changes which had been requested by officers to facilitate more flexibility for budget holders had to a large degree been taken on board and managers were familiar with the rules.

The Group Accountant thanked members for their comments and agreed to propose the changes amongst the other councils and send members the updated version.

7. LOCAL AUTHORITY COMPANY (WASTE) GOVERNANCE ARRANGEMENTS

The Director Commissioning and the Corporate Solicitor Manager, One Legal, gave a presentation on the Local Authority Company which is attached to these minutes for information.

Members noted that there was currently no member input on the board. In response the Director Commissioning stated that having an elected member on the board was currently under discussion following the gateway review. The Articles of Association and the shareholder agreement would be circulated to Audit Committee members for their views.

Members asked what safeguards were in place should the new company not meet its obligations. In response the Director Commissioning confirmed that this would be carried out through performance monitoring.

In terms of the prospect of other councils joining the Company in the future the Corporate Solicitor manager explained that both the articles and the shareholders agreement were robust and on what terms a new council may join the company would be a reserved matter for the two existing shareholder councils.

When asked about the costs involved, the Director Resources explained that the set up costs were shared equally but as CBC would be using more services these operational costs would be shared proportionately.

With regard to monitoring the Director Commissioning explained that as Cotswold District Council currently had a client side manager for their current external waste contract CBC would share this under the new Local Authority Company arrangements.

8. REVIEW OF ANNUAL STATEMENT OF ACCOUNTS

Sarah Didcote, Group Accountant, explained that the accounts were now being presented differently in order to be IFRS compliant.

Martyn Scull, Group Accountant, gave a presentation on the Statement of Accounts which is attached for information.

Resolved

To approve the Statement of Accounts for 2010/11 at Appendix 14, including the Annual Governance Statement for 2010/11.

To authorise the chair of the Audit Committee to sign the Statement of Accounts in order to formally signify the Council's approval of the accounts.

9. YEAR END - AUDIT COMMITTEE REPORTING

Ian Pennington, Director, KPMG, complimented the finance team for a well presented set of accounts and stated that it had been a model audit.

Members congratulated the team for an excellent result.

10. ENHANCEMENT OF AUDIT PARTNERSHIP GOVERNANCE

The Audit Partnership Manager explained that the audit partnership governance consisted of a Memorandum of Understanding and supporting secondments and this was only ever intended to be a short term arrangement. This was in order to enable partners to assess if the arrangement across the three authorities could be successfully implemented. The Audit Partnership Board had recognised the benefits that the new partnership had brought and it was now proposed to move to the Section 101 agreement form of governance.

When asked what member input there had been the Audit Partnership Manager stated that Audit Committee and Cabinet had been kept informed throughout the process. Members also asked KPMG to confirm whether they were of the view that the partnership was working well and they replied in the affirmative and explained that they were recommending the AuditCotswold model to their clients wishing to share services.

Resolved

To support the recommendation to Cabinet and Council that the Internal Audit Service is delegated to Cotswold District Council under a Section 101 agency agreement.

11. INTERNAL AUDIT MONITORING REPORT (INCLUDING RECOMMENDATIONS TRACKER UPDATE)

The Audit Partnership Manager introduced the report which was a standing item on the agenda and which gave the Audit Committee the opportunity to comment on the work completed by the partnership. He highlighted the other work which AuditCotswolds had undertaken beyond the specific audits which included ongoing support for the GO-Programme and the Local Authority Company. Whilst the Local Authority Company was fairly resource intense work on lesser risk audits had not been deferred.

In terms of follow-ups the Audit Partnership Manager highlighted payroll and car parking. Payroll continued to receive only limited assurance. When asked whether the issues behind this were the same as last year, the Director of Human Resources and Organisational Development explained that a cluster of issues remained the problem. They included written procedures with regard to payroll, issues with password security, security regarding holding personnel records and the process for notifying ICT of leavers and new starters. Good progress had been made in terms of fully documented procedures and fixing generic passwords and Members were assured that within GO the limited assurance would be corrected. Resilience in payroll would also be improved upon within GO as CBC would have more access to payroll expertise.

The Audit Partnership Manager confirmed that the issues were being positively addressed.

Resolved

To note the report.

12. WORK PROGRAMME

Members noted the work programme. The Chair invited Members to contact him directly should they have any agenda items for the next meeting.

13. ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION

There were no urgent items for discussion.

14. DATE OF NEXT MEETING

The next meeting was scheduled for 11 January 2012.

Andrew Wall
Chairman

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Local Authority Company

Local authority company
Cheltenham Borough Council
Cotswold District Council
Working in partnership



Rationale

- CBC's vision of becoming a strategic commissioning authority
- Operational management and administration of service delivery
- MTFS and cashable savings
- Gloucestershire Waste Partnership
- Potential to take on other services
- Potential to involve other partners



What is the company?

- The company will deliver a range of outcomes which will be set out in a service level agreement
- The company is a wholly owned local authority company created to deliver services for the local authorities (shareholders)
- It is not a trading company



In scope services April 2012

- Cheltenham Borough Council
 - waste collection
 - kerbside recycling collections
 - organic waste collections
 - servicing of neighbourhood recycling sites
 - operation of the Swindon Road recycling centre
 - street cleaning
 - public toilet cleaning
 - grounds maintenance



In scope services August 2012

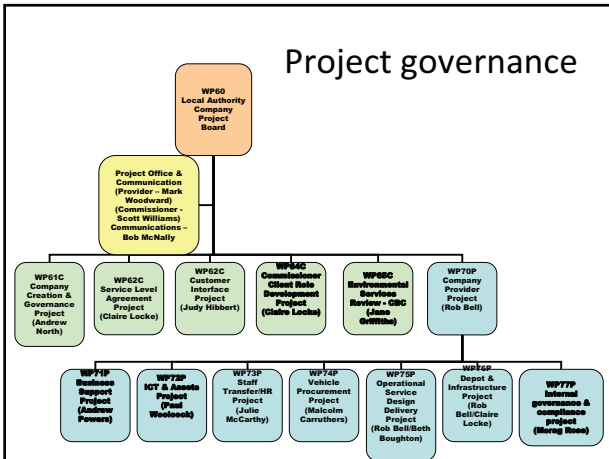
- Cotswold District Council
 - waste collection
 - kerbside recycling collections
 - organic waste collections
 - servicing of neighbourhood recycling sites
 - street cleaning



Project management

- Commissioner – project manager Scott Williams from CDC
- Company implementation – project manager Mark Woodward from CBC
- Project board – includes joint project sponsors Grahame Lewis CBC, Ralph Young CDC





How this will impact on Cheltenham

- Client side monitoring will sit within commissioning division at CBC
- Customer interface will sit with the customer service team within the resources division
- Strategic support on waste/recycling/street cleaning to be provided by experienced officer seconded on a part time basis from CDC (Scott Williams)
- Strategic support on grounds maintenance provided by Parks Development team (Adam Reynolds)
- Partnership approach – as with CBH
- Performance measures developed against the outcomes

Support services - GO

- GO will provide
 - Financial support
 - Payroll services
 - Procurement support
 - Human resources support
 - Health & safety support
- ICT support - CBC
- Legal -One Legal
- Audit – Cotswold audit partnership
- Property services - CBC

Governance-General

- CBC and CDC have control over the Company via shareholders and directors AND control over the delivery of services by the Company via the SLA/Contracts.
- Company limited by shares
- Shareholder Level -Shareholders have overall control exercised at General meetings with voting/shareholding split 50:50 between the 2 councils
- Director Level- control operation and management (subject to control of shareholders). Proposal is to have 4 directors comprising 2 council nominees (1 from each council), the MD and the FD

Governance-Articles of Association

This is the contract between the shareholder councils and the company

- Public document
- Required for the incorporation of the company at Companies House
- Follows a model as set out in the Companies Act 2006

Governance- Shareholder Agreement

This contract defines the balance of power between the councils as Shareholders and Company directors. The key provision is the reservation of key decisions by the Shareholders. These include:

- Varying the articles
- Permitting additional Shareholders; forming any subsidiary or acquiring shares
- Adopting/amending the business plan
- Entering into any contract over a stated value
- Agreeing appointment (including remuneration) of all directors of the Company other than Shareholder appointed directors
- Substantial changes to employment terms and conditions of service
- Changing the capital of, or issuing any shares of the company
- Declaring dividends to a Shareholder

Governance-Roles

Shareholder Interest- Leader to reserves these executive powers
Decision making in respect of the matters reserved to the shareholders

Contract monitoring and Performance- Leader to delegate these powers to Cabinet Member

Ensure compliance by the council through the SLA/Contract with the company including changes and service reviews

Director level- Board of Directors to consist of 1 Council nominee plus MD and FD

Day to day operation and management of the company; directors are accountable to the councils through rights reserved to shareholders and contract monitoring



Client side management

- SLA's
- Performance indicators
- Regular officer meetings – reviewing performance against the outcomes
- Regular officer meetings to update on key issues for company/CBC and what action needs to be taken



Members' roles

- Leader – shareholder
- Cabinet lead – agrees SLA, sets strategic and policy direction (although this would change if we have a joint committee for waste)
- Overview and scrutiny – receives performance reports and can call the company to account if required
- Individual members – service requests ie missed bin, complaints etc through customer service team. Discussions on the way policy being implemented with strategic client officers



Implementation timetable

- Oct 2011 – Cabinet report
- Nov 2011 – LA Co formation
- Nov 2011 – Shadow board formed
- April 2012 – LA Co begins to trade
- April 2012 – CBC staff TUPE to LA Co
- August 2012 – CDC / SITA staff TUPE to LA Co



Questions?



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Audit committee, 21 September 2011

2010/11 Statement of Accounts

Key changes and highlights

Martyn Scull
Group Accountant

Sarah Didcote
Group Accountant

1

Areas to be covered

- Legal background
- Main changes following implementation of IFRS
- Financial highlights
- Reconciliation of the Management Accounts to the Statement of Accounts
- Questions

2

The Legal Framework

- Audit Commission Act 1998 – requirement to prepare an annual Statement of Accounts
- Local Government Act 2003 - accounts to be prepared in accordance with 'proper accounting practices' and the Accounts and Audit Regulations 2003 (as amended in 2011)
- Proper accounting practices are defined by the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 'Code')*
- Local Government & Housing Act 1989 - separate Housing Revenue Account ('ring-fenced')
- Statutory requirement to maintain a separate Collection Fund for council tax and business rates

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Code of Practice on Local Authority Accounting – the rules!

- Accounts must be prepared in accordance with the Code
- From 2010/11 the Code is based on International Financial Reporting Standards (IFRS)
- Changes to accounting policies have been made in previous years but main presentational changes are in 2010/11
- 2010/11 Code guidance notes have 759 pages
- 2010/11 Statement of Accounts is 125 pages (65 pages in 2005/06)

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Main changes in 2010/11 under IFRS

- Mainly presentational for CBC – accounts look very different!
- **Main Technical changes**
 - Expenditure now includes cost of staff holidays and flexitime not taken at year end
 - All leases reassessed and reclassified as necessary
 - Capital grants and contributions now credited to Income & Expenditure (I&E) when the conditions are met
 - Changes in value of Investment properties credited or debited to I&E
 - New category of Assets Held for Sale (e.g. North Place/Portland St. car parks)
 - Value of Heritage assets to be included from 2011/12
- Technical changes do not impact on General Fund Balance as they are reversed out to other reserves

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Main Presentational Changes

- I&E Account and Statement of Recognised Gains and Losses (STRGL) combined into a Comprehensive I&E Statement, showing all gains and losses for the year
- Changes to the service groupings
- On Balance Sheet fixed assets reclassified as PPE, Investment property and Assets Held for Sale
- Reserves classified as Usable or Unusable
- New Statement – Movement in Reserves
- Many new and more detailed notes e.g. Critical Judgements Made, Segmental Reporting

6

Financial highlights in 2010/11

- Overall under-spend compared to revised budget for the GF of £174k, helping to increase GF balance to £2.667 million at year end
- Overall under-spend compared to revised budget for the HRA of £684k, helping to increase HRA balance from £1.6 to £3.7 million
- Overall reduction in Net Assets of £10.8 million, mainly as a result of :
 - Reduction in value of HRA dwellings of £46 million on revaluation (charged to Capital Adjustment Account (CAA))
 - 'Loss' on transfer of housing land to CBH for new build of £1.1 million (charged to CAA)
 - Increase in value of Icelandic bank investments of £3 million (transferred to earmarked reserves)
 - Reduction in Pensions liability of £32 million (transferred to Pensions Reserve)

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Financial highlights continued

Other highlights

- £6.9 million was spent on capital items, including £2.9 million on the housing stock and £1.1 million on recycling vehicles, bins and caddies
- Despite the need to borrow for the recycling equipment, the Capital Financing Requirement (CFR) increased by only £5k, since debt repayments of £875k were made
- £2.1 million in capital receipts were received, of which £900k was used to fund capital expenditure and loan premiums from previous years, leaving £1.2 million at the year end (to be used for affordable housing and regeneration)
- £803k in partnership funding was used to fund capital expenditure
- As shown on the Cash Flow Statement, external borrowing went down by £4.3 million

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Financial highlights continued

Other highlights continued

- Earmarked reserves increased by £800k, however this included £2.5 million transferred to reserves for the Giltinir Icelandic bank investment; other reserves reduced by £1.7 million, due to budgeted transfers to fund capital and other one-off expenditure
- Group accounts show net assets of £215 million, including
 - £22 million investment in Gloucestershire Airport
 - £3 million CBH dwellings under construction

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Icelandic Bank investments

- Need to reassess their value at 31 March 2011, based on the latest estimated recovery rates and time until repayment
- 2009/10 Giltinir investments assumed not to have priority status, resulting in a reduction in value ('impairment') of £2.7 million chargeable to the I&E account
- However a capitalisation direction was received, allowing the impairments to be funded by borrowing over 20 years
- On 1 April an Icelandic court decided such investments had priority status, meaning £2.4 million of the original impairment could be reversed
- However the decision is subject to appeal, therefore the credit to the I&E was transferred to an earmarked reserve in case decision reversed
- If decision stands, reserve will be used to repay the borrowing

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Icelandic Bank investments cont'd

- Repayments of £553k received for KS&F loans
- Increase in value of remaining KS&F loans of £326k, of which £240k used to repay the borrowing
- Interest due of £300k credited to I&E and transferred to reserves
- If decision of Icelandic court stands, of the original £11 million invested an estimated £10.2 million (93%) will currently be recovered

11

Difference between management accounts and Statement of Accounts

- Surplus on management accounts £174k, but Deficit on CI&E Statement (page 21) £33.5 million
- Why? CI&E Statement includes
 - Housing Revenue account (HRA)
 - Items such as depreciation, impairments, capital grants, additional pension costs, transfers to reserves, etc which are reversed out in the Movement in Reserves Statement, so do not fall on council tax

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Reconciliation Statement

Comprehensive Income & Expenditure Statement - Deficit for year	33,450
Less: Depreciation and impairment of assets	(2,776)
Less: Revenue expenditure funded from capital under statute	(188)
Less: Housing capital receipts	(415)
Add: Capital grants	589
Add: Gain on disposal of fixed assets	268
Add: Pensions adjustments	10,917
Less: Housing Revenue Account deficit (including impairments of £46 million)	(44,729)
Add: Provision for repayment of debt and loan premiums	1,021
Add: capital expenditure charged to revenue	852
Add: net Transfers to earmarked reserves	837
General Fund Underspend as reported in Outturn Report (management accounts)	<u>(174)</u>

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Any Questions?



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