

Audit, Compliance and Governance Committee

Wednesday, 22nd July, 2020
6.00 - 7.30 pm

Attendees	
Councillors:	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownsteen and Tony Oliver
Also in attendance:	Lucy Cater (Assistant Director – SWAP), Aditi Chandramouli (Grant Thornton), Councillor Hay (Cabinet Member Finance), Paul Jones (Executive Director Finance and Assets), Barrie Morris (Grant Thornton)

Minutes

1. APOLOGIES

Councillor Stafford had given her apologies.

2. DECLARATIONS OF INTEREST

None were declared.

3. MINUTES OF THE LAST MEETING

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

Councillor Willingham highlighted a typo on page 4, where Y238 should have read Y2038. This would be amended.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 22 January 2020, as amended, be agreed and signed as an accurate record.

4. PUBLIC AND MEMBER QUESTIONS

None received.

5. ANNUAL INTERNAL AUDIT OPINION 2019/20

Lucy Cater, Assistant Director at South West Audit Partnership (SWAP) introduced the Internal Audit Annual Report and Opinion 2019/20. At the time of drafting the opinion; three audits were in progress, six were yet to commence and 34 had been completed. These completed audits had resulted in 60 recommendations, though none were Priority 1 and only 30 were Priority 2, and in respect of the areas reviewed in the year, SWAP were able to offer 'Reasonable Assurance'.

The Assistant Director gave the following responses to member questions:

- In terms of the Planning Process and Complaints Procedure audit, the report was now being drafted and initial contact had been made with the relevant Officers with a view to progressing this soon.
- It had not yet been possible to undertake any audit work remotely, as many SWAP staff had been redeployed to provide support in other areas including those that were assisting with the payment of grants to businesses. It was likely that going forward audit work would be undertaken remotely where it was possible to get access to the relevant officers and information.
- The report summarised work that had been done and therefore it was not appropriate to amend the executive summaries to reflect the fact that the authority had recently signed up to the Tech Charter; but this could be included in the next Audit Plan.
- The executive summary would suggest that the Business Continuity Plans had proved to be adequate.
- The audit of corporate culture had been deferred and whilst it would be undertaken, it could be that this would not be done before 2021/22.

A member felt the Annual Opinion demonstrated that the Audit Committee was fulfilling the role that it was meant to do. He also took the opportunity to thank Officers for their hard work and dedication during these unprecedented and difficult times. He commended them for having worked together, doing different roles, at times working unusual hours and for endeavouring to involve members at every stage, to ensure continuity of services.

No decision was required.

6. AUDIT PLAN PLUS ADDENDUM AS PRESENTED TO LAST AUDIT COMMITTEE

Barrie Morris from Grant Thornton introduced the External Audit Plan plus addendum. The audit had been significantly impacted by COVID and caused some previously identified risks to increase further. The pandemic has had a significant impact on the valuation of land and buildings at the year end, including investment properties and surplus assets, meaning that it was necessary for GT to increase the volume and scope of their audit work to ensure that adequate audit and challenge underpinned any valuations. The Financial Reporting Council (FRC) has also indicated that it expects all external auditors to provide additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the audited entity, and all of these areas of additional work are likely to incur an additional fee. The start of the statutory audit had also been impacted by the pandemic and though the council had not yet provided financial statements, GT were working with Officers to meet the revised deadlines of 31 August for the preparation and 30 November for the audited accounts. Neither parties envisaged that meeting these new deadlines would be a problem, in fact the council were aiming to have their financial statements prepared in advance of the 31 August deadline. In recognition of the unprecedented uncertainty that the Covid-19 outbreak posed, a new significant risk had been added, Covid-19 and the risks and proposed responses were detailed at page 71 of the pack. Finally, it was highlighted that enhanced independence disclosures were being made because a previous employee of GT had been appointed to a role within Publica Ltd. He confirmed that appropriate safeguards had been put in place as

a result of this unusual situation and had been keen to provide these assurances to members.

Barrie Morris provided the following responses to member questions:

- References to PPE within the report related to Plant, Property and Equipment rather than Personal Protective Equipment.
- A risk relating to the Redcar and Cleveland Council ransomware attack had not yet been identified but this was something GT could take away from the meeting.
- The need to reevaluate assets was born of the need to produce the financial statements. Uncertainty from valuers was raising a red flag for Shareholders that some assets may not be correctly valued, as a result of their cash flow value or future rental streams having reduced drastically. He noted that this specific issue was covered in the 'Going Concern' report later on the agenda and took the opportunity to give credit to the Director of Finance and Assets, for an in-depth report which had fed into returns made to central government.
- GT were not expert valuers and therefore had to engage experts in order to provide appropriate challenge to management and their experts in terms of the valuation of assets.

The Director of Finance and Assets reminded members that this authority's asset portfolio was diverse and therefore it did not face the level of exposure as authorities that had invested heavily in retail property. He also felt it was worthwhile acknowledging the delay to the audit, which was usually completed by the end of May and presented to the committee in July, which the Government had now pushed back to August and November. He had aimed to have a draft set of accounts completed by the end of June, but this had proved overly ambitious given the changes to some mandatory grants, as well as some of the additional grants that the council needed to process. He thanked GT for being as accommodating as they had and for agreeing a revised deadline and noted that the committee were still scheduled to meet in September to review the draft accounts, but it could be that there would be a need to defer this meeting by a month.

The Chairman felt that it was a credit to the authority that it invested locally and commended this approach and also took the opportunity to thank GT for flagging the issue of the conflict of interest pertaining to the ex-employee, which had the potential to cause problems if unchecked.

No decision was required.

7. AUDIT PROGRESS REPORT AND SECTOR UPDATE

Aditi Chandramouli introduced the Audit Progress Report and Sector Update, as circulated with the agenda. Work on the interim audit commenced in March, but after a week on site, the second week of the audit had to be undertaken remotely off-site due to the lock-down requirements introduced by the UK Government. She thanked the finance team for accommodating this. The findings of this interim work and the impact of these findings on the accounts audit approach were detailed at page 79 of the pack and it was noted that no weaknesses had been identified at this stage. In terms of sector updates, these included updates on Covid and Local Government, but most importantly, the

New Code of Audit Practice, the most significant changes of which were in relation to the value for money (VfM) arrangements.

There were no member questions and no decision was required.

8. INFORMING THE AUDIT RISK ASSESSMENT - THOSE CHARGED WITH GOVERNANCE

The Director of Finance and Assets introduced the paper, explaining that in previous years the committee had been presented with two documents, a set of management responses, as well as a response from the Chair, Councillor Harvey. Combining the two had proved much easier to complete and he felt it resulted in a far more comprehensive response.

In response to a question from a member, the Director of Finance and Assets confirmed that the Council did have sufficient staff, with appropriate skills and experience and where needed would seek external specialist advice, as it did with the Climate Change analysis report undertaken last year. He acknowledged the significant commitment in terms of Climate Change, made as part of the budget which was agreed back in February, but stressed that with the current financial uncertainty, it would be remiss of him to agree certain expenditure until there was more financial stability, and whilst finances shouldn't always be a barrier, in this case they had to be.

No decision was required.

9. ASSESSMENT OF THE GOING CONCERN

The Director of Finance and Assets pointed out that in his 30 years of working for Cheltenham Borough Council this had been his most challenging period as a finance professional, and with this report he had endeavoured to strike the right balance between honesty and positivity. He acknowledged the media speculation regarding the viability of councils up and down the country and he felt strongly that it was imperative that there be a record of how this Council was affected. The assessment of the going concern was a report that he wrote every year and in laymans terms was an assessment of whether an authority, its functions and services would continue in operational existence for the foreseeable future. This report would normally sit in the background and was of little interest to anyone but clearly it had a greater prominence this year. For that reason he agreed with the Cabinet Member for Finance that this report should be presented to the Audit, Compliance and Governance Committee. He was pleased to be able to confirm, with a great deal of confidence, that CBC was indeed a going concern.

Clearly, these were unprecedented times, affecting every local authority in the country but what made Cheltenham different was, firstly, it's estimated additional costs from this pandemic, excluding slippage in savings programmes amounted to circa £1.3m and to date, it had received just over £1.3m in this financial year. Of more concern to CBC was the lost income from sales, fees and charges; as members would be aware, the vast majority of CBCs losses related to car parking. It was therefore pleasing to hear the commitment from Government a few weeks ago that stated where losses were more than 5% of a council's planned income from sales, fees and charges, the Government would cover 75p for every pound lost. His calculation suggested that CBC would receive just over £712k for every million reported as lost income. MHCLG were

due to release the detail on how this data would be captured and he would provide further updates when they are available.

He had mentioned previously that CBC held reserves that could be put forward to offset these losses and he stressed that there may be a need to reprioritise some of the initiatives planned in the February budget to ensure the Council remained financially viable. £1.5m of our reserves had already been identified that could be applied to meet the current fallout from COVID-19 and in addition the council had made debt overpayments in excess of £1m that could be applied if needed (subject to getting formal agreement with the external auditor); this represented £2.5m of CBC money already identified if the need arose. In summary, he had confidence that the in-year projected losses were covered based on information and work undertaken to date and so he moved onto the longer term viability of the council. Some income-streams like car parking may never return to the pre-COVID levels and so work continued looking at alternative options to replace that income through the use of CBCs significant asset portfolio. Fundamentally, this was why Cheltenham was so unique compared to many of its neighbouring authorities; it had assets valued at in excess of £0.5Bn and was the overwhelming reason why it would continue to be a going concern. It had significant land ownership including the recently purchased 120 acres at West Cheltenham, owned many assets including an airport, 4,000 houses, the freehold interest in the Regent Arcade, a Sainsbury's supermarket, almost 2 Hundred Thousand square feet of prime office accommodation, a depot, parades of secondary retail outlets, industrial units, start-up units, theatres, cultural venues, a Lido, a leisure centre, multiple car parks and many more. He noted that a team of Officers had been tasked with re-energising the asset portfolio and making sure they were being used to maximum effect and advised that some assets may be considered surplus to requirements, such as the Arle Nursery site and in any such instance the council would look to generate maximum receipts from sale proceeds and this work would also provide resilience to the future prosperity of the Council.

The Director of Finance and Assets gave the following responses to member questions:

- The biggest concern for this council was if parking income never returned to pre-Covid levels, with a 10% reduction equating to a £0.5m loss and levels currently only at 40% of what they once were. Without the wish to scaremonger, without a financial settlement that covered some of these losses, the council would have difficult decisions to make.
- The reality was that car parks represented real estate assets with a significant value but any reduction in the use/income would present opportunities for alternative uses.
- The Council paid huge business rates on car parks and would still face those liabilities if it were to offer free parking as was being suggested by some members.
- He was not best placed to answer questions pertaining to public liability insurance for volunteers and would have to seek a response from the relevant Officer(s) outside of this meeting.
- Business Rates and Council Tax were separate. Council Tax, or the Collection Fund as it was also known, [previously](#) ran at a surplus, with growth throughout the year. Next year however, the fund was likely to be in deficit, which was unprecedented, though it was noted that GCC and the

Police took the highest precepts with only a small percentage coming to CBC. Business rates were different and would be reported to Government as cash losses. Retail, leisure and hospitality properties had been given 100% business rate relief for the year 2020/21 and properties that did not qualify had the option to make payment plan requests. The Governments Section 31 Grant would reimburse some losses and they had suggested that any deficit could be spread over 3 years, but more details were yet to be released. The business rate revaluation had been postponed until 2022 but it was certain that in the future, business rates would be less of the income generator that it once was.

A number of members took the opportunity to thank the Director of Finance and Assets for his in-depth and honest report, as well as thanking him, his finance team and the Cabinet Member Finance for the huge amount of work they had been doing and for the financial stewardship which had placed the council in the stronger than most, financial position it found itself in.

The committee noted the conclusion that Cheltenham Borough Council was a going concern.

10. WORK PROGRAMME

The work programme had been circulated with the agenda.

Aditi from Grant Thornton advised that given the revised timescales discussed earlier in the meeting, the Audit Findings report would be taken to the September meeting, rather than the Annual Audit letter, though there was still a decision to be taken about whether this meeting (22 September) should be deferred.

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

There were no urgent items requiring a decision.

12. DATE OF NEXT MEETING

The next meeting was scheduled for the 23 September 2020, at present.

Steve Harvey
Chairman