

Cheltenham Borough Council Audit, Compliance and Governance Committee Minutes

Meeting date: 25 February 2025

Meeting time: 6.00 pm - 7.02 pm

In attendance:

Councillors:

Adrian Bamford (Chair), Ashleigh Davies, Chris Day, Cathal Lynch, Ben Orme (Vice-Chair), Julian Tooke and Dr David Willingham

Also in attendance:

Paul Jones (Deputy Chief Executive (Section 151 Officer)), Gemma Bell (Director of Finance and Assets and Deputy S151 Officer) and Nathan Coughlin (Bishop Fleming)

1 Apologies

There were no apologies.

2 Declarations of interest

There were no declarations of interest.

3 Minutes of the last meeting

The minutes of the meeting held on 22 January 2025 were approved and signed as a true record.

4 Public and Member Questions

There were none.

5 Audit Findings Report 2023-24

Nathan Coughlin of Bishop Fleming, appointed auditor for 2023-24, introduced the report as published. He highlighted the following points:

- Due to Grant Thornton giving a disclaimed opinion for 2022-23, a disclaimer opinion has been provided for 2023-24. This reflects that the prior year accounts, opening balances and comparatives were not audited so Bishop Fleming have not been able to take assurances over these areas. Assurances will be built back over financial statements, balance sheets and reserves going forward.
- Financial statements were signed off by Grant Thornton in December which created a tight deadline for the backstop date in February. Initial focus has been on the balance sheet as this reflects the financial position as of March 2024.
- A number of areas on the balance sheet have not been examined, primarily relating to valuations. In agreement with management, full valuations will be carried out at March 2025 year-end. Work has been carried out on additions and disposals.
- Detailed testing has not been carried out on the consolidation but underlying testing has been carried out around Cheltenham Borough Homes (CBH). Bishop Fleming are also the external auditors for CBH so have assurance over the related numbers and will be comfortable when this is reviewed next year.
- There was little value in spending significant time on assessing the value of investment in Gloucestershire Airport. Greater clarity on the valuation that can be achieved will be available next year due to its commercial sale, which will be included in the group financial statement.
- There's a lack of clarity across the sector on how to build back assurance on the reserves due to the number of reserves and the complexity of the accounting treatments. A number of technical leads and accounting firms are working with the Financial Reporting Council (FRC) on how to progress beyond this position. A technical solution is expected to emerge in the next year.
- There are some minor amendments and cosmetic changes still required to the accounts which are being carried out by management to ensure they are as correct in terms of the Accounting Standards as possible by the deadline. Approval is sought subject to these changes so that the documents can be signed later in the week.
- One area of significant adjustment is connected to the accounting for the pension fund. A very complex accounting area that has moved over recent years, particularly in relation to net asset positions in the balance sheets. The actuaries first calculation of the council's share showed a net position of £9m but after the application of an asset ceiling, which takes into account additional contributions in the future, the scheme's overall deficit results in a negative valuation. That final adjustment takes it down to a technical accounting liability of £24m. There was also a £1m unfunded pension liability which needs to be recognised within the balance sheet.

- Minor control recommendations have been made, reflecting that things are generally well controlled throughout the organisation.
- He thanked the Finance Team for their level of engagement and collaboration throughout the audit process.

The following responses were received to Members' questions:

- If there is no clear resolution to the reserves question then a 'qualified, except for' opinion may be issued in the future as an interim position. There will be more time to process the accounts over the next year as they will be ready by the end of June. It is intended that a full balance sheet and income and expenditure review will be completed in 2024-25, with assurance provided on comparatives in 2025-26. With the possible exception of reserves the council will then be in a comfortable assurance position.
- Due to the council choosing to make additional pension contributions of £2m annually over the last 3 years, the Accounting Standard requires an ongoing contribution (liability) to be recorded across the average expected lifetime of people within the scheme. For example, if the expected lifetime is 15 years the asset position would be reduced by £30m leading to a deficit position. However, this is a technical accounting adjustment and it is important to remember that before this adjustment the council's share of the assets were greater than the share of liabilities, showing a decent position. The triennial evaluation will be carried out in March 2025 which will determine what future contributions are required.
- In relation to Value for Money no significant weaknesses have been identified in the areas that have been reviewed, including systems, controls and transactions. It should be noted that land evaluations, some transaction testing and income expenditure has not been carried out.
- The committee confirmed they were satisfied with the independence of the external auditors and the results issued.

There was no vote on this item.

6 Auditor's Annual Report 2023-24

Nathan Coughlin of Bishop Fleming, appointed auditor for 2023-24, introduced the report as published. He highlighted the following points:

- The Value for Money report had not been exempt as part of the backstop in the previous year and had been submitted to the Committee by Grant Thornton. Bishop Fleming have reviewed their findings and carried out their own assessment.
- They considered three key areas in their assessment – financial sustainability, governance, and improving economy, efficiency and effectiveness. A baseline review has been carried out of core processes and arrangements in place for each area which had not revealed any significant weaknesses. Future years will dive into some areas in greater detail.

- A risk based approach to the audit has been taken with a risk assessment carried out at the start, which considered points raised by previous auditors, minutes and regulators' requirements.
- Whilst no significant weaknesses were identified, a number of recommendations have been made. Three were previously recommended by Grant Thornton and have been partially implemented. Three new recommendations have been made by Bishop Fleming, two of which, risk management and procurement, were already in the process of being revised and improvements made. The final recommendation relates to the need for continued careful monitoring and increased scrutiny of the level of debt in the organisation due to the risk and level of projects that are ongoing.

The following responses were received to Members' questions:

- The slight concerns around borrowing highlighted in the report relate to difficulty in getting clarity on short-term borrowing against the Housing Revenue Account (HRA). Significant work is being carried out on the longer HRA plan which will ensure the council is not borrowing against the replacement of components. Additional concern was raised around the level of short-term borrowing with interest rates higher than they were both in the short and longer term. A number of councils have reported higher budget outturns than projected due to interest rates remaining higher than expected but this also leads to significant borrowing being more expensive, especially with short-term fixed rates.
- Officers are comfortable with the council's net budget requirements of just over £20m approved by the Council as gross turnover is far higher than this due to the HRA. There is around £200m in borrowing which is split relatively equally between the General Fund and HRA. The borrowing against the HRA is considered reasonable when divided across the properties owned by the council. They recognise that the concerns raised by Bishop Fleming reflect challenges due to wider factors including high interest rates, the war on Ukraine and cost inflation (particularly within the building trade). This has not been adequately offset through the rent increase, due to the calculation taking place in September, when the Consumer Price Index (CPI) was lower than has been seen since. Significant scenario testing will be carried out on the HRA and Members may need to make difficult decisions on how to balance the three big financing demands on the HRA – new build, achieving decent homes and decarbonisation. Consideration will be given to the disposal of high value assets within the HRA to ensure the council are able to deliver decent homes to tenants.
- For the General Fund a calculated risk was taken in the purchase of the green fields in 2019. Once planning is hopefully secured there will be a significant uplift on the value of those land holdings. As the development comes forward lots will be sold which will recoup what was borrowed. There are also a number of significant assets in the process of being disposed, if these capital receipts are realised this will enable the reduction in short term borrowing.
- Capital health indicators show a healthy debt to asset ratio as highlighted within the section 25 report. It is important to get the right balance between risk and reward.
- The recommendation around the savings target raised by Grant Thornton has been left open. When this is reviewed in the future it will not look at whether

the target has been met, but will consider how the savings are being monitored and tracked and that the actions needed to achieve the savings are being taken. It is hoped this recommendation will be closed in the next year.

- The approved partnership strategy covers arrangements with groups where the council have commissioned services, such as the Cheltenham Trust, Ubico, One Legal, Publica and SWAP. These organisations provide an annual assurance statement which is collated by the Monitoring Officer as part of the council's annual governance statement. Grant Thornton recommended that a clear assessment was needed of who the partners are, what services are being delivered, what the governance arrangements are, how the council oversee these arrangements and how it is ensured the partnership is delivering. This recommendation also more broadly considers what should be in place for procurement outside of commissioning arrangements. Discussions are taking place with the Monitoring Officer to consider whether a register would best meet this recommendation or whether existing processes, such as the assurance statement, does this in a different form whilst also covering non-financial arrangements including health and safety, reporting and KPI data. Under the procurement regulations there is also a requirement to record commissioning arrangements within the contract register including dates that the existing arrangements expire to ensure the council is prepared to go to the market again.

Members' discussion raised the following points:

- The balance sheet shows a strong position but it is important to have processes in place to keep a close eye on the headroom as the short-term debt rolls over. The decision to borrow to invest against assets was felt to have been the right approach.
- Members are comfortable from the management comment that the recommendations are being progressed but it was agreed that an internal update on the progress of the external audit recommendations should be provided to the committee in 6 months' time.
- It was suggested that internal audit could carry out a review of procurement processes to increase efficiency and economic effectiveness, and consider establishing KPIs and targets for defining value in light of both price and quality.

There was no vote on this item.

7 Final Accounts 2023-24, including Letter of Representation

The Director of Finance and Assets introduced the report as published. She highlighted that this is the final draft of the 2023-24 statement of accounts, initially published at the end of May 2024. All the adjustments included in the external auditor's report have been completed. A number of cosmetic changes remain which will be completed during the week to allow the accounts, subject to the committee's approval, to be signed and published with the external audit disclaimer opinion by the backstop deadline. No further material changes are expected. The Director of Finance and Assets and the Chair thanked the Chief Accountant, the Finance Team

and Bishop Fleming for their hard work and collaborative approach to completing within such a challenging time frame.

Members' noted some potential errors within the tables on pages 64, 67 and 70. They agreed that the Finance Team would review these figures and make any changes required but that it was not necessary to delay the approval of the accounts prior to this work being completed.

RESOLVED (Unanimously) THAT:

- 1. They noted the final draft of the statement of accounts 2023/24; and**
 - 2. Subject to any material changes to the accounts between the committee date and the backstop date of 28 February 2025, authority has been delegated to the Chair of the Audit, Compliance and Governance Committee to sign the final accounts and management letter of representation 2023/24.**
- 8 Any other item the chairman determines to be urgent and requires a decision**

There were no other items or urgent business to be considered.

9 Date of next meeting

The next meeting is scheduled for 28 May 2025.