

## Minutes of a meeting of the Governance and Audit Committee held on Friday 19 September 2014 at City Hall, Bradford

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Commenced 1000  
Concluded 1145

### PRESENT – Councillors

LABOUR	LIBERAL DEMOCRAT
Ikram	J Sunderland
M Slater	
L Smith	

Apologies: Councillor Eaton

### Councillor L Smith in the Chair

#### 20. DISCLOSURES OF INTEREST

Councillor M Slater disclosed an interest in Minutes 25 and 26 as he was a Member of the West Yorkshire Pension Fund (WYPF) Joint Advisory Group and the WYPF Investment Advisory Panel.

**ACTION:** *City Solicitor*

#### 21. MINUTES

**Resolved -**

**That the minutes of the meetings held on 20 June and 25 July 2014 be signed as a correct record.**

#### 22. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted by the public to review decisions to restrict documents.



23. **UTILISATION OF THE NEW HOMES BONUS TO RECONCILE  
COMPETING DEMANDS ON S106 CONTRIBUTIONS TO DELIVER  
AFFORDABLE HOUSING, SOCIAL AND SCHOOL INFRASTRUCTURE**

Previous Reference: Minute 12 (2014/15)

The Assistant Director Planning, Transportation and Highways submitted **Document “K”** which set out Executive’s agreement to utilise New Homes Bonus money received from central government to fund individual capital projects within Education, Housing and Recreation projects. Currently the New Homes Bonus, which was an annual payment made to the council based on new homes built, conversions or homes brought back into use is not “ring-fenced” to any particular financial area within the council. The purpose of utilising the money was to compensate those sections within the council affected by pressure placed on local infrastructure due to new house building where there was an inability to make S106 payments (scheme viability).

The issue of ring-fencing the New Homes Bonus was considered by the Executive on 24 June 2014 and had been referred to this Committee for matters of governance and audit in relation to how in the future the scheme of allocation of New Homes Bonus money was monitored and allocated in relation to infrastructure provision.

It was reported that the New Homes Bonus was a grant paid by Central Government to local authorities for increasing the number of homes and their occupation. New Homes Bonus was paid each year for six years. It was based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There was also an extra payment for providing affordable houses.

Members commented on a number of issues which included:

- What confidence did officers have that the Council would get a good deal?
- What was the progress on the fraud allegation made in relation to planning?
- When there was a potential of handling significant amounts of money both the community and elected Members should be involved in those discussions.
- Any negotiations with developers needed to be transparent and mechanisms in place in using the new homes bonus needed to be clearer.

In response to Members’ questions it was reported that:

- Due to the current and prolonged economic downturn affecting the house building industry there had been an increasing number of cases where developers had been able to show the viability of a residential scheme was fatally affected by the condition of significant S106 financial contributions.
- In the last 12 months the Government had introduced new guidance and procedures designed to stimulate the new house building economy and create better conditions for scheme viability such as developers on consented sites were able to come back and re-negotiate S106 Agreements based on scheme viability, a revised S106 Agreement could be produced with reduced contributions if the developer case was proven.
- As part of the preparation of new Government guidance Bradford Metropolitan District Council were formally acknowledged as an authority who had acted in advance of Government advice and legislation to adopt a positive and flexible approach in resolving scheme viability issues, this with the aim of securing the delivery of new housing on economically challenging sites.
- New houses built in Bradford had fallen well short of demand.

- Expert “planning brokers” could be sent into local authorities to seek to act as mediators between developers and local planning authorities with the aim of unlocking housing sites held back by excessively high Section 106 contribution.
- Individual Councillors could not get involved in whether a scheme was viable; role of elected Members was to say where the priorities were in their areas.

In terms of monitoring the New Homes Bonus it was proposed that the Assistant Director, Planning, Transportation and Highways submits a report annually to the Council’s Regulatory and Appeals Committee with a recommendation about how the allocation of New Homes Bonus should be made in relation to infrastructure provision. The money would be allocated in the same way as S106 contributions were made so that money is ring-fenced to ensure it was spent on specific infrastructure projects within the catchment area of the housing site.

It was reported that the record keeping for planning application files in relation to infrastructure provision, consultee requests and S106 Agreement records showing the content of completed agreements and the monitoring of spending of the New Homes Bonus would all be undertaken using the same principles as the current regime for Section 106 monitoring. This would include the sign-off of records by appointed senior officers and regular reporting to the Regulatory and Appeals Committee. Records would be open to individual member inspection on request. Section 106 monitoring was undertaken by a Monitoring Officer and various procedures and safeguards were adopted following a detailed Audit Report which was completed in 2011.

The City Solicitor reported that discussions around Section 106 money was in the remit of Regulatory and Appeals Committee.

The Chair expressed concern at the allegation of fraud and that she would arrange a meeting between the Chair of Regulatory and Appeals Committee and relevant officers to discuss and look at other issues around ward Member involvement.

#### **Resolved -**

**That the governance and audit arrangements as set out in paragraphs 4.1 to 4.6 and paragraphs 5.1 to 5.8 of Document “K” which shall comprise the working arrangements designed to implement the Executive resolutions dated 24 June 2014 ( set out in paragraph 1.1 of the report) be endorsed.**

***ACTION: Strategic Director, Regeneration and Culture***

#### **24. LEEDS CITY REGION GREEN DEAL CONTRACT**

The Strategic Director Regeneration and Culture submitted **Document “L”** which summarised the contract arrangements for the delivery of domestic energy efficiency measures in the Bradford District through a Leeds City Region collaborative project and the proposed governance arrangements.

Members commented on a number of issues which included:

- How would you protect the Council from reputation risks because of work undertaken by a third party?
- How many levels of contractors were there?
- Were ward Councillors being kept informed of work being undertaken in their areas.

- Consideration should be given for the contract to be monitored by a scrutiny committee on a regular basis.
- Instructions on how to use a piece of equipment supplied by contractors were not being left with householders.

In response to Members' questions it was reported that:

- The contract would be with a professional organisation and there were numerous procedures and safeguards in place to protect the Council from reputation risks.
- Contractors did use a number of sub-contractors.
- Feedback of contractors not undertaking work appropriately would be reported to an officers group and fed through to contract; work undertaken by any contractor needed to be at a level expected by the authorities.
- Needed to keep residents informed of who the Council was using to do the work and if a resident did not have a good experience of the work undertaken it should be picked up by relevant officers.
- Progress on the scheme/contract should be reported to the Environment and Waste Management Overview and Scrutiny Committee on a regular basis.

#### **Resolved -**

- (1) **That the draft Governance arrangements for the Leeds City Region Green Deal and Eco contract as set out in Document "L" was considered and the Committee provided officers with details of concerns/issues they would wish addressed in the ongoing discussions.**
- (2) **That a progress report on the Leeds City Region Green Deal Contract be presented to the Environment and Waste Management Overview and Scrutiny Committee before the contract is awarded with regular performance monitoring reports after that.**

***ACTION: Strategic Director, Regeneration and Culture***

#### **25. WEST YORKSHIRE PENSION FUND REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014**

The Director West Yorkshire Pension Fund submitted **Document "M"** which provided the latest information on the West Yorkshire Pension Fund (WYPF) financial activities and financial performance for the year 2013/14.

It was reported that during the financial year the value of the WYPF increased in net asset value by £0.43 billion, from £9.94 billion to £10.37 billion.

The WYPF investment activities made a return on asset invested of 4.8%, the average for all local government funds was 6.4%. This placed WYPF in the 75<sup>th</sup> percentile for all local government pension funds. The long-term performance of the fund continued to be very good.

Based on figures available at the end of June 2014 the total administration cost of £25.59 for pension management was the lowest within local government in England and Wales for 2012/13. The latest Report and Accounts for 2013/14 indicated WYPF were in a strong position to retain this performance for the 2013/14 financial year when results were published.

It was reported that active membership increased by 1,128, 1.2% increase from 90,919 to 92,047 for 2013/14. Total membership rose by 8,775, 3.6% increase from 246,538 to 255,313 reflecting the increase in beneficiaries and deferred members. The number of employers rose by 56, 18% increase from 311 to 367 at 31 March 2013.

On quality management, the WYPF achieved most of its Key Performance Indicator targets, which reflected extremely well on the work of WYPF staff and managers.

**Resolved -**

**That the unaudited Report and Accounts of the West Yorkshire Pension Fund for the financial year ended 31 March 2014 be noted.**

***ACTION: Director West Yorkshire Pension Fund***

## 26. **AUDIT COMPLETION REPORT 2013/14 – WEST YORKSHIRE PENSION FUND**

The External Auditor presented the Audit Completion Report for the West Yorkshire Pension Fund (**Document “P”**) which summarised the findings from the 2013/14 audit.

The External Auditor highlighted that the WYPF Audit Completion report was a positive one and that there had been a high level of co-operation of managers who had been professional and the information requested was received promptly.

Members were informed that the Audit findings included:

- No evidence of management override of controls.
- Sample testing of material journals posted throughout the year and at year end identified no inappropriate or unexplained journals.
- A sample of adjustments made in preparing the financial statements were evaluated and the audit work did not identify any matters to be brought to attention.
- Key areas of management judgement were reviewed and, taking account of materiality, the audit work did not identify any matters to be brought to attention.
- No significant transactions that External Audit considered outside the normal course of business with the context of the Pension Fund.
- Assessment of the impact of the errors that had been identified during the audit concluded that there was no pattern to the errors that might indicate manipulation.

It was reported that Management estimated the value of unquoted investments based on the best available information for the year end value at the time the financial statements were prepared. Additional information was obtained from external fund managers relating to the year end value which was not available at the time the financial statements were prepared.

Based on sample testing, the net assets value statements at 31 March 2014 obtained from investment managers indicated a higher valuation by £18.791 million than the estimates included in the financial statements. The Audit extrapolation indicated a potential difference of £34.7 million if the sample results were true for the whole population. External Audit consider that the extrapolation did not indicate a risk of material misstatements.

It was reported that the West Yorkshire Pension Fund's accounting policies and disclosures complied with the requirements of the Code of Practice in Local Authority Accounting.

Members were informed that during the course of the Audit, External Audit did not encounter any significant difficulties and had received the full co-operation of management.

It was reported that External Audit had identified no matters to report in relation to internal control.

There was a short discussion in relation to increasing membership to other organisations and the risks that may be associated with it.

**Resolved -**

- (1) That the unadjusted misstatements schedule Section 4 to Document "P" was considered.**
- (2) That the Management Representation Letter (Appendix A to Document "P") including the reasons for not amending the unadjusted misstatements be approved.**

***ACTION: External Audit/Director West Yorkshire Pension Fund***

**27. AUDIT COMPLETION REPORT 2013/14 – CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL**

The External Auditor presented the Audit Completion Report for Bradford Council (**Document "O"**) which summarised the findings from the 2013/14 audit.

The Finance Director briefly reported on the contents of the Statement of Accounts report and stated that with the exception of the changes mentioned earlier to WYPF there had been no other changes to the Statement of Accounts.

The External Auditor reported that the Audit Completion report for the Council was a positive one, there had been a high level of co-operation from managers which helped the audit to be completed on time.

Members were informed that the Audit findings included:

- No evidence of management override of controls.
- Sample testing of material journals posted throughout the year and at year end identified no inappropriate or unexplained journals.
- A sample of adjustments made in preparing the financial statements were evaluated and the Audit work did not identify any matters to be brought to Members attention.
- Key areas of management judgement were reviewed and, taking account of materiality, the Audit did not identify any matters to be brought to the Committee's attention.
- Found no significant transactions that External Audit considered outside the normal course of business within the context of local government.
- Evaluated the impact of the errors that had been identified during the audit and concluded there was no pattern to the errors that might indicate manipulation.

- No evidence of fraud in revenue recognition based on Audit procedures were found.
- Did not identify any instances of income being recognised in the incorrect financial year.
- There were no matters arising from the testing of year end reconciliations or from the pre-dictive analytical review procedures.
- Evaluated the impact of the errors that were identified during the audit and concluded that there was no pattern to the errors that might indicate manipulation.
- Management arrangements for use of a consulting actuary as an expert were appropriate to determine the estimate of the net pension liability.
- As this was a complex area External Audit used Mazar's own external expert to evaluate the work of the consulting actuary. There were no significant matters to bring to the attention of the Committee.
- The Audit challenged management's judgements underpinning the estimation of the business rates appeals provision as at 31 March 2014 which were a cost to the Collection Fund. Management had estimated the probable cost of settling the appeals as £12.3m based on the level of appeals and experience of past outcomes. As the Collection Fund was an agent's account the Council had recognised its share (£6m) within provisions. There were no matters to bring to attention.
- The rate of new claims had significantly reduced during 2013/14 compared to prior years. Management re-assessed the provision required to settle outstanding claims already received and the amounts probably required to settle estimated new claims. Management estimates allowed for possible increases in claim rates.
- Management had determined that the required provision at year end was £0.575m which had released £7.678m from the opening provision. This was credited to the Comprehensive Income and Expenditure Statement and was shown as an exceptional item on the face of the Statement.
- There are no matters to bring to attention of Members taking account of the uncertainties inherent to any estimation.
- The Council applied a consistent methodology to determining its bad debt provision. There were no matters to bring to Members' attention.
- There were no matters to bring to Members' attention in relation to support services recharges.
- Reviewed the Council's accounting policies and disclosures and concluded they materially comply with the requests of the Code of Practice on Local Authority Accounting.
- The Code required that land and buildings were measured at fair value in the balance sheets. The draft financial statements included assets totalling £68.955m that were measured at historical cost rather than fair value. Most of the value related to three schools which become operational during the year for which the planned revaluations were not completed in time for the preparation of the draft financial statements.
- The impact of the revaluation of the schools was material and an adjustment of £14.9m had been made to the value of property, plant and equipment as set out in the "adjusted misstatements" table in Section 5 of the report.
- There were 13 other assets classified as "other land and buildings" which were carried at historical cost of £1.882m and were planned to be revalued during 2014/15. The residual amount carried at historical cost was non-material.
- It was important that arrangements for complying with the valuation requirements of the Code were sufficiently resilient to avoid material misstatement in future.
- The Council submitted a Better Care Fund plan on time and was establishing governance arrangements for the new pooled budget.
- During the course of the audit, the auditors did not encounter any significant difficulties and had the full co-operation of management.

- On conclusion, having regard to the guidance on the specified criteria published by the Audit Commission, auditors were satisfied that, in all significant respects, City of Bradford Metropolitan District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Resolved -**

- (1) **That the Audit Completion Report was considered.**
- (2) **That the Management Representation Letter attached as Appendix A to Document "O" be approved.**

***ACTION: External Audit/Director of Finance***

**28. STATEMENT OF ACCOUNTS 2013/14**

The Statement of Accounts 2013/14 had been audited and were submitted for approval by the Committee.

The Auditor had issued separate Audit Completion Reports for both the Council and the West Yorkshire Pension Fund (items 9 and 10) and these should be considered by Members before the Statement of Accounts was approved.

The Director of Finance presented **Document "N"** which set out the Council's Statement of Accounts for 2013/14 and the Council's response to the findings of the 2013/14 Audit.

**Resolved -**

- (1) **That the 2013/14 Statement of Accounts be approved and signed by the Chair of the Governance and Audit Committee.**
- (2) **That the deadlines for the production of the 2014-15 Statement of Accounts be brought forward and some year end processes being undertaken during the financial year, enhancing quality control and producing valuations earlier be explored.**

***ACTION: Director of Finance/External Audit***

Chair

**Note: These minutes are subject to approval as a correct record at the next meeting of the Committee.**