

## Minutes of a meeting of the Governance and Audit Committee held on Thursday, 28 September 2017 at 10.00 am in Committee Room 3 - City Hall, Bradford

Commenced      10.00 am  
Concluded        11.35 am

**Present – Councillors**

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT
M Pollard	Johnson Thornton	Reid

Apologies: Councillor Swallow

**Councillor Johnson in the Chair**

**11. DISCLOSURES OF INTEREST**

All those who were Members of the West Yorkshire Pension Fund disclosed an interest.

Action:            City Solicitor

**12. MINUTES**

**Resolved-**

**That the minutes of the meeting held on 27 June 2017 be signed as a correct record.**

**13. INSPECTION OF REPORTS AND BACKGROUND PAPERS**

There were no requests made to inspect background papers.

**14. LOCAL GOVERNMENT ASSOCIATION CORPORATE PEER CHALLENGE REVIEW FINDINGS AND IMPROVEMENT ACTION PLAN 2017**

Bradford Council invited the Local Government Association (LGA) to undertake an independent Corporate Peer Challenge review, which took place in March 2017. The Assistant Director, Office of the Chief Executive submitted **Document “H”** which detailed the areas the review looked at, its findings and the Council’s response in the form of an Improvement Action Plan.



It was reported that the findings of the review were positive and the Corporate Peer Challenge Improvement Action Plan 2017 was attached to the report at Appendix 2.

Members were informed that the LGA Corporate Peer Challenge Review process included a follow up visit; the purpose of the visit was to help the Council assess the impact of the peer challenge and to demonstrate the progress it had made against the areas for improvement and developments identified by the review team; a follow up review would take place about March 2019.

It was reported that further information could be provided on the progress made with recommendation 2.2 of the Improvement Action Plan on how the Council was better focussed on the partnerships and relationships that were most important in achieving the Council's vision.

Members felt the wording relating to the role of scrutiny in the report needed revising as Scrutiny Committee's did not have a policy making function. Members emphasised that Scrutiny Committee's should be looking at future policies rather than taking regular progress reports to their meetings and needed to be more challenging.

In response to Members questions it was reported that the governance arrangements to ensure the delivery of the Corporate Peer Challenge Review Improvement Action Plan, would be managed within the programme and project management arrangements of the Council Plan Outcome Delivery Boards; as well as periodic progress reports against the Improvement Action Plan to the Corporate Overview and Scrutiny Committee.

#### **Resolved-**

**That the Corporate Overview and Scrutiny Committee receive periodic progress reports against the Improvement Action Plan.**

**Action: Assistant Director, Office of the Chief Executive**

## **15. EXCLUSION OF THE PUBLIC**

#### **Resolved –**

**That the public be excluded from the meeting during the consideration of the items relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 27 April 2017 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.**



**16. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 27 APRIL 2017**

The Council's Financial Regulations require the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "I"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 27 April 2017.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 27 April 2017 be considered.**

**17. WEST YORKSHIRE PENSION FUND REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017**

The Director of West Yorkshire Pension Fund submitted **Document "J"** which provided the West Yorkshire Pension Fund's financial position for the year ended 31 March 2017. The accounts had been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Pensions Statement of Recommended Practice 2007
- International Financial Reporting Standards (IFRS), as amended for the UK public sector

It was reported that the value of the West Yorkshire Pension Fund as at 31 March 2017 was £13,632.3m net increase of £2,421.35, 21.6%, compared to the asset value at 31 March 2016. The table at 2.2 of the report gave assets values for the last seven years including 2016/17

Members were informed that based on the latest actuarial valuation 31 March 2016 the Fund was 94% funded, in comparison to the 31 March 2017 asset value the fund was 107% funded and theoretically in surplus by 7% as at 31 March 2017; however, since 2016/17 was not a valuation year the 7% funding surplus as at 31 March 2017 would not provide any immediate benefit to employers; If the market remained steady going forward to 31 March 2019 this may translate to real benefits for employers in reduced contributions, however markets may go up or down; WYPF 94% funding level for 31 March 2015/16 and the 107% for 2016/17 is one of the best funding levels within LGPS.



It was reported that there was a new Cipfa guideline on cost classification for LGPS that had increased the investment management cost by £2.5m for transaction costs; based on the 2016/17 outturn, excluding the adjustment of £2.5m the total cost per member was £27.38 (Pension Admin £13.70, Investment Management £10.74 and Oversight & Governance £2.94); in comparison to the 2015/16 SF3 report total cost per member of £28.38, this was a reduction of £1.00; by using the new Cipfa guideline on transaction costs the total cost would be £36.09 and the investment cost per member would be £19.53; if all pension funds report their transaction costs correctly for 2016/17 WYPF would still have the lowest cost.

Members were informed that the table at 2.9 of the report showed WYPF's performance on 18 key work areas, this performance reflected the commitment of officers and managers in delivering services to all WYPF clients.

**Resolved-**

**That the 2016/17 Statement of Accounts for West Yorkshire Pension Fund be approved and signed by the Chair of Governance and Audit Committee.**

**Action: Director of West Yorkshire Pension Fund**

**18. AUDIT COMPLETION REPORT 2016/17 - AUDIT OF WEST YORKSHIRE PENSION FUND**

The External Auditor presented the Audit Completion Report for the West Yorkshire Pension Fund (**Document "K"**) which summarised the findings from the 2016/17 audit.

It was reported that materiality had been set at £49.52 million and the trivial threshold for reporting matters had been set at £1.486 million.

Members were informed that Section 2 of the report set out the significant findings from the audit and provided information on a number of matters that were required to be reported by ISA 260 "Communication with those charged with governance" and included:

- Management override of control – the work in this area had not highlighted any material issues to bring to the Committee's attention.
- Valuation of unquoted investments for which a market price was not readily available – Management estimated the value of unquoted investments based on the best available information of the year end value at the time the financial statements were prepared. Additional information was obtained from external managers to the year end value which was not available at the time the financial statements were prepared.



- External Audit tested all unquoted investments with a market value greater than £20 million and tested a sample of unquoted investments with market values less than £20 million – In response to External Audit testing management had reviewed the fair value of all unquoted private equity investments using the most recent available information of year end values. This had resulted in an adjustment to increase year end values by £44.247 million.

Quality aspects of the Pension Fund's Accounting Practices included:

- Accounting Policies and Disclosures – External Audit had reviewed the Pension Fund's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with External Audit's expectations, there had been no significant changes to accounting policies for the year end 31 March 2017.
- Quality of the draft financial statements – External Audit received draft financial statements from management on 5 June 2017, the draft financial statements were of a good standard.
- Quality of supporting Working papers – producing high-quality working papers was as crucial part of compiling financial statements that were complete and materially accurate. They also support the delivery of an efficient audit – the supporting working papers were readily available to the audit team and were also of a good standard.

It was reported that during the audit, External Audit did not encounter any significant difficulties and had the full co-operation of management.

Members were informed that the summary of misstatements was detailed at Appendix A of the report.

#### **Resolved-**

- (1) **That the unadjusted misstatements schedule (Appendix A) be considered.**
- (2) **That the letter of requested representations (Appendix B) including the reasons for not amending the unadjusted misstatement be approved.**

**Action: Director of West Yorkshire Pension Fund**

#### **19. AUDIT COMPLETION REPORT 2016/17 - AUDIT OF CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL**

The External Auditor presented the Audit Completion Report (**Document "L"**) which summarised the findings from the audit of City of Bradford Metropolitan District Council's 2016/17 financial statements.

It was reported that materiality had been set at £17.916 million and the trivial



threshold for reporting matters had been set at £0.448 million.

Members were informed that the work had identified a few misstatements that had been discussed with management, a summary of the identified misstatements was provided in Appendix A to Document “L”.

The External Auditor reported on the significant risks (detailed in section 2 of the report) and key areas of management judgement which included:

- Management override of control – the work undertaken had provided the assurance and had not highlighted any material issues to bring to Members attention; no indication of management override of controls were identified.
- Revenue Recognition – the sample testing of receipts in the period after year-end identified income of £0.205 million which should have been recognised in 2016/17 but had not been accrued. Appendix A set out the possible non-material misstatements if the sample results were replicated within the whole population.
- Estimation uncertainty for pension liabilities – the audit work had provided the assurance and no material issues to bring to the Council’s attention had been identified; there was no indication of material estimation error in respect of pensions.
- Accounting for the valuation of land and buildings for schools converting to academy status – The audit work had provided the assurance and no material issues had been identified to bring to Members attention; there was no material error relating to the treatment of schools converting to academy status.

It was reported that key areas of management judgement included valuation of property, plant and equipment; planned work was completed after reviewing the Council’s use of experts to inform management judgements about valuation of land and buildings and the application of the new financial reporting standards and no matters to bring to Members attention had been identified.

Members were informed that the Council’s accounting policies and disclosures and were found to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). There had been no significant changes to accounting policies for the year ended 31 March 2017.

It was reported that External Audit received draft financial statements from management on 30 June 2017; a few numerical misstatements had been identified which were detailed in Appendix A although none had a material impact on the Council’s reported financial performance for the year or year-end assets and liabilities.



Members were informed that producing high quality working papers was as crucial part of compiling financial statements that were complete and materially accurate; the working papers supporting financial statements were of a good standard; External Audit were grateful to officers for their assistance in responding to requests for information and in dealing with External Audit queries in a timely and efficient manner.

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

It was reported that Internal Control recommendations included:

- ensuring that formal access disabling requests were issued for all leavers before the leaving date, in order to avoid unauthorised access to the Council's networks and programs
- testing the Disaster Recovery Plan at least on an annual basis in order to ensure proper and timely recovery in case of a disaster or major incident.

Members were informed that the Value For Money Conclusion was detailed at Section 4 of the report. The Value for Money Conclusion included:

- The Council had made arrangements for managing its savings programme and achieved planned savings of £37.7 million, equivalent to 83% of the savings plan, during 2016/17. The shortfall of £7.9 million was bridged by compensating measures including use of budget contingencies set aside to mitigate the risks of delay in implementing some of the more complex savings plan.
- The Council approved a balance budget for 2017/18 in February 2017 which involved planned savings of £46 million; financial monitoring processes allowed management to identify emerging difficulties implementing planned savings so that mitigating actions could be taken at an early stage.
- The Council had revised its medium term financial strategy for 2018/19 to 2020/21 and beyond to provide a longer term view of the significant financial challenges it faced; External Audit review indicated that the core assumptions were appropriate factors to consider and that management recognise the risks associated with the assumptions.

As it was Steve Appleton's last meeting, Members wished him all the best for his future and thanked him for the work he had undertaken over the years.

#### **Resolved-**

- (1) That the unadjusted misstatements schedule (Appendix A) be considered.**



- (2) That the letter of requested representations (Appendix B) including the reasons for not amending the unadjusted misstatements be approved.

Action: Strategic Director, Corporate Services

## 20. STATEMENT OF ACCOUNTS 2016-17

The 2016/17 Statement of Accounts (SOA) had been externally audited and were now presented to Governance and Audit Committee for approval. The External Auditor (Mazars) had reported their findings in two separate Audit Completion Reports, one for the Council and another for the West Yorkshire Pension Fund. Members were asked to consider these before approving the SOA.

The Strategic Director, Corporate Services submitted **Document “M”** which provided an overview of the 2016/17 Statement of Accounts and included a response to the Council’s Audit Completion Report.

It was reported that significant items in the Statement of Accounts included:

- The total value of the Council’s financial assets were less than its outstanding liabilities, as measured by accounting rules. The Council had a negative net worth of £292m at 31 March 2017.
- The overriding reason for the negative net worth was that the valuation of the pension fund showed a deficit of £829.9m. This deficit represented a future shortfall between long-term pension benefits promised to employees and the investments set aside to fund them. The comparison between pension benefits and investments looked into the future, so is sensitive to the assumptions used to do this.
- The pension fund deficit shown in the SOA is based on a projection of the future using assumptions prescribed to a large extent by accounting rules. However, different assumptions were used in the triennial valuation of the pension fund, commissioned by the West Yorkshire Pension Fund to determine Bradford’s actual pension contributions. Using these different assumptions suggested that the costs of pension benefits versus investments were more in balance. Also, as the triennial valuation determined pension contributions and these were fully allowed for in the Medium Term Financial Plan, the deficit shown in the SOA had no cash flow impact.





- Contributing to the negative net worth were net liabilities of £143m for schools built under the Private Finance Initiative (PFI). There was a net liability because while the Council was still paying for the building costs, accounting rules meant that the schools could not be shown on the balance sheet. The schools converted to academies and accounting rules determine that the Council exercised insufficient control over academies to include them on its balance sheet. It should be noted though, that the Council receives a Government grant each year to pay off the building cost for the schools, so the net liability had no cash flow impact or implication for the Medium Term Financial Plan.
- Other schools, in addition to those funded by PFI, converted to academies in 2016-17 contributing to the Council's negative net worth. The conversion of schools to academies was the main cause of the £125.9m reduction in the value of long term assets shown on the Council's balance sheet.
- Other significant items in the SOA are the £20.4m (£22.7m at 31 March 2016) set aside in provisions. These provisions were for past commitments up to 31 March 2017 which had a financial cost and required payment at a future date. The provision included amounts set aside for expected redundancy costs, due to past budget decisions to reduce staffing. A provision had been set aside to pay for successful appeals against Business Rates. There was a provision to contribute to insurance pay-outs on submitted claims against the Council up the 31 March 2017.
- The long term borrowing shown on the Council's balance sheet increased by £16m to £322m in 2016-17. This was due to £26m of new borrowing in 2016-17 less £10m of previous borrowing due to be repaid in 2017-18, shown as a short term creditor on the balance sheet.
- Total expenditure on the capital programme in 2016-17 was £61.5m including £6.2m on affordable housing, £5.4m on expanding primary school provision and £3.7m on disabled adaptations in residents' homes. 20% of this capital programme was funded by internal borrowing, with the remainder funded from grants, revenue contributions and capital receipts.
- The Comprehensive Income and Expenditure Statement showed a deficit on the provision of services of £150.5m in 2016-17. However, this deficit included accounting adjustments, such as valuation changes on land and buildings, which had no cash flow impact. After removing these, which were also not chargeable against Council Tax, services spent £0.3m less than the approved 2016-17 revenue budget of £378m.
- Overall, the Council held £191.3m of useable reserves at 31 March 2017. £38.3m of this was available to fund the capital programme in future years, with the remainder to fund anticipated liabilities, direct to Council priorities and support budgets.
- The Collection Fund Statement showed Council Tax and Business Rates collected by the Council and how this income was distributed between the Council and other parts of the public sector. Overall, the results for 2016-17 showed just a small £0.2m pressure for the Medium Term Financial Plan.



The Strategic Director, Corporate Services thanked Mazars for the constructive and respectful relationship the Council had with them.

In response to a Members question it was reported that useable reserves were used to fund anticipated liabilities such as changes in VAT, page 361 explained the amount reserved for such liabilities.

**Resolved-**

**That the 2016/17 Statement of Accounts be approved and signed by the Chair of the Committee.**

**Action: Strategic Director, Corporate Services**

