

## Minutes of a meeting of the Governance and Audit Committee held on Thursday, 27 September 2018 in Committee Room 1 - City Hall, Bradford

Commenced 10.00 am  
Concluded 11.05 am

### Present – Councillors

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT
M Pollard	Johnson Thornton Watson	Reid

### Councillor Johnson in the Chair

#### 16. DISCLOSURES OF INTEREST

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

**Action:** City Solicitor

#### 17. MINUTES

**Resolved-**

**That the minutes of the meetings held on 28 June and 30 July 2018 be signed as a correct record.**

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

There were no requests made to inspect background papers.

#### 19. EXCLUSION OF THE PUBLIC

The Committee was asked to consider if the item relating to the minutes of the meeting of the West Yorkshire Pension Fund Investment Advisory Panel meetings held on 26 April 2018 and 26 July 2018 should be considered in the absence of the public and, if so, to approve the following recommendation:

**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 meetings held on 26 April 2018 and 26 July 2018 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.**

**20. MINUTES OF THE WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 26 APRIL 2018**

The Council's Financial Regulations required 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In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "K"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 26 April 2018.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 26 April 2018 were considered.**

**21. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 26 JULY 2018**

The Council's Financial Regulations required 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In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "L"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 26 July 2018.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 26 July 2018 were considered.**



**22. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) LOCAL PENSION BOARD MEETING HELD ON 28 MARCH 2018**

The Council's Financial Regulations required the minutes of meeting of the WYPF Local Pension Board meetings be submitted to this committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Document "M"** which reported on the minutes of the meeting of the WYPF Local Pension Board held on 28 March 2018.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Local Pension Board held on 28 March 2018 were considered.**

**23. EXTERNAL AUDIT'S ANNUAL AUDIT LETTER FOR THE 2017/18 AUDIT OF THE CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL**

The External Auditor submitted **Document "N"** which summarised the work undertaken by External Audit for the year ended 31 March 2018 as required by the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

The Letter builds on the Audit Completion (ISA260) Report (presented to the July Governance and Audit Committee) and although addressed to the Council, it was designed to be read by a wider audience including members of the public and other external stakeholder and on that basis, External Audit encouraged the Council to make the Letter available on its website.

The Letter provided details of External Audit's responsibilities, the work that had been undertaken to discharge them, and the key findings arising from the work which were summarised below:

- Audit of the financial statements – the report issued on the 31 July 2018, included External Audits opinion that the financial statements gave a true and fair view of the Council's financial position as at 31 March 2018 and of its expenditure and income for the year then ended and, had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- Other information published alongside the audit financial statements – the report included External Audit opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.
- Value For Money Conclusion – the report concluded that External Audit were satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
- Statutory Reporting – the report confirmed that External Audit did not use



its powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council; the report also confirmed that External Audit did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2104 Act.

- Audit of financial statements included in the Pension Fund Annual Report – On 31 July 2018 External Audit issued its opinion that the Pension Fund financial statements within the Pension Fund Annual Report were consistent with the Council’s Statement of Accounts.

**Resolved-**

**That the Annual Audit Letter (Document “N”) be noted.**

**24. ANNUAL TREASURY MANAGEMENT REPORT 2017/18**

This Council was required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18.

The Assistant Director of Finance and Procurement submitted **Document “P”** which reported on the Council’s Treasury Management activities for the year ending 31 March 2018.

It was reported that the minutes of the Monetary Policy Committee (MPC) meeting of the 14 September 2018 indicated that the MPC was likely to raise Bank Rates very soon. The 2 November 2017 MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

Members were informed that market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017/18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

The overall treasury position as at 31 March 2018 was detailed at 2.2. of the report.

It was reported that during 2017/18, longer term PWLB (Public Works Loan Board) rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

In this situation, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk. However the Council continued to monitor projected interest rates against projected capital spend. There was a need to balance against taking borrowing to ‘lock in’ long term borrowing at historically low rates and mitigate against the risk of delaying borrowing at higher rates.



Members were reminded that the Council's 2017/18 MRP Policy (as required by the Ministry of Housing, Communities and Local Government (MHCLG) Guidance) was approved as part of the Capital Investment Plan on 23 February 2017. Following a review to ensure the policy complied with the statutory duty to make a prudent provision it had been amended and approved by Council on the 17<sup>th</sup> July 2018.

It was reported that on 10 February 2018 the Council repaid £10m at a rate of 4.5% using investment balances. The maturity of this loan resulted in an annual saving of 450k in interest.

**Resolved-**

- (1) That the report (Document "P") be noted and referred to the 16 October Council meeting for adoption.**
- (2) That the changes in the MRP (Minimum Revenue Provision) policy approved at Council on 17 July 2018 be noted.**

**Action: Assistant Director, Finance and Procurement**

**25. INTERNAL AUDIT ANNUAL REPORT 2017/18**

The Assistant Director, Finance and Procurement submitted **Document "R"** which reviewed the service Internal Audit had provided to the Council during the municipal year 2017/18.

Members were advised of the following:-

- Internal Audit completed 81% of the 2017/18 audit plan which, was below the target of 90%. Whilst a proportion of the shortfall related to a drop in the resources available, the main reason for the percentage completed was the level of unplanned audit work required.
- Internal Audit's Client satisfaction identified that 100% of the respondents said that the "recommendations were useful and realistic" and believed that the audit was "of benefit to management."
- 99% of all high priority recommendations made from the work undertaken were accepted by management.



It was reported that all Internal Audit assignments resulted in an Audit Report which identified the audit coverage, findings from the audit, risks arising from identified control weaknesses and prioritised audit recommendations. In 2017/18 a total of 74 reports were issued, which was a decrease on the 82 reports issued in 2016/17.

Members were informed that the reports issued in 2017/18 recorded that the percentage of controls satisfied was 74%, a decrease of 3% on the 77% satisfied in 2016/17, but was consistent with the five year average of 74% of controls satisfied. As in 2016/17 the service continued to focus on and require responses only in relation to high priority recommendations. Members were informed that all vacant posts in the service had now been filled.

It was reported that significant concerns were highlighted at paragraph 2.7. of the report.

Members were informed that Internal Audit followed up its audit work which was detailed in paragraph 2.8.

Members commented on the following:

- In terms of the work being undertaken by Internal Audit such as mobile telephony (detailed in paragraph 2.6) were there other areas the Council could save money?
- Were there any savings in relation to establishing an effective working relationship between Internal and External Audit detailed in paragraph 1.3. of the report.
- Why did some Audit opinions at Appendix A state not applicable?
- What happened to high priority recommendations that were not implemented by the service after they had been followed up by Internal Audit?
- In relation to significant concerns and the high priority recommendations relating to deprivation of liberty when will the issues relating to this be resolved? Concerned that 32% of follow up audits had not been completed; it also seemed the issues related to the same areas such as Health and Wellbeing and Children's Services.
- Expected that when internal audit highlighted significant concerns following an audit the Director would be monitoring the situation and looking at why certain audit recommendations were not being completed.
- Where there was a significant concern and the issue had been outstanding for some time, the service had been given plenty of opportunity to address the concerns raised by Internal Audit, Senior Managers should be doing more to address the outstanding high priority recommendations.

In response to Members questions it was reported that:



- Downsizing in terms of reduction in staff etc and the savings that brought was an area that needed looking at.
- Internal and External Audit established an effective working relationship, however developing a framework for co-operation in the planning, conduct and reporting of work did not produce any additional savings as it was a DCLG and Audit requirement.
- Not Applicable was applied as Internal Audit could not give an opinion on a particular system; if Internal Audit had identified a critical recommendation then there would be an opinion stated in the table at Appendix A.
- Internal Audit had a follow up process which involved flagging up issues with the Service Managers and the Strategic Director who were Members of CMT but Internal Audit did not report outstanding high priority recommendations direct to CMT.

The Strategic Director, Corporate Services reported that she would raise the issue in relation to outstanding recommendations with the Corporate Management Team.

**Resolved-**

**That the work carried out by Internal Audit during 2017/18 be recognised and supported.**

**26. TREASURY MANAGEMENT MID YEAR REVIEW UP TO 31 AUGUST 2018**

The Assistant Director, Finance and Procurement submitted **Document “Q”** which was a mid-year report that had been prepared in compliance with CIPFA’s Code of Practice on Treasury Management, and covered the following:

- An economic update for the first part of the 2018/19 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council’s capital position (prudential indicators).
- A review of the Council’s borrowing strategy for 2018/19.
- A review of any debt rescheduling undertaken during 2018/19.
- A review of compliance with Treasury and Prudential Limits for 2018/19.
- A review of the Council’s investment portfolio for 2018/19.

Members were informed that the bank rate was now standing at 0.75%.



It was reported that, there remained much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it was still far too early to be confident about how strong growth and inflationary pressures would be over the next two years, and therefore the pace of any rate increases.

It was reported that in terms of borrowing the current context was that the Council's cash balances were reducing and there was a future draw on cash from the Capital Investment Plan. Based on the revised estimate for capital expenditure current projections were that the Council would need to borrow an additional £50m this year. Cash balances and capital spend would be closely monitored and projected forward. If it was felt that cash balances were getting too low or likely to be too low in the future, borrowing would be undertaken in appropriate tranches. In deciding the appropriate tranches of borrowing, caution would be exercised in projecting forward capital spend.

Members were informed that £9.4m of loans had matured in May and August 2018. However it was anticipated that borrowing would be undertaken during this financial year to finance commitments in the capital plan.

It was reported that Bradford schools had their own individual bank accounts spread across the four main UK Banks. At 31 March 2018 the overall bank balances with Lloyds was £17.54m, Barclays £4.89m, HSBC £1.65m and Nat West £1.61m.

At the last Treasury report the issue of the UK banks going through legislative changes put in place by the government aimed at strengthening the financial system was raised. One of these reforms was to separate the retail banking (ringfenced bank) from investment banking (unringfenced). All of the four major banks had to go through this process.

The school balances would be in the retail or ringfenced part of the bank for Lloyds, Nat West and HSBC but not for Barclays.

This raised the following issues.

- i) The credit rating for the Barclays unringfenced part of the bank is lower than for the ring fenced bank.
- ii) If the credit rating was to reduce in the future it could be below the Council's credit limit.

Of the schools with Barclays, 8 out of 32 were expected to convert to academies during 2018-19 (these schools held balances of £1.18m). It was expected that further conversions on an on going basis and for cash balances held by schools in their bank accounts to steadily reduce as a result .Once converted to academies their bank balances no longer counted towards the Council Treasury limits.



With the above changes in status for the schools and the reduction in school balances, it was proposed that the school balances continue to have a temporary exemption from the Treasury Policy until the main academy conversion process had finished.

In response to a Members question it was reported that it was up to schools and their governing bodies to decide which bank they used.

The Chair stressed that schools should be advised of the issues relating to the credit rating for the Barclays un-ring fenced part of the bank which was lower than the ring fenced bank.

In response to Members questions it was reported that borrowing rates were still historically very low, but there was still a cost to borrowing in advance of need as investment rates were lower than borrowing costs.

Clarification was sought on capital programmes and the effect on the budget if the schemes were not completed in time.

**Resolved-**

**That the details in Section 2.6.1 of Document “Q” be noted and the report be referred to the 16 October 2018 Council meeting for adoption.**

**Action: Assistant Director, Finance and Procurement**

**27. CORPORATE FRAUD UNIT - ANNUAL PERFORMANCE INFORMATION**

The Strategic Director, Corporate Services submitted **Document “O”** which presented the annual Corporate Fraud Unit’s performance information, as required by the Committee, to provide assurance that the Council’s counter fraud arrangements were effective.

**Resolved-**

**That the performance information contained within the report (Document “O”) be noted.**

Chair

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

THESE MINUTES HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

