

# Minutes of a meeting of the Governance and Audit Committee held Remotely on Thursday, 26 November 2020

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Commenced 10.00 am  
Concluded 11.35 am

## Present – Councillors

LABOUR	CONSERVATIVE	LIBERAL DEMOCRAT AND INDEPENDENT GROUP	<u>Councillor</u> <u>or</u> <u>Johnson in the</u>
Johnson Thornton Watson	Pollard	Reid	

Chair

### 10. DISCLOSURES OF INTEREST

No disclosures of interest in matters under consideration were received.

### 11. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted to review restricted documents.

### 12. LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN - REVIEW OF LOCAL GOVERNMENT COMPLAINTS 2019/20

The Assistant Director, Chief Executive's Office submitted **Document "M"** which summarised the number of complaints and investigations undertaken by the Ombudsman for the year ended 31 March 2020 and compared key complaints performance data with that of other local authorities.

It was reported that each year the LGSCO provided its Annual Review Letter to each Authority (Appendix 1 to Document "M") detailing the annual summary of statistics on the complaints made to its office. The data provided showed the complaints and enquiries it had recorded, along with the decisions it had made and, whilst the number of complaints alone would not give a clear picture of how well those complaints were being responded to the numbers did allow for comparisons to be made with authorities of a similar size.

Members were informed that the Review of Local Government Complaints

2019/20 identified that the LGSCO received a total of 114 new complaints and enquiries about Bradford between 1 April 2019 and 31 March 2020 compared to 115 in the previous year. A breakdown across Services was detailed at paragraph 3.2 of the report.

It was reported that following the LGSCO investigations a number of improvement recommendations were made to the Council around training, process and procedure, a more detailed list of which could be found at Appendix 2 of the report.

Members were informed that in response to the recommendations, the Council had been able to comply with the proposed remedies, in a timely manner, in all but 1 of the cases and this had inevitably resulted in a 94% compliance compared to a national Local Authority average of 100%.

It was reported that in 2019/20 the LGSCO published 63 public interest reports (an increase compared to 43 during 2018/19) however none of the 63 reports were in relation to Bradford Council.

A short discussion was held on the Council's processes for dealing with complaints that had been sent to an officer who had left the authority. It was emphasised that supervision should be in place.

In response to a Members question it was emphasised that complaints handling training was mandatory for all managers in Social Care.

The Chair indicated that a report on the Council's Complaints Process would be submitted to a future meeting of the Committee.

#### **Resolved-**

**That the contents of the report (Document "M") be noted.**

### **13. TREASURY MANAGEMENT MID-YEAR REVIEW UP TO 30 SEPTEMBER 2020**

The Director of Finance submitted **Document "N"** which reported on the Council's Treasury Management Mid-Year Review up to 30 September 2020.

The mid-year report had been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covered the following:

- An economic update for the first half of the 2020/21 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's investment portfolio for 2020/21.
- A review of the Council's borrowing strategy for 2020/21.
- A review of any debt rescheduling undertaken during 2020/21.
- A review of compliance with Treasury and Prudential Limits for 2020/21.

It was reported that the Council had refrained from undertaking new long-term PWLB borrowing for the present and had met its requirements for additional borrowing by using short-term borrowing until such time as new PWLB margins were finally determined. In addition, the effect of coronavirus on the capital programme objectives were being assessed. Therefore, the borrowing strategy would be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

Members were informed that £1.8m of loans had matured in July 2020 with an average rate of interest of 9.9%. To date no new borrowing had been undertaken this year.

It was reported that the Government had changed the borrowing offer for Local Authorities which would mean the authority could borrow more cheaply.

A Member requested an update as soon as possible on the treasury position following the spending review outcome.

#### **Resolved-**

**That the report (Document “N”) be noted and referred to the 8 December 2020 Council meeting for adoption.**

**Action: Director of Finance**

#### **14. AUDIT COMPLETION REPORT 2019/20 - AUDIT OF WEST YORKSHIRE PENSION FUND**

The External Auditor presented **Document “P”** which summarised the findings of the audit of West Yorkshire Pension Fund’s Financial Statements for the year ended 31 March 2020.

The External Auditor reported that their work was substantially complete and anticipated issuing an unqualified opinion, without modification on the financial statements; it was anticipated, when concluded, that the Pension Fund financial statements within the Pension Fund’s Annual Report would be consistent with the Pension Fund Financial Statements within the Statement of Accounts of City of Bradford Metropolitan District Council.

The External Auditor reported that the difficult circumstances the Pension Fund was facing in order to respond to the pandemic were understood and thanked officers for their assistance during the audit.

Members were informed that due to the difficulties caused by the pandemic it was most likely that the audit work would be completed by next Friday which was similar to other authorities.

Clarification was sought in relation to the risk relating to valuation of level 3 unquoted investments for which a market price was not readily available. A reply was given that such investments were within the parameters of the Strategy set by the Investment Panel and valuations were conservative.

The External Auditor gave a verbal update at the meeting, regarding matters that were outstanding when the Audit Completion Report was submitted for inclusion in the Committee papers. She reported that:

- Financial Instruments – completed the audit work with additional amendments which included an additional £55.3m transferred from level 2 to level 3 of the fair value hierarchy; this had also impacted on the financial instruments disclosures of sensitivity of assets valued at level 3 and the reconciliation of fair value measurements within level 3, and on the split of property funds between quoted and unquoted in note 17 of the report.
- There have been a number of classification amendments within Note 23b Price Risk.
- Actuary's Report – work had completed - noted no differences between the actuary's report and the disclosure made in the accounts.
- Consistency opinion - Information within the Pension Fund Annual Report was consistent with the financial statements within Bradford Council's Statement of Accounts.
- Closure procedures and review - work completed with a number of presentational issues not requiring separate disclosure.
- Internal Control Deficiency – Officers had reviewed audited financial statements and service auditor reports for the unquoted funds within the Fund's portfolio on a sample basis, but these reviews were not evidenced; if reviews were not formalised and evidenced, there was a risk that the Fund may be unaware of issues such as adverse audit opinions, inaccurate valuations or control deficiencies in underlying investment funds; if such issues were unidentified and significant, this could lead to inaccuracies in the Fund's financial reporting; it was recommended that Officers formalise and evidence the review of the audited financial statements and service auditor reports for material unquoted funds in which the Fund was invested.

#### **Resolved-**

#### **That the Committee:**

- **Considered the unadjusted misstatements schedule (Section 4 to Document "P"); and**
- **Approved the letter of anagement representations (Appendix A to Document "P") including the reasons for not amending the unadjusted misstatements.**

#### **Action: External Audit**

The Director of West Yorkshire Pension Fund submitted **Document “O”** which provided the West Yorkshire Pension Fund’s financial position for the year ended 31 March 2020. The accounts had been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Pensions Statement of Recommended Practice
- International Financial Reporting Standards (IFRS), as amended for the UK public sector

It was reported that the value of the Fund as at 31 March 2020 was £13,214.3m, a net reduction of £1,148.7m and a reduction of 8% from £14,363.0m as at 31 March 2019. The reduction in value was the result of the immediate market impact of COVID-19 in the quarter to March 2020, although there had been a remarkable recovery in asset values in subsequent quarters.

Members were informed that the latest actuarial valuation at 31 March 2019 determined that the WYPF funding level was 106%, an improvement of 12% from the 2016 valuation, driven by positive markets in three years to 31 March 2019.

It was reported that due to Covid-19 the Secretary of State for Housing, Communities and Local Government (MHCLG) extended the publication of final accounts for local authorities from 31 July 2020 to 30 November 2020. The deadline for local government pension funds was 1 December 2020.

Members were informed that the impact of Covid caused budget challenges and the WYPF was constantly looking at investing more in digital services; there was an initial increase in cost in providing IT equipment to staff but it would lead to reduction in office accommodation costs.

The Chair thanked officers of West Yorkshire Pension Fund and the External Auditors for the work undertaken during the audit.

#### **Resolved-**

**That the West Yorkshire Pension Fund Audit Report and Accounts for 2019/20 be considered and approved and that any subsequent changes that need to be made following this meeting are delegated to the Director of Finance and Procurement in consultation with the Chair for approval.**

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

The External Auditor presented **Document “Q”** which summarised the findings from the audit of the City of Bradford Metropolitan District Council for the year ended 31 March 2020.

The External Auditor reported that despite the revised deadlines it was acknowledged the difficulties encountered by the Finance Team during accounts preparation and audit and expressed his thanks for the assistance of the team during the audit.

The External Auditor reported that their work was substantially complete and anticipated issuing an unqualified opinion, without modification on the financial statements; it was intended to reflect in the report, the disclosure made in note 9 (Property, Plant and Equipment) and 31 (Defined Benefit Pension Schemes) to the financial statements regarding material valuation uncertainty of property valuations.

It was reported that in relation to the Value for Money Conclusion it was anticipated concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except for the issues highlighted by Ofsted in their monitoring update letter on Children’s Social Care Services, dated March 2020.

Members were informed that it was also anticipated reporting that the Whole of Government Accounts submission was consistent with the audit financial statements.

**Resolved-**

**That the Committee:**

- **Noted the contents of the Audit Completion Report prior to approving the Statement of Accounts including consideration of the unadjusted misstatements schedule (Section 4 to Document “Q”); and**
- **Approved the letter of management representations (Appendix A to Document “Q”) including the reasons for not amending the unadjusted misstatements.**

**Action: External Audit**

## **17. STATEMENT OF ACCOUNTS 2019/20**

The 2019-20 Statement of Accounts (SOA) had been externally audited and were now presented to the 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 Director of Finance submitted **Document “R”** which presented the 2019-20 audited Statement of Accounts (Appendix A) and summarised the key financial

points.

It was reported that the key financial implications as at 31 March 2020 from the 2019-20 statement of accounts were that:

- The General Fund Balance ended the year at £15m and earmarked reserves on £192m. Both these amounts represented cash funds, but which could be spent once only. The General Fund Balance was held in accordance with statute; the purpose was as a safety net against unexpected variations in the Council's annual expenditure – which was £1.1 billion as shown in the cost of services in the Comprehensive Income and Expenditure Statement. The earmarked reserves were held to protect against specific risks and commitments. For example, this included the increasing volatility of the Council's funding as Government grants reduce.
  - The Council spent £81m on long term infrastructure, as part of its Capital Programme. £11m of this spend was financed by borrowing. £2m was financed by receipts from the sale of property. £45m was financed by grants, with the remainder from miscellaneous sources.
  - At the end of the year, the Council also held £34m of grants provided by external public sector bodies, which would be used in the future to finance the Capital Programme.
  - Working capital was positive with short-term debtors and available cash higher than short-term creditors.
  - The Council had £711m of borrowing for infrastructure spend. £210m was temporarily borrowed from the Council's own cash held in earmarked reserves in order to reduce interest payments. £3m related to miscellaneous historical debt. £336m was actual borrowing from the Public Works Loan Board. £162m was in the form of contractual Private Finance Initiative liabilities. This last part of the borrowing was funded by an annual revenue grant from the Government, so currently there was no cost to the Council. However, this grant would be used up over a shorter period than was being used to repay the borrowing, so eventually there would be an annual cost arising from Private Finance Initiative Liabilities. However, a reserve was earmarked to mitigate these future costs.
  - Borrowing was slightly lower than estimated. Amounts previously set aside to pay for it were estimated at a higher proportion than outstanding usage on related land and buildings. As a result, the Council paid back to itself £23m in 2019-20 from these amounts set aside, transferring £5m cash amount into earmarked reserves.
  - Against the £711m of borrowing, the Council had £1,030m of land, buildings, equipment and other infrastructure. The value of the Council's long-term property was therefore significantly higher than the outstanding debt relating to it.
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- Other considerations in any comparison between borrowing and

infrastructure were that the Council's schools were converting to academies: accounting rules meant that as these academies were independent, their buildings could no longer be shown in the Council's accounts. For instance, 4 schools converted to academies in 2019-20, removing land and buildings to the value of £27.4m from the Council's balance sheet. Another consideration, though, was that borrowing would be expected to be lower than the Council's infrastructure value because it had been partially financed by grants.

- The Council's estimated pension fund deficit had increased to £1,046m, based on an estimate made in accordance with accounting rules. This was based on an extrapolation, looking into the future. It compared promised pension benefits to employees with the investments set aside to pay for them. Pension experts regard the assumptions used in the extrapolation as cautious. The actual cost of funding employees' pensions over the short term is determined by a different valuation, the results of which were already factored into the Council's Medium Term Financial Strategy. This separate valuation gave a different result: which suggested the current value of the balance between pension benefits and investments was closer to breakeven.
- The Council maintains a separate fund for Business Rates and Council Tax, from which it distributed pre-agreed shares to itself, the Government, West Yorkshire Fire and Rescue Authority and the Police and Crime Commissioner. Overall the fund ended 2019-20 close to a £1.5m surplus for Business Rates and Council Tax combined. However, the Council's own share was a £1.4m surplus on Business Rates, with the Government holding a £0.3m surplus. This arose due to differences in the ratios of the amounts to be distributed between the Council and the Government in previous years. The Council's surplus would help support the budget in future years.

It was reported that all misstatements in the draft accounts had been corrected. The most significant adjustment was in relation to the recalculation of the Council's pension liability. This arose due an actuarial adjustment, and was not related to the Council's internal processes.

Members were informed that there had been no significant findings in the audit process which was a tribute to officers in the Finance Team; there had been a national update to actuary which resulted in an adjusted value of assets which was shown in the revised set of accounts; the accounts showed positive financial results and there were strong cash reserves as at 31 March.

In response to a Members question relating to reserves it was reported that £15 million was held in general balances and £10 million had been allocated; both figures combined were quite small in terms of the Councils cash flow given the volatility that could occur, and a substantial amount was set aside for future risks which was sensible and prudent.

**Resolved-**

**That the 2019-20 Statement of Accounts be approved and signed by the Chair of the Committee and that any subsequent changes that need to be made following this meeting are delegated to the Director of Finance in consultation with the Chair for approval.**

**Action: Director of Finance**

**18. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) JOINT ADVISORY GROUP HELD ON 30 JULY 2020**

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

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Document "S"** which reported on the minutes of the meeting of the WYPF Joint Advisory Group held on 30 July 2020.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Joint Advisory Group held on 30 July 2020 were considered.**

**19. 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 30 July 2020 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 WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 30 JULY 2020**

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

In accordance with this requirement, the Director of West Yorkshire Pension Fund submitted **Not for Publication Document "T"** which reported on the minutes of the meeting of the WYPF Investment Advisory Panel held on 30 July 2020.

**Resolved –**

**That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 30 July 2020 were considered.**

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