

**Minutes of the Audit and Standards Committee
Monday, 21st September, 2020 at 6.00pm,
Microsoft Teams**

Present:

Councillor A Taylor (Chair)
Councillor J Roberts (Vice Chair)
Councillors A Aston, J Cowell, S Keasey, S Mughal and T Westwood

Officers:

K O'Keefe (Chief Executive), I Newman (Director of Finance and Legal), R Cooper (Head of Financial Services), G Harrison (Head of Audit Services), J McGregor (Principal Accountant), A Taylor (Senior Principal Auditor), A Uppal (Finance Manager), S Griffiths (Democratic Services Manager) and L Jury (Democratic Services Officer).

Also in Attendance:

W Guest, R Percival and T Tobin - (Grant Thornton - External Auditors) – For Agenda Item No. 5 - External Audit Findings Report 2019/2020 only.

17. **Apology for Absence**

An apology for absence was received on behalf of Councillor M Evans.

18. **Declarations of Interest**

No Member made a declaration of interest in accordance with the Members' Code of Conduct.

19. **Minutes**

Resolved

That, the minutes of the meetings held on 29th July 2020 and 12th August 2020, be approved as correct records and signed.

20. **External Audit Findings Report 2019/2020**

A report of the Director of Finance and Legal was submitted presenting to the Committee the Audit Findings Report 2019/2020 from the Authority's external auditors (Grant Thornton) together with the Letter of Representation, as set out in Appendix 2, to be submitted by the Council to the external auditors.

R Percival and T Tobin (External Auditors) were in attendance at the meeting and presented a summary of the audit findings to the Committee.

In presenting the report, R Percival commented that the audit had been substantially completed and reference was made to page 8 of the report which outlined the three areas that were outstanding. It was reported that the External Auditors would be unable to issue their opinion until the further information and clarification requested, as stated in the report, had been considered and whether this information would have any further implications on the audit established.

Members attention was drawn to the impact that the Covid 19 pandemic had taken on the audit with regards to concerns relating to valuation, general environment and the production of the audit due to the difficult working condition. The External Auditors wished to place on record their appreciation of the finance team and other staff who had been involved, for their excellent assistance and the consistent good quality of accounts again this year, especially in view of the current circumstances.

It was reported that due to the Covid pandemic, the External Auditor's opinion would include 'an emphasis of matter' due to the uncertainty over the valuation of land and buildings to 31st March as a result of the pandemic. It was stated that this was not a qualification to the opinion, but was merely drawing attention to issues that had been reported in the accounts and did not reflect any weakness in the approach taken by Dudley or any issues with the valuation and would be applied to all authorities.

Reference was then made to Value For Money (VFM), noting that the External Auditors were proposing to issue a qualified VFM conclusion referred to as an 'adverse qualification' which it was stated, was the most severe form of qualification and related to Dudley's current position, in particular, its financial sustainability.

The key points from the audit were then highlighted, and it was noted that materiality levels were similar to previous years and the authority's adoption of the going concern assumptions in its accounts, and the External Auditors concluded that there were no actions that required challenging.

In conclusion, reference was made to significant audits risks that had been identified, as set out in the report and in particular, Members' attention was drawn to the risk associated to the valuation of land and buildings, which had been rigorously challenged this year. It was reported that an error that had been identified with regards to houses built for sale, which been rectified and had not had a significant impact on the accounts. Reference was also made to two further risks being, an increased risk of material estimation uncertainty in the net pension liability and the impact of the Covid 19 pandemic, as detailed on pages 10 and 11 of the report.

T Tobin then presented the overall VFM conclusion, noting that this year, the External Auditor's proposed to submit an 'adverse' qualified opinion, which had been supported by a National Consistency Panel which the External Auditors had attended recently. It was clarified that an 'adverse' qualification related to the most serious qualification that could be given and was issued where there were either a number of highly significant concerns or where one of the concerns was of such significance, the latter being the position in Dudley.

Reference was made to two risks that related to financial sustainability and Children's Services which had been a consistent theme for some years. In relation to Children's Services, the External Auditor's reviewed the concerns raised by Ofsted, in particular, the Special Educational Needs (SEN) review undertaken in May 2019, and their assessment review undertaken in December 2019. Also, in relation to SEN, it was noted that the non-schools budget balance was in deficit and no clear plan had been produced to address the deficit. Concern had also been raised with regards to no substantive senior management team currently being in place in the Directorate, however it was acknowledged that action was being taken to address this issue. It was reported that despite these issues, the External Auditor's did not consider there was sufficient reason to suggest that the service had fallen into an 'inadequate' zone and would not be proposing to qualify in that particular area.

In relation to financial sustainability, the significance of that particular area had led to the 'adverse' VFM conclusion. An improvement in the financial sustainability had been seen earlier in the year, however the Covid 19 pandemic had impacted on this as it had in many other local authorities.

It was noted that the forecast to be submitted to Cabinet was considered satisfactory for 2020/2021, partly due to the Covid funding that had been made available from Central Government, however, this position could change dramatically for 2021/2022 and beyond. The opinion given by the Director of Finance and Legal in the report being submitted to the next Cabinet meeting was reported, noting the significant risk that the authority may not be in the position to set a sustainable budget as early as 2020/2021 and acknowledging the huge uncertainties the authority would face in relation to the impact of the pandemic going forward. At present, the support that Central Government may supply to local councils was unknown, however, this position may become clearer after the comprehensive spending review. It was noted that the External Auditors would monitor this area closely and consider after the spending review whether any further action would be required.

In conclusion, the External Auditor's had recommended that a plan be drawn up, which it was noted was currently in the process of being produced, which would respond to the huge level of uncertainty and enable the authority to act promptly should any difficult decisions be necessary to move to a more sustainable financial footing.

Arising from the presentation of the report and appendix to the report submitted, Members made comments and raised questions which were responded to as follows:

- In relation to the main areas that had been impacted by the pandemic, it was noted that there had been a reduction in income relating to business rates, Council Tax (as a result of increased numbers of householders becoming eligible for Council Tax reductions) and the Local Authority's trading income from facilities such as leisure centres and schools, in particular school catering provision during the lockdown period, which it is was anticipated would take some time to recover. In relation to general costs, it was noted that there had been significant increased costs in Adult Social Care, in providing personal protective equipment, and costs in ICT to enable Council staff to work from home. It was anticipated that there would be sufficient grant from Central Government to cover these costs this current year, however with relation to business rates and Council Tax, it was unclear at present whether Central Government would make available further funding to cover this loss in income and it was reasonable to assume that these impacts would continue for some time. Reference was made to Dudley being a low tax, low spending authority and it was reported that Directorates had been tasked to identify options for savings which may result in a reduction in some services.
- In relation to the recommendation to increase Council Tax by the maximum amount permitted without triggering a referendum, it was anticipated that the authority would face a referendum next year at the same level as had been experienced this year. It was unknown whether the Ministry for Housing Communities and Local Government would review relaxing referendum limits particularly for authorities who already had very low levels of Council Tax and as a result, a difficult local decision may have to be made. It was noted that the authority would explore efficiency savings as had previously been the case but an increase in Council Tax may also have to be explored, although the authority acknowledged the financial impact the pandemic had already had on many residents.
- In comparison to other local authorities, it was noted that many Councils were in a similar or possibly a worse position than Dudley and many were petitioning Central Government for additional funding. However, a concern for Dudley in comparison to other local authorities, related to Dudley's historic low Council Tax rate and the impact that this had had on its level of reserves that some other councils had built up over time and would now benefit from.
- The Chief Executive gave an up-to-date report on the situation with regards to the appointment of new Senior Management positions within the authority, particularly in relation to Children's Services.

Resolved

- (1) That the information contained in the report submitted on the Council's external auditor's audit findings 2019/2020, and the Independent Auditor's Draft Opinion report, attached as Appendix 1, be received and noted.
- (2) That the Letter of Representation, as set out in Appendix 2 to the report submitted, be noted and the Chair be authorised to sign and date the final version of the Letter of Representation in due course.

A report of the Director of Finance and Legal was submitted on the Annual Governance Statement (AGS) for 2019/2020.

In presenting the report, the Head of Audit Services commented that the Accounts and Audit Council Regulations 2015, required the Council to produce an Annual Governance Statement that would be signed by the Chief Executive and Leader of the Council and would be published and included as part of the Statement of Accounts. It was noted that the AGS was an assessment of the effectiveness of the Council's governance framework, as detailed in its local Code of Corporate Governance.

It was reported that the Head of Audit Services produced a draft AGS with the assistance of other key managers, which was then submitted for consideration to the Strategic Executive Board (SEB) on 28th May 2020 and subsequently updated in line with their comments and published with the draft Statement of Accounts in early June 2020. The AGS had also been reviewed by the External Auditor's as part of their work and their comments had been considered and had been included in the version attached at Appendix A to the report.

As the AGS covered the financial year 2019/2020 and the subsequent period up to the sign off of the 2019/2020 Statement of Accounts, governance issues up to the date of this meeting needed to be considered. Therefore, the AGS had been reviewed by SEB on 19th August 2020 and further amended, particularly in relation to the governance around the Covid 19 pandemic. Reference was made to paragraph 8.1 of the report, which detailed the overall conclusion of the AGS, noting that with the exception of the issues identified in sections 5 and 6 of the report, the Council's governance arrangements remained fit for purpose.

Arising from the presentation, Members made comments and asked questions which were responded to at the meeting.

Resolved

- (1) That the Annual Governance Statement 2019/2020, as set out in Appendix A to the report, be approved and referred to the Leader of the Council and the Chief Executive to be signed.

22. Statement of Accounts 2019/2020

A report of the Director of Finance and Legal was submitted presenting the Statement of Accounts 2019/2020 to the Committee for consideration and to inform on the outcome of the audit of the accounts. The Statement of Accounts and the audit of them are the main formal and public report on the financial standing of the authority. A copy of the audited Statement of Accounts 2019/2020 had been circulated separately to Members.

The Director of Finance and Legal referred to an amendment to note 36 on page 104 of the accounts that had been circulated to Members separately to the agenda, which had inserted an additional bullet point after the 4th bullet point in the note. The additional text detailed the valuers understanding of the fact that there had been uncertainty about the valuation of land and buildings due to the Covid 19 pandemic.

At this juncture, the Director of Finance and Legal wished to record his appreciation to that of the External Auditor's, in relation to the quality of the accounts that had been produced by the finance team during a lockdown that had been imposed due to the Covid 19 pandemic. It was noted that the accounts had been completed with minimal issues raised by the Auditors and completed within two weeks of the original pre-covid deadline.

Due to the length and complexity of the statement of accounts document, the Director of Finance and Legal delivered a summary presentation of the accounts to the Committee, outlining the authority's funding basis and clarifying the presentation of the accounts from two perspectives: - one based on statute and the other based on accounting regulations. It was noted that both these views were reconciled together in one statement known as the Movement in Reserves Statement (MiRS) detailed on page 22 of the accounts submitted. A simplified version of the MiRS was then presented to Members at the meeting.

The Director of Finance and Legal then presented the key messages in the MiRS to the Committee, detailing the end of year 2019 balances in relation to the general fund, Capital Grants unapplied, Housing Revenue Account, unusable reserves (reserves that cannot be used to finance services) balance as of 31st March 2019, surplus/(deficit) on services, accounting adjustments (a detailed explanation of the adjustments was set out on in the report), noting the year-end balance on the General Fund of £46.6m, a significant reduction of £35 million.

In conclusion, the Director of Finance and Legal then presented the implications for the future outlining Dudley's low level of reserves in March 2019, and 2020 in comparison to the average authority nationally and the low tax Band for a Band D property in Dudley in comparison to an average metropolitan Band D. It was acknowledged that every local authority had been impacted by Covid 19, however as a consequence of a lower Council Tax rate, Dudley had £14.4 million less spending power than other metropolitan councils, a significant issue that was referred to by the External Auditor's in the audit of the accounts.

Arising from the presentation, Members made comments and asked questions which were responded to at the meeting in relation to the Housing Revenue Account and the discretionary housing payment, retention of Council assets in relation to Academies, the impact on Council finances in relation to a change to payments to care workers, and Private Finance Initiatives (PFI) and similar contracts.

Resolved

- (1) That the information contained in the report on the Statement of Accounts 2019/2020, be approved, and the Chair of the Audit and Standards Committee sign and date the Statement of Accounts.
- (2) That the Chair, following consultation with the Director of Finance and Legal, be authorised to approve a final Statement of Accounts after any amendments required to reflect audit work on the valuation of property assets and Birmingham Airport shares, as detailed in paragraph 19 of the report submitted.

The Committee received a report of the Director of Finance and Legal outlining treasury activity during the financial year 2019/2020 and in the current financial year up to mid-August.

In presenting the report, the Director of Finance and Legal made specific reference to paragraph 6 of the report which highlighted that the primary factor in determining our treasury management activity was our cash flow need; only borrowing money to deliver our capital programme and to deal with its cash flow need. As a result, the authority carried low levels of investments, noting that our investments for 2019/2020 averaged around £22.71 million (with significant day to day variation as a result of cash flow), as detailed in paragraph 7 of the report submitted.

Reference was then made to the table on page 79 of the report, which summarised the authority's performance on Treasury Management last year, noting Dudley's net average borrowing rate of 3.71% in comparison to the average client's rate of 4.86%. The Director of Finance and Legal stated that one of the main reasons attributed to this was that Dudley did not borrow money in advance in comparison to other authorities that significantly borrowed in advance of need hence they were now carrying significant levels of investment proportionate to their overall financial position.

The Director of Finance and Legal commented on the prudential indicators for 2019/2020 as outlined in paragraph 15 and Appendix 2 to the report, noting that there had been a slight breach during last year on the proportion of our debt maturing between 24 months in 5 years as a consequence of the inclusion of West Midlands County loans which were nearing their maturity dates.

Reference was made to Paragraphs 17 and 18 of the report which outlined treasury activity in 2020/2021 to the middle of August, and it was noted that Dudley's investments had averaged around £63.9 million, considerably more average investments than there had been for many years. It was reported that these loans had been arranged in advance to finance the pension prepayment due in April 2020 and before the authority were aware of the impact of the pandemic and the level of Covid 19 related grant payments that had since been received from Central Government, which had made a significant difference to the authority's finances.

Arising from the presentation, Members made comments and raised questions which were responded to at the meeting in relation to the payment made to the pension fund and the maturity of the Salford investment.

Resolved

- (1) That the information contained in the report submitted on the Treasury Management Activity during the financial year 2019/2020 and up to mid-August 2020, be noted and referred to full Council for consideration.

The meeting ended at 7:17pm.

CHAIR