

## MINUTES OF AUDIT COMMITTEE MEETING - MONDAY, 30 JULY 2018

### Present:

Councillor Galley (in the Chair)

Councillors

Cox	Hobson	Matthews	Roberts
Elmes	Hunter	Mitchell	

Ms Yvonne Russell, Independent Member

### In Attendance:

Mrs Diane Booth, Director of Children's Services

Mrs Tracy Greenhalgh, Chief Internal Auditor

Paul Jones

Iain Leviston, Manager, KPMG

Phil Redmond, Chief Accountant

Steve Thompson, Director of Resources

Mr Chris Williams, Democratic Services Adviser

### 1 DECLARATIONS OF INTEREST

Cllr Cox declared a personal interest in Agenda Item 4, the nature of which was his role as a non-executive Director of Blackpool Operating Company Ltd.

Cllr Elmes declared a personal interest in Agenda Item 4, the nature of which was his role as a non-executive Director of Blackpool Transport Services Ltd.

Cllr Galley declared a personal interest in Agenda Item 4, the nature of which was his role as a non-executive Director of Blackpool Entertainment Company Ltd and Blackpool Transport Services Ltd.

Cllr Hobson and Cllr Hunter declared a personal interest in Agenda Item 4, the nature of which was their role as non-executive Directors of Blackpool Housing Company Ltd.

### 2 MINUTES OF THE LAST MEETING HELD ON 21 JUNE 2018

The Committee agreed that the minutes of the meeting held on 21 June 2018 be signed by the Chairman as a true and correct record.

### 3 STRATEGIC RISK REGISTER - SUSTAINABILITY OF THE COUNCIL

The Committee considered a progress report in relation to the individual risks identified on the Strategic Risk Register. The Committee discussed plans to control and mitigate the risks

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with Mr Steve Thompson, Director of Resources and Mrs Diane Booth, Director of Children's Services.

Mr Thompson advised Members of the controls and mitigations that were in place for the sub-risk 'Insufficient funding to deliver services'. He explained that a six year Medium Term Financial Sustainability Plan was in place until 2019/2020 and financial modelling was one of the primary controls to mitigate the risk. Beyond this, he reported that there was considerable uncertainty due to a number of factors that included, but were not limited to, the start of a new settlement period, end/start of the adult social care precept, outcome of the Fair Funding Review, introduction of 75% business rate retention, triennial pension revaluation and Brexit transition by 1 December 2020.

In terms of the content of the Medium Term Financial Sustainability Plan, the Committee was advised that outlined various financial controls in place such as a Treasury Management Strategy, capital programme, Statement of the Chief Finance Officer and Final accounts and external audit process. Mr Thompson informed Members that the Treasury Management Strategy would be reviewed in the 2019/2020 cycle.

Following questions from the Committee about the long term affordability of business loans, Mr Thompson advised that such loans contained an element of risk and that interest rates were set accordingly. Members were assured that the due diligence processes for business loans and lending criteria were audited. He added that future projects would be rigorously appraised for their affordability, timeliness, reliability and accuracy in addition to bad debt which would continue to be meticulously accounted for. Ms Greenhalgh confirmed that an audit of the business loans fund was scheduled to take place in 2018/19.

In response to a concern noted about the Nett risk score versus the Gross risk score against the risk of 'Insufficient funding to deliver services', Mr Thompson reported that the various controls discussed were regarded as sufficient to offset the overall risk score. In relation to the issue of a business loans strategy, it was explained that lending criteria and settlement rates were reviewed and external advice was sought and that the sign-off of loans would be delayed where appropriate until greater certainty about outcomes could be achieved. Most of the authority's business loan fund of £100m had been loaned out though the Committee was advised that it would be highly unlikely that borrowing levels would ever exceed net assets given the measures in place to mitigate the risk such as financial benchmarking with other authorities. The Committee noted that despite challenges and future uncertainty, the Council had continued to deliver services and the overall financial picture was favourable.

Mrs Booth, Director of Children's Services, discussed the sub-risk of 'Insufficient central government funding for Social Care, an addition to current constraints on cash limited budgets such as withdrawal of service funding due to a loss of custom or commissioning' and advised Members that a combination of staffing issues and lack of leadership in certain areas had hampered transformation planning and implementation. However, monthly meetings of the Improvement Board had focused on transformation planning with partner agencies. Concerns about the level of participation and contribution offered by the Police had been noted and dialogue aimed at holding people to account and improving the

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situation had already begun with the relevant representatives. Following a question about potential barriers to delivering transformation, it was reported that predicted overspends nationwide in Children's Services combined with uncertainty over the Fairer Funding Review made it difficult to make accurate predictions. Despite this backdrop, Members were advised that changes to the work culture and appointment to all but one leadership role within the department had already brought about greater stability.

With regard to Heads of Service contributing to commissioning reviews and service developments, Mrs Booth reported that the Sufficiency Strategy and Commissioning Framework were being reviewed and the former would focus on the key areas of fostering, placements and support in the home. The strategy would be linked to the 'journey of the child' work and be concerned more with preventing children from becoming looked after rather than on statutory intervention. Members agreed that more should be done to use in-house services where possible and minimise the use of external placements with private providers which could result in extremely high costs to the authority.

The need to provide appropriate levels of care and support to children with a wide range of complex needs and at a variety of different ages remained a key challenge and increasing fostering uptake would be a key method of reducing the cost of children looked after. In terms of barriers to young people leaving care, Mrs Booth advised that the permanence team had suffered from a period of instability through a number of staff absences and resultant use of agency staff. Added to this was the relatively high number of particularly complex cases. Out of borough placements were all currently in private settings and the Committee expressed concern that these providers seemed to be dictating the cost of placements which were far higher than equivalent care provided by the Local Authority and partners. The Committee therefore agreed it would be prudent to continue to investigate the feasibility of pooling resources with other authorities in order to improve outcomes and limit expenditure.

Mr Thompson added that in terms of financial modelling, the pressures on both children's and adult services had been incorporated and that a national solution to underfunding, particularly of adults services would be the most desirable outcome.

### **4 EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) AND STATEMENT OF ACCOUNTS 2017/2018**

The Committee considered KPMG's Governance Report and the audited Statement of Accounts for 2017-2018.

Mr Steve Thompson, Director of Resources, summarised the key aspects of the Statement of Accounts and advised that the accounts had been prepared in accordance with the relevant legislation and CIPFA standards.

The Committee was advised that the statutory deadline for approval of the final accounts was 31 July 2018. Mr Redmond also reminded the Committee that the Public Sector Audit Appointments Limited had appointed Deloitte as the External Auditor for the Council from 1 April 2018.

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Mr Leviston, Manager Public Sector Audit, KPMG, advised that the accounts had been prepared carefully and praise was offered to Mr Thompson and the Finance team for their hard work and the overall quality of the accounts. He added that in terms of the content, including assets and valuations, there was little to query however there was an outstanding matter to resolve relating to pension pre-payments. The need for KPMG to then carry out further testing and assess any adjustments to the Statement of Accounts would mean that a final version of the ISA260 would not be available before the 31 July deadline.

The Committee considered both the Statement of Accounts 2017/2018 and External Auditor's report as presented. Members were satisfied with the content and quality of the documents and had a number of questions on some of the technical aspects. In response to a query about amounts set aside to meet potential future liabilities, in particular a provision for Business Rate Appeals, the Committee was informed that a planned move away from five year valuations to a more frequent assessment would help to reduce potential liability in this area. A review of maintenance across the assets portfolio of the Council had noted little change to the position and a more detailed discussion related to rent reviews was deferred to Item 5. With regard to outstanding debts within the authority, it was reported that they were usually categorised according to the amount and nature of the debt. Following a question about the Carbon Reduction Commitment Energy Efficiency Scheme and whether the Council could face a financial penalty for failure to meet required standards, Mr Thompson reported that when carbon dioxide had been emitted when using energy, a liability and an expense would be incurred. He offered to provide a more detailed breakdown for the Committee at the next meeting

The Committee voiced their serious concern that the document had not been presented in its final form and with changes still required to be made to the External Auditor's Report which may result in changes to the Statement of Accounts. Members voted unanimously to defer further consideration of the Item until such time that the version presented to the Committee could be considered final and would incorporate all the changes required. It was agreed that given the urgency to sign off the audited Statement of Accounts as soon as possible, that an extra meeting be arranged in order to achieve this.

### **The Committee agreed:**

1. That further consideration and final approval of the audited Statement of Accounts for 2017/2018 be deferred to an additional meeting of the Audit Committee to be arranged by the Clerk.
2. That all changes to the audited Statement of Accounts and External Auditor's report be made prior to their inclusion on the agenda for the additional meeting.
3. Mr Steve Thompson, Director of Resources, to provide more detailed information related to carbon reduction targets and any penalties for non-compliance.

## **5 ESTATES MANAGEMENT AND INVESTMENT PORTFOLIO**

Mr Paul Jones, Head of Property Services, presented the Estates Management and Investment Portfolio report. The Committee had requested at its previous meeting on 21

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June 2018, that where an issue of particular concern had been highlighted, that the relevant Head of Service be invited to provide an update in relation to audit recommendation implementation.

The audit process had led to the overall opinion that significant progress had been made in a number of areas however the controls were still assessed as inadequate. A number of recommendations from the audit had been agreed and all actions were in the process of being completed. However, further work would be required to tackle the remaining backlog of rent reviews in particular. There was also a need to finalise the Investment Portfolio Strategy.

Mr Jones acknowledged the concerns raised about staffing and informed the Committee that, in his opinion, there was a national skills shortage of qualified surveyors. However, he advised that following concerns about appropriate staffing and resource, a full time surveyor had begun work in June 2018 and an additional surveyor had been recruited for a 12 month period and was expected to start at the beginning of August 2018. In addition, monthly rent review reports were now being checked and amended if necessary before cases were allocated to a surveyor.

In terms of an Investment Portfolio Strategy, an Investment, Disposal, and Acquisition strategy had been developed and would be submitted in September 2018 for ratification. In relation to the recommendation that a programme and timetable for the review of property investment portfolio assets be established and a disposal strategy developed for under-performing and unwanted property assets, Mr Jones advised that a pro-active approach would be taken with empty properties, reviewing reasons for retention and investing in them to market where appropriate. He added that overall income had increased from £1.2m in 2016/2017 to £1.7m in 2017/2018. In addition, 76 new leases had been issued in the previous year and the number of rent reviews had been reduced from 110 to 54 during the same period with continued improvement desirable for both the Council and tenants.

Following a question about how assets were assessed in terms of their value to the authority, Mr Jones advised that benchmarking was the primary tool and that the process was difficult. He added that more would be done in future to market vacant properties and increase occupancy thereof.

### **6 DATE OF NEXT MEETING**

The date and time of the next meeting would be circulated to the Committee by the Clerk in due course.

### **Chairman**

(The meeting ended at 7.43 pm)

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Any queries regarding these minutes, please contact:

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