GOVERNANCE & AUDIT COMMITTEE
29 JANUARY 2020
7.30 - 9.20 PM

Bracknell Forest Council

Present:
Councillors Allen (Chairman), Wade (Vice-Chairman), Gbadebo, Mrs Hayes MBE, Heydon, Leake, Neil and Tullett
David St John Jones, Indepedent Member

Also Present:
Councillor Green

23. Declarations of Interest

There were no declarations of interest.

24. Minutes of previous meeting

RESOLVED that the minutes of the meeting of the Committee held on the 18 September 2019 be approved as a correct record, and signed by the Chairman.

Arising from queries raised at the last meeting, an explanation of the policy and procedures around DBS checking for drivers engaged on home to school transport was given. No drivers were used by the Council unless they had a valid DBS check issued within the last three years. In circumstances where a driver was awaiting the issue of a new DBS check (because three years had elapsed) the school transport team would manage this risk by arranging a DBS checked person to travel as a passenger in the school transport vehicle. Should a driver be convicted of an offence after having obtained his/her DBS check, then the Council would receive notification so that any appropriate action could be taken. In addition, the Council was now licensed to carry out Children's barred list checks against a national database which was a fully maintained and up to date resource. The Committee was reassured by the information reported.

25. Urgent Items of Business

There were no urgent items of business.

26. External Audit - Audit Results Report

Andrew Brittain from Ernst & Young LLP, attended the Committee and presented the preliminary External Audit Results report. This was essentially the same report as submitted to the Committee at its meeting in July 2019, indicating that the Auditors expected to issue an unqualified audit opinion on the Authority's financial statements, subject to outstanding matters relating to the Berkshire Pension Scheme.

Despite a number of requests for the information, Ernst & Young had only recently received a response from Deloitte, the Berkshire Pension Fund auditors, which although providing the assurance required, did not include information on two procedures that had been specifically requested. Mr Brittain, therefore, proposed that Ernst & Young would carry out the two outstanding pieces of work directly to enable the audit to be completed and signed off without further delay.

It was confirmed that the audit of the Berkshire Pension Fund had that pension fund assets had been overstated due to the valuation methods used and the net liability position of the fund needed to be increased. The proportion of the increase relating to Bracknell Forest amounted to £8.991m and the necessary adjustment had been made. It was suggested that the order of the bullet points in the Audit Differences section of the Executive Summary be reversed, to give emphasis to the reasons for the delayed conclusion of the Audit, which were outside the control of the Council. Mr Brittain agreed.

The Committee was concerned that the delay in completing the audit, caused by the protracted work by Deloitte on the Berkshire Pension Fund, should not re-occur for the 2019/20 audit. Although this was largely beyond the control of the Council, it was suggested that representations about it continue to be made through Councillor Leake as member representative on the Pension Advisory Panel, through the Director: Finance to RBWM as the Pension Fund administering body, and through Ernst & Young to Deloitte.

RESOLVED that the report of the Council's external auditor summarising the work carried out to discharge their statutory audit responsibilities be noted.

27. **Treasury Management Report 2020/21 and the 2019/20 Mid-Year Review**

The Committee considered the 2019/20 Mid-Year Review report and reviewed the 2020/21 Treasury Management Report. Calvin Orr, Head of Finance and Business Services presented the report and explained that the Mid-Year Review covered an economic update for the first nine months of 2019/20, a review of the Treasury Management Strategy Statement and Annual Investment Strategy, a review of the investment and debt portfolio, and a review of compliance with Treasury and Prudential limits.

The Council held £12.197m of investments as at 31 December 2019. These were running at higher level than normal owing the continued uncertainty around Brexit and a buoyant level of cash receipts. Investment portfolio yield over the first nine months of the year was 0.65%, comfortably exceeding the benchmark of 0.54%. £15m of short term debt had been repaid and the Council would move to a more balanced portfolio by mid February. All investment and borrowing was compliant with the set limits.

It was noted that the PWLB had raised interest rates for new borrowing. However, the capital programme for 2020/21 would be fully funded from receipts with no additional borrowing necessary. The Council would be required to invest in the proposed Joint Venture Company due to be set up in the summer and it remained to be seen whether any further borrowing would be required to support this investment. With regard to the Treasury Management report, this was largely in line with previous years and no changes were proposed to investment or borrowing limits.

Arising from questions and discussion, the following points were noted:

- The rise in PWLB rates would not affect the Council's existing borrowing since the higher rates would only apply to new loans.
- Until the details of the proposed Joint Venture Company were settled, and the extent of the investment required by the Council was finalised, it was not

possible to quantify the amount of any borrowing that may be required. Returns from the JV Company would more than outweigh the cost of any borrowing.

- With reference to future income to be derived from the Community Infrastructure Levy (CIL), estimates were based on agreements already in place. CIL did not become payable until a development commenced and payments were then phased over three years.
- Investments were concentrated in the top five money market funds that were triple A rated.
- Investment performance could be gauged by comparison with the benchmark, the LIBID rate. Investment performance was currently exceeding the benchmark by 20 base points.

After further consideration the Committee

RESOLVED that:

1) The Mid-Year Review report be received and circulated to all Members of the Council.

2) The appreciation of the Committee for the sound and prudent Treasury Management performance be recorded.

3) The Treasury Management Report for 2020/21 (marked Annex E) be endorsed and submitted to the Council for approval.

28. **Strategic Risk Update**

Sally Hendrick, Head of Audit and Risk Management, presented a report on the updated Strategic Risk Register in accordance with the Risk Management Strategy. Following a review of the Register by the Strategic Risk Management Group (SRMG) and Corporate Management Group (CMG), a number of changes had been proposed which the Committee was asked to review. Comments were invited on the completeness of risks and the appropriateness of risk scores, with particular reference to Risks 1 and 2 which had been subject to a 'deep dive' by senior officers on which further details were presented.

<u>Risk 1: Significant pressures on the Council's ability to balance its finances whilst maintaining satisfactory service standards</u>
The Director: Finance set out the background to this risk where it was normal to expect risk to rise around quarter 2 and 3 in each year ahead of new challenges arising, but then recede as budgetary and mitigation planning developed in response. However, in the current year the Council was facing an unprecedented increase in demand in both Children's Services and Adult Social Care raising the likelihood of an overspend by year end. Officers were working hard to bring down this potential deficit looking at a number of options including possible use of the Public Health Grant currently in reserve. A second major challenge would arise in the 2021/22 budget where the Council faced a reduction in income of £4-5m owing to changes in the business rate system. This was fully factored into medium term planning and it was likely this could be substantially mitigated by the use of reserves.

Arising from questions and discussion, a number of points were noted:

- Bracknell Forest was one of a very few Authorities experiencing a significant increase in demand for both Children's Services and Adult Social Care.
- While the rise in demand for Adult Social Care was not unexpected and to some degree predictable, the increase in the cost of Children's Services was

wholly unpredictable. It seemed illogical that such an increase in demand could continue at such a rate.

- Children's Services was experiencing an increase in the number of looked after children as well as an increase in the cost of each child looked after. Some London Boroughs had placed children in care in Bracknell leading to extra costs falling on the Council.
- A continuing pressure on these services could be expected given the ongoing growth in population and people living longer.
- Current year income pressures included a lower than expected upturn in receipts following the building of the second chapel at the crematorium and lower car park income in the first half of the year although the December figures had been very good.
- Work was ongoing on the remaining Transformation Programme issues, including re-analysis of some projects, to realise further savings.
- Income from property would continue to rise gradually as rents increased but the Property Investment Strategy did not provide for any major acquisitions or investments to realise any significant revenue benefit. Greater emphasis was being placed on establishing the Joint Venture Company which would generate income for the future.
- The maximisation of the Council's income streams was kept under review but a more significant impact could be made if the number of children in residential care could be reduced.

<u>Risk 2: Employment market pressures make it difficult to recruit permanent staff to some key posts.</u>
The Head of Audit and Risk Management set out the background to this risk, which had been redefined, and referred to the priority need to introduce a comprehensive recruitment and retention strategy. There was a very competitive market, particularly among neighbouring authorities, to attract staff across a range of key posts. The contract with Matrix, the Council's agents, was being reviewed with a view obtaining better rates. Through the new Strategy the Council would need to increase the offer and attractiveness of working for Bracknell Forest, reviewing market premiums and other incentives that could be offered. The development and re-design of the HR-OD service could have a significant impact on the successful roll out of the new strategy.

Arising from questions and discussion, a number of points were noted:

- The Risk 2 definition made no mention of retention; it was proposed and agreed to insert the words "and retain" after "recruit" in the definition.
- The spike in risk at quarter 2 of 2018/19 occurred during the major restructuring changes where a number of experienced Chief Officers left the Council's employ which could not be quickly or easily replaced.
- The overall RAG rating for this risk as amber was queried. While it was acknowledged that some elements of the risk had been mitigated, there remained other elements requiring further work to effectively mitigate them. The Committee requested CMT to reconsider the RAG rating.
- The view was expressed that the risk chart did not adequately reflect the position as regards progress made on mitigation measures. It was requested that the chart be reviewed to see whether it could be made more intuitive.
- The target date for implementation of the new Recruitment and Retention Strategy was late summer 2020.
- Whilst there was a clear preference to achieve the highest level of permanent staffing, the need to maintain statutory compliance was a significant driver in the use of agency staff. Given the additional cost agency staff, it was suggested the new Strategy should have particular regard to trying to make permanent staff posts more attractive than agency contracts.

- A new bullet point under 'Potential Impact' was proposed relating to the loss of experienced permanent staff and replacement with less experienced agency personnel.

RESOLVED

1) That subject to the matters referred to below, the completeness of risks and the appropriateness of risk scores be endorsed.
2) That the additional information and presentation on Risk 1 (Finance) and Risk 2 (Staffing) following the 'deep dive' by senior officer be received and noted subject to the comments above, in particular those relating to the amended definition for Risk 2 and the reconsideration of the RAG rating for Risk 2 by CMT.
3) To note that the term risk appetite had been replaced by target risk score.
4) To note that an external review of risk management arrangements had been undertaken and the outcome will be reported separately to the Committee.

29. **Interim Internal Audit Report**

The Head of Audit and Risk Management presented a report summarising Internal Audit activity during the period April to December 2019.

Appendix C to the report detailed the status and outcome of all audits, including those deferred from the original schedule because more resources had been devoted to address previously identified weaknesses. Staff turnover at Mazars, the main audit contractor had also led to delays in the delivery of some audit reports.

The Committee noted the four audits where high priority issues had been identified since the previous report:

Council Wide

- Officers expenses
- Purchase cards

Delivery

- Car parks
- Cyber security

No critical recommendations had been raised but all (except car parks – one priority recommendation) were subject to one or more major recommendation. All audits subject to high priority recommendations would be revisited in 2020/21 to confirm that all corrective action had been taken. With specific reference to purchase cards, it was noted that total activity amounted to no more than £225k but there were some basic weaknesses to be addressed.

RESOLVED that the report be noted.

CHAIRMAN