

GOVERNANCE & AUDIT COMMITTEE
25 JULY 2018
7.30 - 8.20 PM



Bracknell Forest Borough Council:

Councillors Allen (Chairman), Thompson (Vice-Chairman), Heydon, Leake, McLean and Worrall

Apologies for absence were received from:

Councillors Ashman and Mrs Temperton
Mr D St John Jones: Independent Co-opted Member

Also Present:

Stuart McKellar, Borough Treasurer
Arthur Parker, Chief Accountant
Justine Thorpe, Audit Manager: Ernst & Young
Councillor Peacey

12. Declarations of Interest

There were no declarations of interest.

13. Minutes of previous meeting

It should be recorded that, for the Governance and Audit Committee meeting on 27 June 2018 apologies for absence had been provided in advance of the meeting by Councillors Leake and McLean.

RESOLVED that, subject to the amendments above, the minutes of the meeting of the committee held on the 27 June 2018 be approved as a correct record, and signed by the Chairman.

14. Urgent Items of Business

There were no urgent items of business.

15. Financial Statements 2017/18

The Committee considered the Financial Statements for 2017/18. Stuart McKellar, Borough Treasurer, and Arthur Parker, Chief Accountant, attended the meeting to brief members on the key points within the Statements.

The Borough Treasurer provided an introduction to the financial statements. The Committee were advised that it had been a hard year for the finance team. There had been a number of changes partway through the year, and some glitches had been experienced during the reconciliations, but the team had now resolved the issues and had rallied towards the end of the year. Despite the challenging timetable and pressures the team had responded well and overall it had been a successful

process. The Borough Treasurer gave thanks to Arthur Parker, Chief Accountant and his team for their achievements.

The Chief Accountant highlighted some of the key points of note within the financial statements.

- The actual outturn for the General Fund was within budget with an under spend of -£0.544m. As a result of the underspend, the Council only had to withdraw £2.024m from General Reserves rather than the budgeted £2.568m and finished the year with a healthy balance.
- There was an over spend within Children's Social Care of £3.027m but this had been reduced to £1.139m by an allocation from the Contingency.
- There was an over spend within Adult Social Care of £1.47m which had been offset by under spends on housing of -£0.531m and joint commissioning of -£0.310m primarily within the budget for grants and donations, and from additional Better Care and Health Care funding.
- Within Environment, Culture and Communities there had been under spends of -£0.638m on waste disposal.
- Higher cash balances had been sustained throughout the year resulting in lower borrowing and therefore interest payable plus a discount from paying pension fund contributions in advance resulted in a -£1.85m underspend.
- There had been an under spend against the Minimum Revenue Provision of -£0.686m.

The Chief Accountant highlighted some changes in the statements.

- The Comprehensive Income and Expenditure Statement includes a number of non cash items. The deficit on provision of services is approaching £44 million (£43.885m). The reason is that there was a £53 million loss on the disposal of property, plant and equipment which relates to 5 schools becoming academies where these assets were removed from the balance sheet. This shows as a loss but this doesn't impact on council tax and thus has no impact on the end of year underspend.
- The Movement in Reserves Statement shows that General Reserves have reduced by the £2m to just over £9m in 2017/18.
- Long term assets had increased significantly. 3 further investment properties had been purchased and there had been an increase in assets under construction with some still to be completed.
- Within current assets there had been a significant increase in short term debtors, estimated to be around £13m. About half of this increase is due to the CIL construction industry levy where significant sums are receivable but payments are in instalments.
- Under Liabilities, there had been a significant increase in long and short term borrowing. Increased borrowing had been required for the capital programme.
- Earmarked reserves had seen a significant increase with almost £9m going in to the Future Funding Reserve to help balance the budget in the medium term.

In response to Member's questions, the Chief Accountant explained how there could be a shortfall on the amount spent on interest by clarifying that the under spend on interest payments was partly due to the timing of the borrowing which had been later in the year than originally forecast. A prepayment of pension contributions to the pension fund had also helped to generate an under spend on interest.

The Chairman congratulated the Borough Treasurer and the Chief Accountant for their careful and prudent treasury management.

In response to a question, the Borough Treasurer explained that Minimum Revenue Provision (MRP) was lower than the original budget in 16/17 as capital receipts had been higher than forecast and capital spend was down. The MRP charge was impacted by this and it was significantly below forecast. The Chief Accountant confirmed that the Council would continue to use the recently introduced annuity approach to calculating MRP.

The purpose of Downshire Homes Limited (DHL) as described in the Narrative Report of the Financial Statements was questioned. The Committee queried the purpose of DHL and whether the purpose was to provide housing in general, not to just provide housing for the homeless and those with learning difficulties and that the definition in the narrative might give the wrong impression.

The Borough Treasurer was asked to provide some further explanation on his understanding of the purpose and governance arrangements of DHL.

In response to Members' questions the Borough Treasurer explained:

- The Chief Accountant's team would be aware of the use of the capital loan of £5.9m made to DHL as they provide financial support to DHL.
- The loan agreement describes how the loan money can be used within the Terms of the Agreement. If Downshire Homes Ltd were, for example, to buy a property abroad, they would be in breach of the loan agreement. The Borough Treasurer quoted from the loan agreement to support his point. "**Purpose**" means the use to which the loan will be put, namely the purchase of properties to house homeless people and individuals with specialist needs in Bracknell Forest as agreed by the Council's Executive on 31 March 2015, or as subsequently amended by the Council;
- The use of the loan is determined by the Council and Council would have to agree to any amendments. If DHL wanted to spend the money on something they would have to go to Council for agreement. If DHL wished to change the governance arrangements, this would have to be approved through Council. All decisions relating to the loan and the way it is used are matters for the Council to determine. Individual Executive Members who sit on the DHL Board cannot make decisions on behalf of the Council.
- At the point the narrative report was written, the governance statement was accurate.
- Governance arrangements need to be strong for a subsidiary company, and £6m or £7m loan is significant but the governance arrangements are suitable.
- The narrative report wording accurately reflected the purpose of DHL. Cllr Heydon confirmed that none of the directors of DHL have a financial interest in the company, while Cllr MacLean stated that, in their capacity as Directors of DHL, they have fiduciary responsibilities to the company and are not representing the council.

Councillor Heydon advised that DHL had changed its remit from buying homes for specific groups of people, which had been approved by the Executive in July.

The Chief Accountant provided some further explanation to the question around the materiality of Downshire Homes Limited.

- DHL existed prior to 17/18.
- DHL became operational in 2016/17 but its value was not material enough to warrant group accounts. Due to the additional loan in 2017/18 this was no longer the case and group accounts were now required.

RESOLVED that

- i) the Financial Statements for 2017/18 be approved as attached at Annexe A of the agenda report;
- ii) the Chairman of the meeting be authorised to sign and date the Statement of Accounts on behalf of the Committee;
- iii) the Chairman of the meeting be authorised to sign and date the Letter of Representation as set out in Annexe B of the agenda report.

16. External Audit Results Report

The Committee received a report by the Council's external auditor summarising the work carried out to discharge their statutory audit responsibilities.

Justine Thorpe, Audit Manager, Ernst & Young, attended the meeting to present the Audit Results Report to the Committee.

The external auditor confirmed that they had substantially completed their audit of Bracknell Forest Council (The Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters in the report, they confirmed that they expect to issue an unqualified audit opinion on the financial statements before the statutory deadline of 31 July 2018. They also had no matters to report on the Authority's arrangements to secure economy, efficiency and effectiveness in the use of the Authority's resources.

The Audit Manager explained to the Committee that clarity was needed as to whether the accounts prepared should use data provided to her by the auditor of the Pension Fund, which differed materially from that used to prepare the accounts, due to a timing difference and significant changes to Gilt values at the end of March. Officers believed they had the most accurate information available at the time which is what they used to base their figures on but would review the new information provided. Until this was clear, the accounts may need adjusting.

Subject to resolving this matter, it was expected that Helen Thompson, Associate Partner Ernst & Young would provide her formal opinion and sign the accounts on Friday 27 July 2018.

Given this uncertainty, the Chairman suggested that his preference would be to sign the final accounts as close to the deadline of 31 July as possible.

The external auditor confirmed that the Authority's financial team had provided high quality accounts and documentation and that overall it was a good audit for the team and the Council.

The Value for Money conclusion was clean, although the risk around the sustainability of the medium term financial plan was a common issue for all authorities. It was noted that the Council has plans in place, with inevitable challenges.

The Chairman summarised that the Council had been let down by an external body. He gave thanks to and congratulated the Borough Treasurer and his team for the fact that the audit has nothing to note.

Clarity was sought as to where the “Key Audit Issues” section of the report was located. The external auditor clarified this was covered in the section titled “Areas of Audit Focus”.

Action: The external auditor to amend the titles so they match.

It was observed that, on page 9 of the report in the “What are our conclusions?” box text, there is a misleading dotted line box at the bottom right hand of the page.

Action: The external auditor agreed to remove the dotted box from its position.

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

CHAIRMAN