



**MINUTES OF THE Audit and Standards Advisory Committee
Thursday 26 September 2019 at 6.00 pm**

PRESENT: David Ewart (Chair), Councillor A Choudry (Vice-Chair) and Councillors Donnelly-Jackson, Hassan, Long, Nerva, Kansagra, Colwill (left slightly early due to another meeting) and Perrin

Independent (co-opted) Members: Margaret Bruce

Independent Advisor: Vineeta Manchanda

Also Present: Councillor Margaret McLennan (Deputy Leader and Lead Member for Resources, Brent Council)

1. Apologies for absence and clarification of alternate members

The following apologies for absence were received:

- Councillor Naheerathan (Member of the Committee, substituted by Councillor Perrin)
- Dr Rob Cawley (Independent co-opted Member)
- Karen McArthur (Independent co-opted Member)
- Nigel Shock (Independent Person)

2. Declarations of Interest

In relation to agenda items 8 and 9 - to review performance and management of Invest 4 Brent Holdings Ltd (i4B) and First Wave Housing Limited (FWH) - the Chair, David Ewart, declared that he knew Martin Smith, Chair of i4B and FWH Boards, for a number of years when they both worked at Ealing Council.

3. Deputations

There were no deputations.

4. Minutes of the previous meeting

RESOLVED:

The minutes of the Audit and Standards Advisory Committee (ASAC) held on 10 July 2019 be approved as an accurate record.

5. **Matters arising**

In relation to mandatory training for Members, Debra Norman (Director of Legal, HR, Audit and Investigations, Brent Council) informed that an update report would be presented at the next meeting.

6. **i4B and FWH accounts assurance-testing and the Council's audit process**

The Committee at its last meeting on 10 July requested an update report about assurance-testing and the Council's audit process concerning Invest for Brent Holdings Limited (i4B) and First Wave Housing Limited (FWH) company accounts. Olga Bennet (Head of Finance, Commercial and Projects, Brent Council) introduced the report providing the Committee with an update about the progress of i4B and FWH company audits, together with, the proposed new tender and schedule for the next year's audit. Joanne Love (Grant Thornton) also contributed to the discussion on this item.

In considering the report and during the discussion, the Committee noted the following key points:

- a. The deadline for FWH for filing audited accounts was 30 September 2019 (six months from the accounting reference date of 31 March 2019). FWH was expected to have filed audited accounts by this deadline.
- b. The deadline for i4B for filing audited accounts was 31 December 2019 (nine months from the accounting reference date of 31 March 2019).
- c. Both companies' audit had progressed well and thus far provided the required level of assurance for the auditors to provide an unqualified audit opinion.
- d. The i4B and FWH Boards were responsible for governance and signing off the respective audits and accounts for these companies.
- e. Both companies had corrected preceding year accounts and detailed these in an adjustment note. These adjustments had been agreed with the auditors and were detailed in section 2 of the auditor's draft report Audit Findings for i4B Holdings Limited.
- f. Responding to a comment about a long audit process in concluding the i4B and FWH accounts that were often regarded as relatively smaller provisions within the overall budget/accounts of the Council, the proposed audit plan for next year (2019/20) accounts was to complete the audit of both companies by the 30 June 2020. This would provide enough time for financial statements of the companies to be consolidated with the Council's financial statements for group accounting purposes within the Council's statutory deadline.
- g. In relation to FWH accounts, as a result of the audit, two audit adjustments had been made to the accounts, one for the current year (2018/19) and the other resulting in a prior year adjustment with restated balances. These

adjustments resulted in a movement in reserves from the 'revenue reserve' to the 'revaluation reserve'. For the prior year adjustment, net assets remained unchanged. These had been agreed with the auditors, as well as, Council officers and were detailed in section 7 of the auditor's draft report *The Audit Findings for First Wave Housing Limited*. There were no other significant issues that had been raised by the auditors at the time of writing the report. The auditors had begun closing procedures and subject to the completion of some remaining tasks, a final draft would be produced with audit amendments for sign off.

- h. Concerning i4B accounts, no significant issues had been raised by the auditors at the time of writing the report. The auditors had begun closing procedures, with some remaining tasks to complete, after which a final draft would be produced for audit sign off.

The Chair thanked Olga Bennet (Head of Finance, Commercial and Projects, Brent Council) and Joanne Love (Grant Thornton) for their update and the written report.

RESOLVED:

- i. That the Committee notes the progress and completion of First Wave Housing Limited (FWH) and Invest for Brent Holdings Limited (i4B) company audits.
- ii. That the Committee agrees to the proposed new schedule.

7. Additional Audit Fees

The Chair, David Ewart, and Ben Ainsworth (Head of Finance - Corporate, Brent Council) introduced the report. In considering the report, the Committee noted that:

- a. For the five financial years commencing 1 April 2018, the Audit Committee agreed that the Council should appoint PSAA (Public Sector Audit Appointments) to procure an external auditor for the Council to benefit from the economies of scale and to seek better accountability from PSAA managing contracts on behalf of local government by participating in a procurement across local government. PSAA appointed Grant Thornton as the Council's external auditor for this period. The contract had saved the Council a further £50,736 compared to 2017/18 and 2018/19 audits, which was on top of the earlier reduction in fees of circa 55% compared with the fees in 2012.
- b. Not all the work that external auditors had to carry out was within the scope of the agreed fees. In such cases, the external auditors might choose to charge additional fees, however, these additional fees were subject to scrutiny by PSAA who had to agree the fees before they were paid. This acted to consolidate skills in managing external audit contracts across local government, and helped ensure a consistent approach to additional fees across the sector.
- c. KPMG (the Council's previous external auditors) had been carrying out work in relation to an objection received to the 2015/16 accounts concerning the

Council's Lender's Option, Borrower's Option Loans (LOBOs). This objection had now been resolved and audit certificates were issued for the financial years 2015/16, 2016/17 and 2017/18. The work that KPMG completed was outside the standard audit fee and an additional fee was payable to reflect the work completed on the objection. KPMG was proposing a fee of £14,630 to take into account their review of the 14 LOBOs (including inverse floaters and those with upfront incentives); review of relevant papers to support the decisions to take out the loans; various correspondence and policies; drafting their provisional view; considering additional issues raised and challenges to their findings from the elector; discussions with PSAA, including PSAA's legal team, as well as, final drafting and issue of their decision.

- d. For 2018/19, Grant Thornton (the Council's current external auditors) were proposing an additional fee of £6,400, connected with additional work they carried out on evaluating the issues raised by the McCloud judgement for the pension reserves and liabilities and additional work required by their regulator - the Financial Reporting Council - on verifying asset valuations and pensions. As with the KPMG additional fees, the next stage was for PSAA to review these costs with a view to either agree or to amend these.

RESOLVED:

The Committee notes the additional fees proposed by KPMG and Grant Thornton.

8. To review performance & management of i4B Holdings Ltd

Martin Smith, the Chair of i4B Board, introduced the report that provided the Audit and Standards Advisory Committee (the Committee) with an update on i4B Holdings Limited's (i4B) recent performance, audit arrangements and risk register. He stated that, overall, it had been a good period since his last appearance before the Committee, in February 2019.

In considering the report, and in response to queries and comments, the Committee noted the following key points:

- a. i4B's 2019/20 business plan was agreed by the Shareholders in February 2019. The business plan incorporated i4B's strategic priorities for 2019/20. The Company adjusted the number of properties bought compared to originally intended due to the slow housing market but there was still good progress and the Brent property values were still rising, albeit slower than before.
- b. The Company's register was now a lot greener (outcomes successfully achieved) on Red Amber and Green (RAG) monitoring table.
- c. In February 2019, i4B had 204 properties in its portfolio purchased at an average cost of £352,900 with 177 of these properties were let. As of August 2019, i4B's portfolio had increased to 228 properties purchased at an average cost of £356,637 with the target acquisition cost being £363,000. 213 of these properties had been let and people were now living in decent quality accommodation. The rate of acquisitions had decelerated primarily

due to a slowdown in the housing market. Officers were currently investigating opportunities to increase the rate of acquisitions. As of August 2019, i4B had 22 properties in the process of negotiation and valuation, 29 properties in conveyancing, 4 properties in the delegated authority (final approval) stage and 8 properties awaiting contract exchange.

- d. 95% of all urgent repairs were resolved within 24 hours in August 2019, which was consistent with the 95% in February 2019. 100% of all emergency repairs were resolved within 24 hours both in February and August 2019.
- e. The average rent collection rate as reported by the management agents in June was 94.35% compared to 90.67% in February 2019. BHM's collection rate of 95.61% was the highest amongst the three contractors. All contractors would continue to be closely monitored for rent collection performance to encourage the target of 98.5% to be achieved.
- f. The rental income was lower than budgeted due to less than anticipated property acquisitions by 31 March 2019 (86 fewer properties acquired compared to the target of 300 - with 179 properties occupied - culminating in an adverse impact of circa £1.5m); higher average cost per property at £358,000 against the target of £333,333; and the average weekly rent being lower at £296 compared to the target of £300 resulting in an adverse impact of circa £160k (7% below) per annum.
- g. i4B's PRS acquisition programme increased the number of affordable housing tenures in Brent and the Home Counties. The Company had been successful in purchasing private sector homes and switching the tenure to an affordable rent product. Consequently, 360 new affordable homes would be created by April 2021. As at January 2019, 213 Brent families, including 534 children, had been housed in i4B properties.
- h. i4B's net ongoing annual financial benefits to the Council stood at £298,000. In addition, the Council received significant one-off benefits from the programme. These benefits stem from two sources: the loan to i4B and financial benefits relating to ownership of properties and price increases in the property; the one-off financial benefits from the loan for the first 300 properties which were the Loan Arrangement Fee of 1% (£830k); and the Loan non-utilisation charge (£620k). Moreover, as the sole shareholder, the Council could also benefit from property price growth of the portfolio.
- i. Responding to a query about genuinely affordable housing for key workers, Martin Smith highlighted that i4B's 2019/20 Business Plan, approved by the Cabinet in February 2019, agreed that the Company progressed the purchase of a block of 153 units for the provision of key worker accommodation at 60-80% market rent. i4B was currently pursuing this new opportunity and there was a scope for 553 homes for key workers near a transportation hub if all went according to the plan. In addition, the Company was working with the Council to explore a number of other potential opportunities for purchasing smaller blocks, this was in line with the agreed business plan and would provide numerous benefits to the Council with regards to key worker accommodation and its other housing provisions.

- j. The Company's Risk Register (Appendix 1) and the Risk Management Framework (Appendix 2) were attached to the report and since the last meeting with the Committee in February 2019, no new risks had been added. The risks which remained as live issues and were being monitored were 'the pipeline of properties was slower than the SLA target' and the 'business plan rent collection rates were not being achieved and bad debt exceeding business plan assumptions'.
- k. Concerning a Financial Model Audit, officers would be working to implement recommendations during the 2019/20 financial year and full management responses could be found in the Internal Audit Responses Action Plan (Appendix 3). In April 2019, i4B agreed a programme of two internal audits for 2019/20. The Acquisitions Audit was now underway and i4B would provide the Committee with an update in due course. The next steps would be to focus on viability and long term sustainability as efficiently and swiftly as possible.
- l. With regards to recommendations emanating from previous audits, Internal Audit recently carried out a follow-up review into the i4B Governance Risk Management, and Financial Management Action Plan (Appendix 4) was attached 4 to the report. i4B had fully implemented agreed actions from the audit and was now currently undertaking an overarching policy review. There were two independent directors on the Company Boards with relevant skill-set, as well as, very experienced senior-level officers who carefully examined the reports and progress on all aspects - including a live dashboard to monitor performance and commissioning deep-dive reports - backed up with a sound internal audit mechanism.
- m. In response to queries about financial stability - being in a current position of operational loss etc. - Martin Smith highlighted that the Company was 'successfully' loss-making as expected at this relatively early stage in its life as it was heavily tilted towards servicing interest at present but it hoped to break-even in 2021-22 and start making profit thereon. He added that despite good progress, the Company was not complacent and undertook continuous evaluation, improvements and would further examine its financial modelling. The Chief Executive added that the Company paid £1m to the Council, which were added to the General Fund, therefore, from the Local Authority's perspective, it was not loss-making.
- n. Being a Public Benefit Entity (PBE) did not change the audit and financial results for the company. Most properties bought by the Company were leaseholds which was a principal problem. More properties bought by the Company would be better but the Company had to follow a strict purchasing criterion which was, at times, time/resource consuming aspect of the process. Stock valuation might be affected by market changes but this was a slightly academic point to an extent as the Company had no plans to sell its houses.

RESOLVED:

The Committee notes the current company performance; the update to the i4B risk register; and the update on recent i4B audits; including an update report on recent i4B audits; and progress towards implementing previous audit recommendations.

9. To review performance & management of First Wave Housing Ltd

Martin Smith, the Chair of FWH Board, introduced the report that provided the Audit and Standards Advisory Committee with an update on First Wave Housing Limited's (FWH) business plan, recent performance, risk register, and audit arrangements.

In considering the report, and in response to queries and comments, the Committee noted the following key points

- a. The 2019/20 FWH Business Plan was approved by the Guarantor in February 2019 which outlined FWH's strategic plans for 2019/20.
- b. A stock condition survey (SCS) had been carried out on FWH stock, this provided an assessment of investment requirements over 30 years. The SCS and local knowledge had been used to create a 30-year investment plan. The investment plan was a key focus for the FWH board. The key areas of investment included resolving historic poor building and maintenance practices by BHP in South Kilburn, refurbishment of market rented properties, and a provision for the purchase of new build homes, as well as, cyclical maintenance works.
- c. Brent Finance Team were currently in the process of confirming the affordability of the programme and any associated funding gaps. However, FWH's cashflow forecast over the next 5 years was relatively favourable. It was, thus, less critical at this stage to seek alternative financing models to carry through with the investment plan but there was a likelihood that capital funding would need to be raised over the medium term. One option under consideration was renegotiating the terms of the loan.
- d. The 2019/20 Business Plan also highlighted that the Guarantor was exploring opportunities to align i4B and FWH, including looking at the possibility of merging the two companies. However, the Guarantor has determined that merging the two companies was not viable primarily because i4B was a company limited by shares whereas FWH was a company limited by guarantee.
- e. FWH had 329 tenanted properties. Of 329 - 89 were at social rent rate, 25 were at intermediate rent, and 45 were at PRS /market rent as well as 170 Settled Homes (SH) - a form of temporary accommodation. SH were let on assured short hold tenancies, with rent levels slightly below LHA rates (the weekly rent for a two-bedroom property was £300). When business plan surpluses to become sufficient, properties would be converted, on an incremental basis, to social rents, on assured tenancies.

- f. The annual FWH rent roll was £4.2 million with two commercial properties within the portfolio. FWH had not purchased any new properties, therefore, performance was only based on housing management.
- g. Performance in June 2019 exceeded the monthly performance target for rental income collection of 98.5% and the year to date target of 99.5%. This was similar to February 2019, where the performance was 107% (due to arrears collection).
- h. Repair and void turn around had improved and remained good. For example, In June 2019, 100% of emergency repairs were completed in less than 24 hours and in June 2019 88% of qualifying repairs were completed within 14 days compared to a target of 85%. Year to date performance for qualifying repairs was also 88%. In February 2019, there were two market rent voids and it took on average 162 days to let the two properties and the turnaround was higher than the target of 21 days due to difficulties in competing with similar market rented products on the market. In June 2019, performance had now improved significantly - 4 properties were let; 3 Settled Homes and 1 PRS property (formerly Intermediate and Market Rent). 1 PRS property let was a minor void and it took 16 days to let against a target of 21 days. The 3 Settled Homes properties were also minor voids and took an average of 37.3 days. This was due to delays in sourcing suitable applicants from the Private Rent Sector Team in Housing Needs. Officers were currently reviewing the Settled Homes Allocation process to improve targeting of suitable applicants.
- i. The Company's Risk Register (Appendix) 1 and the Risk Management Framework (Appendix 2) were attached to the report. Since the last report to the Committee, no new risks had been added. The risks that remained live issues and being monitored were unforeseen costs and loss of income as a result of poor quality housing stock and contingency/repair costs being inadequate which would be rectified. A Responsive Repairs Report had been drafted and distributed to Sean Gallagher (Head of Housing Management, Brent Council) and Hakeem Osinaike (Operational Director for Housing, Brent Council) for action about the repairs.
- j. The primary challenge to FWH was expected in about 3 - 4 years as it was not generating enough cash but there was a possible solution in terms of valuation and cash option. However, the Company's balance sheet remained strong.
- k. In April 2019, FWH Board had agreed a programme of internal audits for 2019/20.

RESOLVED:

- i. The Committee notes the company performance; the update to the FWH risk register; the update on recent FWH audits; and progress towards implementing previous audit recommendations; and
- ii. The Committee requests that the contingency/repair/refurbishment costs be adequately established and reflected accordingly in the Company's Risk Register.

10. **Internal Audit Progress Report**

Colin Garland (Audit Manager, Brent Council) introduced the report providing an update to the Committee on progress against the Internal Audit Plan for the period 1 April 2019 to 31 August 2019.

In considering the report, the Committee noted the following key points:

- a. Internal Audit team had completed seven audit reviews and advisory pieces of work; twelve follow up reviews; two school audits from this year's program of ten school audits led grant claim certifications for the Troubled Families Programme.
- b. The team had been functioning below its budgeted resource and this was supplemented by temporary staff in the final quarter of 2018/19. Recruitment of new permanent staff had now brought improved stability and performance with two new auditors joining the team, one in April and a further one in July. The team continued to be supplemented by a contracted resource from PWC.
- c. The Internal Audit Plan for 2019/20 initially comprised 55 audits excluding school reviews, follow ups and advisory work. Seven audits had been completed with a further two draft reports issued, awaiting a response from management. A further 17 were nearing completion or were in progress. Resources had been allocated to allow full completion of the plan.
- d. As part of the audit process, follow-up reviews were carried out to ensure that agreed management actions in respect of significant risks had been implemented.
- e. Twelve follow up reviews had been completed. A further ten were currently in progress. Details of the completed follow up reviews were set out in Appendix C of the report. Of the 12 completed, three had high risk issues and associated actions that had not been implemented or only partially implemented. A total of 95 management actions had been reviewed with high risk actions shown in brackets. Details of these actions were also included in Appendix C.
- f. Referring to issues highlighted in IR35, a query was raised about the use of agency staff from other than the agreed contractor. The Committee requested that details be circulated to all by email.
- g. There was a good follow-up and completion rate on recommendations raised during audit reports, increasing from 40% and 50% to 90+%.

RESOLVED:

The Committee notes the content of the report.

11. Counter Fraud Progress Report

Michael Cassel (Counter Fraud Manager, Brent Council) introduced the report providing a summary of the counter fraud work undertaken for the period 1 April to 30th June 2019. He also provided details and examples of relevant cases, including identity theft and blue badge fraud.

During the update and in considering the report, the Committee noted:

- a. The total referrals of alleged internal fraud for Q1 were consistent with the previous year. This included whistleblowing referrals and a range of case types that included financial, staff conduct and procedural irregularities. Internal fraud typically had the fewest referrals in any period but was generally more complex in nature.
- b. A particular case was highlighted which concluded in April 2019 about a Blue Badge misuse by a member of staff. The offence was identified in September 2018 during one of the team's on-street enforcement operations. The individual resigned pending a disciplinary hearing and subsequently pleaded guilty to a misuse offence under the Road Traffic Act. They were sentenced to a £500 fine (half the maximum) and ordered to pay £1,092 costs and a £50 victim surcharge. Another case which was highlighted about a new member of staff dismissed for recruitment irregularities and providing false information. They were dismissed in Q4 of the previous year and appealed, which in Q1 was not upheld.
- c. There were eight referrals logged in Q1 that related to whistleblowing from a variety of sources. Due to the confidential nature and types of referrals, it was not appropriate to provide details in the report.
- d. There had been an increased presence on the Council's website that enabled members of the public to report all suspected fraud. Additionally, fraud awareness sessions had been delivered across a number of Council departments. A further nine cases had been logged to date in Q2, which represented a slight increase in internal-related activity over the same period last year. The Chair commented that there seemed to be more referrals now and there was a need to make a judgement as to whether this was healthy or excessive.
- e. The recovery of social housing properties by the Investigations Team had a positive impact upon the temporary accommodation budget and remained a high priority fraud risk area for the Council. The average value of each recovered tenancy was £93,000 per property as reported by the Cabinet Office in its 2016 National Fraud Initiative Report.
- f. A total of five housing cases, with a notional value of £542,900, were recorded as a result of fraud / irregularity in Q1, which was consistent with the same period last year where fraud was identified in seven cases. There were currently 86 live housing related cases. Eight cases were currently going through various stages of legal proceedings to recover properties and/or prosecute housing related offences. Enquiries into an additional 18

cases had concluded and reports issued recommending recovery action was instigated.

- g. Since Q1 of 2017/18, the Internal Investigations Team had led on an organised Freedom Pass fraud investigation involving several councils in London with over 100 fraudulent applications identified to date. The team identified 17 fraudulent Brent applications. The main subject of the investigation, who has now been convicted, was identified, arrested and appeared in court on 26 June 2018 relating to 21 counts of fraud, counterfeiting and forgery. The investigation was in collaboration with London Councils, Transport for London and the Police and was being led by Brent Council. The fraud had been present in our system since September 2016 and specifically targeted the 'partially sighted' entitlement category using false supporting documentation. This occurred due to inadequate controls on the verification of supporting documentation which was addressed by the service area at an early stage of the investigation. The potential value of a Freedom Pass was approximately £6,000 per year and the cost to councils was significantly more due to the charging structure with London Councils, costing Brent approximately £350 per pass to administer.
- h. Responding to a query about housing, vulnerable people, safeguarding and the use of bailiffs to collect debts etc., it was highlighted that relevant Brent staff were fully trained about safeguarding issues and the use of bailiffs was more relevant to the housing team.
- i. In response to a question about its approach, it was clarified that the Council used both reactive and pro-active techniques in relation to counter fraud.

The Chair thanked officers for the report and their continued work.

RESOLVED:

The Committee notes the counter fraud work within the period of this report.

12. Strategic Risk Register Update

Michael Bradley (Head of Audit and Investigations, Brent Council) introduced the report which contained the Corporate Risk Register including an update on the Council's Risk Management position. He informed that each of the departmental management teams had carried out a review and re-assessment of their risk registers that were put together last year following a series of workshops with each of the teams.

There were inherent risks which the Council faced which were owned and monitored at the departmental level. These had previously been identified as:

- Safeguarding (Children and Adults);
- Business Continuity;
- Information Governance;
- Legislative Compliance;
- Fraud and Corruption;

- Financial Stability; and
- Health and Safety.

These risks would be incorporated into the Corporate Risk Register when net or mitigated risk ratings were deemed to be of a level that exceed the appropriate tolerance. During the course of the workshops for last year's exercise none of these inherent high risks were rated as 'high risk' although some risks were identified which could potentially have an impact on financial stability. Since then, the main changes to the risk register were:

- Removal of the Council Tax Transition Risk due to the completion of the project, and
- Addition of the Brexit Risk in view of the approaching potential 'no deal' scenario. A recent Internal Audit of Brexit preparations found that the Council's analysis of Brexit risks in the event of no deal was good and no gaps in coverage were identified. Therefore, although the likelihood was increasing, effective action had been taken to ensure the impact was being sufficiently mitigated.

In response to a query, Carolyn Downs (Chief Executive, Brent Council) informed that if there was a specific concern or need, audit reports could be requested by Members, however, the Departmental Risk Registers, were best presented to and scrutinised by the relevant scrutiny committees. Carolyn Downs indicated that she would ask to ensure that Departmental Risk Registers were shared with the respective scrutiny committees on a periodic basis.

RESOLVED:

The Committee notes an updated Corporate Risk Register.

13. Treasury Management Mid-term Report

Daniel Omisore (Head of Finance, Brent Council) introduced the report providing an update to the Committee on treasury activity for the first half of the financial year 2019-20.

In considering the report and during the discussion, the Committee noted the following key points:

- a. That during the first half of the year the council has complied with all of its stated prudential indicators and there were no breaches.
- b. In respect of the wider economy GDP growth in the first calendar quarter for 2019 increased from 0.2% in Q4 2018 to 0.5%. Stockpiling ahead of the uncertain Brexit date seemed to be the main driver of this increase however this growth had not been maintained. Economic growth stalled in Q2 with a growth rate of - 0.2%. The trade conflict between the US and China had also contributed to sluggish global growth. The outlook for the UK economy remained challenging to predict following the extension of the Brexit deadline or potential no-deal scenario between the EU and the UK.

- c. Consumer Price Index (CPI) had increased to 2.1% in July and was expected to decline further below the Monetary Policy Committee's (MPC) 2% target in the near term - largely due to lower than expected retail prices. The unemployment rate remained at a low of 3.9% with the employment rate at 76.1% - the joint highest since comparable records began in 1971. Wages excluding bonuses grew by 3.9% which when adjusted for inflation showed real wages were up 1.9%.
- d. The Council's external interest budget for the year was £24.2m, and for investment the income was £4.7m. The Council was likely to exceed this figure in 19-20 due to enhanced income returns from subsidiary loans such as i4B. The average cash balances, representing the Council's reserves and working balances, were £94m during the period to 31 August 2019.
- e. The interest rate the Council received on money market funds had remained stable and outperformed local authority deposits over the three-months (to the end of Aug 19) whilst providing added liquidity benefits.
- f. In relation to a query from the Committee about the historic low rates, it was highlighted that the Authority continued to qualify for borrowing at the 'Certainty Rate' (0.20% below the Public Works Loan Board, PWLB, standard rate). This was reviewed on an annual basis and had been confirmed as applying until 31 October 2019 and alternative sources of long term funding were available. However, the Council would continue to adopt a cautious and considered approach to funding from the capital markets. The affordability, simplicity and ease of dealing with the PWLB represented a strong advantage. Having said this, due to its prudent policies and strong balance sheet, the Council was in a position to consider alternatives and had already begun this process with the implementation of the forward borrowing strategy work which would be reported back to this Committee early next year.
- g. There was an £18m downward movement in short-term investments which was expected to continue in the coming years as the capital programme was progressed. The investment balances were expected to drop significantly over the next six months with the impending purchase of the 235 units at Gloucester & Durham in South Kilburn. The year to date capital spend for 19-20 currently stood at just over £30m with a forecast of £297m for the full year. This was having a significant impact on the Council cash available for investment and the use of internal balances to fund capital expenditure might not be sustainable over the medium to long term and was being monitored. The Council had undertaken a detailed analysis of its cash flows, examining the pace at which it was reducing its cash reserves. The analysis was based on forecasted capital commitments, incoming resources and seasonal variations. The latest analysis suggested the Council would need to borrow towards the end of 2021 to a certain extent limiting the Council's ability to use financial products that generated higher financial returns, as they would require longer time horizons.
- h. The Council was reviewing its borrowing options which might include short-term loans, PWLB borrowing, forward borrowing and other market loans. At a meeting in September 2018, Brent Cabinet endorsed an updated

borrowing strategy that included a recommendation to commence negotiations to agree a forward funding loan of up to £40m. The Council was currently undertaking an exercise with external Treasury Advisors to review whether forward borrowing was the most appropriate form of funding for our expected capital expenditure and existing debt portfolio.

- i. Treasury Management Indicators, including risks, were detailed in Appendix 1 of the report.
- j. In response to a question concerning forward borrowing it was noted that one of the main benefits of this approach included the ability to agree sums in advance of need, at a fixed rate for delivery on a pre-determined future date. This way the Council is able to hedge future interest rate exposure whilst avoiding a short term increase in costs, as interest payments do not commence until the loan starts.
- k. Following previous queries by the Committee, a benchmarking exercise was carried out to look at a comparison between Brent's investment portfolio and that of Arlingclose's (the Council's Treasury Advisor) other Local Authority clients. The comparison exercise demonstrated that Brent's portfolio had a very low risk profile compared with many others which also equated to a lower yield. However, many authorities were to the right of Brent obtaining similar yields for much higher risk. In summary, Brent was consistently right in the middle of the comparative graph which was attached to the report under paragraph 3.25.

RESOLVED:

The Committee notes the content of 2019/20 mid-year Treasury report including Appendix 1.

14. The Annual Audit Letter

Minesh Patel (Director of Finance, Brent Council) and Paul Dossett (Partner and Head of Public Sector Assurance, London and South East at Grant Thornton UK) introduced the Annual Audit Letter issued by the Council's external auditors, Grant Thornton, following completion of the audit of accounts.

Minesh Patel informed the Committee that he was satisfied with the process and the Council was joint-first Council in London to submit its annual accounts. In relation to value for money, the Council's external auditors were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

The Committee requested more details outside of the meeting about the valuation of level 3 investments as highlighted on page eight of the letter. Minesh Patel undertook to ensure the Chair and Vice Chair were invited to regular meetings with Grant Thornton.

The Chair thanked officers and external auditors for their hard work in being the joint-first local authority in London to submit their account despite a very challenging deadline this year.

RESOLVED:

The Committee notes the contents of the Annual Audit Letter issued by Grant Thornton (the Council's external auditors).

15. External Audit Progress Report and Sector Update

Paul Dossett (Partner and Head of Public Sector Assurance, London and South East at Grant Thornton UK) and Sophia Brown (Engagement Manager, Grant Thornton) introduced the report providing the Audit and Standards Advisory Committee with an update on progress in delivering Grant Thornton's responsibilities as the Council's external auditors.

In considering the report and during the discussion, the Committee noted the following key points:

- a. The report included a summary of emerging national issues, developments that could be relevant to Brent as a local authority and plans, including a timeline, about the next year's audit.
- b. i4B and FWH subsidiary year-end accounts were planned to be concluded by the end of May next year.
- c. Subject to planned legislative change, in future, the reporting would require more work, with the VFM conclusions probably abolished and replaced with detailed value for money reporting which could result an increase in professional fees. Carolyn Downs (Chief Executive, Brent Council) felt that this would be an increased cost and additional burden on Brent.

The Chair thanked Paul Dossett for the report, particularly the sector update, which was very useful for the Committee.

RESOLVED:

The Committee notes the content of the report, including the sector update.

16. An update report on review the performance of the Committee (self-assessment)

Debra Norman (Director of Legal, HR, Audit and Investigations, Brent Council) informed that work had been progressing and an update report would be provided at the next meeting of the Committee.

RESOLVED:

To receive an update report at the next meeting of the Committee.

17. **Review the Committee's Forward Plan**

The Chair introduced the Committee's Forward Plan. The Committee reviewed its Forward Plan and made the following additions:

- Review the performance of the Committee (self-assessment); and
- Emergency preparedness - Peer Review.

RESOLVED:

Kunwar Khan (Governance Officer, Brent Council) undertook to update the Audit and Standards Advisory Committee's Forward Plan.

18. **Any other urgent business**

None.

The meeting closed at 8:12

David Ewart
Chair

.
.