



Brent

## MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE Tuesday 18 July 2023 at 6.00 pm

**PRESENT:** Councillor David Ewart (Chair), Councillor Chan (Vice-Chair) and Councillors S Butt, Choudry, Kabir, Long, J Patel and Smith

**Independent Advisor:** Vineeta Manchanda

**Also Present:** Councillor Mili Patel (Deputy Leader and Cabinet Member for Finance, Resources & Reform), Julie Byrom (Independent Person – attended online), and Stephen Ross (Independent Co-opted Member – attended online)

### 1. **Apologies for absence and clarification of alternate members**

Apologies were received from Rachael Tiffen (Independent Co-opted Member).

The Chair welcomed Stephen Ross, as a newly appointed Independent Co-opted Member to his first meeting of the Committee

### 2. **Declarations of Interest**

David Ewart (Chair) declared a personal interest as a member of CIPFA.

### 3. **Deputations (if any)**

None.

### 4. **Minutes of the previous meeting**

**RESOLVED** that the minutes of the previous meeting held on Tuesday 6 June 2023 be approved as a correct record.

Members noted the updates provided in relation to items listed on the Action Log.

### 5. **Matters arising (if any)**

None.

### 6. **Statement of Accounts 2022/23**

Ahead of the report being presented to the Committee, the Chair clarified that as the accounts were currently in the draft stage and therefore not in a position to receive final approval, there was no requirement for the Audit & Standards Committee to meet following the Audit & Standards Advisory Committee.

Ben Ainsworth, Head of Finance was then invited to introduce a report that provided the Committee with an update on the Council's draft 2022/23 Statement of Accounts.

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

- The Accounting Statements (page 45-49 of the Committee report) set out the Council's income and expenditure for the year as well as its financial position at 31 March 2023 in compliance with the requirements of the CIPFA Code of Practice on Local Authority Accounting.
- The Accounting Statements detailed a significant uplift in the Council's total reserve funding (£650m) as detailed within the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRs). Further details were also provided in distinguishing between usable and unusable reserve funds.
- The Pensions Fund had seen an increase of £500m, this was reflective of the national picture of increased interest rates. If the trend were to continue the Council's pension contributions as an employer could reduce.
- The Committee's attention was drawn to the Movement in Reserves Statement table (page 46 of the Committee report) that detailed an increase in Capital Grants and a decrease in the Earmarked General Fund Reserves. This decrease resulted from planned projects put in place to support post covid recovery with funds that had been released for these purposes reflected in the reduced General Fund Reserves.
- The Committee noted that the Pension Fund accounts had been positively received by the Pension Fund Sub Committee.

In response to the update provided the Committee highlighted comments on a number of issues with the following responses provided:

- In response to a Committee query in relation to the sufficiency of the General Fund Reserves, Minesh Patel, Corporate Director of Finance and Resources advised that that in general terms reserves were on a downward trajectory, however Brent were in a positive position whereby there was no reliance in using reserve funding. It was recognised that a generous reserve fund was favourable, and it was felt that the amount held (5% of the General Fund Balance) for unrestricted reserves was sufficient for the next financial year. However, it was noted that given the financial pressures arising through the cost-of-living crisis, inflation and demand for services, the situation would be closely monitored and if necessary, further consideration would be given to how the Council could increase its reserve funds.
- The Committee recognised the difficulties in increasing reserve funding as it was likely to only be achieved through accruing an in-year surplus within the Council.
- Following a Committee query in relation to the accessibility of the funds held in reserves, the Committee were advised of the process available to access funding, however once allocated the challenges in being able to replenish the funds were also identified.
- In response to a query in relation to the funding sources used to support capital projects, Amanda Healy, Head of Finance, Capital Programme and Treasury, advised that most capital projects were housing schemes where

- there would be a contract in place based on viability assessments that would be funded by an element of borrowing. Schemes for affordable housing would also be supported by GLA grants and Section 106 or Community Infrastructure Levy funding could also be used (subject to meeting the necessary criteria) to support the borough's Capital commitments.
- Following a Committee query in relation to the re-evaluation of Council dwellings, the Committee was advised that this was driven by the increase in housing prices in the borough that in turn drove the valuations of Council dwellings, construction costs had also increased and were reflected in the balance sheet.
  - The Committee required further information on how the Dedicated Schools Grant (DSG) would be settled if it remained in deficit. Minesh Patel, Corporate Director of Finance and Resources advised that any deficit that remained after the period of statutory override that was in place until 2026/27 may have to be settled from the General Fund. Plans were actively in place to continue to reduce the deficit, however the Council were awaiting future guidance from central government in relation to the final terms of repayment of the DSG.

In closing the discussion on the item, the Chair drew the Committee's attention to an area of the report that provided information in relation to school's deficits and falling school balances and advised that any further detailed questions should be emailed to the Deputy Director of Finance, with a full response to be provided at the next Committee meeting.

The Chair thanked the Finance Team on behalf of the Committee for their continued efforts in finalising the draft accounts ahead of their submission to the external auditors and for what the Committee felt was a particularly useful narrative section to the report. As no further issues were raised the Committee **RESOLVED** to note the draft Statement of Accounts for 2022/23 submitted to the external auditors.

## 7. Treasury Management Outturn Report

Amanda Healy, Head of Finance, introduced a report that updated members on Treasury Management activity and provided confirmation that the Council had complied with its Prudential Indicators for 2022/23.

Key issues highlighted were as follows:

- The Council's Treasury Management activity was compliant with the CIPFA Code which required authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement.
- The economic background in relation to the current outturn position continued to be impacted by global inflation as a result of the war in Ukraine, along with the UK's current economic outlook and increase in interest rates.
- In terms of borrowing, at 31<sup>st</sup> March 2023, the Council held £781.0m of loans to finance the Council's capital programme strategy to support new homes and regeneration. Borrowing options continued to be carefully assessed to ensure the Council could achieve the lowest cost funding options to support the commitment to the capital programme.

- There were concerns that the future of borrowing for the capital programme could become more challenging as borrowing rates had already significantly increased since last year. In respect of the economic environment and rising construction costs, capital programme projects continued to be assessed. If any issues concerning viability were identified, they would be brought to Cabinet.
- In relation to investment activity, the Council's investment balances ranged between £72m and £159m due to timing difference between income and expenditure as detailed in Table 4 of the report.
- In noting the prudential requirements within the CIPFA Code, the Council's objective in terms of investment had remained to strike an appropriate balance between risk and return in order to minimise the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- The Council's non-Treasury Investments were to the Council's subsidiary companies i4B Holdings Limited, whose primary purpose was to deliver the housing options as defined in the Temporary Accommodation reform plan and First Wave Housing that was set up to manage properties previously owned by Brent Housing Partnership. The collective investments had generated £5.9m of income that covered the borrowing costs of investing in housing through wholly owned subsidiaries.
- The Committee's attention was drawn to Appendix 2 of the report that set out the Council's full prudential indicators for 2022/23.

The Chair then invited the Committee to raise questions on the report, with the responses summarised as follows:

- The Committee queried if the Council undertaken any borrowing for capital projects that had subsequently not proceeded. Officers confirmed that the Council did not borrow for specific projects as borrowing was obtained for the overall borrowing needs of the Council, as such there was no funding that had not been utilised effectively.
- Officer confirmed that the borrowing reported was for the contracts in 2022/23, there had been no new borrowing for 2023/24 as yet.
- In response to further details sought on the Council's borrowing, the Committee's attention was drawn to the Liability Benchmark chart in Appendix 2 that demonstrated the Council's borrowing need against the Council's existing cash resources. This highlighted that the Council's cash resources were utilised first before additional external borrowing was sought.
- In relation to future capital programme schemes the Committee was advised that due to the volatility in interest rates and inflation, when viability assessments were completed for new schemes, there was a margin for volatility added to the assessment to ensure that any schemes put forward were viable and could withstand the current and potential future market hostility.
- The Committee noted the concerns highlighted in relation to Central Governments approach towards reform of the funding settlement for local government and need for additional support to assist in meeting requirements such as the delivery of affordable housing to residents.
- In response to a query regarding the Council's options to refinance borrowing where it emerged that more favourable rates could be achieved, officers confirmed that all borrowing was closely monitored and reviewed with support

- of the Council's Treasury advisor Arlingclose who frequently assessed the economic forecasts to secure the most favourable rates.
- Following a Committee request in relation to the Council's estimated interest costs for 2023/24, officers advised that this information would be circulated to the Committee as an action going forward.

The Chair thanked officers for the detailed report and as there were no further issues raised the Committee **RESOLVED** to:

- (1) Note the 2022/23 Treasury Management Outturn Report and the Minimum Revenue Provision (MRP) Strategies set out in Appendix 4-6 in compliance with CIPFAs Code of Practice on Treasury Management, which was also due to be referred onto Cabinet and Council for consideration.
- (2) Note that for 2022/23 the Council had complied with its Prudential Indicators which were approved by Full Council on 24 February 2022 as part of the Council's Treasury Management Strategy Statement and Capital Strategy Statement.

## 8. **External Audit Progress Report and External Audit Plan**

The Chair welcomed Ciaran McLaughlin, Key Audit Partner, Grant Thornton, who attended online to update the Committee on the External Audit Progress Report and Audit Plan that set out the scope of work being undertaken until the end of March 2023.

The following key points were highlighted as follows:

- Recognition was given to the fact that despite the challenging economic environment the Council continued to perform well in delivering effective services and maintaining finances.
- The 2022/23 audit was expected to be completed by October 2023; it was noted that Brent had fared well against other boroughs in the timely completion of their audits.
- Key risks reviewed in the current audit were identified as standard in nature and not representing anything more significant.
- The valuation of land and building, council dwellings and the final valuation of pension fund liability were identified as significant risk areas due to their complex nature, not as a result of anything specific to the Council's management of these areas.
- The Committee's attention was drawn to page 15 of the report that addressed risk in relation to the Council's subsidiary companies, this included setting out the progress made following previous recommendations, these would be commented on in further detail in the next Audit Findings report.
- The Committee were informed that materiality was determined by using 1.5% of the Council's gross expenditure as detailed on page 23 of the Committee report. There were no major changes in materiality to report.
- The Value for Money aspect was assessed over three standard areas, Governance, Financial Sustainability and Improving Economy, Efficiency and Effectiveness as outlined in the report. There were no significant weaknesses identified at this point in the review.

The Chair thanked Ciaran McLaughlin for the update provided and for clearly highlighting the changes in the report. Given the timeframe of the estimated Audit completion and the Committee's next meeting, the Chair recommended that the Committee may wish to seek an additional meeting date in October 2023 to allow the Audit & Standards Advisory Committee to consider and Audit & Standards Committee to formally approve the final Statement of Accounts, this was to be taken as a forward action.

The Chair then invited Sheena Phillips, Senior Manager, Grant Thornton to update the Committee on the Pension Fund Audit Plan.

The following key points were highlighted:

- The Pension Fund had seen a small decrease of £13.5m in the net assets available for benefits during the 22/23 financial year, investment income had remained the same at £1.1m and the total contributions had increased to £67.5m.
- The significant risks identified in the report were identified as standard to be included in local authority audits and included management override of controls, Valuation of Level 3 investment and the implementation of the new Pensions Administration System.
- Level 3 investments invited particularly enhanced auditing due to the high values and estimations involved.
- The Local Government Pension Scheme triennial valuation as required by Regulation 62 of the Local Government Pensions Scheme (LGPS) was identified as a lesser risk and was featured due to the varied assessments required as part of the valuation.
- The progress against recommendations made following the 2021/22 Pensions Fund Audit would be fully addressed in the next Audit Findings report, due to be presented to the Committee at the next meeting.
- In line with the main audit, the materiality of the Pension Fund was determined by 1.5% of the prior year's gross asset value, with specific materiality being set aside for transactions within the fund other than those related to investment activities.
- It was anticipated that the Pension Fund Audit would complete by the end of August 2023.

The Chair thanked Sheena Phillips for the report and invited the Committee to ask Ciaran and Sheena any questions or clarifying points they had in relation to the Audit Plan and Pension Fund Audit Plan. In response to Committee questions, the following responses were provided:

#### **Responses in relation to the Audit Plan:**

- The Committee queried how the climate emergency could impact on Brent's physical assets and how this may subsequently affect auditors' valuations. In response the Committee was advised that when auditors examined the Council's valuations, they were also subject to further review by an expert team who factored in variances that may come in to play due to the impact of climate change, therefore auditors could be satisfied that by the end of the

- valuations process a breadth of eventualities had been considered and the valuations reached were as accurate as possible.
- Following a Committee query in relation to whether the themes identified as risks in Brent Council's audit were similar to other local authorities the Committee was advised that the risks identified were not unique to Brent and were standard in detail. It was confirmed that there was nothing unusual about the significant risks identified in Brent Council's audit.
  - The Committee shared that they were keen to maintain their position in the top 25% of Local Authorities who had their audits completed on time, as such the Committee queried if the external auditors could foresee any issues in the timely completion of the 2022/23 audit. The Committee was advised that communication between Brent officers and the auditors was positive, the effective collaborative working coupled with Grant Thornton's increased capacity, provided assurance that there should be no significant delays to the completion of the audit and as such it was anticipated that the audit would be completed in the timeframe set out in the report for a completion date between the end of September – early October 2023.
  - The Committee was advised that points relating to recommendations made on the previous Audit Findings Reports would be addressed in full at the next Committee meeting.

**(b) Responses in relation to the Pension Fund Audit Plan:**

- Following a Committee query in relation to whether the Pension Fund Audit would be subject to an enhanced "hot review" that could delay its completion date, the Committee was advised that the Pension Fund would be subject to a hot review, however it was not expected to delay the conclusion of the audit and had been factored in to the anticipated completion date of August 2023.
- The Committee queried why the change in the pensions administration system to Civica had been identified as a significant risk, as it was felt that this was a standard procedure for local authorities to undertake. In response the Committee was advised that the change in systems had been recognised as a significant risk due to the volume and sensitivity of the data being migrated, it was essential to accurately check that the data had been transitioned accurately and completely. Ravinder Jassar, Deputy Director of Finance highlighted that the Pensions Sub Committee were aware of the change in administration platforms and although recognising the reasons identified, it was felt the migration had been completed successfully and presented a low risk.
- Given the ambiguity around the accuracy of Level 3 Investments the Committee required clarity on the extent at which auditors would accept managers valuations of Level 3 investments. In response the Committee was advised that Level 3 investments would be subject to robust scrutiny and required evidence to support the valuations.

With no further issues raised and the confirmation that the Committee were happy to accept the risks identified, the Chair re-iterated his thanks on behalf of the Committee for the work of the external auditors and the Committee **RESOLVED** to note the updates provided.

9. **Forward Plan and Agenda for the next meeting**

It was **RESOLVED** to note the Committee's Forward Plan.

10. **Any other urgent business**

None.

The next meeting was scheduled for Tuesday 26 September 2023.

The meeting closed at 07:26 pm.

David Ewart  
Chair