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MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE Wednesday 24 July 2024 at 6.00 pm

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

Independent Co-Opted Members: Rhys Jarvis and Stephen Ross.

Also Present: Councillor Mili Patel (Deputy Leader and Cabinet Member for Finance and Resources) and Asad Khan (External Auditors – Grant Thornton)

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

The following apologies were received:

- Councillor Benea, who was substituted by Councillor S Butt
- Darren Armstrong (Deputy Director Organisational Assurance and Resilience, Brent Council)

David Ewart (as Chair) also welcomed Amanda Healy in her new role as a Deputy Director Investment and Infrastructure.

2. **Declarations of Interest**

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

Councillor Kabir declared a personal interest in relation to Item 6 – DSG Deficit Management Plan Update as a Trustee of Compass Learning Partnership and the Chair of Governors at the Village School, both of which were special needs schools.

Independent Co-Opted Member Rhys Jarvis declared he was a Trustee of Multi Academy Trusts although none were operating within Brent.

3. **Deputations (if any)**

There were no deputations considered at the meeting.

4. **Minutes of the previous meeting and Action Log**

RESOLVED that the minutes of the previous meeting held on Thursday 28 March 2024 be approved as a correct record of the meeting, subject to the following amendments:

- Removal of reference within the list of those present at the meeting to David Ewart as a Councillor.
- A correction to page 3, bullet point 6, to the spelling of 'compared' within minute 7: Annual Counter Fraud Report 2023-24.

- A correction to page 4, bullet point 5, to add in the word 'to' before 'Tenancy and Housing' within minute 7: Annual Counter Fraud Report 2023-24.
- A correction to page 7, paragraph 2 of bullet point 3, to change 'response' to 'respond' within minute 8: Internal Audit Annual Report 2023-24.

Members also noted the updates provided in relation to the following items listed on the Action Log:

- In relation to the Draft Statement of Accounts 23-24 - the Chair advised the Committee that it was still possible for members to raise queries with officers regarding the accounts prior to their final consideration by the Committee.
- In relation to the Strategic Risk Report – the Committee sought clarification over whether the new government budget update would affect the timetable of the next update coming to Committee. Officers responded that risk registers were being updated on a more regular basis at Darren Armstrong's request and the timeline should not be affected. The Chair highlighted the importance of risk registers continuing to be monitored at all levels across the organisation.

With no further issues raised, the Committee **RESOLVED** to note the Action Log.

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

In relation to page 2 of the minutes – Action Log members were advised that the Committee would continue to be updated on development of the role for scrutiny in relation to overview of i4B and First Wave Housing and the relationship with the Audit & Standards Advisory Committee remit with a meeting scheduled with the Scrutiny Chair's to ensure the necessary roles were clarified.

6. **Dedicated Schools Grant (DSG) Deficit Management Plan Update**

Nigel Chapman (Corporate Director of Children and Young People, Brent Council) introduced the report, informing the Audit and Standards Advisory Committee of the Dedicated Schools Grant (DSG) deficit which had arisen due to overspend against the High Needs Block (HNB) used to support children and young people with Special Educational Needs and Disabilities (SEND). The report also provided the historical context to the deficit and detailed progress made against the DSG Deficit Management Plan to address the deficit.

In considering the report the following key issues were noted:

- The Committee noted that the deficit addressed in the paper was not a unique challenge to Brent alone, with many local authorities holding similar or higher deficits. The deficit challenges were described as a national systemic issue in the way local authorities were funded to support children and young people with SEND. The primary factor driving the deficit was the increase in demand for services in recent years, with Education Health and Care Plans (EHCPs) rising 44% in Brent over the past 4 years. This was due

to more children's needs being identified, and more children's needs being met within mainstream settings.

- Officers advised members that the situation was not improving and national reform was essential, with the previous government setting out a SEND Improvement Plan in 2023 to meet the challenges. The plan noted the systemic nature of the problem, partly driven by market issues and a reliance on the independent sector to provide placements for children in school where the local system could not meet demand. Brent was part of a Department for Education (DfE) programme trying to mitigate some of those pressures through the 'delivering better value' programme and had received DfE funding to mitigate pressures on the HNB.
- There were a number of activities in place to manage demand more effectively and reduce growth in EHCP numbers by supporting families at an earlier stage. Brent was building more capacity in the system, with 400 additional placements and a new special school being built which would be managed by the RISE Partnership.
- In terms of scrutiny of the deficit position, this happened internally within the Council with the Section 151 Officer taking part in regular challenge sessions with the Children and Young People department to consider progress. The Schools Forum considered the role of the DSG and pressures in the system, and there was quarterly reporting to the DfE on progress against the deficit management plan. In addition, the department would be attending the Community and Wellbeing Scrutiny Committee in September 2024 which would review broader issues in relation to SEND.
- Minesh Patel (Corporate Director of Resources and Finance (and Sec 151 Officer)) addressed factors relating to the statutory override set out by government to allow councils to carry a deficit reserve on the balance sheet. Brent's deficit was around £13.5m currently. He noted that when the override came to an end in 2025/26, the council would need to have funds in the General Fund to offset the deficit accumulated at that time. Currently, because the DSG was a ringfenced fund paid for through government grants and distributed to schools or education settings, the General Fund did not fund the DSG or its beneficiaries; however, if the government no longer provided that override after 2025/26 and did not write-off those deficits then the Council would need to offset the deficit through the General Fund. There were Councils in England with deficits that were substantial, some up to £80m, where paying the deficit would leave those Councils with no reserves, resulting in an influx of Section 114 notices. Officers were unsure whether the government would continue the override or write-off deficits, but highlighted the need for a system that would address those future challenges. Currently, Brent's Deficit Recovery Plan was allowing the deficit to remain stable and not increase, and officers were unaware of any Councils who had been able to reduce or repay their deficit.

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

- In response to a query regarding the exact causes of increased costs, Nigel Chapman noted that every EHCP came with additional costs for funding the need of each child, the cost of placing children within special schools, and the cost of support services for children with EHCPs such as Speech and Language Therapy and Occupational Health. Alongside that was the cost of equipment and required levels of staff. Officers noted that independent maintained specialist school places could cost the council as much as £75-80,000 pounds a year per child, so any increases in those placements significantly increased costs. A change in legislation in 2014 increasing the age range of children with SEND that the Council had a duty to support from 18 to 25 also increased the numbers of children and young people requiring support, in turn increasing costs. Options to provide support in a mainstream setting were being explored to reduce costs and the Council was progressing its own special school.
- Regarding the driving forces of the increase in EHCPs, Nigel Chapman explained that the 2014 EHCP reforms had caused considerable growth in demand. The system was now weighted more favourably towards parental preference, and, where parents had been unhappy with the decision of a local authority regarding an EHCP and took that to tribunal, 96% of cases were won by the parent, with no balance in the system for the local authority and professionals to challenge those decisions. At the same time, there had been a general increase in awareness of SEND, particularly autism where there was the greatest growth, resulting in more parents coming to professionals for help. Likewise, the reduced stigma in seeking help and the extended age range of up to 25 years old also drove growth.
- The Committee heard that agency work did not significantly impact the deficit, as a large number of staff were employed from the local authority and some were funded through the General Fund, although there was pressure around Educational Psychologists.
- In noting that Central Government planned a 20% VAT increase, the Committee queried whether that increase would impact on the deficit. They were advised that the VAT on private schools would not apply to independent maintained schools where EHCPs were state funded but the Council were still awaiting the policy on that.
- The Committee noted that school exclusion numbers had increased and asked whether that had been factored into the work being done. Officers noted that exclusions, permanent or otherwise, were relatively low in Brent, although elsewhere there were schools that were struggling to manage behaviours that staff felt ill-equipped to manage and were using exclusion as a tool to manage that. In Brent, alternative provisions at Brent River College and Roundwood School were made available, where there was a requirement for those schools to reintegrate children back into mainstream schools.
- On the subject of the statutory override coming to an end in 2025/26, the Committee asked whether there had been any discussions on a 'middle ground' where Councils paid a certain amount of their deficits from General

Fund reserves and the government made interventions where necessary. Minesh Patel explained that any option where the Council used ringfenced reserves would need to be communicated to residents to explain how funds were now going towards education.

- The Committee asked what measures were being taken to lobby the government on the issue, including with other London boroughs. Officers noted that the incoming government had recognised the pressure in the system and that the proposed plan set up in 2023 was not enough to mitigate the pressures. London Councils had been lobbying the DfE. Likewise, the LGA and Isops Partnership were releasing a report diagnosing the problem and putting forward a blueprint with recommendations for how the system should run, set to be released in the next few days following the meeting. Officers added that parents' had a perception that EHCPs were the first and only source of help and schools needed to take an early intervention approach in order to change that, which was another primary objective being lobbied for.
- Regarding newly established SEND School places, the Committee asked if 400 places were enough to fulfil students' needs. Members were aware of some parents' whose children were attending schools in other boroughs such as Barnet, who had expressed a wish to keep their children in those schools as opposed to moving them to schools with additional placements or the new special school. Noting the difficulty of getting parents to move their children, officers were asked if these cases would create significant financial constraints on the budget if the Council was required to pay more for out of borough placements. Officers responded that only the most complex cases cost £70-80,000 per child, with many children being sent to affordable placements outside of the borough. The new special school being built would have 150 places for secondary age pupils based on the business case showing the demand in the system. Recognising that parents would initially be reluctant to move their child with an EHCP, the Council had factored in a staggered move into the school, with between 60-70 children placed when the school opened and that gradually increasing.
- Members were advised that every child with an EHCP, even if they were in an out of borough school, would have an annual review, and at the age of 14 the school would plan with the child's family what support they would need when they reached 16. This gave the opportunity to step down some support if it was no longer needed or vice versa, but also gave the opportunity to look at moving the child to local provision at a sensible point in time where appropriate.
- Noting the backlog in access to Occupational Therapy for pupils, members queried whether clearing that backlog would result in increased costs, as there would be a potential for an increase in EHCPs. Nigel Chapman advised the Committee that, as part of the action plan submitted to DfE, the Council had made projections on what the growth of EHCPs was expected to be. Taking into account the Council's intervention focused approach, it was expected that EHCPs would grow at a slower rate in future at around 4-5% per annum, and that figure was then used as the target measure.

- The Committee asked how Brent's deficit compared to other local authorities and what the national average was to help inform political solutions. Minesh Patel responded, noting that 65% of all local authorities had accumulated deficit with a combined total of £1.6 billion. He stated that the additional supplement was insufficient and while Brent had managed to maintain the deficit well it had not reduced and equated to around 3% of the total DSG Brent received. Other Councils had been less successful and had growing deficits, some of which equated to as much as 39% of their DSG. Officers agreed to obtain data regarding where Brent compared to the rest of London.
- Noting the role of the NHS in providing support, officers asked if this was enough. Officers stated that at an Integrated Care Board (ICB) level, the partnership worked well together to support the council's objectives, particularly in the areas of speech and language therapy and assessment work. Officers noted a need for improvement in mental health and well-being support, particularly child and adolescent mental health services, where a business case had been made for levelling up funding which was still with the ICB for a decision.
- The Committee noted the cost of transport and asked whether more efficiency could be found there. Officers stated that transport had recently been moved under the Children, Young Peoples and Families Department and that Cabinet had agreed a new transport policy. The new policy included the offer of independent travel training for children and young people capable to travel on their own and the use of alternative modes of transport was being looked into. An action plan was also noted to be in place to address the issue of transport costs. In response to whether the opening of the new special school would increase transport costs, officers highlighted that the new school would have a positive impact on the transport budget because children would be retained within the borough who would have otherwise needed to travel out of borough.
- Discussing the Delivering Better Value (DBV) program the Committee asked what the remaining funding would be spent on. Officers highlighted that the workstreams were detailed in the report and focused on staffing for people working with schools, such as those working on the intervention first programme, commissioning arrangements, post-16 work, and the SEND Assurance Programme which aimed to manage the numbers of EHCPs in schools and levels of support provided by EHCPs.
- Responding to a query about section 6.1.2 of the report - SEND assurance to support the efficiency of 2 primary schools - Shirley Parks (Director Education, Safeguarding and Partnerships, Brent Council) explained that where a school had a large number of children with high levels of support identified, audits had been undertaken to see whether those levels of support were appropriate or could be reduced. The SEND Support Team had subsequently developed an approach to reviewing how needs were met where schools had high numbers of EHCPs with significant support needs and was working with 2 primary schools to develop a model of support for efficiency that could be then used for other schools. Officers agreed to send the details of those schools to the Committee (Shirley Parks).

As no further issues were raised the Chair thanked Nigel Chapman and Shirley Parks for the update provided.

The Committee **RESOLVED** to note the historical context to the deficit of the High Needs Block and the actions in place to reduce the deficit, including the DSG Deficit Management Plan and the Delivering Better Value in SEND programme as detailed within the report. In commending officers for their efforts the Committee requested to be kept updated on the ongoing progress regarding delivery of the DSG deficit recovery plan.

7. Treasury Management Outturn Report 2023-24

Amanda Healy (Deputy Director of Investment and Infrastructure, Brent Council) introduced the report, giving a brief outline of the Treasury management report before handing over to Nadeem Akhtar (Senior Finance Analyst, Brent Council) to outline the following key points:

- CIPFA guidelines required the Council to submit the report for scrutiny at the Audit and Standards Advisory Committee prior to going to Cabinet for approval and Full Council.
- The report outlined how the council complied with its prudential indicators for 2023-2024 as approved by Full Council in February 2024. This was detailed in Appendix 4, which included estimates for capital expenditure compared to capital financing requirements and loan balances against operational boundary limits for external debt.
- External loan balances were noted to have sat at £814m on the 31st of March, representing a 5% change from 1 April 2024 as a result of the council raising £130m pounds worth of new external loans and repaying £91m of maturing debt.
- In relation to borrowing, the Council's reasoning behind declining the proposed loan rate of 5.76% for a LOBO loan was detailed in section 3.5.12 of the report.
- Loan rates had now moved in the market and the total Capital financing requirements had changed from £1.14b to £1.24b, equating to a £100m difference which represented the amount of borrowing undertaken to fund the capital programme at year end.
- The Council's average debt pool rate had moved from 3.49% in March 2023 to 3.89% in March 2024 due to changing interest rate environments in the UK.

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

- Discussing the economic background of the report, the Committee wished to know how the report impacted the council's strategy over the next few years.

Amanda Healy noted that she did not foresee any change to the strategy, which was broad and enabled the Council to react to different scenarios. Where the Council could foresee rates increasing, for example, there was flexibility and the Council could seek advice on the best route forward. The fall in inflation had not resulted in prices declining, so any future capital projects would need to deal with higher prices. Currently, the necessary income of cashflow to help repay borrowing was not catching up with inflation, making it challenging to fulfil the Capital Programme. CFR models showed that capital expenditure plans over the next three to five years had dropped due to increased costs and officers expected that there would be a general decrease in new demand for borrowing.

- Regarding investment, the Committee noted the liquidity figure of £20m and asked if the ability to deposit in particular places and still get a high rate of return were utilised. Amanda Healy explained that legislation required a minimum balance of £10m at any point in time to be able to access any products on the market. Officers explained that the investment portfolio generally used money market funds as the more common option and the Council did invest with central government using their Debt Management Account Deposit Facility. Due to the current cash flow forecast and expected borrowing requirements there were no investments planned to last longer than 1 year, but the Council was looking at medium term options.
- On the subject of borrowing, the Committee queried why capital financing was forecast to rise between now and 2027-28. Amanda Healy responded that this would be due to the Council continuing with the capital programme. For example, the capital programme housing scheme was partially funded by grants and the remainder would need to be financed by borrowing. The Council owned those properties for social housing, meaning the money brought in from rent was used to generate funds to cover management, maintenance and borrowing elements.
- The Committee asked what the Council's appetite for LOBO loans was. The Committee was advised that LOBOs were loans with option dates in which the Lender could propose a new rate, and the Council had the option to pay back the loan without penalty. There were risks with that type of loan if the borrower opted to increase interest rates. These arrangements were entered into a number of years ago and remained as liabilities on the balance sheet. The holding was managed carefully and was discussed regularly with treasury management advisors to look at opportunities for early repayments or restructuring of LOBOs to avoid any ongoing risk. The Council had not actively pursued any new opportunities for LOBOs and had been successful in converting some into fixed-term loans historically, so the current proportion was much lower than it had been in the past meaning the risk was not as great. In response to a query about the average rates of LOBOs the Council was holding, officers explained that the LOBO balance had a mix of loans with the average rate comparing to the PWLB portfolio. Officers advised they would provide further details regarding the LOBO balance and rate.
- In relation to loans the Council was borrowing from other local authorities, the Committee asked what would happen if those local authorities issued a Section 114 notice. Officers responded that issuing a 114 notice would not

mean those authorities had no physical cash, but there was a risk to the Council and the Council would not look to place any further investments with that particular organisation. To manage and avoid this, the Council made an assessment of other authorities to scrutinise and assess risk for Councils Brent made transactions with.

- Regarding financial constraints on temporary accommodation, the Committee noted that borrowing less would mean less spending on social housing, which would further increase the cost of temporary accommodation. Officers acknowledged the additional pressure this was applying to the ongoing temporary accommodation emergency and formed part of the lobbying the Council and members were doing. The Council was looking at levers and alternative mechanisms to enable housing delivery projects to come forward, including rent level reviews and level of subsidies to help bridge the gap reviewing the role of the Council's subsidies.
- Using the example of Housing schemes, the Committee asked whether the Council's borrowing strategies took account of false economies. Officers advised that if the Council continued with a temporary accommodation housing scheme it would not provide enough cash to repay the debt, which would have an impact on the General Fund account meaning there would not be enough surplus to cover new debt repayments. This would also be the case if the Council delivered more secure forms of accommodation instead of temporary accommodation with a significant financial impact for the HRA on an annual basis. As such, the Council would be making a long-term commitment that could not be funded. The entire sector was exploring different avenues to bring these schemes forward, but some projects could not be continued.
- The Committee noted that the current debt profile was weighted heavily in the 20-year-plus area, at around 50% of debts. Officers responded that these debt arrangements aligned with the type of projects the Council was investing in. A significant amount of assets comprised of council dwellings, where debt was more likely to be in the longer term. The capital financing requirement was used to model what debt maturity was needed and indicated what borrowing durations the Council could utilise while taking opportunities in the market.
- In relation to Part A of Appendix 4 detailing capital expenditure and financing, the Committee asked if forecasting was done once a year. Officers noted that the capital programme budget was monitored monthly internally and reported quarterly to Cabinet where more up to date figures were included.
- In relation to the Capital Expenditure Table in Appendix 4, the Committee queried why there was a substantial increase in expenditure over the next 2 years and then a sudden decrease from 2026 onwards in the forecast for Regeneration. Officers advised members that the capital programme was purely project-based so officers would not be expecting the same expenditure each year. The Wembley Housing Zone, which was now under construction, was driving the current costs in Regeneration and as it was a

significant scheme that stood out. The Capital Programme was based on a 5-year rolling programme as capital projects often took time to ensure the necessary due diligence and compliance had been done, meaning the Council was often spending only a small proportion of a project's budget until it could build or acquire. As such, the Regeneration forecast would see those peaks and troughs throughout the 5-year period

- The Committee wished for clarification on the government's 'Invest to Save' scheme and what options this offered. Officers noted that the government was aiming to facilitate Councils to use capital receipts to fund 'invest to save' projects going forward, such as for a specific project with immediate expenditure upfront. A capital receipt referred to money created from the proceeds of the disposal of council assets. Within Brent, capital receipts were focused around the South Kilburn regeneration project, and the Council generally did not have sufficient capital receipts to use them for different mechanisms. Other authorities used capital receipts to offset MRP charges but Brent did not have the receipts to do that, and it was important to find the right balance in using those receipts and ensure it was prudent. Minesh Patel added that the government was looking to introduce a mechanism that allowed Councils to turn capital receipts into a revenue budget to generate savings. For example, where Councils had a deficit or could not set a balanced budget then they could borrow money that was normally ringfenced for capital purposes to use as revenue. However, this would result in borrowing more money to fund everyday services that would still need to be paid back with no mechanism to do that.

As no further issues were raised the Chair thanked officers for the update provided and the Committee **RESOLVED:**

- (1) To note the outturn for the Council's Treasury Management Activities for 2023-24 and the update to members on borrowing and investment decisions in the context of prevailing economic conditions and the Council's Treasury Management performance.
- (2) To approve the submission of the report to Cabinet for approval in accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice.

8. External Audit Progress Report and Sector Update

The Committee received a verbal update from Asad Khan (External Auditors – Grant Thornton) on the progress of delivering Grant Thornton's responsibilities as the Council's external auditors.

In presenting the report the Committee noted:

- The ongoing progress in deliver of the audit on the Council's Statement of Accounts including the risk areas identified in relation to land and building valuations, council dwelling evaluations, pension fund liability, and overall management controls.

- Daily and bi-weekly meetings were occurring consistently, and it was also reported hot review had been scheduled for early August.

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

- Noting the work programme for the September Committee meeting, members asked for assurance there would be sufficient time to fully review the statement of accounts and audit findings. The Chair advised he would discuss the structure of the September meeting with the Vice-Chair and officers to ensure sufficient consideration could be given to all agenda items.
- Members asked whether there were any issues the auditors needed to flag at this stage. Minesh Patel responded that there was nothing of note, but officers were conscious that the hot review stage could add new elements resulting in additional queries, that could cause delays. Officers would ensure the Committee was kept up to date with any arising issues.

As no further issues were raised the Committee **RESOLVED** to note the progress update provided by External Audit at the meeting.

9. **Audit & Standards Advisory Committee Forward Plan and Work Programme 2024-25**

It was **RESOLVED** to note the Committee's Forward Plan and Work Programme for the 2024-25 Municipal year. In considering the programme, the following points were raised:

- A further review would be undertaken on the number of items listed for the Committee agenda in September 24 in order to seek a more balanced approach and effective management of the agenda and consideration of items at the meeting.
- In order to support the effective management of the agenda for the next meeting members were encouraged to feedback any comments relating to the draft Statement of Accounts 23-24 to officers in advance of the accounts being submitted for formal approval to the Committee.
- The Vice-Chair advised he would provide further updates on the following items once available - temporary accommodation, progress/lack of progress made on blue badges, GT external audit training session and treasury management training. (Cllr. Chan)
- Members were advised that the Chair and Vice-Chair were in discussions about an external audit development session and another treasury management strategy session.

10. **Exclusion of Press & Public**

There were no items of business considered at the meeting which required the exclusion of the press and public.

11. Any other urgent business

The Chair invited Minesh Patel to provide a brief update on the global IT outage that had affected many users of Crowd Strike on 19 July 2024. Members noted that Brent Council was a customer of Crowd Strike, which was a cyber security product and had been impacted by the outage. Once picked up, an emergency response team was put together to immediately respond who utilised backups available prior to the update installation. By 10:30am on the morning of the outage all of Brent's Tier 0 applications were running and by 2pm all applications were running. Officers felt that Brent plans and response had been effective and it was an overall successful recovery from a major event.

The Chair requested members to send any questions to Minesh Patel via email and for Minesh to pass the Committee's thanks on to the team and officers involved.

The meeting closed at 19:45pm

David Ewart
Independent Chair