At a meeting of the Audit Committee held in the Council Chamber, Priory House, Monks Walk, Chicksands, Shefford, SG17 5TQ on Wednesday, 29 May 2019, 10:00 a.m. - 12:42 p.m.

Present: Cllr M Blair (Chairman)  
Cllr R Morris (Vice-Chairman)

Cllrs  J Baker  D Bowater  
Cllrs  F Firth  A Zerny

Apologies:  Cllr D Shelvey

Substitutes:  Cllr M Versallion

Absent: None

Members in Attendance:  Cllr E Perry

Officers in Attendance:  Mr C Horne  Head of Internal Audit and Risk  
Mr L Manning  Committee Services Officer  
Ms S Michael  Head of Corporate Finance  
Ms S Pocock  Financial Controller  
Mr S Rix  Monitoring Officer  
Mr C Rushworth  Legal Services Business Manager  
Mr C Warboys  Director of Resources and Section 151 Officer

Others in Attendance:  Ms C Ryan  Manager – Ernst & Young LLP

1. Minutes

RESOLVED

that the minutes of the meeting of the Audit Committee held on 11 March 2019 be confirmed as a correct record and signed by the Chairman.

2. Members' Interests

Councillor Firth declared an interest in item 12 as a local authority governor for St Swithun’s Primary School and Northill Lower School.

Councillor Blair declared an interest as a member of the Bedfordshire Local Pension Board.
3. **Chairman’s Announcements and Communication**

The Chairman welcomed attendees to the meeting and, in particular, new members of the Committee. He commented that should new Members feel they required any training or background information to fulfil their role on the Committee then they should request it.

The Chairman asked attendees to turn off their mobile phones.

4. **Petitions**

No petitions were received from members of the public in accordance with the Public Participation Procedure set out in Part 4G of the Constitution.

5. **Questions, Statements or Deputations**

No questions, statements or deputations were received from members of the public in accordance with the Public Participation Procedure set out in Part 4G of the Constitution.

6. **Provisional Outturn Statement of Accounts 2018/19**

The Committee received a presentation on the unaudited Statement of Accounts for 2018/19. The presentation, entitled ‘Unaudited Statement of Accounts 2018/19 – Presentation to Members 29/05/2019’ was introduced by the Director of Resources, the Head of Corporate Finance and the Financial Controller.

In addition to the above, the document entitled ‘Extracts from Unaudited Statement of Accounts for the Year 2018/19 – Presentation to Members 29/05/2019 – Core Statements, EFA and Note 31’ was also considered.

A number of questions were raised during the presentation. The matters covered included the following:

- In response to a Member’s query regarding the Council’s Local Government Pension Scheme (LGPS) funding level of 55% the Director of Resources advised that, in terms of the Bedfordshire pension scheme, he believed the figure for Central Bedfordshire was slightly lower than that found at Luton Borough Council and Bedford Borough Council. He was unable to provide comparative national figures but would find these if required to do so by Members.
- The Chairman advised that benchmarking between the Bedfordshire Pension Fund as a whole and other such funds did take place.
- In reply to a Member’s expression of concern regarding the size of the pension scheme deficit, the Director of Resources assured the Committee that the reported figures did not represent a major issue. He explained that they indicated
that if all of the liabilities crystallised immediately there would be insufficient funding present. However, such an event was not going to occur and the Council was addressing the issue over time. The Council was making ongoing pension contributions based on current salaries and annual top up towards the pension scheme, as calculated by the independent actuaries. The Director added that should interest rates rise then the discount rate would also increase and the deficit figure would fall dramatically without any other intervention. The Member expressed further concern and, at his request, the Director undertook to brief the former on the measures being implemented.

- A Member sought clarification on by how much the pension fund had been topped up and what the source of the funds was. In response the Director briefly outlined the contributory nature of the funding for the LGPS and undertook to supply information relating to the value of the Council’s one-off payment to the Member.
- The Director confirmed that the 55% funding level was considered acceptable by the Council’s independent actuary.

The Director advised that he would sign off the draft Statement of Accounts and it would be given to Ernst & Young LLP (EY), the Council’s external auditors, to be audited during June and July. The public inspection period would last between 30 May – 10 July 2019 (30 working days). The fully audited Statement of Accounts would then be submitted to the Audit Committee at its meeting on 31 July 2019 for approval.

The Director apologised as he would be absent from the next meeting of the Committee for personal reasons. As a result he, as Section 151 Officer, would be unable to jointly sign off the audited accounts with the Chairman of the Committee and following Members’ approval. He therefore sought the Committee’s authorisation for the Assistant Director of Finance, as the deputy Section 151 Officer, to sign off the accounts in his absence. Members concurred with this request and no objections were raised by the Monitoring Officer or the EY representative.

Further points and comments were then raised, including the following:

- A Member’s reference to the Comprehensive Income and Expenditure Statement, and the surplus/deficit net figure of £34,666,000. He asked if this represented an overspend and, if so, how it had occurred and if there been an impact on short term reserves. In response the Director assured Members that the figure did not represent an overspend and there had been no impact on reserves. The Head of Corporate Finance explained that the figure calculated showed a deficit on the provision of services and included all the statutory adjustments that were required such as depreciation, loss on disposal of assets, reduction in value of assets and pension adjustments. The adjustments amounted to just under £35m. She then referred Members to Note 7 (Expenditure and Funding Analysis) included in the Extracts from Unaudited Accounts document, the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement in the same document which contained further explanatory information not included in the Director’s presentation.
- A Member’s request for clarification on why there had been a decrease in the totable usable reserves from £138,404,000 at 31 March 2018 to £108,821,000 at 31 March 2019. In response the Head of Corporate Finance provided a detailed explanation for the decrease and the use of the capital receipts reserve to fund
this year’s capital expenditure to avoid taking out a loan which would have had an interest rate implication and put pressure on the revenue budget.

- Another Member expressed dissatisfaction with the way in which the explanation had been provided and sought additional detail for the decrease in terms which could be understood by the layperson. In response the Director stated that a very large capital receipt had been received at the end of 2017/18. By that stage the capital programme for that year had been funded. The money was therefore held in a reserve and used in 2018/19 to support general capital expenditure rather than borrowing. He added that the receipt could only be spent on capital items.

- A Member referred to the Housing Revenue Account (HRA) under Supplementary Statements and the capital expenditure for the year of £20.2m compared to £7.5m in 2017/18. The Director responded that three major capital schemes had been funded by the HRA. He explained that all the budget statements were considered at Corporate Resources Overview and Scrutiny Committee as had the papers on the farm strategy.

- The Chairman referred to the Collection Fund under Supplementary Statements. The Director explained that there was a share of the surplus on the Business Rates which was sent to central Government. The Council currently retained 37% of the surplus whilst a small percentage went to the Police and Fire and Rescue service.

- A Member referred to s106 debt and asked if a developer went into receivership/liquidation was there a charge over unfinished properties to cover s106 liabilities. In response the Director stated that he did not think this occurred but undertook to investigate and report back.

- A Member stated that in private company accounts redundancy costs were shown as amortised over, for example, five years and sought clarification as to whether the Council also did so or if it funded all costs in the current financial year. The Director explained that an annual provision of £500,000 was made by the Council towards redundancy costs and the net cost of a redundancy was absorbed in-year.

- A Member referred to Note 31 found in the Extracts from Unaudited Statement of Accounts document and the cost of £184k for the exit packages for two employees. He expressed concern at the cost for two redundancy packages and, further, that the figures indicated that almost all those made redundant had received over a year’s salary. In response the Director stated that he was not aware that payments at that level had been made to individuals. He explained that the figures shown reflected the total cost to the Council of redundancies. As a result of the need to comply with the Local Government Pension regulations, and whilst the figures included money that would be paid to individuals, the bulk of the sums concerned would be payments which the Council was required to make into the pension fund as employees could start to claim their pensions from the age of 55 in a redundancy situation.

- Following a further query the Director explained that it was not possible to undertake negotiations with the aim of reducing the exit package provided to individuals who were receiving a large pension contribution from the Council. He explained that it was not possible to do so under the pension fund regulations, which were set on a national basis. The Director also emphasised that only when compulsory redundancy took place was the Council required to top up the payment to the pension fund. If an employee chose to leave early then the Council was not required to make any such payments and the individual would receive a reduced
level of pension to reflect this decision. He explained that redundancy was always a last resort and every opportunity was taken to redeploy staff wherever possible.

In conclusion the Chairman thanked the officers for the unaudited Statement of Accounts presentation.

**NOTED**

the presentation on Central Bedfordshire Council’s Unaudited Statement of Accounts for 2017/18.

**RESOLVED**

that the Assistant Director of Finance be authorised to sign off the audited Statement of Accounts in the Director of Resources’ absence due to personal reasons at the next meeting of the Audit Committee on 31 July 2019.

(Note: a) At the conclusion of Item 7 above the Committee adjourned at 11.17 a.m. and reconvened at 11.24 a.m.

b) At the conclusion of Item 7 above, and due to personal reasons, Councillor A Zerny left and gave his apologies for the remainder of the meeting).

7. **Annual Governance Statement 2018/19**

The Committee considered a report which sought the Committee’s approval of the Council’s draft Annual Governance Statement (AGS) for 2018/19.

A copy of the draft AGS was attached at Appendix A to the report.

Points and comments included:

- The Monitoring Officer advised that, aside from correcting some grammatical errors, there was a need to make a material addition to the draft AGS. He referred Members to the third paragraph from the bottom of page 8 of the document (Part 7 - Value for Money), and stated that after the end of the first sentence in the paragraph the following sentence should be inserted: ‘The Council has a contingency in its reserves to meet unforeseen risks’.
- The Chairman referred to the difficulty in reading some of the tables within the Statement. In response the Monitoring Officer stated he was aware that one of the tables on page 7 had proved difficult to read because of the colours used and he would to change them to overcome this issue.
- A Member referred to the table under ‘Significant governance issues’ and commented that the induction of new Members following an election had not been previously identified as a possible risk in the AGS. In response the Director of Resources stated that although the induction of new Members was standard practice the high number (21) of new Members elected at a single point in May 2019 had made this an issue of significance. Following further comment by the Member the Chairman stated that although the format in which the information
was set out differed from that seen the issue itself would have received consideration.

- A Member referred to the Strategic Risk Register at Appendix 2 to the Statement and queried the absence of mitigations in the document, although mitigation scores were shown alongside individual risks. In response the Director of Resources explained that the scores shown were after the mitigations had been put in place. The Register shown was merely a summary and fuller descriptions were included elsewhere on the agenda.

- Following a Member’s query regarding the value of producing the Statement if it merely reproduced information found elsewhere the Monitoring Officer explained that the Statement was a legal requirement and included within the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) good practice. The Director added that whilst there was some duplication Central Bedfordshire, unlike some authorities, went beyond this legal requirement by also providing quarterly updates to Members regarding risk management.

**RESOLVED**

that, subject to the correction of any typographical/grammatical errors, the draft Annual Governance Statement for 2018/19 be approved and submitted to the Leader of the Council and the Chief Executive to be formally signed off.


The Committee had before it a report which had been provided to Members at the last meeting with a basis to review the proposed audit approach and scope for the 2018/19 audit by the Council’s external auditors, Ernst & Young LLP (EY), and ensure that the audit was aligned with the Committee’s service expectations. It had been agreed at that meeting that the report was of significant introductory value for Members newly appointed to the Committee and should therefore be re-submitted to the first meeting in the new municipal year for their benefit.

Arising from an undertaking at the last meeting of the Committee the EY representative reported on the risk related to the valuation of the Council’s property asset base.

**NOTED**

the Audit Planning report for the year ending 31 March 2019 which had been resubmitted to the Audit Committee for background/training purposes.

9. Update on Shared Legal Service

The Committee received a presentation on LGSS Law Ltd which provided a brief update on matters of interest.

The Director of Resources introduced the presentation following which he, assisted by the Legal Services Business Manager, responded to a range of comments and
questions raised by Members relating to the company. Amongst the topics covered were the following:

- Whilst there was a satisfaction level of 95% expressed in the end of case feedback forms only a small percentage of the forms were actually returned by clients.
- The overall volume of work was continuing to increase, particularly with regard to Children’s Services.
- Whilst costs were increasing as a result of the above, the Council’s overall spend on legal services had declined as more work was being channeled through LGSS Law rather than through external, and more expensive, legal companies.
- The Director advised that the average case duration had improved to 23 weeks under LGSS Law against a national average figure of 32 weeks. The national target figure was 26 weeks. In response to a Member’s query the Legal Services Business Manager undertook to supply information to Members relating to the average case duration when legal services were provided in-house for comparative purposes.
- The clear benefits of utilising a dedicated single point of contact, in the form of the Legal Services Business Manager, with regard to cost control in comparison to the disaggregated process adopted by the two other shareholding authorities.
- Professor Stephen Mayson had been appointed as a non-Executive Chairman to the company’s Board.
- In response to a Member’s query regarding current shareholder debt level, and in particular, that of Northamptonshire County Council (NCC), compared to the figures made available in November 2018, the Director stated that he did not have the figures immediately available but he was aware that there had been a significant reduction in the figure for NCC, more of which had been current debt rather than historic. He added that Cambridgeshire County Council’s (CCC’s) debt level had also improved significantly.
- In relation to a Member’s request to examine the debt figures the Director stated that he would need to discuss this request with the other two shareholders (NCC and CCC) given that LGSS Law was a private company.
- The Director emphasised that it was now recognised that the company would not be a major profit generator, although small dividends could follow in the future, but essentially the company strategy was about the quality of service and the relationship with its clients.
- The Director explained the way in which the company was set up, the restriction of third-party business to 20% (under the Tekal exemption) and the plans to increase that side of the business to the permitted level through planning and property work for district councils.
- The Director believed that good progress had been made, the company was moving in the right direction and the future was positive.
- In response to a query regarding the impact of the future breakup of NCC into two unitary authorities the Director stated that he did not know what the impact would be regarding the ownership of LGSS Law but Central Bedfordshire was working closely with the County Council to understand its requirements and how that authority would wish to take the matter forward.
• Following comment by the Chairman the Director confirmed that the two new unitaries could generate planning related legal work and they would be encouraged to make use of LGSS Law for this.

• The Director advised that there had been no dividend payout made to the Council as an LGSS shareholder. Whilst there had been an initial focus by the Council on a future dividend stream of approximately £30-50k per year the current strategy downgraded this possibility in favour of focusing on service quality and the client relationship. The Director believed the company would be profitable in the future but any dividend would be marginal. The Chairman stressed that as long as the company remained viable then the savings to the Council were in the lower fees and the operational benefits.

• A Member commented that motives behind the Council’s decision to join LGSS Law were that of wishing to see a reduction in cost to the taxpayer and to break even if it was possible. The Director confirmed this but explained that the move to LGSS Law had meant that, whilst the Council was getting better value for money, the channeling of all legal work through LGSS Law had made clear the true level of spending in this area. This had not been anticipated and fully budgeted for.

• The Director explained that whilst LGSS Law provided legal services for a number of other bodies the turnover from that was relatively small. There was an effort to maximise the income from third party business, which currently stood at 5-8%, but this could, by law, never be more than 20% of the company’s total income. Further, he did not believe that it was the right time to take on large scale new business though this could possibly change in a few years.

• In response to a query regarding the benefit of LGSS Law membership the Director explained that the company provided resilience through its large pool of lawyers and expertise and was cheaper than all in-house provision or partial external provision.

The Chairman referred to the scheduling of a further update on LGSS Law to the autumn meeting of the Committee. Given the lower level of ‘outside’ interest in this topic than expected and the Committee’s workload he was of the opinion that the value of submitting another update in six months should be reviewed with the possibility of deferring submission to a later meeting. The meeting concurred with this suggestion.

NOTED

the presentation on LGSS Law Ltd.

RESOLVED

that the need to submit a LGSS update presentation to the meeting of the Audit Committee on 29 October 2019 be reviewed and the Chairman be authorised to determine, following consultation with the Director of Resources, whether this should proceed or not.
10. **2019/20 Internal Audit Plan**

The Committee considered a report which presented the 2019/20 Internal Audit Plan for review and approval.

A copy of the Plan was attached at Appendix A to the officer’s report.

The Head of internal Audit and Risk confirmed that the Internal Audit team was sufficiently staffed to undertake the proposed work on key risk areas to the required standard.

**RESOLVED**

that the updated 2019/20 Internal Audit Plan, as set out at Appendix A to the report of the Director of Resources, be approved.

11. **Annual Audit Opinion for 2018/19**

The Committee considered the annual report of the Head of Internal Audit and Risk to those charged with governance on the overall adequacy and effectiveness of the Council’s financial and other management internal controls.

Points and comments included:

- The Head of Internal Audit and Risk drew Members’ attention to the need to defer some IT audits from 2018/19 to 2019/20 due to capacity issues in the IT service. In response to a Member’s concern the Head of Internal Audit and Risk assured the meeting that the reviews would be undertaken in what was now the current financial year and that meetings with IT on scheduling had already taken place. He also stated that the Internal Audit reports were confidential so he was unable to provide them for Member examination. The Director of Resources explained that the reports were produced for a specific internal client and making the content available publicly could influence the candour of the reports. He stated that the outcome of all audits was always shared with the Committee.

- In response to a Member’s offer to examine processes and provide his professional judgement at no charge to the Council and the Director referred to the need to maintain Member/officer boundaries. He did, however, undertake to brief the Member in order to provide him with a more detailed insight in relation to this matter.

**NOTED**

that the Head of Internal Audit and Risk’s opinion on the Council’s Internal Control environment is that, overall, it continues to be adequate but that there is some concern in relation to the control environment within IT.
12. **Tracking of Internal Audit High Priority Recommendations/Agreed Actions**

The Committee considered a report which summarised the high priority recommendations/agreed actions arising from Internal Audit reports and the progress made in their implantation as at the end of April 2019.

The Chairman commented favourably on the new, higher level of detail which had been included within the report and how this contributed toward the Committee’s understanding of issues.

**NOTED**

the report setting out the high priority recommendations/agreed actions arising from Internal Audit reports and the progress made in implementing the recommendations at the end of April 2019.

13. **Risk Update Report**

The Committee considered a report which provided an overview of the Council’s risk position as at April 2019.

Members noted that the main change related to Strategic Risk STR0039 ‘Inability to deliver accommodation for vulnerable and homeless people’ which was to be closed and subsumed into Strategic Risk STR0037 ‘Failure to support vulnerable people and families…’

**NOTED**

Central Bedfordshire Council’s risk position as at April 2019.

14. **Work Programme**

**RESOLVED**

that the proposed Audit Committee work programme, as set out at Appendix A to the report of the Committee Services Officer, be approved subject to confirmation by the Chairman of the need for the inclusion of the following item:

- 29 October 2019 – Update on the operation of LGSS Law Ltd within Central Bedfordshire Council.

Chairman …………………………………………

Dated …………………………………………