



CITY OF WESTMINSTER

MINUTES

Audit and Performance Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit and Performance Committee** held on **Monday 31 October, 2022**, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillors Aziz Toki (Chair), Paul Fisher and Md Shamsed Chowdhury.

Also Present: Gerald Almeroth (Executive Director Finance and Resources), Jake Bacchus (Director of Finance), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Joanne Brown (Grant Thornton), Matt Dean (Grant Thornton) and Jack Robinson-Young (Cabinet and Committee Coordinator).

1 MEMBERSHIP

- 1.1 The Committee noted that Councillor Md Shamsed Chowdhury was attending as substitute for Councillor Jessica Toale.

2 DECLARATIONS OF INTEREST

- 2.1 There were no declarations of interest.

3 MINUTES

- 3.1 The Committee approved the minutes of its meeting on 7 September 2022.

RESOLVED:

That the minutes of the meeting held on 7 September 2022 be signed by the Chair as a correct record of proceedings.

4 AUDIT UPDATE ON STATEMENT OF ACCOUNTS

- 4.1 The Committee was informed that the Councils external auditors Grant Thornton UK LLP had performed their external audit of the Pension Fund accounts, subject to ongoing audit quality review by the Engagement Lead.

- 4.2 The Committee was informed that the Council expects an unqualified opinion on its accounts by the end of November 2022, the national audit sign-off deadline line, subject to the Department of Levelling Up, Housing and Communities issuing a statutory override to the Local Authority Capital Finance and Accounting Regulations to change accounting and reporting requirements on Infrastructure Assets.
- 4.3 The Committee was informed of a further aspect, the Value for Money audit, which is underway and is expected to conclude by the end of this calendar year. This report, plus the final External Audit Annual Findings Report will be presented to Committee in January 2023, alongside the audited statements of accounts.
- 4.4 The Committee was informed of the challenges facing the sector with only a small percentage (9%) of English Authorities having had their 2020/21 accounts signed off by the November 2021 deadline. Westminster was one of the few authorities having their 2020/21 accounts fully audited by the statutory deadline.
- 4.5 The Committee was informed by the auditors, Grant Thornton, of key changes that had been identified and now were reflected in the updated accounts:
- 4.5.1 **Collection Fund:** The Council has an annual collectable business rates liability of c£2.5bn, with some rates payable being subject to appeal. The audit review has led to changes in the appeals provision based on “Check, Challenge and Appeal” system. On further analysis, it was discovered that this excludes “Checks” and has therefore pushed the Council deeper in to its business rates safety net position, as such, the Council is owed a further £14.2m from central Government. This amount has been passed into earmarked reserves.
- 4.5.2 **Pension Upfront Payment:** A change in accounting treatment was required this year as the pension deficit payments over the last two years were deemed to related to future time periods. These should therefore be transferred to the pension liability on the balance sheet to be amortised over the next 13 years. Whereas previously the Council had financed £22.7m as an expense in 2020/21 and 2021/22, this should be financed over the coming 13 years, resulting in earmarked savings increasing by £45m. This will be used to support the Councils 15-year capital programme.
- 4.5.3 **Financial Instruments:** The 2020/21 debtors balance has been restated to include loans to the Council’s subsidiaries, Westminster Housing Investment Ltd and Westminster Community Homes. The loans were previously excluded as they were interpreted to be an interest in an entity within the group and disclosed elsewhere in the accounts. The CIPFA code is not entirely clear about IFRS9 in respect of this issue, and it is now considered that interests do refer to loans to group entities. They have been disclosed and the effect is to restate the 2020/21 financial asset position by £33.229m and adjust the draft 2021/22 position by £78.845m.

- 4.6 The Committee was informed of the Infrastructure Assets and the ongoing issues, nationwide, in local government accounting and audit related infrastructure. Particularly on highways, where a challenge has arisen about how authorities have not been derecognising the asset value of highways that have been replaced. This issue stems back to 1994 and at the time it was deemed too expensive for Local Authorities to maintain these accounting records. This year, the FRC argued the historic spend for material assets when new spend is incurred should be removed.
- 4.7 Grant Thornton informed the Committee they are expecting to issue unqualified opinions on both the main accounts and pension fund accounts, subject to infrastructure asset override and conclusions of the external audit. Final certification will be given when the Value for Money assessment and Whole of Government Accounts are audited.
- 4.8 The Committee asked for more clarification on the new interpretation of IFRS9 and was informed that the CIPFA Code is not completely clear, and that the Council would feed back to CIPFA to request the Code be made more robust. However, it was also noted that this is a technical adjustment and not one that impacts the financial standing of the Council.
- 4.9 The Committee asked that of the changes to the collection fund appeal provision, if there was a possibility of the reverse happening, and then what the implications would be. Committee Members were informed that this is a can happen as economic conditions change, but that there is contingency to smooth out any changes without creating a sudden pressure in the General Fund budget.
- 4.10 The Committee asked on the auditing of the accounts as to why some Local Authorities are struggling, while understanding that Westminster was not. Grant Thornton informed the Committee that some do not have the staff available combined with increasingly complex accounts across the board. There are movements to utilise time better by using data more effectively, to then free up personnel to consider issues around risk and exposure.

RESOLVED:

- 4.11 That the Committee considered the interim findings outlined in Grant Thornton's Audit Progress Reports of the Statement of Accounts and Pension Fund report.
- 4.12 That the Committee noted the key changes set out in paragraph 5.2 of the report that will be reflected in the final set out accounts to be approved by this Committee at a later date.
- 4.13 That the Committee delegated authority to the Executive Director of Finance and Resources for any technical accounting adjustments to the accounts prior to final publication, taking into account materiality and any impact on the Council's financial outturn and that a final noting item taken to this Committee summarising said changes.

- 4.14 That the Committee delegated authority to the Executive Director of Finance and Resources to make any necessary technical accounting adjustments in respect of Infrastructure Assets accounting following the Parliamentary statutory override expected in December 2022.
- 4.15 That the Committee noted the Value for Money assessment by approved by this Committee at a later date.

5 TREASURY MANAGEMENT STRATEGY OUTTURN 2021/22

- 5.1 The Committee was informed of the current treasury management debt and investment position, organised by the Tri-Borough Treasury Team to ensure security of capital and adequate liquidity. As of 31 March 2022, net cash invested was £156.3m, an increase of £29.1m on the position at 31 March 2021.
- 5.2 The Committee was informed of the Annual Investment Strategy for 2021/22 which was approved by the Council on 3 March 2021. The policy objective is the prudent investment of balances to achieve security of capital, liquidity and optimum returns on investment.
- 5.3 The Committee was informed of the huge economic impact that the coronavirus pandemic had caused and the low interest rates because of it. Investment returns for 2021/22 had recovered from the lows experienced in 2020/21.
- 5.4 The Committee was informed of the underlying need to borrow for capital expenditure, as termed in the Capital Financing Requirement (CFR). The CFR results from the capital activity of the Council and represents the 2021/22 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure not yet financed from external loans.
- 5.5 The Committee was informed of a key part of the Council's treasury activity is to address the funding requirements for borrowing needs and how this may be sourced. Standing at £298.2m as of 31 March 2022, this level was within the Prudential Indicator for external borrowing and should not exceed £998m, the CFR's final 2021/22 estimate. As such, the Council maintained an under-borrowed position of £700m.
- 5.6 The Committee was informed of the anticipated forward borrowing and that the Council took no additional long-term borrowing for the financial year due to the high level of cash holdings. Due to the overall financial position and the need to borrow for capital purposes, it is prudent for the Council to lock in affordability by placing some forward borrowing for the amounts it can be relatively certain it will need, while maintaining some flexibility. During the financial year 2019/20, £400m of forward borrowing had been arranged by the Council. This has allowed the Council to agree competitive rates in advance of need, eliminating the "cost of carry".

- 5.7 The Committee was informed of the Capital Expenditure and Borrowing Limits which totalled £351m as of 31 March 2022 for the General Fund and the HRA against a forecast for the whole year of £436m. The Committee was further informed that the Council has embarked on an ambitious capital programme with a plan to invest up to £2.862m over the next 15 years.
- 5.8 The Committee asked regarding forward borrowing, if the Council foresaw any need to undertake any additional borrowing. Officers explained they take advice from the treasury consultant, Link, and, given our significant cash reserves, the Council is able to wait for the inflationary period to come under control and the resultant reduction in interest rates.
- 5.9 The Committee asked about the headroom outlined in paragraph 3.30 and if borrowing without further approval may take place if interests rates are deemed favourable. The Committee was keen to know who would take this decision and how it would be made. The Executive Director for Finance Resources explained his delegated authority was laid out in the TMSS and he would take these decisions in consultation with the Cabinet Member for Finance and Council Reform.
- 5.10 The Committee asked about long-term lenders and why almost 50% of the £400m forward loans was borrowed from Rothesay PLC, at a higher rate of interest. It was explained that the interest rate derived is decided on the day of the loan transaction and is aligned with the corresponding UK gilt yield. It is common practice to not trade the entire amount needed on one single day at one single trade. The four loan tranches were transacted within a 3-month time period in 2019.

RESOLVED:

- 5.11 That the Committee noted the annual treasury management final outturn for 2021/22.

6 WORK PROGRAMME

- 6.1 The Committee held a discussion on the draft Work Programme for 2022/23 and noted that the remaining scheduled meetings for the current municipal year are 29 November 2022 and 23 February 2023.
- 6.2 The Committee reflected on the agenda items for the upcoming meeting on 29 November 2022.

RESOLVED:

- 6.3 That the Committee agreed the agenda items for its meeting on 31 October 2022, as set out in the report and in Appendix 1.
- 6.4 That the Committee considered items for the future Work Programme for 2022/23.

7 ANY OTHER BUSINESS

7.1 There were no additional items of business to be heard.

The meeting ended at 20:05.

CHAIR: _____ **DATE** _____