



CITY OF WESTMINSTER

# MINUTES

## Audit and Performance Committee

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit & Performance Committee** held at 6.30pm on Monday 17<sup>th</sup> June 2019, Rooms 18.04/18.05, 18th Floor, 64 Victoria Street, London, SW1E 6QPR

**Members Present:** Councillors Ian Rowley (Chairman), David Boothroyd, Robert Rigby and Jacqui Wilkinson.

**Also Present:** Gerald Almeroth (Executive Director of Finance & Resources), Dave Hodgkinson (Director of Corporate Finance & Property), Phil Triggs (Tri-Borough Director of Treasury & Pensions), Rikin Tailor (Head of Corporate Finance), Ama Ackom-Mensah (Deputy Head Of Corporate Finance), Paul Dossett (Grant Thornton), Laurelin Griffiths (Grant Thornton), Paul Jacklin (Grant Thornton) and Andrew Palmer (Senior Committee Officer).

#### 1 MEMBERSHIP

1.1 There were no changes to the membership.

#### 2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

#### 3 ANNUAL ACCOUNTS AND OUTTURN 2018/19

3.1 Gerald Almeroth (Executive Director of Finance & Resources) and Dave Hodgkinson (Director of Corporate Finance & Property) presented the draft Statement of Accounts for the City Council and its Pension Fund, and provided a narrative as to the outturn position for the financial year ended 31 March 2019. Since the last meeting of the Committee on 2 May 2019, Grant Thornton had continued to work on their audit of the accounts as Westminster's external auditors.

3.2 The Committee noted that the General Fund revenue position had seen a net outturn of £3.916m underspend against an approved budget of £187.641m, which compared to a Period 10 (January 2019) forecast underspend of £4.141m. The revenue underspend would increase the Council's general reserves to £62.783m; and increase the Council's financial resilience and

ability to withstand any short-term funding shortfalls that may result from the Fair Funding Review and Spending Review. The HRA revenue outturn was a surplus of £4.678m, against a budgeted surplus of £6.993m. HRA General Revenue balances, after the funding of the capital programme, had reduced to £17.234m in line with expectations within the HRA business plan approved in March. The General Fund capital outturn represented a gross expenditure underspend of £54.858m against budget and a net underspend of £44.571m; which compared to a gross expenditure budget of £279.078m and income budget of £108.870m. The HRA capital outturn had a variance of £12.305m (in year underspend) against a revised budget of £113.329m. The total value of the Pension Fund had been £1.408bn as at 31 March 2019, and had an allocation of 9% within property; 1% in infrastructure; 69% in equities; and 21% in fixed income.

3.3 The Executive Director of Finance & Resources presented an additional paper which outlined three proposed changes to the financial statements submitted to the Committee, which had arisen due to emerging issues which had to be dealt with late in the audit process. It was proposed that the financial statements would be revised to incorporate:

- An update for the value of the City Council's HRA Dwellings as at 31 March 2019;
- A note on a contingent liability on the Council's Pension Fund which had arisen from the recent McCloud judgement in the Court of Appeal; and
- An adjustment to the accounts resulting from the bank reconciliation.

In light of the revisions, the paper recommended that a revised set of accounts was produced which included the changes; and authority for sign-off be delegated to the Chairman.

3.4 The Director of Corporate Finance & Property reported that the City Council had historically valued dwellings on 1 April at the beginning of the financial year, but needed to demonstrate that the valuation was not materially different at the end of the financial year on 31 March. In previous years there had never been a material movement and therefore no adjustment to the accounts had been needed. However, due to market conditions, Westminster's auditors had identified that there could have been a material movement in 2018/19. In addition, the auditors had informed officers that the Financial Reporting Council were placing greater importance on this assessment than in previous years. As a result, the Council had to carry out an additional valuation of its dwellings at 31 March 2019.

3.5 The revised revaluation had given a material movement that had resulted in a total adjustment of £129m, which changed the value of Council dwellings by approximately 8% from £1.597bn to £1.468bn. It was noted that this was a technical adjustment that had no material impact and did not affect the HRA or General Fund balance. The process involved in putting the adjustment through the financial statements and the subsequent audit had taken a period of time that was not in line with the deadlines for the Committee, and Members noted that a review process would be built in for the future valuation of HRA dwellings.

- 3.6 The City Council's external auditor had also alerted the City Council to the implications of the McCloud judgement, which had arisen from two Court of Appeal rulings made during 2018/19. The judgement had concerned age discrimination within the transitional arrangements of the judges and firefighters' pension schemes transitioning from final salary to career average revalued earnings (CARE) scheme, and had resulted in rulings that would increase their pension liabilities. The Tri-Borough Director of Treasury and Pensions informed the Committee that the Local Government Pension Scheme (LGPS) had a similar structure and rules to the judges' and firefighters' schemes, and that the City Council's gross pension liability of £1.681m set out in the accounts had not provided for the rulings as the LGPS regulations had not yet been amended.
- 3.7 The Committee noted that the case was currently with the Supreme Court, and that if the LGPS were to be amended to reflect the rulings, the gross liabilities for Westminster could increase by between an estimated 0.5% and 1.0%, which amounted to between £8m and £16m. Grant Thornton were seeking further clarification of the risks pertaining to a future judgement, and the City Council had included the financial effects of the rulings as a contingent liability in both the City Council accounts and the Pension Fund accounts.
- 3.8 Following the change of Westminster's finance system earlier in the financial year, a thorough review of the bank reconciliation had been carried out. Following the review, and since the last meeting of the Committee on 2 May, the City Council's bank account balance and general ledger balance had been £55k short of being fully reconciled, which represented 0.001% of the total value of income and expenditure transactions. The Committee noted that although the reconciliation had indicated that an adjustment of £22.2m was needed between cash and creditors, it would not have any impact on net assets in the balance sheet.
- 3.9 The Committee discussed the changes to the accounts that had been made since the last meeting, and noted that the balance sheet had included a difference of £136m due to HRA dwellings and other valuation adjustments which included Council House. The Head of Corporate Finance confirmed that the rise in long-term debts had been caused by £20m that the City Council had forwarded to the LGA as a loan having been reclassified as a long-term debt. The Committee noted that although Westminster always sought to recover debts, long-term debts could be cautiously written-off when appropriate.
- 3.10 Committee Members commented on funding issues with CCGs for adult and family services and public health and noted that discussions were ongoing. The CCG had provided details of the areas of funding that it potentially wanted to withdraw, and the City Council had been working to ensure that it would not be required to meet any shortfalls. Members also commented on the reduction in school reserves, and noted that the lower figure had been determined by a number of schools having used up their individual reserves.

- 3.11 The Committee discussed how certain budgets and performance targets were set, and highlighted the value of having ranges which fixed upper and lower bounds in budget targets, which could set context and help monitor performance where there was a high level of uncertainty.
- 3.12 Members commented on the reduction in cash and cash equivalents, and the Head of Corporate Finance confirmed that this had been caused by increased capital expenditure over the last year, and from resources being released as business rates to the GLA and central government. The City Council still had a healthy cash balance, and the Committee noted that future income would be received from capital schemes which were still being developed.
- 3.13 The Committee noted that the balance of the General Fund had risen from £59m to £63m over the last year, and discussed the City Council's reserves policy. The Executive Director commented that the right level of reserves for local authorities depended on their individual circumstances; and considered that it was appropriate that Westminster had a higher level of reserves than most due to its higher income and level of gross spend. He also considered Westminster's medium and long-term target of £70m to be correct and not excessively high, as the country was entering a period of economic uncertainty. The City Council's external auditor commented that although they had general concerns about the reserves of Councils across the country, this was not an issue at Westminster. It was noted that no substantial change in reserve policy was anticipated for the next 12 months.
- 3.14 The Committee also commented on potential risks to balance sheets that could arise from changes in political policy, and the auditors commented that the impact could only be assessed as and when the government policy was introduced. Other issues discussed included contingency risks on Capital Programmes and key spending areas, and the potential long-term effect current uncertainties could have on parking income. Members also suggested that monitoring reports used the RAG status on indication levels of risk.
- 3.15 The Committee commended Westminster's finance department for being one of the first local authorities to submit their findings reports.
- 3.16 **RESOLVED:** That
1. the updated draft Annual Statement of Accounts for the 2018/19 financial year be noted; and
  2. the Chairman of the Audit & Performance Committee be authorised to sign off the Council's Statement of Accounts for 2018/19 which will include the changes as detailed in the Accounts Adjustment Report and the auditor's final checks.

**ACTIONS:**

1. That details be given of the outcome of the review made in April to reset the income targets for the City Promotions service. **(Action for Dave Hodgkinson - Director of Corporate Finance & Property)**

2. The details be provided on the spend by Corporate Strategy & Transformation on external research (**Action for Dave Hodgkinson - Director of Corporate Finance & Property**)

#### 4. AUDIT FINDINGS REPORT 2018/19

- 4.1 Paul Dossett, Laurelin Griffiths and Paul Jacklin (Grant Thornton) presented a report from Westminster's external auditors, which set out the key findings from the work that had been completed in their audit of the City Council's financial statements (Council and Pension Fund) for the year ending 31 March 2019.
- 4.2 The audit progress report for the City Council had highlighted significant risks, together with the work that was being done to mitigate potential problems. The risks had included management over-ride of controls; valuation of land and buildings; valuation of the pension fund net liability; and the provision for Business Rate appeals. Grant Thornton confirmed that testing on the accounts was almost complete. No comments had been received during the public inspection period, which was due to finish on 18 June. The auditors' final checks could include minor, immaterial amendments to the accounts, but the auditors expected to issue unqualified audit opinions on both sets of financial statements.
- 4.3 Grant Thornton commented on the implications of the McCloud judgement, which was a national issue that could increase pension liabilities and could possibly affect all local authority pension funds. The Committee noted that the auditors had received a report from the actuary on the possible estimated impact of the judgement, and that the auditor's response was in progress.
- 4.4 Committee Members discussed the Action Plan that had been included in the report, and noted that the income manager system that had been introduced to interface with the new ledger system was working well, with few difficulties being found in the reconciliation by the end of the financial year. The Director of Corporate Finance & Property confirmed that reconciliation would be carried out on an ongoing basis, with reports being run every day and a formal sign-off every month.
- 4.5 The Committee also discussed the valuations of land and property, and acknowledged the need to review the valuer's reports to ensure they were complete.
- 4.6 The Committee thanked Grant Thornton for their work in auditing the City Council's final accounts.
- 4.7 **RESOLVED:** That the draft audit findings and subsequent recommendations from Grant Thornton be noted.

The Meeting ended at 7.25 pm.

**CHAIRMAN:** \_\_\_\_\_

**DATE** \_\_\_\_\_