

General Purposes & Audit Committee

Meeting of General Purpose and Audit Committee held on Tuesday, 23 July 2019 at 6.30 pm
in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Joy Prince (Chair);

Councillors Pat Clouder, Mary Croos, Stephen Mann, Jan Buttinger,
Steve Hollands, Clive Fraser (In place of Karen Jewitt) and
Sherwan Chowdhury (In place of Bernadette Khan)

Also

Present:

Councillor Simon Hall
Matthew Dean (Senior Manager Grant Thornton)
Sarah Ironmonger (Grant Thornton Engagement Leader)
Jacqueline Harris Baker (Executive Director of Resources and Monitoring
Officer, Legal and Governance)
Lisa Taylor (Director of Finance, Investment and Risk, S151 Officer)
Simon Maddocks (Head of Internal Audit)
Malcolm Davies (Head of Insurance and Risk)
Ian Geary (Head of Finance, Finance Investment and Risk)
Matt Hallett (Pension Fund Investment Manager)
Luke Chiverton (Head of Operations, Brick by Brick)

Apologies: Councillors Oni Oviri and Stuart Millson
Co-optees Muffaddal Kapasi and Nousheen Hassan

PART A

23/19 **Disclosure of Interests**

There were none.

24/19 **Urgent Business (if any)**

There were no items of urgent business.

25/19 **Brick by Brick Audit Report**

The Head of Operations introduced the Brick by Brick Audit Report and informed the meeting that the report was a draft from 2018. The report was in its final stages and was ready to be signed off.

Officers informed the Committee that the Director's Report on the audit of accounts had two restatements, which covered a fifteen-month period. This was due to the amendment of the financial year. The change helped prepare the group statements in a straightforward manner.

A loss of £744,952 was recognised for the period. This reflected sale revenues and the fact that some properties had not yet reached their completion stages, and therefore their value was not able to be released until all the sales were completed. It was the objective to achieve these sales during 2019/20.

Officers further summarised that all expenditure related to operating expenditure, which was budgeted for and remained variable. This covered the amount reported within the statement. Some expenditure had to be accounted for and it was recognised that the sales revenue was coming through this year.

In response to questions raised by Members, officers clarified that the statement of comprehensive income was an example of the balances, which were all payable to the London Borough of Croydon.

The statement of financial position highlighted the total assets in their current form, which represented the working progress, and investment that was due to be completed.

With regard to income revenue, officers confirmed that potentially next year the Council would see the true cost and profit achieved through the completion of a single Brick by Brick scheme with a turnover of £10million.

In response to questions raised by Members in relation to their confidence in the independent audit report, officers explained that this was in its draft form. Officers clarified that the Council was 100% the shareholder, and the audit report, which was in draft and formed part of the accounts, would be finalised by the end of the month. The Council Solicitor explained, in relation to the legal sign off, that there would have to be a major relevant impact to be part of Committee consideration; to say there was no legal implication meant there were no major legal factors that the Committee needed to consider. As such, there were no direct implications and the report was signed-off.

In relation to questions from Members in relation to significant penalties on the contracts and how they were reflected in the accounts, officers informed the meeting that material factors relating to each scheme were detailed in working progress. The evaluation work was completed and the penalty was reduced from when the scheme would be completed. This was reviewed as a bigger profit. Further, officers stated that this was to be clarified in the reported profit against the scheme.

Members asked how depreciation of housing would be measured given the turbulent housing market issues. Officers explained that depreciation related

to the buildings that were purchased and recorded as a cost within the sale of completed scheme. Brick by Brick had completed four properties.

Officers explained that uncertainty in the property market had been addressed by taking a conservative approach to values and therefore no impairment strategy was needed. The expectation was to exceed the sale of units as stated in the business plan. To date, there had been a market release of 96 units with 45% shared ownership. More units were scheduled to be released. There were also 40% off-sales reservations- 20% of what had been released had been sold. Officers reported growing interest in Brick by Brick properties.

The committee **RESOLVED** to:

- Note the draft Brick by Brick Croydon Ltd Director's Report and Financial Statements for the period ended 31st March 2019 (Appendix 1).

26/19 **Financial Performance Report**

The Director of Finance, Investment and Risk (S151 Officer) introduced the report and informed the meeting that the annual report was the outturn position for 2018/19. Part of the report was presented at Cabinet in July 2019, and this report provided a more detailed position for the Council and on its capital position.

Officers shared that the executive summary detailed an over spend of £5.466 million which was made up of small amounts of pre-exceptional and exceptional overspend.

The analysis of the departmental variances showed that the total departmental overspend finished with £6,998 million in the year, which was more than budgeted. The overspend was mainly as a result of placement costs for looked after children and children with disabilities.

The report highlighted the Council balances and reserves where officers noted that the General Fund balance was not stable. Currently the service had seen a demand increase. Officers highlighted that the Council had a General Fund balance of £10.4 million as of 31 March 2019 and earmarked reserves of £14.2 million, which would fluctuate in years to come.

Officers highlighted that the capital programme for the Council was £449 million. There was an underspend of 21% which resulted from slippage within the delivery of the scheme. The department was optimistic for change in the New Year.

Officers highlighted that the housing revenue account had an underspend of £736k which would carry forward to 2019/20 budget.

Officers summarised the 9.80% increase of the value in the Croydon Pension Fund and noted that details of the treasury management, which was in a good position for the financial year.

Officers highlighted that Cabinet approved a four-year financial strategy in October 2018. Subsequently, the service was delivering against the financial strategy, which was a part of the budget setting process.

In response to questions raised by Members in relation to the overspend of £5.466 million, officers clarified that the exceptional spend related to additional costs associated with Unaccompanied Asylum Seeking Children, which there was no recourse to public funds, and the impact on Universal Credit.

In response to questions raised by Members in relation to the overspend of electoral services, public realm and the unachievable digital advertising income target, officers explained that for electoral services the overspend was a mixture of timing and the additional costs of work scheduled in 2018/2019. For public realm and street lighting, officers explained that there were no new contracts in place and the service was managing and working with the contractor. With regards to the unachievable digital advertising income it was noted that savings were difficult to manage. Although there was a target, there were unforeseen issues.

In response to questions raised by Members in relation to borrowing, officers highlighted that the official borrowing figure would fall under that which has been set, as this was not nationally set. It was highlighted that for 2018-22, due to the Brexit, interest rates were favourable and did not change on the 1st April.

In response to questions raised by Members, in relation to the shortfall in housing benefits, officers shared that the Department for Work and Pensions provided subsidised the payment of benefits to households in need. However, the Council would not be fully reimbursed. For clarity, the Department for Work and Pensions funded the grants for the Gateway Department. In the report, the overspend was noted in the Resources Division.

Further, Members queried about the exceptional variance in the housing budget. Officers shared in detail how the Home Office provided a grant to the Council. The Council had incurred costs for the unaccompanied minor service; however, the grant did not cover the full costs for looked after children, so the Council covered some of the costs. It was therefore important to receive the right level of funding for the borough. The Council had received a big shortfall in the funding as pay had increased. It was noted that the Council was campaigning for more funding to provide the level of care needed by young people.

In response to questions raised by Members in relation to housing benefits officers clarified that what was paid was determined on a case-by-case basis.

As such, the Council often paid above the housing allowance to support individuals and families.

The Committee RESOLVED to:

- Approve the levels of reserves and provisions set out in section 8 of the report, as recommended by the Interim Section 151 Officer;
- Note the Council's outturn position, and the progress of the Council's current Financial Strategy objectives;
- Note the departmental revenue budget outturn variances as contained within Table 1 and 2 and Appendix 1 of the report;
- Note the capital budget outturn as detailed in section 4 and Appendix 2 of this report.
- Note that a report seeking final approval of the accounts following their review by external audit is a separate item on this agenda; and
- Note that work has commenced to review the MTFs which was approved at full Council in October 2018 and will be presented to Cabinet as part of the budget 2020/21 report in February 2020 with a report on the budget setting process also being presented to Scrutiny and Overview Committee in September 2019.

27/19 **Audit Findings Report**

The Director of Finance, Investment and risk (s151 Officer) shared the report with Members and highlighted that Grant Thornton had worked very hard with Croydon's accounts. It was noted that work was still ongoing and near completion.

Officers presented two audit reports enclosed within the report, (1) the Council General Fund and (2) the Pension Fund. There were also letters of representation for both audit reports. Officers shared that the Annual Accounts were currently in their draft form and would be updated once finished and available on the website.

The Grant Thornton Engagement Leader spoke to the General Fund Audit report and highlighted that Grant Thornton was in a position to provide an unqualified opinion by 31st July with no expected delay or issues.

Officers shared that the risk remained the same though there was more work to do. There were no issues with statutory duties.

Officers acknowledged the hard work of the finance team; they had produced good quality work and had responded to detailed questions between teams.

Officers highlighted one of the significant risks raised in the Audit Plan: - *Valuation Pension Fund net liability* and summarised using the McCloud Court of Appeal case ruling. This was a legal judgement that had implications for the Croydon Pension Scheme. The finance team was responsible for assessing the liability, as there was an adjustment for the transitional arrangement.

In relation to key judgements and estimates, officers noted that figures were reasonable and there were more figures to be accounted for. Officers were not expecting any difficulties.

In relation to audit adjustments, officers mentioned that the London Business Rates Pool had raised the amount in the accounts and McCloud and GMP had made an impact on past service costs. Officers further informed the meeting that the treatment of school grants was not a material figure. Officers had addressed the incorrect flaw that found one error and had undertaken some additional testing.

The accounts were complex and the Chair congratulated the team on the clarity and the hard work shown.

The Senior Manager of Grant Thornton spoke to the Pensions Fund Audit report and highlighted that the format was identical to Council Funds.

Officers highlighted that they had identified a few minor adjustments that were in respect of some of the disclosures in the accounts. To note further, the service was modifying the option on the pension funds.

Officers talked about the standard significant risks and the level 3 valuation, where there were no major issues.

The report revealed the main adjustments highlighting a number of projects, and noted that whilst the draft accounts were prepared, the valuations were updated, and the change in value had increased by over £7 million.

The Committee **RESOLVED** to:

- Note the ISA 260 (International Standards on Auditing) Reports for the Council and the Pension Fund issued by the Council's external auditors, Grant Thornton (Appendix 1 and 2 respectively).
- Approve the letters of representation (in Appendix 3 and 4) on behalf of the Council and the Pension Fund respectively.
- Approve the final accounts (Appendix 5) based on the adjustments recommended in the Audit Findings report for the Council and Pension fund (set out in Appendix 1 and 2), together with any minor changes identified under recommendation 1.4.
- Authorise the Director of Finance, Investment and Risk (interim S151 Officer) and Chair of General Purposes and Audit Committee to sign off

the Council's 2018/19 accounts and agree any changes identified between this meeting date and the 31st July 2019, as detailed in paragraph 3.4 of this report.

28/19 Annual Governance Statement

The Head of Insurance and Risk presented the Annual Governance Statement Report and highlighted that the report was part of the Annual Accounts process.

Officers spoke to the appendix to the report particularly to table one, which highlighted government issues identified in 2018/19. Officers noted that the issues were increasing within the corporate and red risk.

The Committee **RESOLVED** to:

- Approve the Annual Governance Statement for the year 2018/19 at appendix 1 to this report.
- Agree the statement on 'outcomes' in relation to 'Issues raised in 2017/18 Statement and progress to date'. (Appendix 1, Table 2)
- Agree the significant governance issues identified in relation to 2018/19 and the actions being taken to mitigate those risks.(Appendix 1, Table 1)

29/19 Exclusion of Public and Press

This was not required.

The meeting ended at 7.28 pm

Signed:

Date:

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