

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Tuesday 30 July 2019 at 10.00 am

Present: Cllr C Paul (Chair), Cllr M Lewis (Vice-Chair), Cllr H Davies, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel, Cllr M Rigby and Cllr P Clayton (Substitute).

Other Members present: Cllr S Coles, Cllr M Keating and Cllr M Chilcott.

Apologies for absence: Cllr M Caswell

138 Declarations of Interest - Agenda Item 2

The Chair of the Committee noted that details of all Councillors interests in District, Town and Parish Councils will be displayed in the meeting room.

Cllr Noel declared a personal interest in his capacity as Chair of the Pensions Committee in respect of agenda item 6.

139 Minutes from the previous meeting - Agenda Item 3

The Committee agreed that the minutes of the last meeting were accurate and the Chair signed them.

140 Public Question Time - Agenda Item 4

The Chair of the Committee confirmed that 2 members of the public had registered to speak at the meeting.

Members heard a statement from Mr David Orr, who before he spoke thanked the Monitoring Officer for providing clarity and allowing him some flexibility.

“Surrey County Council experienced similar finance problems to Somerset in early July last year, with an £11.8m overspend announced. Sounds all too similar to the deficit position here in Somerset last year. The common factor is they are both County Councils with inadequate National social care funding.

This Council’s budget issues arose, in part, because the austerity freezing of Council Tax, I felt, went on three years too long and damaged the Council’s base budget. Additionally, recovering from the Inadequate rating for our Children’s Services was a long task which required significant additional funding that made balancing planned budgets difficult.

This authority was courageous enough to film with Panorama, without editorial control, and show all of England that the cost pressures and impacts on people’s lives, through underfunded social care is real and shames us all, as a First World society. Somerset has helped make the social care crisis National.

While it is good news that this Council will not follow Northamptonshire County Council into effective bankruptcy this year, the low reserves and the sustainability of the medium-term budget remain serious concerns.

I commend the external auditor for their report and for delaying their final opinion, to ensure that clear demographic and other cost pressures in social care, are properly reflected in medium-term budget projections. 3 years after Brexit, the government can't get on with the day job.

Until the County Council has sustainable National funding for social care, then I do not believe that a Unitary Council across Somerset can be viable. If social care remained under funded, then there is a danger that over time the reserves of the District Councils could be used to make up for social care deficits. Also, the non-statutory service budgets could over time also come under pressure (as they have in the County Council).

I hope that our new PM Boris Johnson will make good on his pledge to "fix the social care crisis once and for all". At the very least, 2020 to 2021 should see interim social care funding from the Government, whilst a sustainable tax base is created to support social care with dignity (and without bankrupting those whose families are unlucky enough to be struck down by the illness of dementia)".

The Chair replied by thanking Mr Orr for addressing the Committee with his thoughts. She noted there had not been a question in his statement, and as it was not directly related to the agenda items relating to the County and Pension Fund Statement of Accounts for 2018/19, she would make no further comment nor invite any officer response.

141 **Statement of Accounts - Somerset County Council - Agenda Item 5**

This report was introduced by Mr Barber of Grant Thornton the Council's External Auditors, and he directed attention to the Audit Findings report and he provided an overview of the findings regarding the Council's financial statements for the year ended 31 March 2019. He noted he had issued a short addendum since the agenda had been published and this had been circulated to Members.

Mr Barber explained that no material errors had been identified and in the opinion of the External Auditors, the financial statements prepared by the Council:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

The findings of External Auditors were summarised on pages 5 to 11 of their report and it was noted that the overall audit opinion on this was of a 'Going

Concern' with no material uncertainties. Members were informed that the Council could meet its liabilities for the next 12 months and continue to deliver its services and that it had a programme of continued financial intervention in place to deliver the identified savings required.

The Interim Director of Finance introduced her covering report and noted that statutory deadlines were adhered to and some minor changes had been made to the accounts and an updated Annex 1 of the report had been tabled, and this listed a few minor amendments that had arisen since the draft accounts were issued and publication of the agenda.

During the consideration of the report, issues/concerns were raised, questions asked/answered and further information was provided on:

- The Schools land valuations matter, as this was the most significant unadjusted misstatement, and it was noted that the auditors disagreed with the application of a generic downward 24% valuation to the schools' land that had not been subject to formal valuation in 2018/19. However, the application was applied from informed opinions of the professional internal valuer and this should be considered a matter of differing professional opinions and not an error. It was further explained that Officers accepted that 24% was not specific to any individual asset, however it fairly represented the assets across the entire portfolio on the balance sheet; a 'do nothing' approach was not felt appropriate;
- On the judgement of 'going concern' it was explained how assets were valued on the balance sheet, and if the Council was judged to be a 'going concern' those assets could be valued differently, and the auditors were assured the Council would be able to meet its obligations for the next 12 months;
- Regarding the McCloud ruling and the adjustment that had been made to reflect that, it was explained that the auditors had liaised with the Pension Fund's actuaries, and the adjustment had therefore been based on a series of reasonable assumptions;
- There was a brief discussion about cashflow and the Council's Service Manager – Investments, noted that cashflow was carefully controlled in accordance with the Council's Treasury Management Strategy;
- Concerning reduced central government funding for local government, as part of what was known as 'austerity', it was noted that there was a section about national context and the impact of austerity in the report.

The Chair invited Mr Barber to provide an overview of the external auditors' Value For Money (VFM) assessment and he welcomed the good progress made against his VFM recommendations of last year and he noted there remained further scope to strengthen arrangements. He stated that in the opinion of the external auditors the risk of future overspends was a particular risk for County Councils like Somerset given their limited ability to raise additional income but also given that a significant and generally increasing percentage of their total spend was taken up funding social care which continued to be under increasing pressure.

Mr Barber explained that before issuing his VFM conclusion for 2018/19, he wanted to gain more confidence over the robustness of the Council's budget

setting process (MTFP) and the deliverability of the Children Services and Adults Services budgets through to 2021/22. In that regard he had asked colleagues from Grant Thornton's Public Sector Advisory team to act as 'auditor's experts' and provide a further assessment of the robustness and realism of the Children's and Adult Social Care annual budgets within the Council's MTFP, including consideration of the robustness of savings plans.

As a result of this proposed additional work he stated the external auditors were unable to conclude the VFM conclusion by 31 July 2019, but he envisaged this additional work would be completed by the end of August 2019 and be used to inform his final VFM conclusion for 2018/19 that he would present to the Committee's September meeting.

The Chair of the Committee invited the Chief Executive to respond and he began by thanking the external auditors for their efforts and interest, and he hailed the Council's financial turnaround as being impressive, achieved through maintaining an absolute grip on finances and determination to live within its means. The Interim Director of Finance noted that despite a reduced spend overall performance had not dipped during the last year and had improved in some areas, noting the 'VFM tracker' was now considered at each meeting of the Committee and a new tracker would be developed once the opinion was received.

The Chair noted that the member of the public, Mr Nigel Behan, who had submitted questions about the external auditor's value for money assessment was not present, however his questions were considered in his absence. Question 1 Relates to Preliminary Findings (p16) where it states: "Elements of this total underspend were as a result of a combination of: nonrecurring; one-off; technical savings (e.g. minimum revenue provision totalling £4.2m benefit in 2018/19); additional use of the capital flexibilities (which was budgeted at £2.6 million but £8.6 million used), and; unplanned additional central government income (including £2.5 million extra adult social care funding)." If in the current (and future) years the nonrecurring; one-off: technical savingsunplanned additional central government income, etc. are not available (as they were in 2018/19) how does this impact on the risks of unbalanced budgets and the depletion of reserves?

In response the Interim Director of Finance stated that there had been significant work carried out on service budgets during 2018/19 to ensure that budget estimates were robust, as confirmed in the statement of accounts at the year end. At the same time opportunities were taken to increase the level of reserves – adding over £20m across the year. A balanced budget for 2019/20 budget had been agreed by the Council last February. This included plans to further increase reserves and had made no assumptions about one-off or non-recurring funding being received.

Question 2 Level of Reserves- Comparison across County Councils (Source: individual councils' unaudited financial statements for 2018/19 from individual council websites P17) According to the chart for 2018/19 SCC appears to be still hold a low position of reserves in relation to the other County Councils and is only higher than overspending (children's services being one of the main areas responsible) "Troubled Northamptonshire CC" (The MJ 11th July 2019).

What is the likelihood of increasing the general and earmarked reserves (and removing negative reserves) without adverse consequences on service provision?

In response the Interim Director of Finance noted the Council took opportunities during 2018/19 to eliminate most of its negative reserves. The largest remaining, linked to Dedicated School Grant pressures, was a nationally recognised issue and the Council, along with other Councils, had submitted a deficit recovery plan to Government last month. Reports to the Cabinet last June and July, had detailed how the financial turnaround in 2018/19 had been achieved at the same time as sustaining good performance across services.

Question 3 Relates to p16 -18 where it is stated (by the external auditors): "In order to arrive at the appropriate VFM (Value For Money) conclusion for 2018/19 we are now seeking more assurances over the embeddedness of the improvement arrangements. We recognise the good progress that has been made over the last 10 months but also note that reserves and balances, despite the increases in year, provide limited resilience should significant overspends emerge in the future. This risk of future overspends, in our experience, is a particular risk at county councils given their limited ability to raise additional income but also given that a significant and generally increasing percentage of their total spend is take up funding social care which continues to be under increasing pressure due to demand and unit cost increases. We therefore want to, before issuing our VFM conclusion for 2018/19, gain more confidence over the robustness of the Council's MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22. We have therefore asked our social care colleagues from our Public Sector Advisory team to act as 'auditor's experts' and provide us with their assessment of the robustness and realism of the Children's and Adult Social Care annual budgets within the Council's MTFP. The review to include consideration of the robustness of savings plans. As a result of this proposed additional work we are unable to conclude our VFM conclusion by 31 July 2019. Our auditors expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting."

What are the potential consequences if the 'auditor's experts' concludes that the "Children's and Adult Social Care annual budgets within the Council's MTFP" are discovered (assessed) to be not robust and realistic (recalling that the Children's Services net budget was rebased in 2018/19 from approximately £66m to approximately £85m)?

In response the Chief Executive replied that both the external auditors and Officers were not concerned about the social care budgets being robust for the current financial year (2019/20) following the full re-basing exercise undertaken during 2018/19 to ensure that the services budgets were based on latest information. The first budget monitoring report (seen by Cabinet in July) had confirmed this, and the second report, to be published in the next few days, continued this positive trajectory. The additional work to be carried out sought to assess the level of confidence in the budgets into 2020/21 and beyond. As is usual practice, the Council was working on its medium-term financial plan where all assumptions including around funding, savings and costs pressures

were being reviewed and updated based upon the latest information. He confirmed that any audit conclusions would be reflected in this forward planning.

During the consideration of the report, issues/concerns were raised, questions asked/answered and further information was provided on:

- On the subject of reserves, there was a brief discussion of a bar graph in the external auditor's report and it was noted that Councils varied in how they recorded/treated reserves, including the dedicated schools grant (DSG) and any comparison was therefore an 'art not a science';
- Concern was expressed that the external auditors couldn't provide a VFM conclusion and Mr Barber noted that he was considering an improved rating, but he couldn't conclude his work and provide his opinion yet;
- It was asked if the auditors would recommend the costs/funding allocations of various services through the MTFP, and Mr Barber noted it was for the Council to make decisions about funding, but he could advise about risks;
- It was asked what the Council had to do to get to a 'Northamptonshire level' and in response Mr Barber noted that if he had concerns about the Council's viability, and in his opinion, nothing was being done to address those issues, he could make a statutory recommendation;
- There was a question about the work of the external auditors looking at general issues or those more specific to Somerset and comparing how other Councils dealt with the same issues and in response it was stated the auditors looked at factors specific to Somerset whilst also being mindful of wider pressures and general impacts;
- On the Council's Minimum Revenue Provision (MRP) it was noted that Officers had been engaged with the external auditors since last November on the change of MRP approach and it was recognised as not a one off an adjustment and that it would bring benefits over several years, including budget setting preparations;
- There was a question about how the Council was planning for the UK's withdrawal from the European Union, known as 'Brexit' and if there were plans for a no-deal Brexit. In response it was noted that the Council was planning to mitigate the potential impacts of 'Brexit' such as looking at its workforce and arrangements with suppliers;
- There was a proposal for the Committee to receive an update report at its next meeting on the Council's planning for a no-deal 'Brexit' and the Chair suggested the proposal be considered during the workplan agenda item.

Following consideration of the reports, the Committee agreed unanimously, to approve:

- The audited Statement of Accounts for 2018/19 (Appendix A);
- The Letter of Representation for 2018/19 (Appendix B);
- The updated Annual Governance Statement as included within the Statement of Accounts (section 6).

The Committee considered these reports that summarised the findings from the 2018/19 external audit of the Pension Funds financial statements. Members were informed that this was a positive report for the Council as the external auditors had indicated that the accounts have received an unqualified opinion.

The formal process of closing the Pension Fund's 2018/19 accounts, requires the Chief Financial Officer to approve the draft statement of accounts by 31 July.

The Service Manager – Investments provided an explanation of the practical impacts of the 'McCloud judgement' and the effects both positive and negative of the continuing devaluation of sterling. Members noted that at 31 March 2019 the overall value of the Fund stood at £2.2bn

There was a brief discussion regarding the administration of pensions benefits payable; the impact on the fund regarding redundancy and transfers of staff and the external auditors' recommendation for journals to be authorised by a second person.

Members further noted the action plan included in the report, and there was a discussion on the level of materiality figure as this had increased during the audit to reflect the overall value of the Pension Fund.

The Committee agreed, unanimously, to:

- Approve the audit accounts of the Pension Fund for 2018/19; and
- Approve the letter of representation on behalf of the Council.

143 **Committee Future Workplan** - Agenda Item 7

The Committee noted the report that listed future agenda items and reports for the next meeting on 19 September 2019, and the report was accepted.

There was a discussion about a topic raised during consideration of the Statement of Accounts concerning the Council's preparation in respect the UK not reaching an agreement regarding its withdrawal from the European Union (EU), referred to as a 'no deal Brexit'. The Chief Executive confirmed that although the Council had considered the implications of and had prepared in respect of the UK's departure from the EU there was not a specific risk log or plan in respect of a 'no deal Brexit'. The Monitoring Officer noted that at the September meeting the Committee was due to receive a quarterly update on the Council's Strategic Risk Register and that an update on the preparations in respect of 'Brexit' could be incorporated.

Cllr Rigby proposed, and Cllr Davies seconded a proposal that a report of the risk log of the Council's preparations for a 'no deal Brexit' be brought as a standing item to each future Committee meeting; 3 Members of the Committee voted for his proposal with 5 votes against.

It was requested that the work plan for the next meeting provide details of the agenda items for the Committee's meeting over the forthcoming year.

The Chair noted that the Committee would receive an update on the partial audit opinion regarding Discovery at a future meeting, and the Vice Chair suggested that Officers work more closely with the external auditors so that further land valuation disputes might be avoided.

144 **Any other urgent items of business** - Agenda Item 8

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 12.20.

(The meeting ended at 12.20 pm)

CHAIRMAN