



Leicester
City Council

Minutes of the Virtual Meeting of the
AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 22 JULY 2020 at 4:00 pm

P R E S E N T:

Councillor Pantling (Chair)
Councillor O'Donnell (Vice Chair)

Councillor Joshi
Councillor Kaur Saini

Councillor Dr Moore
Councillor Rahman

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41. APOLOGIES FOR ABSENCE

There were no apologies for absence.

42. DECLARATIONS OF INTEREST

There were no declarations of interest.

43. MINUTES OF THE PREVIOUS MEETING

Two amendments were suggested on an item on the minutes from the previous meeting:

28. GRANT THORNTON – EXTERNAL AUDIT PLAN – YEAR ENDING 31 MARCH 2020.

With regard to the Audit Fee the Chief Accountant noted that an additional fee had been agreed with the PSAA of £20,350.

Grant Patterson of Grant Thornton had noted that the minutes had not reflected a fourth significant risk in respect of Covid-19. As such a fourth bullet point would be added to the previous minutes.

RESOLVED:

Subject to the above amendments, the minutes of the meeting held on 17 June 2020 be confirmed as a correct record.

Councillor Dr Moore noted a matter arising from Item 27. She enquired as to whether the extrapolation of error data for the general population had been calculated and whether the members of the Committee could see this extrapolation if it had been.

The Chief Accountant reported that more detail on the data was available and offered to email it to all Committee members.

Councillor Dr Moore further requested that virtual meetings be identified as such in future minutes.

44. DRAFT ANNUAL GOVERNANCE STATEMENT 2019 - 2020

The Chief Accountant submitted a report, which provided an opportunity for the Committee to comment on the Council's Draft Annual Governance Statement 2019-2020.

It was reported that the Statement would be brought back to the Committee for formal approval as part of the Statement of Accounts.

It was reported that the Council was required to publish, as part of its financial accounts reporting, an Annual Governance Statement. The intention of the Statement was to provide assurance that the Council operated in accordance with the law and had due regard to proper standards of behaviour and safeguarded the 'public purse'.

It was noted that the Statement had provided an update on progress made on issues identified in the previous year such as cybersecurity, the medium-term financial strategy and the letter from OFSTED on Special Educational Needs and Disabilities. It also outlined new issues and issues outstanding at the end of 2019/20, as such the medium-term financial strategy remained in the statement.

The pressures on resources and services brought about by Covid-19 were acknowledged.

The Chief Accountant offered to set up an informal Questions and Answers session with Members and also offered one-to-one meetings to go into more detail on the issues involved.

Councillor Dr Moore raised the issue of the Covid-19 pandemic and asked the Committee to consider issues in the key pledges in the City Mayor's strategic vision and which should be prioritised in the context of the pandemic. Specifically, she suggested that the issue of 'Health and Care' be higher among the bullet points.

Referring to the point on 'A Safe and Inclusive Leicester', she suggested this could include the issue of Black Lives Matter and as such could be higher on the list.

With regard to the point on 'A Fair City', she requested further precise clarification as to what this meant.

Councillor Dr Moore further requested that a plan currently being devised by Cllr Clarke on the issue of factories in Leicester be included in the list of pledges when completed.

Referring to the section which discussed the bodies that supported the review processes and delivery, she suggested that the Standards Committee be added to this particularly with regard to supporting the codes and rules laid out in the report.

The Chief Accountant responded noting that there was no particular order to the pledges, and it could be difficult to get a consensus on the priorities. She further noted that the document focussed on what had been completed rather than looking at priorities for the future. She added that she would be happy to include the Standards Committee on the list of supporting bodies.

Grant Patterson added that whilst the Annual Governance statement was primarily backward-looking, it would be signed off with the data publication of accounts in September, and as such it would need to stay under review until then for any significant issues that may arise up until that point.

The Chair thanked the Chief Accountant for her offer of a Questions and Answers session.

RESOLVED:

That the Draft Annual Governance Statement 2019-2020 be noted.

45. DRAFT STATUTORY STATEMENT OF ACCOUNTS 2019 - 2020

The Chief Accountant submitted a report, which provided an opportunity for the Committee to comment on the Council's Draft Statement of Accounts 2019-2020 before being brought back to the Committee for formal approval.

It was acknowledged that whilst this would usually be signed off in July, this had been delayed by the Covid-19 pandemic and as such it was likely to come back to the Committee in November to be signed off and become a formal document. This was in line with national arrangements.

It was noted that it had been a difficult year for accounts due to estimates having to be made and the effect of the Covid-19 pandemic on financial and property markets. As such it was noted that the pension fund liabilities had been estimated at the end of January, but it was now necessary to wait for the final figures to come through for the end of March. It was hoped that what had been happening with the markets at the end of March had been taken into full account, but this would not be known until the figures were published by the pension fund, and as such this was subject to change as some of the assets were measured at market value. Further valuation changes to the date of

signing the accounts might also become necessary.

This difficulty in the accounts was given as a reason as to why the report from Grant Thornton had been included highlighting some of these issues.

Looking at key issues in the accounts, the Chief Accountant noted:

- In the prior-period adjustments two schools which were now academies had not been removed as assets from the accounts and as such this had needed to be done retrospectively. This had no effect on the Council's financial position.
- With regard to the Officers' Remuneration it was noted that the £50,000 threshold for inclusion had not increased as salaries had increased with inflation and as such more people had been included.
- Pension liability had decreased from the previous year, however, it was acknowledged that this fluctuated between years as it was based on estimates taking into account issues such as mortality, inflation and the conditions of the markets (as already noted).

The Chief Accountant further offered informal Question and Answers sessions and one-to-one sessions with Councillors.

Councillor Dr Moore thanked the Chief Accountant for the statement.

Councillor Dr Moore raised the question as to whether there was provision in the current Capital Programme to address the recently highlighted issues in the local textile sector. She further asked as to whether there could be funds in the budget to respond to the Black Lives Matter movement, such as funding for education, training or investigation into recruitment practices.

The Chief Accountant responded that this report concerned Capital funds spent in the previous year, and that new provision in the current or future capital and revenue budgets would need to be discussed by councillors with the City Mayor.

Councillor Dr Moore further requested clarification on what the Leicester North-West Major Transport Project was.

The Chief Accountant clarified that it mostly concerned highway works in the area and creating better connections. The Chief Accountant offered to send a link to the Capital Programme outturn report on the agenda of the forthcoming Overview Select Committee (OSC) meeting to Councillor Dr Moore.

Councillor Dr Moore further requested that a simplified digest of the information in the report be produced, containing a breakdown for the spending for the year and a comparison with spending for previous years on certain areas such as Adult Social Care.

The Chief Accountant noted with the statutory accounts it was difficult to do

year on year comparisons on department spend as this includes items such as depreciation and pension liability changes. As such comparing spend on Adult Social Care or indeed any other service it is recommended to look at the Overview Select Committee (OSC) for the following week. The Chief Accountant offered to send a link to the Revenue Outturn Report to members of the Committee.

Councillor Joshi referred to the pension liability and the pension deficit and noted that the deficit had been around £650m, then rose to £812m in the previous year and then fell again to £606m. He asked as to the reason for this drop and what the projection would be for the next year.

He further noted that on the 2019/20 Spend by Category the biggest spend was on Adult Social Care at 36%. He asked as to the effect Covid-19 had on this budget for the coming year.

Following on the issue of Covid-19, Councillor Joshi drew attention to the source of funding where business rates were the biggest source of funding at 43%. He noted that businesses had been forced to shut due to Covid-19 and some were waiting to open. He asked as to how business rates would be collected from these businesses struggling to pay the rates and facing financial crisis.

With regard to pension liability, the Chief Accountant reported that Leicestershire County Council aimed to recover this over a 20-year period. There could be large fluctuations from time to time due to factors such as the assumed effect of inflation on pay and pensions, assumed mortality rates and projected returns on investments. The estimate on inflation had been reduced for the coming years. She added that some assets performed better than anticipated which brought the unfunded liability down. She further indicated that small percentages can result in large changes for unfunded liability.

With regard to the spending on Adult Social Care, the Chief Accountant reported that the OSC had been receiving regular reports on how Covid-19 was affecting the Council and additional spending was being seen in Adult Social Care. It was as yet unknown how to forecast how this would change on a more permanent basis, and it was reported that OSC would be receiving regular reports during the upcoming year. She further reported that the Council was in a relatively good financial position compared to many other councils, some of which are introducing emergency spending controls.

In relation to business rates, the Chief Accountant noted that whilst collection of rates had dropped off slightly, in the case of smaller and retail businesses they were receiving business rate relief from central government this year. This means the Council were receiving the money directly from the government. She further reported that money had been received from the government for business grants.

Councillor Joshi further enquired as to whether the 2% allocated to reserves had needed to be used.

The Chief Accountant responded that this had not yet been the case, however, there was a managed reserve strategy aimed at funding the budget gap each year. She added that it was not yet known what reserves would be needed for the current financial year, however this was being closely monitored and more would be known towards September.

The Deputy Director of Finance confirmed that small businesses with properties of rateable value of less than £15,000 would not pay business rates this year and businesses in retail, hospitality and leisure would have a one-year rates holiday regardless of rateable value. He added that around £70m had been paid from the business grant scheme to around 6,000 businesses with £10,000 going to most small businesses that pay rates. He further added that many businesses in the retail, hospitality and leisure sectors had received £10,000 or £25,000. He however expressed concern over whether the government would continue the retail, hospitality and leisure relief schemes in future years, and hence reflected concerns over the future of some businesses and their ability to pay business rates.

Councillor Kaur Saini enquired as to what Corporate Items referred to in the context of the Comprehensive Income and Expenditure Statement.

The Chief Accountant clarified that this referred to charges that affected the whole organisation and were controlled centrally, giving the example of banking charges.

RESOLVED:

That the Draft Statutory Statement of Accounts 2019-2020 be noted.

46. FEE SCALE FOR THE AUDIT 2020 - 2021 AND UPDATE 2019 - 2020

The Chief Accountant referred to the audit fees letter from Public Sector Audit Appointments (PSAA), a copy of which was submitted with the agenda. It was noted in the letter that it had been agreed with audit firms that it was more efficient for the PSAA to write out to audited bodies directly rather than through the external auditor.

It was reported that the scale fee for both the 2019/20 and 2020/21 audits would be £112,884 for each. However, it was noted as it was reported earlier in the meeting the 2019/20 fee was higher than stated in this letter and this is envisaged to be the same for the 2020/21 fee. It was explained that the PSAA went out to procurement on set criteria and the auditing standards had changed. In addition to this the way the asset valuation and value for money assessment worked was likely to change.

Grant Patterson of Grant Thornton commented explaining that the PSAA were required under statute to issue the letter by a certain point in time and they were still working through fee variations. He also indicated that as a firm Grant Thornton had proposed increases of around 20-30% driven by workloads and

risk in the light of enhanced audit standards, whereas some firms had been arguing for a 100% increase. He added that there was a conversation going on between auditors, PSAA and the sector as a whole. He assured the Committee that Grant Thornton would coordinate with the Deputy Director of Finance, the Chief Accountant and the Director of Finance to ensure that the Committee was properly informed going forward.

RESOLVED:

That the Annual Fees Letter for 2019-2020 be noted.

47. REGULATION OF INVESTIGATORY POWERS ACT 2000 - BI-ANNUAL PERFORMANCE REPORT JANUARY 2020 - JUNE 2020

The City Barrister and Head of Standards submitted a report, which advised on the performance of the Council in authorising Regulation of Investigation Powers Act (RIPA) applications, from 1st January 2020 to 30th June 2020.

It was reported that the Council applied for 0 (nil) Directed Surveillance Authorisations and 0 (nil) Communications Data Authorisations in the period.

It was further reported that the Council's RIPA Monitoring Officer had attended an online refresher training course hosted by the National Anti-Fraud Network in April 2020 and that the Information Commissioner's Office had issued its quarterly newsletter.

RESOLVED:

That the report be received and noted.

48. COUNTER-FRAUD ANNUAL REPORT 2019 - 20

The Director of Finance submitted a report, which provided information on counter-fraud activities during 2018-19.

In discussing the report, it was noted that:

- The team were now fully staffed with qualified investigators.
- The Council had led the regional intelligence hub using Government funding for all local authorities in Leicester, Leicestershire and Rutland, collating and matching a range of data. The majority of district council member authorities had decided that the project would not in future be funded by them directly, so it had come to an end in June 2020.
- Utilising data matching software the team had identified 24 properties that despite being declared as empty for Council Tax purposes, they were in fact occupied. This had attracted £160,459 in additional funding for the authority.
- The team had identified over £1.8m of loss avoidance and income compared to £1.3m the previous year. This was in comparison to the running costs of the team which was approximately £400,000.

Councillor Joshi congratulated the team on receiving the money on the

declared empty properties and enquired as to what actions were taken against these people trying to avoid council tax.

Stuart Limb, Corporate Investigations Manager, clarified that in these cases Council Tax Liability was corrected and pursued for the money owed.

RESOLVED:

That the report be received and noted.

49. PROCUREMENT ANNUAL REPORT 2019 - 2020

The City Barrister and Head of Standards submitted a report which informed the Committee of the activity of the procurement function of the Council over the previous financial year and evidenced compliance with the requirements of the Contract Procedure Rules.

It was noted that the Council had adopted new Contract Procedure Rules in March 2020, and the report fulfilled a requirement of these rules to produce an annual report after each financial year.

The report looked at the procurement that had been conducted as well as highlighting key achievements and contracts awarded covering all divisions and considered contributions to the response to Covid-19 and the lockdown. It gave a breakdown of the contracts on the procurement plan for the previous year and how they had progressed. Some contracts were not featured in the plan as they were either below the threshold or began in 2019.

There had been some delays in procurements that were set to change this year and some things on the plan had been delayed for various reasons connected to Covid-19 such as staffing or market availability or the lack of ability to access sites for quotes. These issues had required reactive action to a range of new requirements such as Personal Protective Equipment and social distancing materials.

The report contained an update in terms of social value and the living wage and information surrounding waivers.

Councillor O'Donnell enquired as to whether Brexit would change procurement standards or whether the current legislation would apply.

Neil Bayliss, Head of Procurement, responded that EU regulations were now part of UK law and as such were required to be followed for the time being. There would eventually be the opportunity for the government to pass changes over time and as such there may be a government review of potential changes in the short-to-medium term. This would depend on trade deals with the EU and other trading blocs and whether such a deal would require open procurement. He concluded that there may be some changes over time, but there would likely be a similar continuation of rules.

RESOLVED:

That the report be noted.

50. ANY OTHER URGENT BUSINESS

There being no further items of urgent business the meeting closed at 17:09pm