Agenda Item: 2

AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: 12th June 2018

Time: 2.00 – 3.55p.m.

Place: Room 128, Shire Hall, Cambridge

Present: Councillors:P Hudson,N Kavanagh,M Shellens, (Chairman) T Rogers (Vice Chairman),and J Williams

Apologies: M McGuire and D Wells

Action

95. DECLARATIONS OF INTEREST

None received.

96. DRAFT STATEMENT OF ACCOUNTS 2017-18

This report presented the unaudited ‘Draft Statement of Accounts’ for the Committee to review and comment on ahead of its final review and approval and sign off at the Committee meeting on 30th July 2018.

Before the officer introduction to the report the Chairman paid tribute to the officers in achieving the early deadline for the production of the initial draft and also stated that the relatively few changes that he would be highlighting reflected the improvement in their presentationfrom that of previous years.

With the agreement of the meeting, the Chairman agreed to take the Pensions section of the accounts first (from pages 120).

The Chairman sought and received clarification that the accounts being reviewed were the entire Local Government Pension Fund accounts and not simply the figure for the County Council’s fraction of the total fund. He also sought and received confirmation that the Pension Fund was currently cash positive,meaning that the contributions of members were greater than the outgoing pension payments and that the latter did not rely on income made from the Pension Fund investments. A date of 2022/23 was referred to as the date when the Fund could become cash neutral and after that date to be in deficit. The Pension Officer considered this to be a conservative figure and this projection was not currently impacting on the Investment Strategy overseen by the Pensions Committee.

There was a discussion on the effect that Cambridgeshire joining the Access Pool would have on investments. It was explained that at the moment investment managers were picked by the Pensions Committee but in the future the fund would go to the Asset Pool who contracted with investment managers on participating Funds' behalf. Economies of scale resulted in reduced fees. It was confirmed that this did not have an effect on a Fund's agreed Investment Policy and, when going to the Pool, the Fund would still be in control in terms of specifying the level of risk and return being sought.

With reference to management expenses being 13% and whether this represented value for money, it was explained that it was currently very comparable to the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmark with the cost of administration of the Cambridgeshire Pension Fund being 19.5 pence per member compared to the CIPFA benchmark of 20.14 pence.

Issues raised included:

- Page 124 - on the number of employers with active members - the Chairman highlighted that the average number of employees had fallen which must represent a pressure on service delivery.

- The Chairman queried the most recent actuarial estimate that forecast a pay increase per year going forward of 2.7 % for salaries and what effect this over-estimate would have on the Fund. It was explained that every year the Actuary provided an update and this took account of whether the estimates provided for salaries had been accurate.

- Page 128 second from past paragraph – explanation of the date in the last line reading "No performance fee was payable for the period ended 30th June 2016" and whether the date was a typo. It was confirmed that it was not and was there to provide information on the 2016/17 for comparative.

- Page 132 – in the first table Item - Actuarial present value of promised retirement benefits – column titled "effect if actual results differ from assumptions" explanation sought on last lines reading "…and a one year increase in assumed life expectancy would approximately increase the liability by between £125m and £201m" on why the range shown rather than one figure. **The officer undertook to check the figure and provide an explanation outside of the meeting.** **Tracy Pegram**

- Page 135 - Taxes on Income - Seeking a response to why taxes on income was zero last year while a figure was included for the current year. It was explained that in some cases taxes had been levied on income from overseas investments and was accounted for as a Fund expense as it arises. It was stated that it was only a small figure relating to three items. Officers were currently verifying that the tax accounted for was correctly classified as irrevocable.

- Page 135 - 11A Investment Management Expenses - explanation sought of the £2m increase between years. The increase in management fees in 2017-18 reflected the increase in the performance of the assets under management in the year. In terms of a question on whether a drop in the value of the assets could lead to higher management fees it was explained the majority of fees were based on asset values and performance fees were only paid when performance exceeded the target value of return achieved on the investment. The Chairman suggested that investment managers could be seen to be receiving a double payment in fees when the assets values were going up if they also received a bonus if they were above target. The officers indicated that this was the case in good years but that fee arrangements with a performance element usually had a lower base fee than non-performance fee agreements.

- Same section: **There was a request for information to be provided outside of the meeting regarding the line under the heading 'Investment Management expenses' - other costs - which had shown an increase from £283k in 2016-17 to £1,102k in 2017-18. Action**

Tracy Pegram

- Note 14a) page 137 – A question was asked on which asset class in the table had achieved the greatest return. It was explained that the performance information was included in the annual reportwith equities performing best with a 1.5% greater return than mandated investment managers andprivate equities infrastructure performing better than expected.

There was a request that the following should be included in the final version of the Pension Fund Accounts: **Tracy Pegram**

- Management expenses - A note to include a reference to comparison with the CIPFA benchmark.

- A link to the full pension report.

- Page 127 – taxation section – irrecoverable tax – suggest the figure is included in the section.

- Reference to Access Pool in balance sheet note.

- 13. Taxes on Income – page 135 – Note expanded explaining the difference between the two sets of figures.

- Make reference in the notes 14-17 starting on page 137 that the figures do not add up across the page in the table. (The layout being a CIPFA designated requirement).

- An income / expenditure one page summary to be provided at the beginning if the section.

The Chairman asked to see a draft in advance of the Accounts being published for the July Committee meeting.

Tracy Pegram

Main Accounts

As part of the introduction and for the record Jon Lee,Head of Integrated Finance thanked the Finance Team and in particular Martin Savage, Eleanor Tod and Michelle Parker present at the meeting for their tremendous efforts in the achievement of producing the draft Accounts by 31st May, earlier than ever before. This was echoed by the Chairman on behalf of the Committee.

Issues arising / request for additional information / explanations provided included:

The same request as for the Pensions section that a one page income and expenditure summary be provided at the front of the accounts Action — **M Savage**

Comments on the Narrative Report section

Page 5 Reserves - reference to unusable reserves **– request to provide an example that a member of the public could understand.** — **Martin Savage (MS) / Michelle Parker**

Page 11-12 Connecting Cambridgeshire, Cambridge North Station – request for figures to be included — **MS**

Page 13 - Commercial Assets and Investments second paragraph first date to read 2017-18 rather than 20117-18. — **MS**

Page 14 - LGSS Summary – the Chairman queried the fact that LGSS used to generate large surpluses for the Accounts. It was explained that there had been a big swing for LGSS Law in month 10, as otherwise a surplus would have been achieved. It was highlighted that most of the large savings had now been achieved and further substantial savings were unlikely.

Page 15 - after Workforce Profile section – suggested a page break be inserted so that the Statement of Accounts section starts on a new page. **MS**

Page 16 - balance sheet – clarified the relevant note for investment properties was shown as Note 18 page 46.

Page 23 – Comprehensive Income and Expenditure Statement

- **LGSS Managed -** drop in gross Expenditure of £3m– clarified that thiswas due to an exceptional item of non-enhancing expenditure of £2.5m last year and £400k this year.

Page 25 - Balance Sheet as at 31st March

- In reply to a request for an explanation on whyintangible assets had increased by £600k this was a result of various IT systems purchases.
- Replying to why cash equivalents had no figures - it was indicated that there were no figures in the balance sheet and therefore required to be removed.

Page 31 – Note 6. Critical Judgements in applying Accounting Policies

- **Reference to Balfour Beatty plc** reading "- to replace Cambridgeshire's existing street lighting network and subsequent maintenance until 2016", The Chairman suggested the **wording might require revisiting as this suggested every street light was to be replaced. The officers would check and amend.** **MS**

Page 32 Heritage Assets

The Chairman queried the reference reading "…..there remains £3.4m of Heritage Assets that have not actually been reviewed to determine their individual lengths of deposit. It was explained that following the sale of the very largest items, the items remaining were individually of very low value. **It was requested that some explanatory text to this effect should be added.** **MS**

Page 33 Property, Plant and Equipment – 'Uncertainties' column reading "Assets valuations are completed on a five year rolling basis and values are reviewed annually to ensure they are not materially misstated"as clarification to the noteit was explained that this was now carried out on an individual asset basis using building cost indices. This had replaced the previous high level analysis approach last used in2015-16. However, with a five year rolling programme, some assets valued before this date still had three years to go before being revalued. .

Page 33 - Pension Liability – the explanation on funding arrangements was set out in note 19 on page 154-155. **The Chairman asked the officers to consider how this should be best reflected in the main accounts in terms of consistency.** **J Lee**

Page 35 – Notes on the Core Financial Statements

- The explanation on the line under ‘Adjustments to Revenue Resources’section reading – ‘Reversal of entries included in the Surplus or Deficit on the Provision of Services’ was that this was a statutory requirement.

Page 36 Movements in Balances in 2016-17 – there was a query on what the line ‘Holiday Pay’ represented. It was explained that this was an international accounting standard requiring to show in the Accounts Holiday Pay in the year it accrued and not in the year it was taken.

Page 37 – Transfers from Earmarked Reserves –it was confirmed the change in figures in the line titled ‘Carry forward – Schools’ down from £20m to 14m reflected that more schools had converted to academies.

Page 38 – Note 12Table, Financing and Investment Income and Expenditure- explanation of line titled ‘Net Interest on the net defined benefit liability’ **–** this was the Pension Fund liability owed from the Council.

Page 38 - Note 13. Table – the line on non ringfenced government grants which had fallen from -£51,294m to -£24,782m between the two years represented the reduction in Central Government provided grants.

Page 39 –Note 14 Property Plant and Equipment It was explained that the data for this and on the next page should be side by side when presented in a printed booklet version of the accounts.

Page 41 – Capital Commitments – Expenditure approved and contracted

- **Schools Fulbourn Primary £5.9m –** one Member highlighted that this was an example of a large capital overspend, as the original estimate had been £4.5m. It was explained that this had been different from other schools projects.**The Deputy Section 151 Officer undertook to** **T Kelly**

provide more details outside of the meeting.

- **As the area of capital project overspends was currently being reviewed byInternal Audit, there was arequest that when the summary of the review came back to Committee, this should include a presentation.** **R Sanderson inform Mairead Kelly**

- **Real Time Passenger Information –** There was a query regarding when it would take place. The contract had been signed in 2017-18 and involved spend of £900k for the next five years.

Page 42 Valuation of Long Term assets – in further discussion regarding the heritage assets and sculptures etc. in maintained schools, a query was raised that if a school transferred to academy status, who owned any art works displayed at the school. Officers believed that as they were only ever loaned, that the Local Authority would still own them as this was the case with Children's Centres **but it was agreed this would be checked and confirmation provided to Members outside of the meeting.** **Eleanor Tod**

Page 43 Note 16 - Long Term Debtors - explanation of the reduction from 40m to 20m was City Deal money which decreased by £20m each year.

Page 48 Reconciliation of FairValue Measurements within Level 3 of the Fair Value Hierarchy – The line reading **'Total gains (or losses) for the period included in Surplus or deficit on revaluation of Long Term Assets– Action: need to make clear which it was.** **MS / ET**

Page 49 Short Term Debtors

- **the changes to the Central government bodies line**– this reflected the City Deal Monies owed the next year. The rest was in grants.

- **The other local authorities, entities and individuals line -** reflected what was owed for which there would always be a figure included and depended on when the Accounts were struck.

Page 50 Assets held for sale – line reading – Revaluation losses – an explanation was provided for the treatment in line with the Code of Practice.

Page 53 – in the usable Reserves balance table it was explained that 'Capital Grants unapplied' related to capital grants received but not used e.g. projects that had not yet happened. One Councillor asked whether it would be better to use the word "unspent". In reply it was explained that the Code required the wording as set out in the Accounts.

Page 62 Senior officers' salaries – these were shown as a pro-rata. It was indicated that the **Executive Director People and Communities was a 50/50 split this year and therefore note 2. would need to change. Officers would also check with BDO if a note was required to highlight that the Monitoring Officer had resigned since the end of the financial year.**

MS

Page 63 Remuneration Banding Table –In respect of the one person in the £155-159k range this was the salary and redundancy package. It was suggested that an **explanation should be included that it was salary plus on-costs, as it was currently misleading. Action**

MS

Page 64-65 - Note 34 and Table - Dedicated Schools Grant (DSG) - there was a discussion on the deficit increase resulting from high needs which was anational andnot just a local issue. For 2018/19 there was a transfer from the Schools Block to support the high needs position. If the pressure continued to grow in the future, it would need to be met from the DSG. **Action: The Chairman asked for a note to be sent to him on what action was being undertaken.**

Rob Sanderson to contact Lou Williams

Page 66 - Note 35 Grant Income – table titled 'Grant Income supplied with Mandate Requirements' An explanation was sought regarding the substantial reduction in the Education Services Grant between the two years. It was explained that the Government hadin recent years changed how this grant was distributed to local authorities through moving it into the DSG, with the grant being reduced over time.

Page 66 - Note 35 Grant Income –table titled Grant Income supplied with Mandate Requirements

Line 'Pupil Premiums'**– The Chairman requested an explanation on it going down from £10,133M to £9,366m - action**

Jon Lee

Page 67 - Capital Grants receipts in advance – explanation requested for increase from £23,326m to £40,936m on the contributions section. This was in respect of £15m received for Northstowe.

Page 69 – This Land Companies - the Chairman queried the title as the subsequent text seemed to suggest there was only one company.It was explained that several had been incorporated in the last year.The information was provided in the Group Accounts. **The Chairman asked the officers to look at the text again to see if any re-wording was required.**

MS

Page 69 – Opus LGSS People Solutions Ltd

In response to questions it was indicated that the Country Council joined last year with the Suffolk County Council the lead authority. **The entry needed to be changed from stating there was a debtor balance to a creditor balance** **MS**

Page 74 – explanation requested on the line 'Payments during the Year' – It was explained that the PFI credits were one of the funding sources for each PFI scheme. The cost of the unitary charge at year under accounting requirements was split between items such as the service cost, interest costs and charges for the underlying debt.

Page 77 Impairment Losses - It was confirmed that the majority amount related to schools.

Page 79 Local Government Pension Scheme – In response for an explanation on the line titled 'current service costs' which had increased by £18m, it was explained that this was an Actuarial adjustment. **Officers indicated that they would ask the Actuary what the figure was made up of.** **MS to ask Actuary to provide a note**

Actuarial gains / losses lines - required explanation **MS / TPegram**

Page 91 Last paragraph headed 'Art Collection' – in relation to the 50 paintings, prints drawings etc.only having an average insurance valuation of £300, this was due to it not being cost effective to value them separately as they were local / unknown artists but would eventually be sold as one job lot.

There were no issues on the Group Accounts requiring special attention.

Having commented and suggested changes to the 2017-18 Statement of Accounts as submitted for Audit.

It was resolved:

> To note the draft Statement of Accounts ahead of the final review and approval at the Committee meeting on 30th July.

Chairman
30th July 2018