AGENDA ITEM: 2

AUDIT AND ACCOUNTS COMMITTEE: MINUTES

Date: Thursday 30th July 2020

Time: 2.00 pm – 4.43 pm

Place: Virtual Meeting

Committee Members Present:

Councillors: I Bates, (substituting for M McGuire) J French (substituting for P Hudson), T Rogers (Vice Chairman), M Shellens, (Chairman) D Wells and J Williams

Apologies: Councillors P Hudson, M McGuire and T Sanderson

Officers Present:

Fiona Coates Pension Services Financial Manager (Minutes 254, 255, 256 and 257)	Michelle Parker Group Accountant Closedown Team (Minutes 254, 255, 256 and 257)
Mark Hodgson Ernst and Young (External Auditor) (Minutes 250-257)	Rob Sanderson - Democratic Services Officer
Tom Kelly Head of Finance	Ellie Tod Group Accountant Corporate Finance (Minute 254, 255, 256 and 257)
Fiona McMillan Joint Director of Law and Governance (Minutes 250-257)	Duncan Wilkinson - Chief Internal Auditor

250. CONFIRMATION OF APPOINTMENT OF CHAIRMAN AND APPOINTMENT OF VICE CHAIRMAN

The Committee noted that at the Annual Council meeting held in May. Councillor Shellens was re-appointed as the Committee Chairman for the Municipal Year 2020-21 As it was for the Committee to appoint the Vice Chairman / woman, the Chairman sought nominations.

Having been duly nominated and seconded;

It was resolved to appoint:

Councillor Terry Rogers as the Vice Chairman for the municipal Year 2020-21

251. APOLOGIES FOR ABSENCE DECLARATIONS OF INTEREST

Apologies were received from Councillors Hudson, McGuire and Sanderson.

No declarations of interest were made.

252. MINUTES OF THE AUDIT AND ACCOUNTS COMMITTEE DATED 28th JANUARY 2020

It was resolved:

> That the minutes of the meeting held on 28th January 2020 were agreed as a correct record and would be signed by the Chairman when Shire Hall was re-opened.

Actions from Previous meetings

While there was no minute action log on the current agenda, an update document had been included on the published March Committee meeting agenda. At meeting was subsequently cancelled the day before the meeting due to the coronavirus pandemic lockdown. All actions had been completed as set out in that document apart from the two for which the following oral updates were provided:

a) **Additional information request on Brexit Settlement Scheme and 'Hard to Reach Groups'**

The work associated with promoting communications on the Settlement Scheme, and targeting individuals in hard to reach groups to provide them with assistance to navigate the scheme, was put on hold whilst the COVID19 response was prioritised.

However European Union (EU Exit) activity had now been reactivated, and it was recognised that some of the initiatives launched as part of the Covid-19 response were likely to prove useful in targeting the hard to reach groups.

There had been significant work to target those requiring additional support during the Covid period, and the links built up in various communities would be utilised as part of the next phase of Settlement Scheme activity. The detail of some groups was well established and monitored, including Cambridgeshire Children in Care and Care Leavers.

Additional emphasis was now to be focussed upon utilising the information built up during the Covid response and identifying where it provided the positive links to the hard to reach groups impacted by the Settlement Scheme with whom the Council would wish to engage.

b) **Community Transport Action Plan - Reclamation of Public Funding.**

This was still an ongoing action. The Chairman had contacted the Chairman of FACT / HACT two days prior to the current meeting and received confirmation that progress was being made, but as disclosure could affect ongoing financial negotiations, Councillor Shellens was not in a position to provide any further details.

253. PETITIONS AND PUBLIC QUESTIONS

None received for either by the County Council Constitution deadlines.

CHANGE IN THE ORDER OF BUSINESS

With the consent of the Committee, it was agreed to take the External Auditor reports out of sequence as the External Auditor Mark Hodgson was required to attend another Council's Audit Committee at 4.00 p.m.

254. CAMBRIDGESHIRE PENSION FUND PROVISIONAL AUDIT PLAN YEAR ENDED 31ST MARCH 2020

Mark Hodgson the Associate Partner for Ernst and Young LLP (EY)presented the report which, using the standard external audit template, set out how the Council's External Auditors intended to carry out their responsibilities. The purpose was to provide the Committee with a basis to review the proposed audit approach scope for 2019-20 in accordance with the necessary statutory requirements.

The provisional Audit Plan summarised their initial assessment of the key risk factors and outlined the audit strategy in response to the risks and EY would inform the Committee if there were any significant changes or risks once the procedures had been completed. An update would be provided at the next Committee meeting. The report had already been presented to the Pensions Committee on 18th June and set out the assurance work required to be undertaken to provide an audit opinion. It was confirmed that it had demonstrated a stable Audit year with no changes in the risk designation from the previous audit year.

Key issues highlighted:

- **The COVID pandemic had provided an issue of complexity in terms of Pension's Fund investments, and specifically level 3 investments and their valuation at 31st March.** They were difficult to value as they were not on a quoted exchange or were specific to the asset e.g. Cambridge and Counties Bank, and therefore required a specialist valuation. These were usually provided as an estimate in December, however COVID had now made this estimate uncertain and the External Auditors intended to wait for the actual figures before being able to conclude the audit. There was the expectation this would be resolved by the required new Government sign off date of 30th November. It was highlighted that the majority of the audit work had now been undertaken and it was only the Level 3 valuations that were outstanding.

- **Materiality -** Planning Materiality had been set at £31.93 m, Performance materiality at £23.95m with all audit differences /

uncorrected misstatements greater than £1.59 million to be the subject of report back to the Committee.

- **Page 14 - 'Going Concerns' Compliance with the new ISA 570 Government requirements'** – although this would apply in full for the next years' accounts, due to the Covid-19 crisis this had been backdated and therefore a 'Going Concerns' assessment would be required from management as an additional disclosure note to include how assets would be liquidated if there were any cash-flow concerns.

Issues raised in discussion included:

- **Page 290 of the agenda pack on risk areas -** the Chairman referred to the section on the value of unquoted investments where the report suggested that about 18% of asset holdings might require to be liquidated which sounded unrealistic to the Chairman. In reply the Auditor clarified he was not saying all the assets should be liquidated at the same time, but was highlighting that level 3 assets which comprised 18% of the asset fund which were therefore material to the Fund could not be easily valued, so getting them accurate was a key audit consideration.
- **Referencing Page 13 and what appeared to be a repeat of the same procedures under both Pension liability assumptions and IAS 26,** the Chairman queried whether both procedures were required. The External Auditor confirmed that they were, as they were different procedures.
- **Page 29 EY Transparency Report 2019** – the Chairman asked that as June 2020 had now passed would there be a revised report. It was confirmed that one was produced every year and would be included on the EY website.

The report was noted.

255. CAMBRIDGESHIRE COUNTY COUNCIL AUDIT PLAN FOR YEAR ENDED 31ST MARCH 2020

Mark Hodgson presented the report for the main accounts which, using the standard external audit template, set out how the Council's External Auditors intended to carry out their responsibilities. It provided the Committee with a basis to review the proposed audit approach scope for 2019-20 in accordance with the necessary statutory requirements, and to understand if there were other matters that the Committee considered might influence the audit.

The provisional Audit Plan summarised EY's initial assessment of the key risk factors and outlined the audit strategy in response to the risks. The Committee would be informed if there were any significant changes or risks once the procedures had been completed. EY would provide an updated plan if there were any additional audit risks and procedures arising from the financial reporting requirements of the Covid-19 pandemic.

Page 5 set out the categories where there was no change in risk or focus from the previous audit. On ‘Property, Plant and Equipment’ and the ‘Valuation of Land and Buildings and Investment Properties’ categories it was highlighted that the Council had engaged a new external valuation specialist in 2019-20 and this, coupled with the impact of Covid-19, presented a higher risk that risk valuations would contain material misstatements.

Page 6 risk highlighted an increase in risk areas for ‘Accounting for Grants’ and ‘Pension Liability IAS 19’. The latter referenced back to the Pensions Audit and the ‘Level 3 Valuations’ and that until there was certainty on their values, the Council accounts remained unassured for the reason set out in the report. It was highlighted that the Pension Fund deficit estimate and the valuation of the Fund was impacted further by Brexit, Covid-19 and the triannual valuation.

Page 7 set out details of a new risk in respect of ‘Dedicated Schools Grant Deficit Accounting’ as a result of Department for Education (DfE) changes affecting the full year accounts for the following year, but which had been backdated so if there had been a negative figure, it needed to be shown in the accounts and how this impacted on Council reserves.

There were three considerations in the report under the title ‘Impact of Covid-19’ as follows:

a) **Property Plant and Equipment Valuations** – which was already a significant risk due to Covid-19. There was material uncertainty regarding valuations that had previously been undertaken and required a further assessment of its impact since 31st March. Due to market movements valuations might now be overstated. The overseeing professional body had asked all valuers to put in a clause regarding material uncertainty at year end due to the impact of Covid-19 taking into account what had happened to values in April, May and June. Discussions were ongoing regarding updating the valuation report. The Chairman asked for an initial officer view. The Head of Finance stated it was too early to confirm, as discussions continued with valuers but it appeared that markets had started to stabilise, but this required confirmation.

b) **Pension Valuations –** Due to market volatility, until Pensions valuations at 31st March were confirmed, this was likely to have a significant impact on pension assets and liabilities.

c) **Going Concern -** what was required was a management disclosure note on the cost of Covid-19 in terms of the estimated loss of revenue in terms of its impact on the reserve position 12 month from the audit opinion. Audit required assurance that the Council had undertaken an assessment.

Group materiality It was highlighted that planning materiality had been set at £17.21m representing 1.8% of the prior years’ gross expenditure of services plus financing and investment expenditure. Performance materiality had been set at £8.61m with the intention to report all uncorrected misstatements to the primary statements greater than £0.86m.

Value for Money Risks Conclusions - these could not be undertaken until the 2018-19 assessment had been completed and was still awaiting the conclusion from BDO on their 2017-18 Value for Money conclusion.

Draft Accounts Revised Guidance - Draft accounts had to be prepared under new revised guidance with a deadline of 31st August. External Audit had received the draft accounts on 19th June and had been able to review them on 29th June and as a result, currently the audit was at a far more advanced stage than in the previous year.

Issues raised included;

- Why, as it was stated there was a significant risk to the Pension Fund from Covid-19, had this not also been highlighted in the previous Pension Audit report? In respect of the separate Pension Fund audit no audit was undertaken of the liability in the Pension Fund accounts, with the Audit limited to the asset valuation. The liability was assessed as part of the Council's overall Accounts and represented the opposite side of the actuarial model.
- Why unlike 2018-19, when details of the variation fee were provided, was there no financial details of the Audit fee variation for 2019-20? It was explained that the document set out the details of the laid down scale fee. The additional, variation fee was still the subject of discussions with Management. As in previous years, the statutory standard fee laid down by the Government's Public Sector Appointments Ltd (PSA) did not reflect the amount of additional work that auditors had undertaken to provide an ISA opinion. The agreed variation would be included in the final Audit report. EY's proposal was as stated in their report.
- Page 6 – 'Accounting for grants' - the Chairman, in noting that this was an increase in risk to red due to the identification of material errors in the accounting and treatment of grants in the previous audit, asked how confident officers were that these errors would not be repeated. Tom Kelly, Head of Finance indicated that a significant amount of work had been undertaken in this area, with improvements having been made.
- Page 14 referencing asset valuations, as these were fluctuating wildly, were there to be dates set for specific valuations? In reply it was explained that valuations were received on a daily basis from the markets as market activity picked up. There was expected to be a point in time where the figures could be given regarding whether the 31st March figures were not considered to be materially changed, or if there was a change, what their new value would be. While a date could not yet be given, this was expected anytime between now and the end of September.

- The Chairman queried the Group materiality figure of £17.21m which the report stated represented 1.8% of the prior years' gross expenditure of services as he could not find the figure. It was clarified that it had been included in last year's Group Accounts at £956m.

It was resolved:

a) To Note the report.

b) To confirm Committee's understanding of, and agreement to the materiality and reporting levels as set out in the officers' report.

256. ANNUAL GOVERNANCE STATEMENT (AGS)

The Chief Internal Auditor Duncan Wilkinson introduced the report, explaining that the AGS document itself was already included as part of the Council's Accounts as set out in the report on the agenda. Whilst the document had been prepared by Internal Audit, it was owned by the Council to be agreed and approved by the Chairman of General Purposes Committee, Chief Executive and Chairman of the Audit and Accounts Committee. The Statement provided an overview of how the Council was complying with its adopted Code of Corporate Governance and Best Practice.

The following were identified as the key highlights:

- Based on the work completed, assurance existed that the governance arrangements at the Council were fit for purpose and also consistent with The Chief Internal Auditor's Annual Audit Opinion of 'Satisfactory' for the year to 31/3/20. *(Note: The full Internal Audit Annual Report , along with the other routine monitoring / information reports, been circulated to the Committee on emails and not included on agendas during the current lockdown as agreed by Group Leaders in order to limit the number of reports on an agenda and to keep meetings to a manageable size).*
- The preparation of the AGS did not identify any significant governance issues requiring action.
- Financial pressures were highlighted as being a challenge (recognising the national picture across the public sector) and would only increase with the impact of Covid19.

The Chairman asked why, as the document was largely retrospective and with the assurance systems already in place, was the opinion given no better than satisfactory. It was explained that this was as it had only been the first year of the implementation of ERP Gold and therefore Internal Audit did not have multiple year assurance of the stability and resilience of the system. Duncan Wilkinson the Chief Auditor sought to provide assurance that the satisfactory audit opinion was not a negative, as to be able to provide an opinion rated 'Good' required evidence of strong systems of control over several years. It was therefore considered to be a reasonable opinion, taking into account all the pressures.

It was resolved to agree:

> That the AGS published alongside the Statement of Accounts included on pages 234-244 of the agenda document pack was consistent with the Committee's own perspective on internal control within the Council and the definition of significant governance and control issues given in paragraph 3.2 on page 21 of the agenda pack.

257. DRAFT CAMBRIDGESHIRE COUNTY COUNCIL STATEMENT OF ACCOUNTS 2019-20

This report presented the draft Cambridgeshire County Council (CCC) Statement of Accounts 2019/20 and also included the Annual Governance Statement and Pension Fund accounts. The draft Accounts were provided as Appendix A to this report.

The currently unaudited draft accounts presented the financial position of the Council as at the 31 March 2020. The next stage was for the accounts to be audited, with a final version being presented back to the Audit and Accounts Committee for sign off after consideration of the external auditor's report. This was likely to be in October with a special meeting having been added to the Committee's meeting programme for that purpose. .

It was explained that the 2019/20 accounts followed on from the difficult process to complete the 2018/19 accounts, which were not finalised until 14 February 2020. This significantly shortened the period available to the closedown team to focus on preparing the 2019/20 accounts, including implementing any changes to processes and procedures following on from the first year of using the new resource system ERP Gold (Agresso) in 2018/19. However, the Finance Team had implemented the high priority changes required, including those with the most significant impact. Despite this progress, it had still been necessary to agree a short extension permitted for the production and review of the accounts, within the window permitted by the Regulations. The main reasons were set out in paragraph 2.5 of the report. As a result, EY had agreed to commence their audit two weeks later than originally planned on the 29th June; with the missing two weeks to be retrieved in October (which had been set aside for such contingencies) Both the Council and EY anticipated that the audit would still be completed and the accounts available to be signed and approved at the end of October as per the original timetable, and in compliance with the statutory regime.

Key issues highlighted included:

- Paragraphs 2.26 and 2.27 providing an update position on objections to previous sets of accounts and the lack of progress in dealing with them from the previous external Auditors BDO, despite many requests as detailed in the paragraphs. As a result, one objection to the accounts in 2016/17, one objection to the accounts in 2017/18, and the value for money opinion on the accounts in 2017/18 were still currently not concluded. This had culminated in Public Sector Audit Appointments Ltd (PSAA), the body responsible for appointing auditors to local government, having become involved requesting that BDO to provide an update on progress and timescales. In relation to 2018-19, there was one objection and the value for money opinion that was yet to be concluded. EY had assessed that progress was required with the preceding year's work by BDO before this could be substantially moved forward. As an oral update it was understood from the PSAA that BDO would be writing shortly.

- Section 3 set out the concept of 'Going Concern' in relation to the impact of the Pandemic. This assumed that the Council, its functions and services would continue in operational existence for the foreseeable future and underpinned the accounts drawn up under the Local Authority Code of Accounting Practice. The Code presumed a 'Going Concern' basis as local authorities carry out functions essential to the local community. External Auditors were required to undertake sufficient and appropriate audit procedures to consider whether there was a material uncertainty on 'Going Concern'.

  - The Council was continually assessing the impact of Covid-19 on its future finances and had prepared the draft accounts as a going concern. Paragraphs 3.4-3.9 of the report provided an outline of the considerations relevant to the assessment and Finance officers fully expected to be able to confirm this in detail and for not less than the twelve months ahead of the date on which audited financial statements were ready for signature. Similar information would form the basis of an additional disclosure note to be included within the final accounts to address going concern being supplementary to the detail already included in the narrative statement describing the impact on Services and some of the financial consequences known in mid-June.
  - It was highlighted that despite significant further financial support having been received from Central Government, there was still the possibility of a potential deficit at year end if additional resources provided did not match the spend undertaken and this was being closely monitored by the relevant service committees and General Purposes Committee.
  - Also under the 'Going Concern' paragraph were details of the underlying financial strengths that the Council had that were considered adequate to cope with current Covid uncertainty. Going forward however there were still uncertainties on Government spending plans which would require continued close monitoring.
  - The Head of Finance took the opportunity to thank Ellie Tod, Michelle Parker and other officers working on the accounts for the good progress so far made.

The Chairman opened up the debate to Committee Members for their comments and in discussion issues raised included:

- The Vice Chairman asked if there was yet a time frame for BDO to respond. The Chairman understood that something was expected by September and he would keep the Committee informed.

- **Page 41 under Narrative Report heading first bullet which made reference "…*that following a number of acquisitions in 2019-20 the Council was not intending to purchase further commercial properties in the near future….*"** one Member challenged whether it was appropriate for a previous year's set of accounts to make policy that could be seen to be restrictive and tie the hands of the Council going forward in commercial ventures. In reply it was explained that the narrative statement was commentary on the position looking back from March, but there would be some additional commentary on the position going forward. This was not new information and joined up with the position on the Capital Programme as voted by Members. This was that there were not the resources allocated going forward as had been the case in the previous year for property acquisition. However, officers would take on board the point made that the Council should continue to monitor the position on potential investments that could add value. **The Chairman agreed with the member who raised it and suggested it would be better to remove the wording in the sentence entirely.** The officers undertook to take out the identified wording as requested. **ACTION: Tom Kelly**

- The Vice Chairman indicated the Chairman and himself had already held a preliminary discussion meeting with officers to review the Accounts and give advance notice of any issues requiring clarification. He highlighted his concern regarding the scant mention of the move to Alconbury Weald in the paper and potential issues that had arisen and suggested that it needed to have more than a one line comment. He understood that there were problems with the foundations that could lead to further delays in its progress which could have a financial impact on the Council.

- **Pension Fund - regarding the value of Cambridge and Counties Bank** (CCB) having reduced from £81m to £58m raised as an issue by the Chairman in a briefing meeting and for which a response had been sought for the Committee, the Vice Chairman provided details of an officer response prefacing for context that Barclays had announced that day a £3.7 billion loss and Santander UK had written off £5.4 billion due to Covid-19 and uncertainties on what was happening in the markets. Pensions officers had highlighted aspects of the response received from the bank's auditors. This stated that given the ongoing uncertainty brought about by the Covid-19 pandemic and the inability of public company analysts to accurately estimate the impact on forecast performance, they had solely considered in their analysis, historic GPC multiples, being either a company's latest audited financial statements or released trailing, twelve month information. From an initial review Pensions officers concluded that they had assumed that the 2019 calendar year profit after tax (PAT) was the "maintainable profit" and based the profit related element of the valuation on this level of profits, discounted by 15%. This was a contrast to previous years when the valuation was based upon the average of the profits of CCB forecast for the following 2 years discounted by 10% and was why there was such a marked reduction. Officers concluded that this was a pragmatic refinement of the approach given the uncertainties of COVID. However it was also highlighted that it was a very subjective valuation and it was possible, if not likely, that no other valuer would come up with a similar value for CCB. However the sizeable write-down from the prior year should demonstrate to the External Auditors that it had been looked at realistically.

- The External Auditor was asked if he had any reason to doubt the valuation figure of £58m. Mark Hodgson replied that this was a very specialist asset and it would be for EY's expert assessors to determine if the range of valuations was applicable for this financial year.

Having asked all other Members of the Committee for their comments on the Accounts, the Chairman set out how he intended to structure the rest of the meeting. In his introduction he drew attention to the fact that every year he had been Chairman he had prefaced the accounts discussion by saying it had been an unusual year. However, the current year had been completely extraordinary and quite unprecedented. His intention was to go through the Accounts and raise his issues on minor points of detail / clarification, but would save for discussion later in the meeting specific issues such as the High Needs Block and the effect on the Council's finances of likely future interest rates. On the issues that he was seeking clarification, these included the following:

- **Page 27 paragraph 2.17 reading '*The Council's earmarked reserves increased by £12.4m during the year*…**' The Chairman asked for the reason. A full response would be provided in an email **Action Ellie Tod** In the meantime it was explained that it was to do with General Fund balances being topped up a lot of which was the timing of the receipt of additional Covid Grant of £15m which had been received before year end so had to be added. The grant had been earmarked by General Purposes Committee for responding to the pandemic. Due to the current uncertainty on the financial position going forward, GPC was holding the Grant centrally and would take a strategic view before allocating to individual service areas.
- **Page 29 Para 3.3 – reading '*The Council is continually assessing the impact of Covid-19 on our future finances and had prepared the draft accounts as a going concern …we fully expect to be able to confirm this in detail and for not less than 12 months ahead of the date on which audited financial statements are ready for signature* … '** The Chairman asked for an explanation as he was concerned at a potential loss of control, as the Committee would not have available information for 12 months ahead and was concerned that between the date of the special meeting In October for the final review of the accounts, and final sign off, there could be further

changes. Officers responded that the intention was to sign off the accounts in October / November and would include the disclosure note on the assumptions for the year ahead. Mark Hodgson clarified that the intention was for the Council officers to set out the worst case financial scenario for the 12 months ahead so the projection was sufficiently covered for audit purposes to then be tested by the External Auditors. Any additional funding from Government received after this would be an upside relative to the ‘Going Concern’ assessment.

- **Referencing text in Paragraph 3.5 page 26 reading** “….***and that there were reasonable grounds that 2020-21 outturn position should not worsen significantly ….’‘*** the Chairman expressed concerns that unless there was an increase in Council Tax or Central Government funding the reserves would be seriously depleted by three years of significant under funding and suggested the Council could find itself potentially in Section 114 notice situation of the Council having to declare itself bankrupt. The Head of Finance provided assurance that the Council was not at that position at the current time, currently had sufficient reserves and was not close to this as the three year planning process announced by the Government for dealing with local taxation reductions arising from the Pandemic allowed timing flexibility to smooth over the worst of the financial situation.
- **Referencing Page 34 - the contents page** - the Chairman had already suggested as part of the Accounts briefing with officers that there should be a one page summary of the larger current summary and, as it was difficult to move around the Accounts document, this would be aided by a more detailed index. Officers confirmed that they were in the process of producing these. **ACTION Michelle Parker**
- **Page 36 - Pie charts diagrammatical presentation** - there was a request to have these in a simpler format **ACTION: Michelle Parker.** It was reported that these were already being actioned.
- **Foot of Page 40 on the table on the Council’s performance at year end** - The Chairman commented that +£0.2m as a final outturn represented a dramatically improved conclusion to the position compared to recent previous years and the officers deserved the highest praise for achieving it.
- **Page 42- Key Performance Indicators** - there was no reference to the intention to achieve zero carbon emissions by 2050 as one of the four corporate objectives. The Chairman also queried whether the reference to Cambridgeshire being carbon neutral by 2050 was a countywide or council target? The adoption of the target was referred to at other parts of the document but the target came in too late to be likely to have been included as a key performance indicator in the period. . Officers would check if it was a county or council target. **ACTION: Tom Kelly** The Chairman suggested that a note saying nothing had happened during the year would deal with his initial query.
- **Page 45 Reserves text in last paragraph** - How had there been an increase in Usable reserves of £16.8m.This was largely due to the Covid grant received. In terms of why unusable reserves had decreased by £36.6m this was as a result of a reduced Pensions

liability based on the Actuarial valuation and some valuation losses on Property Plant and Equipment.

- **Page 60 Covid-19 impact** - This highlighted that while there had been minimal financial consequences in 2019-20 existing plans going forward would require significant reshaping.
- **Page 61 referencing text in the first paragraph i indicating '…*that there had been significant support to schools and other educational provision during this period…*'** what had been done to support academies? Children and Young People (CYP) Committee had recently heard from the Director of Education who had met regularly with academies providing support and this had worked well. *(Note: The level of support provided by the Chief Education Officer was recognised in the highly complimentary comments made by academy representatives at the July Schools Forum meeting).*
- **Page 71 –** Referencing in the table the line **'Surplus or deficit on revaluation of Property, Plant and Equipment (PPE)'** which had reduced in value by £166m compared with the previous year – reassurance was provided that this was as a result of revaluation methodology and had been taken out of unusable reserves.
- **Page 73 - Balance Sheet PPE which cross referenced the point above with a fall in value by £118m** – the question was raised on the details of the change in the valuation method in specialist property. It was explained that school assets had previously been valued on what was on site, but the Council had moved to a Modern Equivalent Asset valuation based on an estimate of what would be the cost to replace the whole school to current DfE standards. There had been no loss of assets, apart from those schools who had converted to academies, it was again to do with the above and ensuring property valuations were in line with the latest CIPFA guidance.
- **Page 88 Better Care Fund (BCF) Table** – With regard to the different figures in the table why was the Net surplus or deficit on the pooled budget and the Council share of the net surplus or deficit both showing as 0? This was in accordance with the agreement with the local NHS on how the Better Care Fund operated. The Fund represented a subset of spend on community services / social care spend and was not the whole picture as it was agreed that any overspends would go beyond the pool. The BCF mechanism was to ensure there was a pool and that all the risk was held beyond it by each partner for its own spend. . The cash transfer of £16.1m was the amount that came to the Council,
- **Page 91 Officer Remuneration Senior Employees** – the Chief Executive and other officers had part of their salaries paid by Peterborough but the footnote referring to the relevant asterisk was not shown until the third page which perhaps made the amount shown misleading when reading that page. The Chairman asked that this should be shown or explained in the introductory text on the first page.
ACTION: Officers to add comment Michelle Parker
- **Page 93 - On a query raised on variations on individuals pay between the years** this was a result of not all posts in the list having existed for two years, some having been created mid-year. Attention was drawn to inconsistency in Footnote 1 showing that the Chief

Finance Officer of the Cambridge and Counties Bank had resigned on 26th October 2018 which was correct, but later in the related parties disclosure section of the Accounts it was stated incorrectly that he was still a director, which was not the case, and would be corrected on the final version.

- **Page 95 exit packages** – it was confirmed that much of what had been shown was due to the disbandment of the Schools Catering Service.
- **Page 104 unusable reserves** - **in the line Revaluation Reserve down from £539.129m to £471.848m** a loss of £67m reserves, an explanation was requested. This was mainly as a result of the revaluation of school property assets.
- **Page 105 - In the table the line reading *'Downward revaluation of assets and impairment losses not charged to the surplus or deficit in the provision of services showing a minus £157m figure'*** this was for the same reason as the above, from revaluation losses.
- **Revaluation gains / losses queries - including revaluation gains having increased from £1m plus to over £84m.** Accounting requirements and the use of rolling programme for some asset variations meant that there were fluctuations as it depended on the history of gain and losses of that asset and this determined where they were subsequently shown in the accounts.
- **Page 108 – Movement in Reserves Statement - Supporting Notes** – The Chairman noted that for both years there was a minus amount of £1000 and in reply to him asking what it was for and if it could be taken out, it was explained it was in relation to the lease at Castle Court. It was a deferred capital receipt and was required to be released very slowly as it was early in the lease. However the note required to be included as the overall balance was material. Later on much larger amounts would be released.
- **Page 112 – Balance Sheet Supporting Notes** - Officers confirmed that the Revaluations paragraph would be re-written **Action: M Parker**
- **Queries on rolling programme revaluation of assets** – in respect of DRC (Depreciated Replacement Costs) assets, how long had the figure been £4m for those having to be revalued every year and should it have gone up with inflation. As these type of assets had to be revalued and because previously not all assets had been revalued every year and were then materially different from if they had been revalued, the policy decision was made to revalue all DRC assets in the year. On the figure of £4m it had previously been £5m which had still been a material misstatement issue so the valuation figure had been lowered so that the valuations should be materially accurate at the balance sheet date. The External Auditor confirmed he had no issues with the approach being taken.
- **Page 113 Valuation of Long term assets** – request for an explanation for their increase. This was in relation to the assets being assessed in the particular year e.g. for Land and Buildings £56m in 2015-16 to £912m in 2019-20 the latter was as set out on page 77 and reflected their cost value and not their net book value and explained how the value was split across the years and therefore showed what assets were valued in each year.

- **Page 122 Balance Sheet Notes** - a query was raised on whether student accommodation changes were a material change, This was part of the issue regarding uncertainty of property values but at this stage it did not appear to be a material change as student accommodation was based on rental income prospects and the impact of those were relatively short term, and therefore the asset value of the property was not likely to be affected in the longer term.
- **Page 124 short term Debtors** – the Chairman was pleased to note that these had reduced from a total of £119m at 31st March 2019 to £92m at 31st March 2020 with trade debtors down by £20m and were moving in the right direction. As the Chairman was concerned regarding the Council's ability to recoup the money at the present time due to the Covid19 crisis he requested that Robin Bates Revenues and Benefits should provide an update on high value debtors and the two large debts still outstanding either by email if it could be provided sooner but otherwise at the September or October meeting. **Action: It was agreed that there should be an update report on Debt and Debt Collection, including large debts at the time of the September meeting. Action: Robin Bates/ Tom Kelly**
- **Page 127 Grant Income** - why had the other grants column total shown such a difference from £61,608 in 2018-19 to £8,406 in 2019-20. It had been necessary to separate grants in the current year's accounts depending on whether they were used for service revenue income or to fund capital expenditure and this split across capital and revenue varied from year to year. .
- **Page 129 – Capital Grants and Contributions received in advance** On the line Section 106 contributions and Community Infrastructure why was there a figure of £2,945k for 2018-19 but 0 for 2019-20? Also linked to this on the Long Term Section 106 Contributions line there was request for an explanation on the reduction of £20m in Section 106 contributions from 2018-19 to 2019-20. Both were classification issues, in part to recognise that there were now no conditions attached to some Section 106 agreements, meaning that they were no longer classified as received in advance, but were now included in capital grants and contributions unapplied, and also, partly a timing issue, on when they were actually received and used.
- **Page 147 - Local Government Pension Scheme Assets** – there was a query on why a number of lines showed zero compared to the previous year. . This was due to the disinvestment from segregated equities to pooled equities during the year.
- **Page 154 – Debt -Re-financing Need for 20–21 £242m** – asking how would this be financed and what was the strategy going forward? The approach being taken was consistent with the Treasury Management Strategy where short term debt borrowing remained an option due to a fairly liquid market and had been rolled over with local authorities. On longer term borrowing the Council always looked for opportunities and took out a £100m Public Works Loans Board (PWLB) when rates were lower in 2019. At the current time there was an additional premium above gilts which made borrowing from them less attractive. On longer term borrowing Her Majesty's Treasury would be consulting on future

borrowing rates from the PWLB. A further question was raised on whether there were opportunities in the commercial sector. It was explained that there was nothing comparable / competitive at the current time compared to PWLB's pre-premium rates. Another option might be from UK MBA for capital borrowing, as they were looking to issue bonds for the sector and borrowing from them would take out the need for additional administrative requirements necessary when borrowing from the commercial sector.

- **Page 158 - Group Accounts and Supporting Notes** - Group balance Sheet – Query on the large difference on the Investment property line between the two years. This was due to the number of acquisitions agreed during the year by the Commercial and Investment Committee.

Pension Fund and Supporting Notes

- **Page 175 (143 of accounts report) in relation to investment income being down by £11 million and a £400 million swing on asset valuations** - there was a request for an explanation. The Vice Chairman replied this was due to Covid -19 and the valuation as at March.
- **Page194 – (162 of accounts) 1. Payments to and On Account of Leavers** – **query on the line showing 4,732 Group Transfers for 31st March 3019** - this was in respect of a group transfer out to Norfolk County Council.
- **Page 195 – (163 of accounts) Note 13 Investment Income Table querying the reduction of 'Pooled investments – unit trusts and other managed funds' A query was raised on why were pooled investments income down £10m dividend between the two years.** In the earlier year the Fund had received a £10m equity dividend from one of Fund Investment managers and was a one off.
- **Page 196 - (164 of accounts) Note 14, Investments-** querying the line headed **'*Derivative Contracts: Purchased written options showing £137m*** - this related to a new equity protection strategy with the Fund also taking out £101m protection on passive investments to cover for losses if the market dropped between 10% and 30%. Currently it had stabilised to around a15% drop in the Fund value, but as things could get worse, would be held for the time being and not cashed in. In answer to a further question on whether this was an additional cost, the answer was yes but was far less than the cost of losses that would have been incurred if it had not been taken out.
- **Page 197 (167 of a/c) Note 14a) Reconciliation of Movements in Investments and Derivatives - query on line headed Spot FX contracts** – which had a change in the market value of £160 shown during the year but did not have any market value. This table did not include purchases and sales for the investment balances and was added as a comment below the table.
- **Page 201 (169 of a/c) - 14c**) table headed **Security reading '*the following investments represent more than 5% of net assets of the scheme',*** the Chairman highlighted that there was no date and one of the figures was less than 5%'. It was indicated that the comment had

been taken and the accounts updated. The original calculation was on investments of the Fund when it was over the threshold figure, while the figure shown was calculated on the whole value of the Fund.

- **Page 202 (170 of a/c) Text on Forward Foreign Currency Exchange Rates** - the Chairman expressed concerns at the wording which suggested that investment managers could gamble on the exchange rates as it read that investment managers could take advantage of forward foreign currency contracts to take advantage of current exchange rates. Like protection taken out on Equity fluctuations, the Vice Chairman clarified that the Council had also secured protection on the exchange rates to protect against rises and falls in the dollar. The Chairman suggested the wording needed to be checked and potentially changed so that it did not suggest investment managers were given unlimited freedoms on their activities. **Action: The Vice Chairman / Pensions officers to discuss revised wording.**
- **Page 210 - (178 of a/c) Other Price Risk - Sensitivity analysis** – looking at the figures there were areas where the Chairman suggested there was a risk of large losses. In reply it was explained that the Fund would receive figures from the Actuary at the end of next year which would inform officers of the fluctuations in the markets. On credit risks, officers would be speaking to the banks next year to establish what these would be.
- **Page 217 (185 of a/c) c) Liquidity Risk second paragraph** – query on the reason for the large increase in illiquid assets up from 18.8% of total Fund assets to 24.6% of total fund assets. This was due to increased allocations into alternative assets, including IFM infrastructure and additional commitments to private equity and infrastructure.
- **Page 219 (187 of a/c) Mortality Assumptions –** why the decrease in life expectancy between the 2016 and 2019 valuations. The Chairman requested an explanation. **Action Fiona Coates.** The Chairman of the Pensions Committee additionally commented that already as a result of the Covid-19 crisis that another year could be taken off Male life expectancy going forward.
- **Page 222 - (190 of a/c) Note 22. Current Liabilities** – in reply to a query on why no amount was shown for Equitable Life in 2020, it was explained that the benefits had been transferred to Utmost who were now the Fund provider.

10 MINUTE BREAK TAKEN - THE MEETING RESUMED AT 16.17

On the resumption, the Chairman as indicated earlier, brought h the Committee's attention to some particular areas where he believed more discussion was required.

COMPREHENSIVE INCOME AND EXPENDITURE NOTES

Page 87 – Note 11 Taxation and Non-Specific Grant incomes – the Chairman queried on the first line the large increase in Council Tax income shown between 2018-19 and 2019-20 (£281m to £299m) which was a 6.5%

increase and asked for a breakdown**.** 4.99% of this represented the agreed increase in Council tax with1.56% the increase in the Tax Base**.** It was explained that this latter percentage represented the typical rate of growth in the Council Tax Base as a result of new developments in Cambridgeshire over the last few years.

Going Concern

On a query of where this was shown in the accounts, the detail was included in Section 3 of the covering report starting on page 28 and so was outside of the main accounts. There would be a specific disclosure included in the final version of the Accounts. Areas in respect of 'Going Concern' were being reviewed by the relevant service committees as part of their Covid-19 update reports / financial monitoring reports as was General Purposes Committee (GPC). The full GPC report was provided as a link on pages 28-29.

The Vice Chairman made reference to the Committee not receiving some of the annual reports and the Finance monitoring report to help provide background to the current discussion *(Note this was in line with the decision still in force from Group Leaders that Committees should not receive information / monitoring reports. However some days prior to the meeting these reports had been circulated via email for information to the members of the Committee who had the opportunity to raise any issues they had with report authors directly.)*

Referencing page 60 of the narrative report and the total savings required to be made between 2020-21 and 2024-25 of £65.7m, the Chairman queried how this would be possible, as this was even before BREXIT and the current Covid19 crisis. The Head of Finance indicated that there was still the expectation of a Government Comprehensive Funding Review, although the date was still uncertain and that in the meantime, the Council were still lobbying for a better financial settlement for the County while also highlighting that the County Council had managed to save £100m as part of a previous five year plan. In addition £29m had so far been received by the Council from Government in unring-fenced additional grant for the pandemic with more expected including in respect of infection control and Test and Trace. The Chairman suggested that nothing indicated so far that compensatory grant was likely to match the additional expenditure / loss of income the Council had spent during the crisis. The Head of Finance explained that two scenarios were presently being looked at, one being the longer term positon to the end of the year which suggested that there would be a year-end deficit, while the other was looking at the current spend on services which showed that while spend on Adults Services had increased during the crisis, spend across social care (Children's and Adults) was stable. *(Note: This was partly the result of increased NHS hospital funding for hospital discharges).* A great deal of business planning was already underway on where trends were going and resources were available if required from the General Reserve Fund and the Transformation Fund and was in addition to the current buoyant Council tax base. The latter gave the Council a far better financial position than was the case for some other Councils who did not have the same level of growth.

The Chairman asked where the Council ranked in terms of other Council's financial position. In response the Head of Finance indicated that a survey carried out had shown that the Council ranked as being in the median regarding expected income loss and additional costs. Two of biggest uncertainties going forward would be the effect of the crisis on Home to School Transport and local taxation collection.

The Chairman in response explained that his question related more to whether the Council might face a position that it needed to invoke a Section 114 notice for potential bankruptcy as a result of a lack of monies in the event of having to use up all its reserves. As already indicated, even though there was an expectation of some loss of funding, the reserves were expected to be able to cover them with the Council having a good previous record on re-balancing reserves. Therefore the Council was unlikely to be in a Section 114 notice position in the near future.

Highlighted as the big issues going forward for the next year was Council Tax and Business Rate collection. One Member commented on the risks facing local government from his perspective as a portfolio holder at a billing authority.

HIGH NEEDS BLOCK

The Chairman highlighted that the Council was £16m over-budget and asked how it would be rectified. The explanation was provided on page 97 of the Accounts with the Head of Finance explaining that the Council received less funding than was required to meet the current identified children with special needs in the County. Insufficient funding was a national, not just a local issue with many other Councils all over the country in the same position. The recurrent deficit was £11-12m on the High Needs Block and in accounting terms the Council was quite restricted on what it could do, no longer being able to fund it from the General Fund. The issue was being looked at by both CYP Committee and Schools Forum and an action plan had been produced with the Council due to bring forward demand management measures in the autumn. It was highlighted however that the savings plan proposed would not be sufficient to eliminate the current accumulated deficit. The only way for this to be achieved would be for additional Government resources to be provided to cover the identified need in this area. While the High Needs Block allocation had increased each year it had not kept up with the continued growing local demand. Efficiencies had already been identified in 'Behaviour Support' and in parts of other packages. The work for other savings areas had, had to be paused as a result of the Covid-19 crisis and the need for more consultation with schools in the Autumn.

A question was raised on, as interest rates were at a record low, what would be the impact to Council finances of negative interest rates. This was an issue that would be dealt with by the Council's Treasury Management Strategy and the approach to short term borrowing, rather than taking out long term loans. The lower the interest rates, the better in terms of Council borrowing.

Assurance was given that in order to spread the burden of debt, the Council was always looking to borrow at the most advantageous rates available.

Having commented and made suggested changes,

It was resolved:

to note the Draft Statement of Accounts 2019/20.

258. FORWARD AGENDA PLAN

It was resolved:

To agree the Forward Agenda Plan with the following addition:

- Debt Management Update for the September meeting.

259. DATE OF NEXT MEETING 2.00 P.M. 22ND SEPTEMBER 2020

CHAIRMAN
22nd September 2020