BOROUGH OF REIGATE AND BANSTEAD

AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held at the New Council Chamber - Town Hall, Reigate on 18 May 2021 at 7.00 pm.

Present: Councillors J. S. Bray (Chair), M. S. Blacker, G. Buttironi, S. A. Kulka, C. M. Neame and R. Ritter.

Also present: Councillor Schofield.

36. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies for absence had been received from Councillor J King.

37. DECLARATION OF INTEREST

There were no declarations of interest.

38. MINUTES

The minutes from the meeting held on 11 March 2021 were approved.

39. FINAL ANNUAL GOVERNANCE STATEMENT 2019/20

The Interim Head of Finance introduced the Final Annual Governance Statement 2019/20 and explained that a draft had previously been considered by this Committee and by the Overview and Scrutiny Committee, whose feedback had been taken into account.

Approval of the document was sought in order to confirm its formal incorporation within the Statement of Accounts 2019/20.

The Committee was reminded that this report considered governance arrangements relating to the year prior to the formation of this Committee and for that reason, the Overview and Scrutiny Committee had taken responsibility for reviewing it.

RESOLVED that the Annual Governance Statement at Annex 1 be endorsed.

40. REPORT FROM THE EXTERNAL AUDITOR ON THE STATEMENT OF ACCOUNTS 2019/20

The ISA 260 report from the Council's external auditors (Deloitte LLP) summarised the conclusions and significant issues arising from their audit of the 2019/20 Annual Financial Report.

Ben Sheriff (Director), Deloitte, introduced the report and stated that the audit was complete subject to receipt of the signed Representation Letter and final confirmations. They had not identified any significant uncorrected adjustments or disclosure deficiencies. Adjustments had been agreed in respect of the presentation of Marketfield Way assets and these had been addressed satisfactorily.

The Committee was reminded that year end for 2019/20 occurred immediately after the start of the first Covid-19 pandemic lockdown and this had created significant uncertainty, some of which was reflected in the audit opinion. In respect of property values at 31 March 2020, the valuer had reported 'material uncertainty' and there were increased levels of uncertainty within areas such as pension assets. Nevertheless, the overall the opinion was clean and there were no issues relating to value for money.

The rest of the report set out the areas that Deloitte had considered in more detail, these included:

- Covid-19 and its impact on the audit
- Significant risks
- Defined benefit pension scheme
- Property asset re-classification

Further detail was requested regarding Deloitte's reporting of a difference of £400,000 in the value of some assets in the valuation report and the fixed asset register. It was explained that the Council had a large number of individual assets and the valuer had undertaken work to value them for the accounts. However, their reported values were not completely aligned with the Council's records resulting in a small discrepancy between the two sets of records. This was considered a limited risk; however, a recommendation had been made that "*management should put in place a second review of all valuation entries, including allocation by asset prior to being posted into system."*

A question was asked regarding the Council's share of the liability in the Surrey Pension Funds and whether this was being managed appropriately. The reasons for the deficit were explained, including the impacts of the McCloud and Goodwin legal case judgements. The overall deficit shown on the balance sheet would always be a financial challenge as the pension entitlement of employees and pensioners was significant, but this was the same for all Local Authorities.

The Council had the ability to reduce its net liability by paying additional contributions to the pension scheme and it had some input into the Fund's investment decisions, but these were complex matters of judgement. It was explained that the underlying asset and liabilities number were subject to market movements and the position at 31 March 2020 showed significant adverse impacts due to stock market movements in response to the pandemic. This coupled with interest rates being low, meant that the liability at March 2020 was greater. Asset prices were now a lot higher as there had been a recovery in many markets so by March 2021 some of this adverse movement may have been recovered. The primary areas of choice for the authority related to the number of employees employed, as the number of former employees with accrued pension rights and pensioners was fixed.

Members asked for clarification of the comment in the report that that the audit had been completed subject to '…updating our review of events since 31 March 2020 through to signing…'. It was confirmed that this was a standard form of words and that nothing had occurred that would impact on signing off the accounts.

Members of the Committee recognised that these accounts were being considered much later than the original audit deadline and it was accepted that Covid-19 had

played a part in this, however it was questioned whether there had been any other issues that had delayed the accounts.

Deloitte acknowledged that there had been challenges in the last year largely through conducting audits remotely and this had delayed their work. There was also a delay due to the additional work undertaken relating to asset reclassification. The Interim Head of Finance echoed this and stated that the Finance Team was now planning ahead for 2020/21, taking on board the lessons learnt from this audit. 2019/20 was the second year the Council's team was working with Deloitte and they were becoming more accustomed to the new style of audit contracts and the expectations of the Finance team. 2019/20 was an improvement from the previous year in this regard and the Team was now more prepared for what was expected. A further factor was that the Finance Team underwent a restructure in 2019/20 and subsequently recruited four qualified accountants during the summer. This created some disruption while these new staff were trained, and this was acknowledged by Deloitte. The pandemic was also a significant contributing factor for both teams. The main focus currently, was to enhance the quality of working papers and continue to build an effective working relationship with Deloitte.

RESOLVED that:

(i) The report from the external auditor (ISA 260) on the 2019/20 audit be noted (Annex 1); and

(ii) The Management Representation letter be agreed and signed by the Chair of the Audit Committee and Chief Finance Officer (Annex 2).

41. STATEMENT OF ACCOUNTS 2019/20

The Interim Head of Finance presented the Statement of Accounts which required approval by the Committee. There had been some minor typographical amendments up until the afternoon of the meeting and it was confirmed that the Chair would be signing the most up to date version. There had been no material changes to the report.

Following a briefing received by members regarding the Statement of Accounts, a number of questions had been submitted to the Interim Head of Finance in advance of the Audit Committee. A presentation in response to the questions was given and the following summarises the key points:

Question 1. Investment Properties: Re-Classification in 2019/20

A total of £49.5m was reclassified from investments properties to other land and buildings.

Assets reclassified from Investment Property to Property Plant & Equipment (PPE). Their book values are shown below.

- Marketfield Way properties (£11.9m)
- Merstham Regeneration (£8.8m)
- Warwick Quadrant (£6.6m)
- Travelodge (£5.2m)

- Linden House (£2.7m)
- Madeira Walk, Sandpit (£2.2m)
- Town Hall (£2.0m);
- Reading Arch Road Properties (£1.5m)
- Park Farm (£1.0m)
- New Pond Farm (£0.7m)
- Holly Lane Farm (£0.5m); and
- Old Town Hall (£0.5m)

This followed a fundamental review of the reasons for holding the assets:

- Investment Property – solely for purpose of generating income.
- PPE – support delivery of broader corporate and service delivery objectives.

This was consistent with the CIPFA Code of Practice for Local Authority Accounting.

An extract from the Balance Sheet was shared to explain [agenda pack page 104].

Question 2. Marketfield Way Assets

It was appropriate to reduce the value of the portfolio of assets at Marketfield Way (Impairment of Marketfield Way Assets). This was a key area of change within the audited accounts compared to the original draft.

- Head Lease on 18-44 High Street, the Pay & Display car park and some smaller property leases on the site.
- Historic value in the accounts was £5.2m.

Work commenced on site in spring 2020

- the properties were demolished, and the car park was under the footprint of the new development.

Significant new assets were being created as a result of development and this would create new assets in 2020/21 accounts.

- at 31 March 2020 the project was at the demolition and preparatory works stage.
- this resulted in a net ‘disposal’ in the Accounts.

Question 3. Comprehensive Income and Expenditure Statement (CIES) Movements 2018/19 to 2019/20

The Comprehensive Income and Expenditure Statement (CIES) reported a movement from a surplus on provision of services of £3.494m in 2018/19 to a surplus of £1.034m in 2019/20. The main reasons for this movement were:

- Increase in Community Infrastructure Levy (CIL) receipts.

Offset by:

- Property revaluations (Marketfield Way asset write-offs).
- Increased depreciation charges.
- This Council’s share of prior years’ Collection Fund deficits.

Reserve movements 2018/19 to 2019/20 were also referred to. The main reasons for the Usable Reserves increasing from £54.3m to £63.6m were:

- Increase of £9.3m to reflect Community Infrastructure Levy (CIL) receipts during the year.

The main reasons for Unusable Reserves decreasing from £112.1m to £104.6m were:

- Charge to Unusable Reserves to reflect the reduction in value of Marketfield Way assets (£5.2m).
- Charge to Unusable Reserves to reflect this Council's share of prior-year Collection Fund deficits (£1.8m).

Question 4. Credit Loss Calculations; and
Question 5. Company Loans - Impairment Basis

Note 22.3 – Financial Instruments [agenda pack page 132]

International Financial Reporting Standards IFRS9 – accounting treatment for Financial Instruments (including company loans) required the following to be taken into account:

- Risk factors such as the COVID-19 pandemic - may lead to delays in loan repayment.
- Charge against the value of assets (Financial Instruments) with the opposite entry to the Capital Adjustment Account, both in the Balance Sheet.
- No direct impacts on the CIES.
- No direct link to the separate Policy on Minimum Revenue Provision (MRP) for company loans in the Treasury Strategy.

The key loans and balances at the end of March 2020 that the Council had made were as follows:

Horley Business Park Development LLP
Loan/Accrued Interest £1.154m - impairment £200k

Greensand Holdings Ltd
Loans £13.258m - impairment £1.100m

Question 6. Increase in NNDR Appeals

This question related to commentary in Deloitte's ISA260 Report – Significant Risks [agenda pack page 35].

- Requirement to make provision for this Council's share of Business Rate payers' appeals against rateable valuations.
- Increase from £0.7m in 2018/19 to £2.5m in 2019/20.
- 2019/20 - premises-specific assessment prepared by the Council's rating advisors.

- More accurate than reliance on UK-wide rating appeal indices as in previous years - based on the risks associated with the specific types of businesses operating in the local area.

Question 7. Property Revaluations – exclusions

This question related to commentary in Deloitte's ISA260 Report – Valuation of Property Assets [agenda pack page 36].

The exclusions were primarily parks and allotments

- All other significant buildings and land assets had been revalued by the external valuer - either by a site visit or a desktop valuation.

Question 8. Comparison with the Outturn Reported to Executive in Summer 2020

The main reason for differences would be if changes were subsequently agreed during the audit of the Accounts which would not have been reflected in the Outturn report.

For 2019/20 these included:

- Total Usable (Capital) Reserves decreased as a result of identifying that £2.5m of the Section 106 balances previously reported as being an asset of the Council were in fact payable to Surrey County Council. (It was noted that these funds would be used for the benefit of local residents). Moving forward that distinction would be made clear.

- Total Unusable Reserves decreased by £5.2m as a result of writing-off the Marketfield Way assets.

The Interim Head of Finance was thanked for her clear explanation. There were no further questions.

The Chair understood that the Council's MRP policy, within treasury management, stated that the Council did not make any MRP repayments in respect of loans lent to subsidiaries due to the expectation that the loan would be repaid in full at some point in the future, however, given that the loans had been impaired in the accounts, it was questioned whether the Treasury Management Policy should be reviewed in light of this. They asked that this should be carried forward for discussion to a future Committee meeting, once treasury management was within the remit of this Committee.

RESOLVED that the Statement of Accounts 2019/20 be approved.

42. ANY OTHER URGENT BUSINESS

There were no items of urgent business.

The Meeting closed at 7.47 pm