

Minutes of the Audit and Risk Committee

29 July 2019
at Fire Service Headquarters, Vauxhall Road,
Birmingham B7 4HW

Present: Councillors Miks (Chair), Gill (Vice Chair), Miller and Spence

Apology: Councillor David Barry
Mr Ager (Independent)
Peter Farrow, Audit Manager
John Matthews, Internal Audit
ACO Gary Taylor, Strategic Enabler (Process)

As well as the Members of the Committee the following officers attended the meeting:

Mike Griffiths, Treasurer
Kal Shoker, Finance Manager
Karen Gowreesunker, Strategic Enabler (Strategic Hub)
Richard Percival, Grant Thornton
Javed Aktar, Grant Thornton

Councillor Brackenridge, Chair (Observing)

At the beginning of the meeting everyone introduced themselves.

35/19 **Declarations of Interest**

There were no declarations of interest.

36/19 **Minutes of the Audit and Risk Committee held on 3 June 2019**

Resolved that the minutes of the Audit and Risk Committee held on 3 June 2019 be approved as a correct record.

37/19 **Audit and Risk Committee Terms of Reference**

The Committee noted its Terms of Reference.

The Terms of Reference had been amended to reflect the separation of the role of the Pensions Board from the Role of the Audit and Risk Committee.

Audit and Risk Committee

“To have delegated responsibility as Scheme Manager for making decisions in the management and administration of the firefighters’ pension schemes.

Pension Board

The Pension Board assists the Audit and Risk Committee in the role as Scheme Manager to secure compliance with regulations relating to Governance and Administration.”

Resolved that the amendments to the Audit and Risk Committee Terms of Reference be approved.

38/19 **Audit Findings Report 2018/19**

The Committee noted the Audit Findings report (AFR) 2018/19. The AFR set out and reported on the key messages arising from the external audit work undertaken during the year. The AFR is designed to support the Auditor’s opinions and conclusions and is a requirement of the Code of Audit practice.

Mr Richard Percival, Grant Thornton, explained the findings to the Members of the Committee and summarised the key messages on the Financial Statements and Value for Money arrangements arising from their audit of the accounts.

It was confirmed that there was nothing to report under the Auditor’s Statutory Duties and the Auditor was able to provide an Unqualified Opinion.

The Management Representation letter would be signed following the meeting.

Materiality for the financial statements remained at circa £2.5m with the performance materiality circa £1.8m and was set out in a table in the report.

The Auditor stated that they had looked at four risk areas:

The revenue cycle includes fraudulent transactions – no issues to report in this regard.

Management override of controls - no issues identified in respect of management of override of control

Karen Gowreesunker left the meeting at this point.

Valuation of pension fund net liability – the Auditor did not have anything to report on this work, however, during the course of the audit The Authority has sought a revised report from the actuary in order to account for the impact of the recent “McCloud” judgement and also in relation to Guaranteed Minimum Pension (GMP) impact.

The Auditor stated that this was a complex issue regarding age discrimination that had been referred to the Court of Appeal but an appeal by the government had been denied.

It was noted that the final version of the accounts would need to allow for this issue. The revised actuaries reports were received in July and accounts updated accordingly, it had led to an increase in the net pension liability of £53.633m.

The overall impact is nil because of the way local authority accounts work and is a latent issue. However, contributions will be significantly impacted and the Treasurer would need to consider this.

A review had now been undertaken. The Finance Manager confirmed that this was a national issue that affected every fire authority across the country.

Valuation of Property Plant and Equipment – the Auditor stated that the valuation involved large figures and a slight change to estimated key assumptions can impact on the figures involved.

The Auditor had reviewed and were comfortable with the valuations.

The Auditor stated he was prepared to give an Unqualified Opinion and was waiting for a letter of assurance from the West Midlands Pension Fund in the next couple of days.

In respect of Value for Money, the Auditor had carried out an initial risk assessment in February 2019 and identified one significant risk using the guidance contained in AGN03.

The Auditor stated that they cannot cover all bases but looking for risks where a wrong conclusion could be based.

Financial sustainability was a key issue for all authorities and fire authorities.

In 2018/19 the Auditor considered the Authority's £2.5m favourable variance to be a good result considering the challenges faced.

2019/20 budget assumes savings of £3.8m and the use of £1.1m of balances.

The use of balances had been discussed at the previous meeting of the Audit and Risk Committee.

The Auditor stated that the future financial outlook for the Fire and Rescue Authorities is key and there would be pressure and significant uncertainty on balances going forward and also a pressure to spend on balances.

By 2021/22 there would be an estimated £1.7m gap in the budget.

Notwithstanding this there is sufficient financial stability.

One Member was extremely concerned on the amount of money to be found in savings and felt that further savings would bring suffering to the employees, the Authority and organisation. Concern was expressed for employees and jobs. With the reserves being reduced, the Members asked the Auditor what would happen if the government did not provide a grant.

The Auditor stated that the reserves bought time but could only be used once and there was a level of uncertainty. Officers could only plan for the known, but will continue to have to make savings.

The Treasurer stated that the use of reserves had been discussed at Authority meeting in February 2019 where the budget had been confirmed.

There would be a short fall this year and next year and it was recognised that in year 3 there would be significant shortfall.

The issue will be addressed in the next few months at meetings of the Authority and Policy Planning Forum.

The report identified flashing warning signs for the next two years and the Authority will need to consider these issues in the next two years if the warning signs unfold.

In response to a question from the Chair regarding the significant new risks emerging which will require the Authority to find further efficiency savings, it was confirmed the Internal and External Auditors were keeping an eye on these issues and the Authority would be required to look at these issues at future meetings.

Another Member expressed concern about the pension liability on the Authority for the next ten years.

The Auditor confirmed that an actuarial re-evaluation would be taking place next year.

The Treasurer confirmed that the specific pension issue has created the need to reassess the situation in the next six months.

All sectors are affected and the Fire Sector total equated to £4bn and the Authority's share of this amount will be high.

The full impact will not be known for a number of months. It is also unknown how this will be funded.

The Chair asked the Auditor for an explanation of the difference between the proposed and final fee figures.

The Auditor stated that Grant Thornton are regulated.

Between last year and this year a new contract was negotiated by the Public Sector Appointments Ltd (PSAA) and fees were reduced by one third.

The Regulator required further work on Pensions and PPE costing £1,000, the additional work on assessing the impact of the McCloud ruling required additional work costing £1,500 and additional work was required on Pensions IAS19 at a cost of £1,500. The additional charge of £4,000 was to cover the additional work undertaken.

There is a process for fees and following referral to the Public Sector Audit Appointments Ltd they will or will not approve.

The Auditor confirmed that all authorities would be asked for an additional fee because additional issues were not in the initial contract.

39/19 **Statement of Accounts 2018/19**

The Audit and Risk Committee's approval was sought for the Authority's Statement of Accounts for the financial year ended 31 March 2019. The full Statement was attached as Appendix A to the report and can be viewed at www.wmfs.net/your-fire-service/openness/documents.

A summary of the Statement outlining the main issues was attached at Appendix B to the report. The Treasurer stated the Statement links closely with the Audit Findings Report. It was confirmed that the Letter of Representation was to be signed by the Chair of the Audit and Risk Committee and the Treasurer at the end of the meeting. Members were informed that the Statement linked to the Workshop held for Members of the Audit Committee on 3 June 2019, however, as the majority of Members were new to the Audit and Risk Committee, the Treasurer recapped the main areas of the lengthy report. The Treasurer stated that the main Statements were the Comprehensive Income and Expenditure Statement and the Balance Sheet, although both were significantly affected by accounting requirements relating to pension arrangements.

The Treasurer highlighted the Movement in Reserves Statement which showed Earmarked Reserves had decreased by £5.604m from £38.984m to £33.380m in the year ending 31st March 2019 and General Reserves had decreased by £1.476m to £6.914m in the year ending 31st March 2019.

Last year the assumption was that the Authority would need to use £1.5m in general balances and the figure was in line with the assumed use.

The Authority's overall reserves had decreased by £7.080m and it was anticipated that this trend would continue.

The Treasurer stated that the prime purpose of the report was to seek approval of the set of accounts, which was a sizable document. A summary of the accounts was also provided.

The Treasurer confirmed that the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement were set out on pages 69 and 70 of the agenda pack.

Total reserves as at 31 March 2019 were £42.700m and it was anticipated they would reduce further in future years.

The overall reserves as at 31st March 2019 are made up of:
£6.914m Un-earmarked general fund reserve
£33.380m Earmarked general fund reserve
£2.249m Capital receipts reserve
£0.157m Government grant

There are other long term liabilities which are linked to pension liabilities of £1.8 billion.

The Treasurer highlighted the scale and size of this figure which was required to be reflected as part of accounting regulations.

The Treasurer also highlighted the Long Term Borrowing which stood at £35.697m. This had reduced from £36.002m the previous year. This was historical borrowing undertaken by the Authority which was used to acquire assets.

The value of Property Vehicles Plant and Equipment stood at £131.195m

The value of assets was higher than the outstanding borrowing amounts.

£40.302m Cash and cash equivalents was held as at 31 March 2019 compared to £51.379m as at 31 March 2018 the figure was down by circa £11m, a significant proportion of which was the reduction in reserves.

One Councillor expressed concerns about the impact of reducing budget on employees.

In answer to a Members question, the Treasurer confirmed that the guidance stated that if general balances exceeded 5% of the total budget, the Authority would be expected to justify this.

The Authority's general balances were above this figure but by 31st March 2021 this figure will be circa £5m and earmarked balances will reduce more quickly as they are being used to fund capital projects.

The Authority's budget was considered to be relatively healthy but would not be so in a couple of years and members would see a real change in the future.

Members of the Authority would be increasingly required to consider the impact of the reducing budget.

In answer to a question regarding penalties for Authority's with general balances higher than 5%, the Treasurer confirmed that the argument being used was if balances were being used to smooth out budget reductions and are earmarked to support projects and the capital infrastructure, then there would not be a direct loss but there were differing political views on reserves.

It was confirmed that the reserves are kept in banks and building societies as part of the Treasury Management arrangements with Sandwell MBC.

In answer to a question from the Chair regarding a longer term debt to Dudley MBC, the Finance Manager confirmed that this debt related to the ex-West Midlands County Council and all local authorities including the Fire Authority were required to make contributions towards the debt which should would be running for the next 7 years.

In response to a question from the Chair regarding the Assets that the Authority holds, the Treasurer confirmed that the Fire Authority used to provide accommodation for firefighters and their families and some remain occupied with strong legal tenancy agreements. Some of the accommodation is empty but are within the boundary of the fire station and the Service were considering how best to utilise the accommodation.

An example was given that at Perry Barr Fire Station, planning permission was being sought for alternative access to the properties so that they could be brought back into use by a housing association or property developer. Officers were looking at ways of using the accommodation as effectively or appropriately as possible.

The Chair requested a report at the next Audit and Risk Committee regarding the Authority's residential homes. The Treasurer agreed to provide the information requested.

Members enquired about the critical judgement in applying accounting policies on page 90 of the agenda pack and, in particular, the statement of No residual value of assets. The Authority assumes that the residual value of plant or equipment will be nil when they are de-commissioned, as the assets are held to provide a service rather than the resale at the end of their useful life. The Treasurer stated that equipment and plant is sold on if it is felt it has a sales value and officers would seek to gain some income and depreciation is reflected in the accounts.

Some equipment was cannibalised for parts when it has come to end of its useful lifespan.

Resolved that the Summary Accounts be noted and Statement of Accounts for 2018/19 as set out at Appendix A be approved.

40/19 Treasury Management Annual Report 2018-19

The Committee received the Treasury Management Annual Report 2018/19, which covered the Treasury Activity during 2018/19 and the Actual Prudential Indicators for 2018/19, which had been compiled by the Treasurer.

The Authority approved its 2018/19 Treasury Management strategy as part of the Budget Setting report in February 2018 and also received a mid-year Treasury Management update at the Audit and Risk Committee meeting in November 2018.

The three key Treasury Management activities to note were:

Capital Expenditure

The Authority's capital expenditure for 2018/19 was £8.809m which was funded mainly by the use of revenue contributions (£8.149m) capital grants (£0.660m). The largest spend on capital was £3.8m on the redevelopment of Coventry Fire Station, £1.8m on the Vehicle Replacement Programme and £1.3m on the redevelopment of Aston Fire Station.

No borrowing was undertaken to finance any capital expenditure in 2018/19.

The Authority's Debt

As at 31 March 2019 the Authority's total external debt was £36m of which £33.1m was in respect of borrowing undertaken with Public Works Loan Board and the balance £2.9m is in respect of the Authority's share of the Ex WMCC debt. The value of long-term assets held by the Authority as at 31st March 2019, which the loans have helped fund was £131.4m

The average rate of interest payable on this debt was 5.4%.

The Authority's Investment

As at 31 March 2019 the Authority's investments totalled £40.9m which are invested with Sandwell MBC as part of the treasury management arrangement the Fire Service has with them.

Interest is received on the Authority's average cash balance and is based on the average return achieved by Sandwell MBC plus 10 basis points which for 2018/19 was 0.73%. This compares favourably to the benchmark, which is the average 7-day LIBID rate of 0.51%.

In answer to a Member's enquiry it was confirmed that the average rate of interest was 5.4%. Some of the outstanding loans that were over 20 years old had a higher rate of interest whereas more recent loans attracted lower interest rates.

In answer to a question from the Chair about the possibility of renegotiating the interest rates charged on long term loans, the Finance Manager confirmed that it was possible to refinance debt and Treasury Management advisors would look at this from time to time and if the PWLB offered better interest rates, officers would look to take advantage of the better interest rates. However, it was noted that if loans were repaid and replacement loans taken out, there would be a premium to pay and officers needed to consider the balance between paying a loan off and paying the premium charge.

41/19 **Minutes of the Pensions Board held on 4 March 2019 and 4 June 2019**

The Committee received the Minutes of the Pensions Board held on 4 March 2019 and 4 June 2019.

Mr Kal Shoker gave the apologies of Mr Neil Chamberlain, Chair of the Pensions Board who was unable to attend the meeting.

It was explained the frequency of Pension Board meetings had increased from two to four per year. This was to ensure more timely discussions on pensions issues and to reduce the time between meetings. Previously, due to a meeting being cancelled there had only been one Pension Board in a municipal year.

Similarly, to ensure a quorum at meetings, the number of Employee Representatives and Employer Representatives had increased from 2 to 3.

Both sets of minutes were considered together. It was noted that the Chair of the Strategic Advisory Board, Malcolm Eastwood, had attended the Pensions Board on the 4 March 2019.

The Committee were informed that the Pension Board considered on a regular basis:

Pensions Advisor – supporting information
Risk Register
Firefighters Pension Scheme Bulletins
Topical Legal and Regulatory Information

The Chair noted the Actions and, in particular, the item regarding Engagement with the Audit and Risk Committee. Mr Shoker explained that the Pension Board recommended regular engagement and dialogue with the Audit and Risk Committee as Scheme Manager and the Chair of the Pensions Board.

One of the Actions in the Minutes of the meeting of the 4 June 2018 was a request for a named person to be nominated as a point of contact for the Scheme Manager. The Chair stated that this would remain as the Audit and Risk Committee.

The Chair thanked the Pensions Board for their work and reports.

43/19 Annual Report of the Pensions Board 2018/19

The Annual Report of the Pensions Board for 2018/19 was received.

42/19 Audit and Risk Workplan 2018-2019

The Committee noted the Work Programme for 2018/19.

43/19 Update on Topical, Legal and Regulatory Issues

There were no new issues to report.

44/19 Training

Members were asked to let the Clerk know if there were any specific areas of training required.

Councillor Spence had previously received training from the Treasurer that had been very useful.

LGA Training for Scheme Managers would be arranged for the Members of the Audit and Risk Committee and members of the Pension Board. A date would be confirmed.

The meeting finished at 1120 hours.

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