

# Minutes



## Audit Committee

---

Date: 30 November 2017

Time: 5.00 pm

Present: Councillors Mr J Baker (Chair), D Davies, J Guy, W Routley, H Thomas, K Thomas, H Townsend and R White

In Attendance: Meirion Rushworth (Head of Finance), Owen James (Assistant Head of Finance – Technical and Development), Andrew Wathan (Chief Internal Auditor), Jan Furtek (Audit Manager), Kyle Jenkins (Auditor), Eleanor Mulligan (Democratic Services and Communications Manager).

Gareth Lucey (Wales Audit Office).

Apologies: Councillors J Jordan and L Lacey

---

### 1 Minutes of the Meeting held on 25 September 2017

The minutes of the meeting held on 25 September 2017 were confirmed.

Officers also confirmed that the agreed actions under item 4 had been completed (Statement of Accounts and Audit of Financial Statements Report 2016-17).

### 2 Treasury Management Report

The Assistant Head of Finance presented the report, outlining the treasury activities undertaken during the period to 30 September 2017, and providing details of the proposal to change the Minimum Revenue Provision (MRP) policy for supported borrowing.

#### Professional Client Status

The report included details of the recommendation that the Council should 'opt-up' to professional status in relation to the introduction of the 'Second Markets in Financial Instruments Directive (MiFID II)' when it becomes applicable to the UK in January 2018. It was explained that previously local authorities had automatically been deemed as having professional status. Under the new regulations, firms would be obliged to treat all local authorities as retail clients unless they 'opt-up' to professional client status and meet certain criteria, including holding a minimum of £10m investment balance and employing knowledgeable and experienced staff to carry out investment transactions. Opting into professional status would maintain the current status quo; conversely, not opting-in would likely limit the range of financial services the Council could access.

In response to Member questions, officers advised that:

- This directive was very likely to continue after the UK leaves the EU.

- The financial cost of opting in would be maintaining investments at £10m, however this was a relatively low figure in the overall budget context, and was outweighed by the benefits of opting in with regard to access to services, and having a higher borrowing status.
- MiFID II would need to be reflected in the Council's new short and long term borrowing strategy. Officers confirmed that the current strategy of internal borrowing would continue, with the exception of the £10m required to maintain professional status.

### **Minimum Revenue Provision (MRP) – Change of Method**

The Committee were asked to note the proposed change to the MRP policy for supported borrowing. The Council currently charged MRP for supported borrowing at 4% reducing balance; the report proposed changing to a 2.5% straight line charge, which would reduce the revenue charge for the provision by circa £2.5m.

The Committee asked for further explanation of why this change was deemed prudent. The following points were noted:

- The proposed change was within the Welsh Government guidelines for prudence.
- A number of other authorities have made similar changes, some going further than the proposed 2.5% here.
- Options and assets had been assessed on a weighted averaged against the balance sheet, and an average outstanding life of 40 years was thought to be reasonable for the purpose of calculating MRP.
- The straight line method was recommended over the annuity method, which would cause pressure in future and affect forward planning.

The Committee questioned why a change of policy was needed if the current policy had been deemed prudent, particularly as the change would benefit revenue now but cause a swing back later. The Head of Finance explained that there has to be a minimum level of MRP, and this was part of the overall strategy which had started by changing unsupported borrowing. Taking this and all factors into account, officers had taken the view that, from a capital finance perspective, and balancing pressure on revenue, it would be prudent to set the level at 2.5%.

The Committee questioned whether the case to change the policy had been made fully in the report, and asked that further information be included on:

- Why the change was necessary
- What would happen in 10 years' time when the charge goes the other way
- What was the minimum MRP level
- Would future Heads of Finance be under pressure to change this strategy
- The guidance for English authorities from the Department for Communities and Local Government
- Clarification from WAO on their view of a prudent level

### **Agreed**

Officers were asked to update the report in light of the Committee's comments, and re-submit the report to the Audit Committee's next meeting.

Members agreed to move the next meeting forward to allow the Committee's comments to be fed back to Council when it considers the report on 30 January.

### **3 Lessons Learned 2016-17**

The Assistant Head of Finance presented the findings of an initial 'lessons learned' review carried out by finance officers following the 2016/17 accounts close down. Head outlined the key themes coming out of the review, and the key risks arising from that process.

Members queried the idea of quality assurance being undertaken by Members as part of the draft and final accounts timetable. Concerns were raised about reviewing the document too early, and whether Audit Committee Members should be involved in this. Members agreed that an early 'sense check' by another Member or lay person would be of use. It was also suggested that senior management needed to take more ownership of the content and presentation of the accounts, and be involved at an earlier stage, to focus on the detail of the narrative and improve the accuracy of the later drafts.

#### **Agreed**

To note the lessons learned process that had been carried out to date and agree the proposed plan for 2017/18 closedown.

### **4 Wales Audit Office - Final Accounts Memorandum 2016-17**

The Committee received the WAO's Final Accounts Memorandum for 2016-17, noting its key recommendations.

Members asked about the significance and impact of the one unadjusted misstatement in relation to Newport Transport Ltd. bus depot. It was explained that this had been left unadjusted as it was not significant, and was due to differing accounting policies – in the Newport Transport accounts the depot was valued at a certain level, whereas an external valuer had valued the asset at a higher level.

Although it was noted that, where accounting policies differed, there could be a hanging balance, it was suggested that this could be 'tidied up' in next year's balance sheet, and included as part of the lessons learned exercise.

#### **Agreed**

To note the content and recommendations of the WAO's Final Accounts Memorandum for 2016-17

### **5 Internal Audit Plan 2017-18 - Progress (Quarter 2)**

The Chief Internal Auditor presented the report, concluding that the Internal Audit section was making good progress against the 2017/18 audit plan and internal performance indicators. The unit was currently fully staffed except for one maternity leave cover arrangement which was not being backfilled.

It was confirmed that the shared post of Chief Internal Auditor with Monmouthshire continued to work well, with strong management in both Councils to ensure appropriate coverage and delegation.

#### **Agreed**

To note the report.

### **6 Audit Committee Self Evaluation Exercise**

The Committee were provided with copies of the Audit Committee Self-Assessment Questionnaire, and asked to return completed copies by mid-December.

## **7 Work Programme**

To note the work programme, with the addition of the Treasury Management report being re-submitted to the January meeting.

The January meeting would be moved to allow comments on the Treasury Management report to be submitted to Council on 30 January.