

**SPECIAL MEETING OF AUDIT COMMITTEE**  
**13 JULY 2011**

Minutes of the special meeting of the Audit Committee of Flintshire County Council held in County Hall, Mold on Wednesday, 13 July 2011

**PRESENT: Councillor I.B. Roberts (Chairman)**

**Councillors:** G.H. Bateman, Q.R.H. Dodd, B. Mullin, M.J. Peers and P.R. Pemberton

**ALSO PRESENT:** Councillor A. Woolley

**APOLOGIES:** Councillor A.M. Halford, the Chief Executive and Head of Legal & Democratic Services

**IN ATTENDANCE:**

Head of Finance, Internal Audit Manager, Interim Corporate Finance Manager, Clwyd Pension Fund Manager, Head of Corporate & Capital Accounting (Minute 17) and Committee Officer

Amanda Hughes - Wales Audit Office

The Head of Finance welcomed the Finance officers who were present at the meeting and thanked them for the significant amount of work undertaken on both reports to be considered.

**16. DECLARATIONS OF INTEREST**

The Chairman declared a personal interest in the following:

Agenda Item 3 - Statement of Accounts 2010/11

**17. STATEMENT OF ACCOUNTS 2010/11**

The Interim Corporate Finance Manager presented a report on the Statement of Accounts 2010/11 (subject to audit) which was for Members' information only at this stage. He delivered a presentation which detailed the main points:

- Purpose and Background
- What is the Statement of Accounts?
- Responsibility for the Statement
- Timeline
- What can be found where
- 'Headlines' for Council Fund, Housing Revenue Account and Capital
- Annual Governance Statement
- What next?

It was explained that the accounts had been 'on deposit' from 6 June to 3 July 2011 where they had been available for inspection by members of the public. Following consideration of the draft accounts at this meeting, a number of drop-in sessions would be arranged for early September 2011 giving Members the opportunity to clarify any issues. The Statement of Accounts would then be brought back to Audit Committee in September seeking a recommendation to County Council.

The Head of Finance stressed that this was the start of the process and that Members were invited to put forward any questions, however a separate response may be required for any queries requiring in-depth explanation.

Queries previously submitted by Councillor A.M. Halford sought clarification on the valuation of A D Waste (pages 3, 63 and 65) and questioned why payment had been made when the company was already owned by the Council. The Head of Finance explained that there had been no cash transaction in terms of the purchase and that detailed guidance had been provided by Eversheds and KPMG on the inter-company loan transfer. The assets of A D Waste had been brought into the Council and now appeared on the balance sheet. Page 63 of the report under 'Property Plant and Equipment' showed £4,385M as the figure for acquiring the company and page 65 showed £146K under 'Investment Properties and Agricultural Estate' which totalled £4.531M, as shown on page 3 under 'Assets Acquired and Liabilities Incurred'. The next step was to move into the liquidation phase of A D Waste where the inter-company loan would cancel out, therefore there had been no cash transaction, only assets transferred. In response to the second question, the Head of Finance said that the A D Waste Directors had a responsibility to maximise the position of the company even though this was owned by the Council. Equally, the Head of Finance and accountancy team had a duty to maximise the Council's position and this was the most tax efficient way of doing this.

On the acquisition of A D Waste purchase shown on page 65, Councillor M.J. Peers asked for an explanation on 'Investment Properties and Agricultural Estate' as the building was no longer there. He also asked if the £1.025M deferred liability for A D Waste shown (page 73) was now the Council's liability. The Head of Finance agreed to respond separately on the first question. The Interim Corporate Finance Manager said that the £1.025M liability was also included in the statements for 2009/10 and related to the liability for future environmental aftercare of landfill sites, due to the responsibility being transferred prior to the transfer of A D Waste. However, monies for this had been set aside for the upkeep of the landfill site by A D Waste. The Head of Finance added that the costs of acquiring A D Waste's assets were split between different headings on pages 63 and 65 due to accountancy classification and that any cash assets in the company following liquidation would transfer to the Council.

Councillor P.R. Pemberton felt that the Member drop-in sessions would be useful but suggested that an alternative title be used. On the subject of A D Waste, he was dissatisfied at the manner in which the wholly owned subsidiary company had been closed down, particularly in view of the £440,000 costs to do this. Referring to the Head of Finance's comments on looking after the interests of

the Council, he felt that this should have also included satisfying the shareholders. He felt that the 'acquisition of A D Waste purchase' in the report was misleading as this was the closing down of the company.

The Chair said that the drop-in sessions were an opportunity for Members to ask officers more detailed questions and suggested that these be called 'Member consultation sessions'. The Head of Finance said that Members would be able to turn up on the day of the sessions with their questions but that if specific information was required on a particular topic, giving advance notice would allow the relevant officers to be able to attend and provide a full response. The aim of the sessions was to enable Members and officers to have a joint understanding so that Members could feel confident enough to recommend the accounts to Council. The Interim Corporate Finance Manager agreed that the reference to purchasing A D Waste could be confusing but that the wording had been provided following legal advice.

Councillor G.H. Bateman sought clarification on the increase in unsupported (prudential) borrowing from £409,000 in 2010 to £757,000 in 2011 and the decrease in capital grants and contributions (page 3). The Interim Corporate Finance Manager said that due to the current economic climate, an increase in prudential borrowing was expected to continue and that he would provide a written response on capital grants. The Head of Corporate & Capital Accounting said that changes to capital grants were dependent on what schemes were in the Capital Programme, as some may be funded by specific grants. This was likely to vary year on year but depended on the availability of that external funding. The Head of Finance said that detail would have been provided in previous budget monitoring reports throughout the year and this was the way in which the Capital Programme was managed. However, it was not the Council's strategy to increase borrowing and the Medium Term Financial Plan would be brought to Members in the Autumn.

Councillor Bateman queried the total shown on the movement in reserves statement (page 31). The Head of Finance would discuss this separately with Councillor Bateman and said that the Council Fund and Housing Revenue Account movement on reserves was dependent on the in-year position and the effect of other spending, however some reserves had been set aside for a specific purpose.

Further queries were raised by Councillor Bateman on the reduction in Housing Revenue Account gross expenditure to £26,079 in 2011 (page 33) and the increased value of Council dwellings under non-current assets (page 34). The first query related to the valuation of properties and it was explained that significant impairment charges had been incurred in 2009/10 but that no equivalent charge was made in the current financial year. A similar situation also applied to Education & Children's Services shown on the same page. The information on Council dwellings was based on a valuation carried out by the Council's valuers and this would continue to be reviewed. A small percentage of properties had been valued in this financial year resulting in a significant reduction in any potential impairment, which impacted on the figures shown.

An explanation on Councillor Bateman's query on 'borrowing repayable on demand or within 12 months' under current liabilities (page 34) was provided under Note 31 shown on page 71.

Councillor Peers questioned the reduction in Council Tax income indicated on page 2 in comparison with the analysis on page 52. It was explained that the former figure represented income from Council properties whilst the latter figure included the Community Council and Police Authority precept elements. Councillor Peers suggested it may be helpful to clarify this within the report.

Under Borrowing Facilities (page 3), Councillor Peers asked if the principal outstanding remaining figure should be £173.744M as indicated on page 71 and this was confirmed by the officers. On the Annual Governance Statement, he referred to the requirement for improved procedures to achieve sufficient levels of affordable housing (page 28) and spoke of negotiations between officers in Planning and Housing on the terms of the Affordable Housing Policy, suggesting that this be considered by the Audit Committee. The Internal Audit Manager pointed out that the topics listed on page 28 had already been the subject of Audit reports following the identification of risks and that the report on affordable housing had been received by the Audit Committee in March 2011. Following further concerns raised by Councillor Peers on variations in the implementation of the policy, the Internal Audit Manager agreed to prepare a report on this.

Councillor Peers asked if the decreased value in 'other land and buildings' (page 34) under Property, Plant and Equipment was a trend which was likely to continue and he also commented on the increase relating to short-term creditors under current liabilities (page 34). On officers' remuneration details (page 57/58), he asked for clarification on the two individuals who, along with the Chief Executive, fell within the £140,000-144,999 band. He noted that the operating lease rentals paid (page 60) appeared to be static and asked if there were any proposals to increase this. On the provision of a joint community equipment service (page 62), he noted that the figures indicated Flintshire's contribution to be higher than expected, given the partnership arrangement. On the increase in rent arrears (page 88), he asked if the Authority could do anything to help tenants pay their rent. A separate written response would be made for these queries.

Under the terms of delegation of Clwyd Theatr Cymru (page 79), it was reported that the Council would be responsible for any outstanding deficits and/or net closure costs in the event of the theatre's demise and Councillor Peers raised concerns given the theatre's current operating surplus. The Head of Finance advised that a report on Clwyd Theatr Cymru was due to be considered at Executive in July 2011 to seek approval for capital investment to commission a study into the development of the theatre to increase income generation. The Chairman felt that the report on the governance arrangements of Clwyd Theatr Cymru should be received at County Council and said that Flintshire was the only Authority in Wales to subsidise a public theatre. The Head of Finance explained that the difference was that this was a producing theatre whereas others only had touring companies. Whilst the theatre was kept separate, it was owned by the Council who had responsibility for its assets and liabilities.

Councillor Pemberton suggested that the layout of the Statement of Accounts could be simplified and would discuss this separately with officers. He referred to the revaluation of assets (page 4), asking if a higher percentage than 10% of the total assets could be revalued each year and also asked if the Authority was due any VAT payments. He commented on the total amount of rent arrears, which he thought to be around £1.12M although there was no reference to this in the document, and raised concerns that employees may be diverted from work on collecting arrears to carry out other tasks. He also commented on the net gains of £323,000 for the disposal of non-current assets (page 33) asking if these were for items under £10,000 and was advised that a separate written response would be given.

On the revaluation of assets, the Interim Corporate Finance Manager said that the Council was committed to revaluing all of its assets over a five year period and that 10% had been undertaken in 2010/11. This meant that the remaining 90% needed to be reviewed over the following four years. In relation to VAT, he referred to the taxation shown in the list of short term debtors (page 69). The Head of Finance agreed to respond separately on the total figure for rent arrears and confirmed that it was a priority of the Council to pursue rent arrears to deal with the backlog. She reported on work undertaken by the Head of Housing on the collection of rent arrears which was being carried out by a dedicated income support team. In response to a further question from Councillor Pemberton on the officers' remuneration details, it was confirmed that the tables shown on pages 57 and 58 were both correct but that the first page included interim appointments and consultants.

On page 69, Councillor Bateman sought clarification on 'miscellaneous' items and the reason for increased costs for fleet fuel (Queensferry) under Inventories, and asked for an explanation on 'Government departments' under the list of short term debtors. It was explained that miscellaneous referred to stock that was not already listed, however a fuller written response would be made on this and the query on fleet fuel costs. As regards Government departments, the Head of Corporate & Capital Accounting confirmed that the recorded value related to the value of Government grants due to be received at year end; they would remain as debtors until paid.

The Head of Finance agreed to provide written notification to Members of the consultation sessions to be held in September 2011 and would also respond in writing on those questions not answered at this meeting.

**RESOLVED:**

- (a) That the draft Annual Statement of Accounts 2010/11 (including the Annual Governance Statement), together with the underlying policies, be noted;
- (b) That the planned provision of drop-in sessions over the summer period be noted;
- (c) That the Head of Finance respond separately in writing to the Committee on the outstanding queries; and

- (d) That the Internal Audit Manager prepare a report on the implementation of the Affordable Housing Policy.

## **18. TREASURY MANAGEMENT UPDATE**

The Clwyd Pension Fund Manager introduced a report to provide an update on matters relating to the Council's Treasury Management Policy, Strategy and Practices 2010/11 and 2011/12 to the end of June 2011.

Attention was drawn to Appendix 1 to the report which detailed the Treasury Management reporting schedule to Audit Committee, Executive and County Council. The Chairman said that all Council Members had been invited to attend the Treasury Management training sessions in January 2011 which demonstrated that the Audit Committee had been as inclusive as possible.

The Committee was requested to review the draft Treasury Management Annual Report 2010/11 which compared outcomes and performance against the Policy Statement from March 2010. A summary of the findings were outlined in paragraph 3.04 of the report, with paragraph 3.05 detailing the main points on the Council's investments. An update on the Landsbanki investments reported that although there had been success in the District Court, the case would need to be heard at the Supreme Court in September 2011 where it was hoped a final decision would be reached.

Councillor P.R. Pemberton referred to a Member's comments made to the local press about the Council's investments and the suggestion for a leaflet giving further explanation on investments. The Chairman pointed out that the Member concerned had not taken advantage of the training offered by the Committee which would have provided an opportunity to clarify details on the Council's investments. The Head of Finance said that the suggestion of an information leaflet could be considered, however repeated attempts to engage with the Member concerned with an invitation to meet with officers and discuss the concerns had been rejected. The Chairman added that decisions to keep the Council's investments safe had previously been explained and he was disappointed in the comments made by the Member and the potential effect on officers. Other Members of the Committee shared the views of the Chairman and the Head of Finance thanked Members for their support, on behalf of officers and teams.

On page 5 of the Annual Report in relation to debt restructuring, Councillor M.J. Peers queried the selection of five loans which had been replaced by a new variable rate loan and asked if this could be applied to other loans. The Clwyd Pension Fund Manager referred to previous discussions at Audit Committee about the repayment of loans and said that a large premium was incurred for high rate loans whereas a lower premium applied to low rate loans. If more loans were switched to variable rates, this would increase the risk. Officers worked with Treasury advisers to identify the best loans that could be repaid.

On the list of the Council's investments at Appendix 3, Councillor Peers pointed out that the interest rate for Svenska Handelsbanken was lower than the majority of those listed and asked about the strategy for investing overseas, in view of the issues with Landsbanki. The Clwyd Pension Fund Manager explained that there was a limit on what could be invested overseas and that Svenska Handelsbanken was amongst the world's top 20 strongest banks along with Oversea-Chinese Banking Corporation which was another of the Authority's counterparties. In response to a further question from Councillor Peers, it was confirmed that consideration was given to both capital security and the interest rate concerned and that it was an ongoing challenge to find counterparties.

The Clwyd Pension Fund Manager said that Members of the Committee were welcome to meet with the Funds Officer to go through Treasury Management issues to help further their understanding.

Councillor Bateman thanked the Clwyd Pension Fund Manager for the report and praised the team for an excellent job. The Chairman echoed those views, adding that the officers had the full backing of the Committee.

**RESOLVED:**

That the report be noted and agreed that the Treasury Management Annual Report 2010/11 be presented to the Executive on 19 July 2011.

**19. DURATION OF MEETING**

The meeting commenced at 9.00am and finished at 10.50am.

**20. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC**

There were two members of the press in attendance.

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**Chairman**

**SUMMARY OF DECLARATIONS MADE BY MEMBERS**  
**IN ACCORDANCE WITH FLINTSHIRE COUNTY COUNCIL'S**  
**CODE OF CONDUCT**

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| <b>AUDIT COMMITTEE</b> | <b>DATE: 13 JULY 2011</b> |
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| <b>MEMBER</b>           | <b>ITEM</b>                              | <b>MIN. NO. REFERS</b> |
|-------------------------|--|------------------------|
| <b>Cllr Ian Roberts</b> | <b>3 - Statement of Accounts 2010/11</b> | <b>17</b>              |