

GOVERNANCE AND AUDIT COMMITTEE

18 January 2022

Present:- Councillor Kevin Bentley, Councillor Michelle Burrows, Councillor Adam Fox, Councillor Chris Hayter, Councillor David King, Councillor Gerard Oxford, Councillor Dennis Willetts (Chairman)

Substitutions: Councillor Paul Dundas, Councillor Sue Lissimore*, Councillor Leigh Tate

Also Present:-

*attended remotely

295. Substitutions

Although there were no substitutions to the Committee, Councillor Willetts noted that Councillor Tate had tendered her resignation from the Committee as she had accepted a role on the Board of Colchester Commercial Holdings Limited, and considered there to be a conflict between the two roles. She attended the meeting as an observer.

296. Minutes of the previous meeting

RESOLVED that: the minutes of the meeting held on 23 November 2021 be confirmed as a correct record.

297. Colchester Commercial Holdings Limited Business Plans

Andrew Tyrrell, Client and Business Manager, attended the meeting to introduce the report and assist the Committee with its enquiries. The Committee heard that Colchester Commercial Holding (CCHL)'s Business plan set out the overarching strategy for all the Council's wholly owned commercial companies (the Companies), and detailed the activities of the companies and how they aligned with Colchester Borough Council (the Council)'s strategic objectives, to ensure openness and transparency. Each subsidiary company also had its own Business Plan which were commercially sensitive, and which contained more detail and set out the Companies' plans for the coming four to five years. The report that had been presented to the Committee also set out the governance arrangements for the Companies, which

were approaching the end of their fourth trading year, having been set up in April 2018. Although the last two years had been affected by the Coronavirus pandemic, signs of recovery were starting to be seen.

Paul Smith, Managing Director of Colchester Commercial Holdings Limited (CCHL), attended the meeting to deliver a presentation containing detailed information about the past performance and future plans of the Council's wholly owned commercial companies (the Companies), and assist the Committee with its enquiries. The Committee received information in relation to CCHL's prediction as to the dividend that would be available to be supplied to the Council this year, and it was considered that careful management of CCHL's finances had yielded a very positive return. The Committee were reminded that the achievements of CCHL were the result of joint working with the Council and the utilisation of Council funds, as CCHL carried out functions which could not be undertaken by a Local Authority under the Localism Act 2011 and the Local Government Act 1972. The Committee received updates on key projects and achievements from the period 2021-2022.

Colchester Northern Gateway Sports Park had opened in May 2021, had hosted the Women's Tour of Britain, and the whole sports complex had been very well received locally. Future events were planned for 2022.

With regard to Colchester Northern Gateway South, CCHL had been successful in negotiating and finalising the Turnstone Development, construction of which was due to commence before the end of the current financial year. The Walk, which was a boulevard which ran through the entire Northern Gateway development, had been completed in conjunction with heat network pipes and other ducting for future use. Work had commenced on the development of St Mark's Community Centre.

The Council's commercial companies had been very successful in managing the impact of the restrictions imposed as a result of the pandemic, and event that had been compliant with Covid restrictions had been held through the summer. The Committee were reminded that the events activities of CCHL did help to cross-subsidise the start-up of both the Council's Energy Company (CAEL) and Homes Company (CAHL), and should not be underestimated. As full a calendar of events as was permitted was planned for 2022.

The Helpline service had performed very well, and throughout the entire pandemic full operation of the service had been maintained. The Committee heard that the service did not simply monitor events, but actively assisted its customer base, and had been supported by staff and volunteers over the past year.

CCHL had continued to work on the provision of a Local Full Fibre Network (LFFN) to Colchester, which was of key importance to the continued economic growth and success in the borough, and the work would be completed in February 2022. The LFFN had also been used to increase the expanse of the Council's Close Circuit Television (CCTV) network, as well as its quality of image, which had been of great assistance to the Council's partners.

The Council's energy company, Colchester Amphora Energy Ltd (CAEL) had now completed all the boreholes necessary to support the operation of the Northern

Gateway Heat Network, and consideration had been given to the feasibility of a potential solar farm and microgrid at the Northern Gateway to help deliver a more sustainable electricity supply to the development.

Colchester Amphora Homes (CAHL) had completed its first mixture of private and affordable housing, and the Committee heard that CAHL would always deliver 30% affordable housing on any of its developments, which was a very important aspect of what CAHL would be providing to the Borough. The Company was moving forwards with designs and feasibility for new pipeline sites coming forward.

With regard to the future activity of CCHL, the Committee heard that over the coming years, key priorities were to lead development of Section 106 funded community buildings at Stanway and North Colchester which had already commenced, together with the development of the new St Mark's Community Centre. Work would continue on the digital grow-on space scheme at the Queen Street Bus Depot, together with a continued focus on partnership working, and the delivery of the LFFN project.

The Committee were assured that the Asset Management Team had worked diligently through the pandemic to ensure that income from the Council's assets had been realised, and a strong income stream had been achieved with limited loss of rental income.

In line with signs that the pandemic may be coming to an end, CCHL hoped to deliver as full a programme of events and weddings as was possible in the coming year, and the importance of the income that would be generated in supporting other elements of the Companies was again brought to the attention of the Committee.

It was intended that the excellent Helpline service would be maintained over the coming years, and the customer base expanded throughout Colchester and possibly beyond. The digital upgrade of the Helpline operating system would continue, facilitating the expansion of digital services to customers via the LFFN.

The Capital Projects Team would continue to lead delivery of key projects throughout the borough to include the Rowan House refurbishment works, the Northern Gateway, the Queen Street Bus Depot and the St Mark's Community Centre projects.

Of key importance to Colchester Amphora Energy Limited (CAEL), was engaging with a contractor for the installation and commission of the Energy Centre, which was hoped would come forward through the coming financial year. Work would also continue around examining the feasibility of a microgrid, and the continued provision of excellent advice to the Council around sustainable energy, to support the Council's Strategic Priorities in this regard.

Colchester Amphora Homes Limited (CAHL) would seek to progress its Housing Revenue Account (HRA) sites through its action as project manager of these, and it was hoped that the Military Road site Phase 1 development would be complete in the Spring of 2022. Further work would be undertaken to identify the feasibility of pipeline sites for future development, and bringing these forward, and all available Homes England housing grants would be taken advantage of.

The Committee heard that CCHL had previously been requested to consider how it might expand the business in the future, and one of the key obstacles that was envisioned with regard to this was the potential change with regard to the Department of Levelling Up, Housing and Communities in the approach they may take towards local authorities borrowing money, and how they could potentially be requested to input a minimum revenue provision to limit local authorities exposing themselves to undue risks. The Council was submitting a response to a consultation in relation to this, which was due to close on 8 February 2022 as it was important to ensure that no imposition was made that would stifle the delivery of homes in the borough, together with other investments that the Council may wish to make such as in the heat network. This uncertainty had been borne in mind when considering the Business Plans, as well as potential changes in the market which may affect household income and mortgage ability.

Bearing in mind the success of CCHL over the previous financial year, and the balance which existed between the individual Companies, CCHL considered that in the financial year 2022/2023 net profit for distribution would be £256,131, however, in subsequent years the effects of completed housing being sold on would be seen and net profit available for distribution rose significantly to £1,017,627 in 2023/2024, £1,687,436 in 2024/2025 and £1,778,135 in 2025/2026. These predictions had been made as the result of very careful consideration, and were considered to be as realistic as possible.

Councillor Willetts considered that the proposed Business Plan was somewhat light on detail concerning the projected activities towards the end of 2026, but he accepted that this was as the result of unknown factors which could significantly affect CCHL. Councillor Willetts did, however, consider that three issues which had been raised by the Committee in the past had not been adequately addressed by the proposed Business Plan. The first of these issues was the financial flexibility and balance sheet strength of CCHL, so that in addition to executing the projects of the Council, CCHL retained the ability to engage in other profitable activities. Secondly, was the question of tax implications on turnover, and the effect that the move towards contracts which contained more social benefit would inevitably have on profitability and therefore the tax liability. Additionally, no reference had been made to the tax payable on dividends that were paid out by CCHL, and Councillor Willetts considered that this was an area which should be carefully considered to ensure the most favourable tax conditions were created. The third issue not addressed by the Business Plan was the range of activities that CCHL might consider including, but which were currently not included. Councillor Willetts noted that the Localism Act 2011 permitted local authorities to undertake profit making activity if this was delivered as part of a company structure, and he enquired whether there were activities currently being carried out by the Council which could be taken on by CCHL to expand its portfolio of profit-making activities.

Paul Smith confirmed that at a previous meeting of this Committee the possibility of retaining dividends in CCHL had been discussed with the aim of growing the balance sheet. This has been discussed internally with the Council, but with the budget pressures that the Council was expected to experience over the coming years it was

not considered that dividend retention would be a viable option, and the Council would need to receive the benefit of the trading activities of CCHL. Consideration was being given to the expansion of the operations and profitability of CCHL, however, the lack of clarity which was caused by the regulation review that was being undertaken by the Department of Levelling Up, Housing and Communities had meant that CCHL had not been in a position to present ideas to the Committee. With regard to the tax implications of CCHL, both the external auditors of CCHL and the Council were very keen to make sure that there was nothing in the trading and the internal movement of costs, dividends and paybacks where there could be any perception that there was an undervalue for the cost of transfer. The Committee heard that the requirement to pay corporation tax was the result of successful trading, although if there was any surplus income from activities that a local authority could carry out itself then this was exempt from corporation tax liability. The three individual Companies also benefited from group relief, with losses made by the Energy Company through its inception being offset, to ensure that group relief was maximised to minimise the corporation tax liability. With regard to the range of activities that were undertaken by CCHL, this was something that was the subject of detailed discussion between CCHL and the Council, but progress in this area was also subject to delay caused by the uncertainty surrounding future recommendations from the Department of Levelling Up, Housing and Communities.

Councillor Willetts considered that the Business Plan should touch on some of the issues that he had raised as he believed that they were particularly pertinent to the acceptability of the Business Plan, and it was right that the Governance and Audit Committee, as the shareholder committee for CCHL should explore these issues. He questioned the way that the Business Plan addressed unresolved risks, in particular the minimum revenue protection requirements (MRP), which may have a very significant impact on the Business Plan. He noted that the Business Plans would need to be referred to Cabinet for approval before the final position in relation to MRP was known, but wondered whether it would be prudent to have a section in the Business Plan dealing with unresolved financial risks, and the potential impact that MRP could have in a variety of scenarios; in particular the impact that MRP could have on the Council and any loans which had been made. Councillor Willetts sought an opinion on the extent to which unresolved financial risks should be included and addressed within the proposed Business Plan for the next four years, particularly with regard to the energy and housing projects.

Paul Smith confirmed that a balance had to be struck between the commercial sensitivity of the activities being undertaken, and the need to make information publicly available as part of the CCHL Business Plan. He was happy for the Business Plan to be augmented in accordance with the suggestions that had been made, and confirmed that the possible impact of MRP had been considered in the as part of the predictions for the coming years, however, more transparency could be included around some of the assumptions which had been made in this regard.

In response to an enquiry from Councillor Bentley, Paul Smith confirmed that the projected rise in the cost of living and materials had been considered when making net profit predictions, together with any time delays which may occur. It was noted

that the expectation was that production levels would return to their pre-pandemic levels during the course of the year, and CCHL had utilised predictions that had been made by the Royal Institute of Chartered Surveyors to ensure that the predictions that had been made were not overly optimistic.

Councillor King noted that two or three years ago he was aware that concerns had been expressed as to whether the Council should have the Companies, and the interrelationship between them, however, he was aware of far fewer concerns being expressed now. He sought a view on whether the set up of the Company felt right in the opinion of Officers, and also how the success of the Companies could be measured on a commercial level given that they received business from the Council. The Committee were reminded that the Companies were set up to deliver services which the Council could not. The boreholes which were part of the heat network were owned by the Council, however, the additional benefit associated with the renewable heat incentive scheme could not be obtained by a public body and had to be retained by a private company, in this case CAEL. Additionally, the Companies allowed the Council to profit from the sale of council housing projects in a way that a local authority on its own could not. With regard to the LFFN, the Council was able to facilitate funding from the Department for Culture, Media and Sport (DCMS) to put in the basis of this network, however, a private company was then required by DCMS to implement the network itself. Given this rationale behind the creation of the Companies, and their utility in these areas, the governance and structure of the Companies, there were a number of activities where CCHL was an inwardly looking organisation which was utilising public sector funding and was therefore bound by public sector regulations. Other activities carried out by CCHL, for example the events business, were very commercially successful and were generating good surpluses. Paul Smith considered that the governance arrangements which had been put in place when CCHL had been formed were still appropriate and relevant now, however, should CCHL become more commercial in the future, the governance arrangements may need to be reconsidered. With to the competitiveness of CCHL the services that the Companies provided were measured against a baseline which allowed for some comparisons to be made with the services provided by CCHL and the same services provided commercially. When winning the prestigious 'Entrepreneurial Council of the Year' award, the assessment panel had been intrigued by the fact that CCHL had been able to deliver a positive return immediately, which had not been seen before. CCHL was also able to retain the social benefit in its activity, which made making a straight comparison between CCHL and private companies very difficult to do. Key Performance Indicators (KPI)s had been agreed with the Council to ensure that performance which was important to it was met, and CCHL was judged on these KPIs and the dividend which was provided.

Councillor Willetts noted that the Companies were not Council departments, but commercial organisations in their own right, and he would welcome a degree of boldness in the Business Plan about the aims of the Companies, how they wished to help the Council and assist in the provision of Council services in the future, a sentiment which was supported by Councillor King.

Councillor Fox also supported the inclusion of positivity in the Business Plans and considered that in his opinion the current Plan could be considered to be quite short term in its outlook. He noted that he had been involved with the Companies since their inception and considered that the same projects had been worked on throughout the life of the companies. He would welcome more long term thinking and planning within the Business Plans allowing the Companies to demonstrate the flexibility that would make them continuously successful. He considered, by way of example, that lessons which had been learned from the Northern Gateway Project should now be applied to future projects, such as the Garden Community. He questioned whether CAHL would deliver 350 homes by 2024 or 2025, as this was not clear in the Plan, and it was confirmed that there was an obligation to complete the 350 properties by July 2025. Paul Smith explained that the pipeline of Council based assets that could be developed was being considered and CAHL was concerned with ensuring that the land which the Council wished to see develop was being utilised, and it was hoped that future targets for CAHL would be identified. The Events Company was identified as being a wholly commercial company which was not funded by the Council, and which generated significant income. The Events Company had also provided services to two other local authorities which represented an expansion of the business activity. Other local authorities had indicated an interest in utilising the services provided by the Companies, as these were delivered within a local government framework and with a public sector ethos, and this represented a further opportunity for expansion, subject to any funding issues which may arise.

Councillor Fox noted current rising energy prices and the impact which this would have on household income, and wondered whether there were any risks to the Northern Gateway Heat Network and the proposed Microgrid as a result of these changes to the energy market. The Committee heard that it was anticipated that the National Grid would experience strain during the transition from fossil fuels to more sustainable sources of energy, however, the energy that would be generated by the Northern Gateway Heat Network would generate a profit for the Council while at the same time providing cheaper hot water to all residential properties in the Northern Gateway development and reducing the carbon footprint; one of the Council's strategic priorities. The Committee heard that the proposed Microgrid was a bank of solar panels which could be used to create battery storage of electricity which could be utilised not only by the Council but potentially by developers concerned about the inability of the national grid to provide the electricity consumption that was required locally. It was considered that the associated risk element to this scheme was quite low, and this would be reflected in any business plan which was put forward for approval by the Council.

Andrew Tyrrell highlighted to the Committee the social and environmental benefits which the Companies were able to bring to the Council, which was particularly evident through the future Microgrid. The Council had declared a climate emergency in 2019, and has adopted an agreed pathway to net zero carbon emissions by 2030 in association with the Carbon Trust. Although the Council had managed to significantly reduce its carbon footprint already, if only the projects currently under

way were completed, the Council would still have a carbon footprint of 2,700 tonnes of carbon. The Microgrid which was being currently considered would have the effect of removing approximately one third of this carbon, which was a significant beneficial impact.

Councillor Oxford noted that the Business Plan mentioned the hiring out of Council meeting rooms, and expressed a concern that these commercial hirings may have the effect of limiting the use of the meeting rooms for Council business. Councillor Oxford considered that this issue did need to be addressed in the Business Plan, as if there was a booking clash and a Council meeting which needed to be scheduled had to be held at another venue, there was no guarantee that the alternative venue would be fully accessible. He also noted that the disabled access lift to the Old Library building had required replacing relatively soon after it had been installed and considered that a cover was needed for this lift to protect it. Paul Smith assured Councillor Oxford that CCHL was cognisant of the requirement for Council meetings, and had, on a number of occasions cancelled private bookings of meeting rooms to accommodate Council meetings. He would consider this issue in the future to ensure that both the needs of CCHL and the Council could be met. Dan Gascoyne, Chief Operating Officer, considered that the balance between Council meetings and commercial letting of the Council's property, principally the Town Hall, was about right, and noted that there was a separate hire agreement between CCHL and the Council which dealt with the operation matters which had been the subject of Councillor Oxford's enquiry.

Councillor Willetts considered that there was considerable overlap and duplication between the activities of the Council and CCHL, and he wondered to what extent this could be rationalised to increase the profitability of CCHL. Paul Smith was not aware of any particular areas of overlap between the services provided by the Council and CCHL, however, the structure of CCHL was currently being considered to build in resilience to the operational activities over forthcoming months, when any areas of overlap would be considered.

Councillor Willetts did not consider that any of the issues that had been discussed by the Committee were of sufficient seriousness for the Committee to recommend that the proposed Business Plan not be presented to Cabinet for approval.

Nevertheless, many of the questions that had been asked had been pertinent, and it was down to CCHL to consider whether the Business Plan would be improved if it were amended to take account of the issues that had been raised by the Committee. Councillor Willetts summarised the issues on which the Committee had considered that clarification in the Business Plan would be useful as being; the financial flexibility of the balance sheet, the tax implications, the additional activities which could be envisaged in the Business Plan to ensure that profit making activities were within CCHL, the unresolved financial risks and assumption with regards to the potential impact of MRP on the two major projects which required capital which were energy and housing, the impact of inflation on the Business Plan, the competitiveness and boldness of CCHL (particularly in the energy market), and the issue of potential overlaps and duplications. It was suggested that the Committee commend these

suggestions to the Company to consider whether the Business Plan would be improved by giving further consideration to these issues.

Councillor Fox pointed out that there were inconsistencies in the paperwork which had been presented in relation to whether the 350 homes would be delivered by 2024 or 2025, and although a verbal clarification had been given at the meeting, he requested that the Company be clear on when it expects the homes to be delivered.

Councillor King noted the impact that the Companies could make in supporting the objectives of the Council in terms of delivering social value and contributing to reducing the Council's use of carbon, and he considered that the Company could be encouraged to highlight this element of their work when considering the final Business Plan.

Councillor Willetts confirmed that the Committee had now raised eight issues for further consideration by the Company, and considered that it was now for CCHL to consider whether or not it wished to modify the Business Plan to take into account the issues which the Governance and Audit Committee, as Shareholder, had raised.

Councillor Lissimore, Portfolio Holder for Resources, thanked the Committee for its work, and looked forward to considering the proposed Business Plans at the forthcoming meeting of Cabinet.

RESOLVED that:-

- Colchester Commercial Holdings Limited be requested to consider amending the proposed Business Plans to take account of the following:
 - the financial flexibility of Colchester Commercial Holdings Limited's balance sheet
 - the tax implications associated with Colchester Commercial Holdings Limited's trading activity
 - the additional activities which could be envisaged in the Business Plan to ensure that profit making activities were within Colchester Commercial Holdings Limited
 - the unresolved financial risks and assumption with regards to the potential impact of Minimum Revenue Protection on the two major projects which required capital investment
 - the impact of inflation on the Business Plan
 - the competitiveness and boldness of Colchester Commercial Holdings Limited
 - the issue of potential overlaps and duplications between services delivered by Colchester Borough Council and Colchester Commercial Holdings Limited
- clarity regarding the timeline for delivery of 350 new homes

RECOMMENDED TO CABINET that the proposed Business Plans of Colchester Commercial Holdings Limited be agreed.

298. External Audit Update and new arrangements

Paul Cook, Head of Finance, attended the meeting to present the report and assist the Committee with its enquiries. It had been hoped to bring the audit opinion to the Committee at this meeting, but this had not been possible, and intensive work was being carried out with Colchester Borough Council (the Council)'s external auditors, BDO, in an effort to be in a position to bring the audit opinion to the March 2022 meeting of the Committee.

The Committee were advised that a number of proposed changes to the external audit regime had been announced at the same time as the Local Government Finance Settlement. These changes included improved guidance for audit firms, extra funding allocated, in the sum of £45m nationally, to help local authorities with the account preparation, but it was suspected that the majority of this money would be used to pay additional audit fees. The Chartered Institute of Public Finance and Accountancy (CIPFA) had been asked to issue guidance to simplify accounts, which would assist the Council by reducing workload. It had also been suggested that audit committee arrangements should be revised to include an independent member, and the consultation in relation to this would be brought to this Committee as soon as it was published. CIPFA were undertaking work to simplify the presentation of the financial statements, which would be welcomed. It had also been suggested that Public Sector Audit Appointments procurement process could be improved, but most importantly extending the deadline for publishing with opinion for 2021/2022 accounts until the end of November 2022. The Committee were advised that in 2018/2019 before the onset of the Covid-19 pandemic, the Council was publishing with opinion before the end of July, however, under the current circumstances this would not now be possible before the end of March, with the target for 2021/2022 being set for the end of November 2022. Following this, the deadline for publication would revert back to 30 September annually. The Committee was assured that any consultations that were published would be referred to it for input.

Francesca Palmer of BDO attended the meeting to address the Committee. The Committee heard that there had been a number of challenges to delivering audits over the past two years, with very few audits completed by the September deadline. BDO had struggled with a national shortage of audit staff and had suffered a net loss of qualified staff. There had been specific difficulties associated with the completion of the Council's audit, including a member of staff having to take unplanned leave, and the resignation of the audit senior who had been assigned to the audit, which added to the resourcing pressures that BDO faced on a national scale. Further delays had been caused by both BDO and Council staff being affected by Covid-19, which had caused deadlines to be pushed back with a resultant knock-on effect on other work. Progress had been made with the hope of the audit being completed by the date of this Committee, but the hope was now for the work to be completed by the March 2022 meeting of this Committee.

Councillor Willetts expressed his disappointment in the delays, noting that all organisations had been affected by Covid-19, and that Council staff had still managed to ready all the necessary data for audit on time, and he wondered why

one group of accountants managed to get the work done, while another group seemed to be disproportionately affected by the pandemic. He was advised that there was a severe shortage of experienced public sector auditors at present, and all the audit firms were struggling to get audits delivered on time. Delays to audits last year had impacted the delivery of services this year and compounded the issues that were faced.

In response to an enquiry from Councillor Bentley, Francesca confirmed that the majority of local authorities in the east of England had not produced signed statements of account before Christmas 2021, and as at the end of September 2021 only 9% of local authority accounts had been audited. Councillor Bentley noted that the Committee had already written a letter of complaint in respect of the situation, and he wondered whether it was right that the Committee now simply accept the situation, or offer a statement on behalf of the taxpayer stating that this was not acceptable, and that next year the government would be asked to change things.

Councillor King, endorsed the comments of Councillor Bentley, and although he did not wish to criticise individual officers, considered that the delays were a disgrace which were not of the Council's making, and that this message needed to be fed back to senior officers at BDO as a matter of urgency. He further considered that the continued delay carried with it a risk to local authorities that issues that needed to be resolved or addressed were not discovered in a timely manner.

Councillor Fox endorsed the comments of both Councillors King and Bentley, and welcomed the cross-party unity on this issue. The Committee's frustrations had been laid out in the past, and he considered that if it was not possible for auditors to deliver the required work, then they needed to consider whether to bid for this work in the future, if it was not possible to finish it. He considered that the government should put extra resource into the system to ensure that local authority accounts could be audited in a timely manner so that the Council could demonstrate its good governance.

Councillor Willetts considered that the recommendations which had been proposed would not be sufficient to address the issues inherent in the current audit system. In his opinion, the monopoly which was held by only four companies able to offer audit services to local authorities was the cause of the problem. He wondered whether it would be appropriate for another letter to be written by the Chair of the Committee, and copied to BDO, expressing the extreme dissatisfaction which was felt, and calling for radical reform of the current system.

Councillor Bentley proposed a two part resolution to the Committee, firstly praising the great efforts and hard work of Council staff, and secondly expressing the Committee's deep disappointment for the continued delays which were being experienced. He considered that any letter written should be sent to the minister and the Chair of the Local Government Association (LGA).

Councillor Lissimore, Portfolio Holder for Resources, attended the meeting remotely and endorsed what had been said, and confirmed that she would be happy to add her name to any letter which was to be sent.

Councillor Oxford expressed his disappointment that we could not achieve the high standards which were expected, and Councillor Hayter believed that the Council was being taken advantage of by the monopoly position which was in place and under different circumstances would simply have switched auditors or obtained compensation for poor service.

Dan Gascoyne, Chief Operating Officer, advised the Committee that by coincidence the Council had that morning received a letter from Catherine Francis, Director General of Local Government Strategy Analysis at the Department for Levelling Up, Housing and Communities (DLUHC). The letter outlined the fact that timely completion of local government audits were a vital transparency method for the taxpayer and for sustaining public confidence in local democracy more broadly. The letter also listed a number of measures that had been taken by the Department to deal with the problem, which were along the lines of those mentioned in the Officer's report. The letter had been sent to the Chief Executive of the Council as well as the Section 151 Officer, and the Committee heard that as well as writing to the relevant minister, there may also be an Officer response sent to DLUHC.

RESOLVED that:

- The revised audit 2020/2021 timetable set out in the Officer's report be approved
- The revised audit requirements from 2021/22 accounts onwards set out in the Officer's report be noted
- The hard work and diligence shown by Colchester Borough Council's staff in preparation for the completion of the audit be noted
- The Chair of the Committee would write a letter expressing the extreme disappointment that was felt by the Committee at the continued delays to Colchester Borough Council's audit to the Secretary of State for Levelling Up, Housing and Communities

299. Interim Review of the Annual Governance Statement Action Plan

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Committee were reminded that the Annual Governance Statement had been presented to the Committee in June 2021, which considered how well the organisation was governed in that financial year, and formed part of Colchester Borough Council (the Council)'s statement of accounts. An Action Plan was drawn up for the financial year 2021/2022 looking at any issues which had been highlighted, and the management of these, and the Committee were presented with an interim update detailing progress that had been made. At this point in time, the Council's external auditors had not raised any issues in respect of the Annual Governance Statement and the Action Plan, and it was not anticipated that any would be forthcoming.

The two issues which were raised during the review of 2020/2021 concerned cyber security and the Council's partnerships. Although no specific issues in relation to cyber security had been identified at the Council, it had been recognised that cyber

attacks in general were becoming more sophisticated. The results of the Cyber Maturity Audit were awaited, and although this had yet to be finalised, no issues had been identified so far. The Council was also looking at a Security Information and Event Management (SIEM) system, which was a control tool to ensure that potential cyber attacks were picked up at the earliest possible opportunity.

With regard to the Council's partnership, although it was felt that these were extremely successful, a review was being undertaken of the Council's partnership arrangements to include highlighting partnerships which were considered strategically important, and the results of this review would be presented to this Committee in the financial year 2022/2023.

The Committee made no comment with regard to the cyber security issue which had been raised.

Councillor King welcomed the partnership working which had been undertaken by the Council, considering that this would be key to the delivery of essential Council services in the future.

Councillor Willetts considered that from a governance perspective there were some concerns with partnership working, as increasingly key targets were being delivered by partnerships, and the Committee was not scrutinising the partnerships to ensure sound governance arrangements. Hayley assured the Committee that the review of partnership working would look at the framework of governance requirements, with a focus on the Council's strategic objectives to ensure that these were being met. Governance controls were now being introduced to the Council's partnerships at a much earlier stage than had been the case in the past.

RESOLVED that: the work undertaken to implement the current Annual Governance Statement action plan be considered and noted.

300. Risk Management Progress Report

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Committee heard that the risk management process was designed to identify areas of future concern, and how these may be managed to avoid a crisis situation. The report before the Committee constituted an interim risk management review, with a full review being presented to the Committee every July. In terms of the physical work that had been undertaken, this had been focussed on the response to the pandemic, including key issues such as continuity plans, health and safety and emergency planning, all of which formed part of Colchester Borough Council (the Council)'s Risk Management Framework.

The format of the Strategic Risk Register has been revised over the past year to strengthen the risk management processes through considering the Council's risk

appetite and the maturity level of the risk function, and more detail surrounding this would be presented to the committee as part of the scheduled year end report.

Support was still being provided to other organisations in Colchester such as the Safety Advisory Group (SAG), the Community Stadium SAG, the North Essex Parking Partnership and the Museums Partnership organisations. The Strategic Risk Register had been reviewed by the Council's Senior Management Team in December 2021, and as a result of this, five changes had been made to risks on the Risk Register, with three risks being raised, and two lowered. One of the risks which had increased was that of Covid-19, to reflect the increased infection rates which were prevalent at the time of the review but this would be assessed and reduced when appropriate. The second risk which had been increased was cyber security, although this was not a particular risk to Colchester, a neighbouring authority had suffered a serious cyber attack just before Christmas, and it was considered that although attacks were more likely, the Council's safeguards would mean that they were not more dangerous. The third risk to have been increased was staff welfare in the light of the continuing impact of the global pandemic, and the additional pressures that were placed on staff in responding to this. It was recognised that personal resilience levels were quite low, and it was important to highlight this and to accept that the probability of an impact on staff had gone up. Consideration was being given to providing more support for Officers and the organisation as a whole in order to rebuild some staff resilience.

The first of the risks which had been reduced was compliance, in recognition of the Council's systems operating effectively. Although there would always be a risk from lack of compliance, the probability of a breach was considered to be lower, which was supported by the Internal Audit reports which had been received. The second risk which had been lowered was that of financial inequality. Although there was still financial inequality in the borough, the Council's Customer Services Team had revised how it had provided some services to focus on financial and employment support for customers which had resulted in less need for crisis intervention in many cases.

Councillor Willetts voiced his appreciation for the increasingly clear way in which the Risk Register was set out, which aided understanding of the levels of risks which were recorded.

Councillor Burrows was pleased to hear that the Council was supporting its staff, and requested specific information as to what support was being provided. Hayley confirmed that there was a confidential employee support programme including a helpline. An action plan would ensure that performance was regularly monitored with the aim of offering any support that was needed, training managers to recognise when staff were close to burning themselves out through continued desire to deliver services. Staff were surveyed on a regular basis to ensure that the Council understood as far as possible what issues were being faced. Staff wellbeing was also an issue which would be examined by the Council's internal auditors next year. It was also confirmed that the Council's confidential assistance scheme was available to all staff and their immediate family.

Councillor Fox praised the work that had been undertaken to address financial inequality, but noted that household bills were likely to rise with the removal of the energy price cap and increases in National Insurance and Council Tax. Could more be done to assist those in need? It was confirmed that the Council's Customer Services Team was going through another review of key services which recognised the likely hardships to come, to try to identify those in most need and providing targeted information and additional support where needed.

Councillor King supported the comments of Councillor Fox, noting that significant numbers of households struggled to maintain a decent standard of living. He further considered that risk management at the Council was conducted to the highest standard, and gratitude was expressed to the Officers responsible.

Councillor Bentley praised the clarity of the information that had been presented, and considered that the maintenance of the Risk Register was of vital importance, and he wondered how often the Register was re-assessed to take account of swiftly changing circumstances. The Committee was assured that the Register was reviewed by the Council's Senior Management Team at least every three months, however, if a critical issue arose in the meantime, this would be addressed immediately. In addition to this the Council's internal audit programme also looked at risks contained within the Register, to ensure good compliance in mitigating actions was achieved.

RESOLVED that:

- the Council's progress and performance in managing risk during the period from April to September 2021 be noted
- the current Strategic Risk Register had been considered and noted
- the excellent performance of Officers in managing and maintaining the Strategic Risk Register be noted

301. Mid-Year Internal Audit Assurance Report

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Council engaged a private company, TIAA, to carry out internal audit work on its behalf, and all internal audits were on course to be completed on schedule by the end of the current financial year. Although TIAA had not been able to physically visit Colchester Borough Council (the Council)'s Offices due to the restrictions imposed as a result of the pandemic, they had nonetheless been able to establish excellent working relationships with key officers. A concern which had been discussed with TIAA was the number of audit reports which had been allocated the top rating, which was 'substantial' assurance. Assurances had been received from the auditors that they were aware of key issues, and their investigations had confirmed that the Council's internal controls were operating correctly. Because a number of internal audits were carried out in support of the Council's final Statement of Accounts, these were

carried out year on year, meaning that as issues were identified and dealt with, performance had improved over the years. In addition to this, many of the Council's systems were becoming more automated, removing the potential for human error to influence a process, and allowing additional controls to be built in. The Committee was advised that it was not possible to provide 100% assurance in relation to internal audit, as it was not possible to check every single transaction, however, from the evidence that had been provided there was confidence that the Council's processes were working correctly. This was supported by the culture at the organisation which allowed managers to raise issues when it was felt that processes could be improved, meaning that any issues were often able to be resolved internally before audits were carried out to confirm that processes were now working correctly.

Councillor Fox was interested in the automation of systems, and wondered whether the auditors had the necessary skills to interrogate some of the automated processes in detail to ensure that they were operating correctly? The Committee was assured that TIAA made use of very sophisticated computer systems which allowed them to take large samples of data provided by the Council and subject this to specialist algorithms to obtain the necessary assurance that procedures were being complied with. It was possible to invite TIAA to attend the meeting of the Committee when the Year End Internal Audit Assurance report was delivered in order to provide examples of this system in operation, and this suggestion was welcomed by the Committee.

RESOLVED that: the Internal audit activity for the period 1 April – 30 November 2021 be reviewed and noted.

302. Annual Review of Business Continuity

Hayley McGrath, Corporate Governance Manager, attended the meeting to present the report and assist the Committee with its enquiries. The Committee heard that business continuity was part of Colchester Borough Council (the Council)'s risk management framework, and provided operational assurance around the provision of Council services. There was no formal requirement for the Committee to consider business continuity, however, it was considered good practice to allow the Committee the opportunity to review the business continuity work that had been undertaken. The previous two years had provided a really good test of the Council's business continuity plans, and some areas where plans needed to be revised had been revealed. The Council's Senior Management Team constituted a 'First Call Officer Group', which provided twenty four hour support for the organisation if there was a serious issue. In the wake of the Covid-19 pandemic, the Council's Resilience Officer had been working to review and test the Council's business continuity plans and revising these where necessary. Specific impact assessments had been carried out for key services to determine which were of critical importance, and how these could be disrupted, in order to provide a focus for the Council's recovery processes. An online e-learning course would be circulated to all Officers to help them understand their role with regard to business continuity.

Stage 1 of the Council's Fuel Plan had been activated in September 2021 in response to the national fuel shortages, which had primarily been caused by a 'panic buying' response to an initial delay in supply. Good supply issues throughout the country were also being monitored, as these potentially affected the costs of larger projects undertaken by the Council.

The Business Continuity Strategy had been reviewed for 2022, and although this did not form part of the Council's Policy Framework, it was considered best practice for Officers and Members, and was considered fit for purpose.

Councillor Willetts wondered whether the same business continuity plan could realistically deal with different types of critical event, for example the gradual erosion of resources, compared to the sudden catastrophic loss of all connectivity and data. Hayley explained to the Committee that several plans were in place, including a Corporate Business Continuity Plan for the Council as a whole, setting out critical services and the key risks associated with these, together with key actions, roles and responsibilities. There were also individual service plans which considered impacts on key areas; staff, buildings and technology which formed the fundamental basis for the delivery of any service. The Committee heard that although the Council's business continuity plans provided a framework for responding to a crisis, the decisions which would be taken under the framework would be tailored to meet the needs of each issue as it arose, and would be taken according to a clear and prescribed process.

Councillor Fox noted that although greater flexibility was afforded to the Council in its service delivery by technological advances such as remote working, there were some services which could not be delivered from anywhere in the world, such as refuse collection. He considered that in local government, the sense of place was important in staff, and wondered what the advantages and disadvantages may be associated with increases in remote working.

Dan Gascoyne, Chief Operating Officer, confirmed that some staff were not located in the borough, and indeed in some cases were located overseas, however, there was no indication that any of those staff who were not local, performed to a lesser extent. In fact, many staff who were located outside the borough went above and beyond the call of duty to deliver excellent services for the Council.

RESOLVED that: the Business Continuity Strategy for 2022 be endorsed.

303. Work Programme 2021-2022

Matthew Evans, Democratic Services Officer, attended the meeting to present the report and assist the Committee with its enquiries.

RESOLVED that: the contents of the work programme be noted.